



Levy Consultation 2010/11

Accident Compensation Corporation

Work Levy Rates for Employers and Self-Employed People

Your chance to have your say on what you pay

Deadline for Submissions

5.00 pm, 10 November 2009

ACC Levy Proposals for 2010/11

This document sets out the changes that ACC proposes making to 2010/11 work levy rates for employers and self-employed.

As with the levies that fund ACC's other Accounts, we propose increasing work levy rates in 2010/11.

ACC proposes to increase the 2010/11 combined work levy rate from \$1.31 to \$1.89 for every \$100 of liable earnings.

Why are we proposing to increase levies?

The need to increase levies has been driven by many factors. These include:

- the cost of providing ACC's services is continuing to rise. The number of claims we receive annually is increasing (especially serious injury claims, which tend to be more expensive and more ongoing) and the cost of medical treatment has continued to increase.
- our more realistic approach to estimating future costs and liability - which has shown that there is now a significant gap between ACC's liabilities and its assets. That deficit is now over \$10 billion.
- ACC's rehabilitation performance has fallen for a number of reasons. For example, many people these days have more complex rehabilitation needs, partly because of New Zealand's ageing population, but also because of the increase of co-morbidities such as diabetes, obesity and osteoarthritis.

Compounding factors

As well as the major drivers outlined above, there are various other factors that are contributing to the upward pressure on levies. These include:

- recent extensions to the Scheme - these have been driven by legislative change and mean we now cover more 'types' of injury than ever before
- the global recession - this has reduced ACC's investments (which we use to help fund our services) and also made it more difficult to return injured people to work.

The extent of the current pressures on the ACC Scheme means that in the short-term levy rises are inevitable.

Steps we're taking to address cost pressures

We appreciate that the cost pressures on the ACC Scheme have reached a point where, if left unchecked, they would result in unacceptably high ACC levies for New Zealanders.

Therefore, both the Minister for ACC and ACC itself are addressing the drivers of cost increases (and the associated upward trend of levies).

For example, the Minister:

- is considering legislation to repeal a number of recent Scheme extensions
- has announced a Stocktake to identify how the Scheme can be improved to deliver better value for money.

At the same time, within ACC we:

- have launched a new claims 'triage' system, designed to help us assess and address the specific rehabilitation needs of clients more promptly and accurately. A key benefit of this being that we'll be able to better target the assistance provided to those with more complex needs, to ensure their rehabilitation doesn't become unnecessarily protracted
- have developed programmes to reduce unnecessary time off work after injury
- have adopted a new approach to managing longer-term claims
- are introducing a new model for purchasing services from treatment providers, aimed at achieving better value for money and improved rehabilitation outcomes.

The initiatives planned to offset these cost pressures will, once they've taken effect, help to contain future levy rises.

Increasing the work levy rate

ACC is proposing to increase the combined work levy rate to cover the costs of 2010/11 work claims and an additional funding adjustment over the next five years to address the under-funding of existing claims.

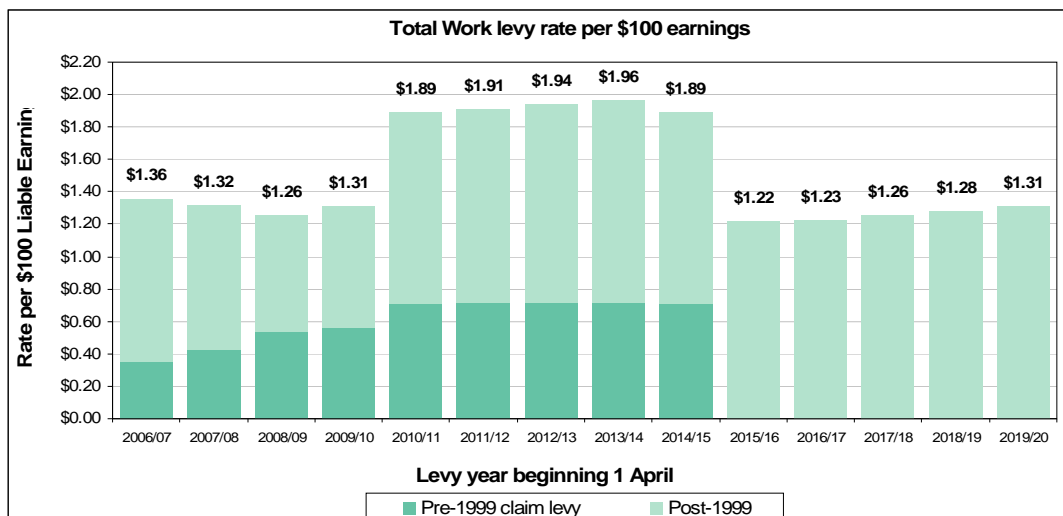
The increased funding requirement for the work levy has been caused by:

- the current 2009/10 levy rate being set below actual claim costs (i.e. reserves are being used to fund a portion of the current costs)
- lower than expected investment income due to the current global recession
- increasing cost estimates for the ongoing liability of existing claims (i.e. increased claims liability provisioning).

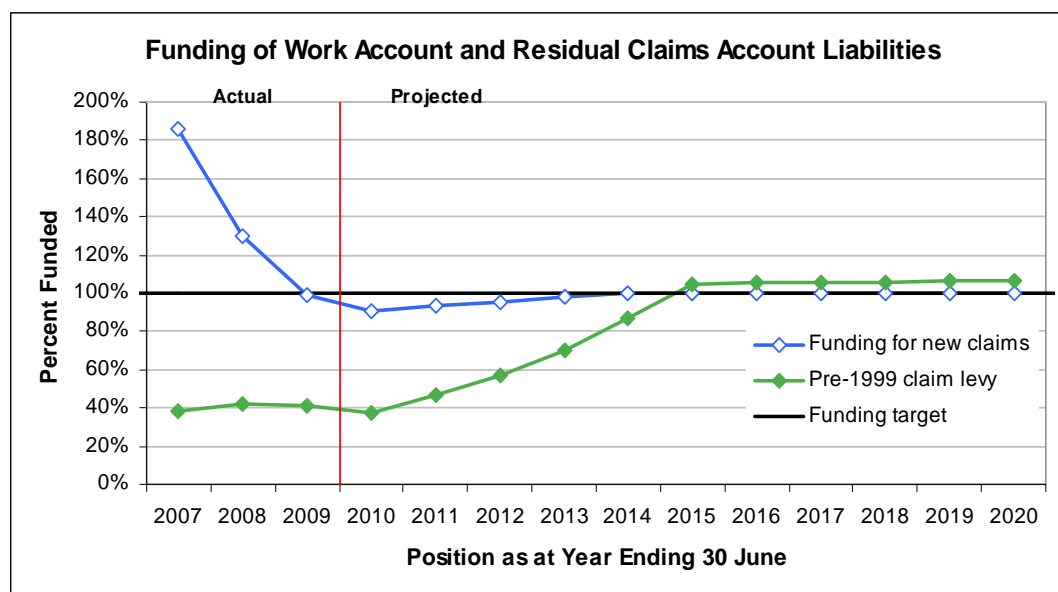
Claims liability estimate increases have predominantly been in the following areas:

- weekly compensation costs - claim numbers have increased and people are remaining on the Scheme for longer periods
- elective surgery - the costs of surgery and related consumables (particularly implants) are increasing at rates much higher than inflation
- medical treatment - increasing costs are being driven by high medical-related inflation, increased uptake of services, increased contribution towards treatment and a changing mix of treatment being provided.

The graph below shows the historical combined levy rates and the proposed combined levy rate for 2010/11 for the Work Account and the Residual Claims Account and future projections to 2019/20.



The following graph illustrates the current funding position and the period over which the full funding target will be achieved for both the Work Account and Residual Claims Account.



The above graph shows that at 31 March 2007 the Work Account held assets equal to 186% of the outstanding claims liability, well in excess of the full funding target. Levy rates for recent years were therefore set below actual claim costs in order to return these excess reserves to levy payers.

In addition reserves were further run-down due to increasing claim costs and the lower investment returns received during the current recession.

The Work Account currently holds assets equivalent to 99% of the claim liability for claims that occurred after 30 June 1999. The funding position is projected to reduce to 90% of claim liabilities as at 1 April 2010 (i.e. the beginning of the new 2010/11 levy year) as the current 2009/10 levy rate is not sufficient to cover claim costs.

ACC proposes to increase the 2010/11 levy for the Work Account to cover costs and restore reserves over the next four years.

The Residual Claims Account (for pre-1999 work claims) currently holds assets well below the full funding level. ACC has assessed the proposed levy for this Account so that the levy collected plus the interest earned will ensure that the funding target is reached by 30 June 2014, as required by legislation.

Please read the following sections to find out more about the proposed changes and the work currently underway that may impact on future levy years.

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Proposals at a glance

ACC proposes to:

- *for the 2010/11 levy rates, classifications and risk groups:*
 - *increase the 2010/11 average combined work levy from \$1.31 to \$1.89 for every \$100 of liable earnings. This is the net result of:*
 - *increasing the 2010/11 average work levy from \$0.75 to \$1.18 for every \$100 of liable earnings*
 - *increasing the 2010/11 average pre-1999 residual claims levy from \$0.56 to \$0.71 for every \$100 of liable earnings*
 - *maintain the number of levy risk groups for the work levy at 117 and update their relativities based on the latest claims experience*
 - *change the description of two levy classification units*
 - *maintain the 41 risk groups and their relativities for the pre-1999 claims levy*
- *for the ACC Partnership Programme:*
 - *set the Partnership Discount Plan discounts to 49.8% and 58.6% for the one-year and two-year claim management options respectively*
 - *set the Partnership Programme administration fee at 2.3% of the standard levy (from 4.0% for 2009/10). Administrative costs of the programme are expected to decrease for 2010/11*
 - *maintain the primary health cost fee at 1.5% of the standard levy*
 - *decrease the bulk-funded public health care cost fee to 2.8% of the standard levy (from 4.0% for 2009/10)*
- *for the ACC Workplace Safety Discounts programme:*
 - *increase the maximum liable earnings entry criterion from \$450,000 to \$495,000*
- *for ACC CoverPlus Extra:*
 - *give customers the option of 12 months' ACC CoverPlus Extra from the date of purchase*
 - *give customers the option of increasing the stand-down period from seven days up to 91 days*
- *for use-of-money interest rates:*
 - *change the use-of-money interest rate*
- *make no changes to the following, except for the consequential impacts of the above levy rate proposals:*
 - *ACC CoverPlus*
 - *ACC Workplace Safety Management Practices programme*
 - *ACC Workplace Safety Evaluation programme.*

Notes about this document

This consultation document should be read in conjunction with the document '*ACC Personal Injury Insurance for all New Zealanders*', which provides further background on the ACC Scheme and the source and application of levy income.

Supplementary information is also available from www.acc.co.nz/consultation, including actuarial reports relating to setting levy rates and the estimated outstanding claims liability.

You should note the following caveats when reading this document:

- All rates in this document are expressed as GST exclusive unless specifically noted.
- For presentation purposes, some numbers in this document have been rounded. This means that you may not be able to replicate ACC's calculations by using these numbers.
- All levy rates in this document are preliminary estimates. They may be adjusted before the final recommendations are made to the Government to reflect, for example, any changes in the valuation of claim liabilities and the latest long-term interest rates. These factors may impact on the final levy rates.
- Claim number and cost assumptions are continually updated and are likely to change each year. In determining levy assessments, ACC must estimate the number of claims likely to occur and the estimated costs of these claims (some claims will have costs extending for 30-40 years into the future). Estimating claim costs 30-40 years into the future has a considerable degree of uncertainty associated with it (e.g. future medical and rehabilitation cost increases and investment returns) and therefore these assumptions are likely to change each year.

1.0 Funding policy

What we're proposing and why

1.1 Funding policy

Current claims (i.e. post-1999 claims)

We are required to ensure that all levied ACC Accounts have enough funds to provide for future costs (i.e. are fully funded), even when we don't know precisely what those costs will be. We also have to ensure that the levies we charge to cover these costs are fair and stable.

Managing these two requirements is the focus of our funding policy, which aims to:

- manage levy stability over time
- ensure each ACC Account has enough funds.

The two key elements that make up our funding policy are:

- *our funding target* - this is based on the total value of the ongoing future costs of new and existing claims. The target must ensure that enough funds are accumulated to be quite sure that these funds adequately cover future costs
- *timeframe* - the time over which we will restore funds to the funding target if the target is not being achieved.

The funding target is affected by the economic assumptions we use in our estimates of future claim costs (e.g. the rate of return on our investments and inflation rates on medical costs) and the margins we allow for forecasting uncertainty.

Pre-1999 residual claims

ACC still needs to collect levies to pay for the ongoing costs of claims for injuries that occurred before 1 July 1999, when not enough levy was collected to fund the full lifetime costs of these claims (at that time ACC only collected enough levies to pay for each year of costs as they occurred), and for gradual process claims related to employment before 1 July 1999.

These levies are set with the goal of building up sufficient reserves so that from 1 July 2014 ACC will be able to pay for the costs of these claims from the reserves and from the interest these reserves will earn (i.e. fully funded). The requirement to fund the lifetime costs of these claims by 30 June 2014 is contained within the Injury Prevention, Rehabilitation, and Compensation Act 2001 (the IPRC Act). After 2014 there will no longer be a separate levy for pre-1999 claims.

Reporting standards and assumptions

The New Zealand Financial Reporting Standards require the future claim costs liability (which is shown in the ACC Financial Statements) to be assessed using a risk-free interest rate and an additional risk margin to be included to allow for the inherent uncertainty in these long-term claim liabilities.

ACC has selected a risk margin for each levy Account that provides around a 75% probability that the future claims estimate will be adequate. This is in line with the Australian Prudential Regulation Authority's requirement of private insurers in Australia.

Legislative funding requirements

Section 169 of the IPRC Act requires that the Work Account levy rates be calculated so that the costs of all claims are fully funded. Section 193 requires that the cost of residual claims be fully funded by the year 2014.

Funding policy adopted for 2010/11

We have adopted the following funding policy in assessing the 2010/11 levy proposals. In addition to applying this funding policy, ACC may consider and apply other factors in determining the final total levy proposal.

Current levies (i.e. funding for post 1 July 1999 claims)

- (a) The funding target is to maintain assets equal to the outstanding claims provision at the end of each financial year.
- (b) The outstanding claims provision is to include a risk margin that provides a 75% probability that the outstanding claims provision is adequate to cover future claim payments.
- (c) The outstanding claims provision is to be based on a long-term, risk-free interest rate of 6%, based on long-term historical trends. The interest rate for the first three years is based on the most recent yield curve indicated from the trading market of the New Zealand government bond.
- (d) The total levy requirement is to be assessed each year as:
 - (i) the expected fully funded cost of claims and expenses for injuries that are expected to be incurred during the upcoming levy year
plus or minus
 - (ii) a 'funding adjustment' aimed at achieving the funding target over a maximum period of the next 10 levy years. The timeframe selected will have particular regard to intergenerational equity and affordability
plus or minus
 - (iii) a 'smoothing adjustment' to provide additional levy stability or smoothing of changes over time.
- (e) Where assets are expected to be lower than the funding target at the beginning of the levy year, funding and smoothing adjustments will not be applied if they would result in the total levy being lower than that required to fully fund the cost of claims and expenses for injuries that are expected to be incurred during the upcoming levy year.
- (f) Levy structures and rates for classes of levy payers must be consistent with achieving the total levy requirement.

Residual levies (i.e. funding for pre 1 July 1999 claims)

- (a) The funding target is to have assets equal to 105% of the outstanding claim liability provision, no later than 30 June 2014.
- (b) The outstanding claims provision is to include a risk margin that provides a 75% probability that the outstanding claims provision is adequate to cover future claim payments.
- (c) The outstanding claims provision is to be based on a long-term, risk-free interest rate of 6%. The interest rate for the first three years will be based on expected investment returns for the Scheme.
- (d) Residual levies are assessed to pay for the ongoing costs of residual claims and to establish the funding target by no later than 30 June 2014.

- (e) Levy structures and rates for classes of levy payers must be consistent with achieving the total levy requirement.

Risk-free interest rate

The **risk-free interest rate** is the interest rate that it is assumed can be obtained by investing in financial instruments with no default risk.

Although a truly risk-free asset exists only in theory, in practice most organisations use Government bond rates as the base. These securities are considered to be risk-free because the likelihood of governments defaulting is extremely low. Since this interest rate can be obtained with no risk, it is implied that any additional risk taken by an investor should be rewarded with an interest rate higher than the risk-free rate.

In determining the risk-free interest rate for levy assessments, ACC is looking to strike a balance between four factors:

- (a) being confident that at least that level of interest will be earned and levy payers will not be required to provide additional funding
- (b) selecting both a short-term and long-term interest rate that best corresponds with the mix and duration of claims anticipated to occur during any given year
- (c) achieving a reduction in the volatility of future levy changes by not being overly responsive to normal economic cycles
- (d) increasing transparency and removing undue complexity around a key assumption.

ACC has reviewed its methodology for establishing the risk-free interest rate used for discounting the future costs of claims.

Balancing the risks associated with short-term responsiveness and long-term stability that best correspond with the mix of claims anticipated to occur during any given year, ACC has reviewed risk-free instruments that best match the patterns of its claim payments.

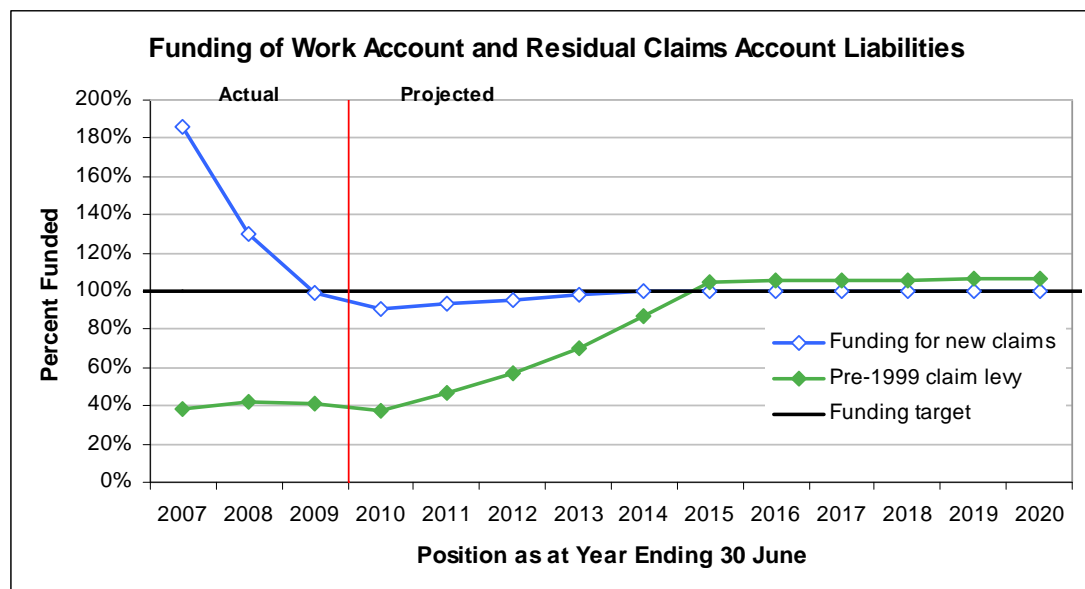
Although the payment of claims for more serious injuries can last many decades, a local trading market of risk-free instruments beyond a 10-year maturity is limited. Therefore, ACC has chosen interest rates for:

- The first three years, based on the most recent yield curve indicated from the trading market of the New Zealand 10-year bond. The yield curve is then compared with ACC's short-term investment strategy and mix of assets taking into account the current economic environment.
- Beginning year four, a long-term, risk-free interest rate based on a review of the 10-year overall average return of the New Zealand 10-year bond. The current long-term interest rate indication is 6.0%. We anticipate this assumption should remain stable through time, reducing overreaction in levies due to natural economic cycles. However, the assumptions will be reviewed as part of the annual levy-setting process.

Path to full funding

Where the Account is not at the funding target, a funding adjustment is included in the levy assessment that would restore funds to the target over a maximum of the next 10 years (or by 2014 for residual levies).

The following graph illustrates the current funding position and the period over which the full funding target will be achieved for the Work Account and Residual Claims Account.



The funding target for the Work Account is to hold assets equal to the outstanding claims liability provision at the end of the levy year (i.e. 100% funding position).

The above graph shows that at 31 March 2007 the Account held assets equal to 186% of the outstanding claims liability, well in excess of the full funding target. Levy rates for recent years were therefore set below actual claim costs in order to return these excess reserves to levy payers.

In addition reserves were further run-down due to increasing claim costs and the lower investment returns received during the current recession.

The Work Account currently holds assets equivalent to 99% of the claim liability for claims that occurred after 30 June 1999. The funding position is projected to reduce to 90% of claim liabilities as at 1 April 2010 (i.e. the beginning of the new 2010/11 levy year) as the current 2009/10 levy rate is not sufficient to cover claim costs.

ACC proposes to increase the 2010/11 levy for the Work Account to cover costs and restore reserves over the next four years.

The Residual Claims Account (for pre-1999 work claims) currently holds assets well below the full funding level. ACC has assessed the proposed levy for this Account so that the levy collected plus the interest earned will ensure that the funding target is reached by 30 June 2014, as required by legislation.

Please read the following sections to find out more about the proposed changes and the work currently underway that may impact on future levy years.

2.0 Work levy rates for 2010/11

For 2010/11 claims

For pre-1999 claims

Levy classifications and risk groups

Determining your levy rate

ACC Partnership Programme

ACC Workplace Safety Discount

ACC CoverPlus Extra

Use-of-money interest rate

What we're proposing and why

2.1 Work levies

In this section you'll find the proposed 2010/11 ACC levy rates for employers and self-employed people, and how they have been calculated.

If you are an employer, your annual work levies fund ACC cover for your employees' work-related personal injuries. You pay these through ACC WorkPlace Cover.

If you are self-employed, your annual work levies fund ACC cover for your work-related personal injuries. You pay these through ACC CoverPlus or ACC CoverPlus Extra.

For information about how non-work personal injuries are funded, please read 'ACC Personal Injury Insurance for all New Zealanders' and the consultation documents for the Earners' Account and Motor Vehicle Account.

Proposed combined average work levy rate

ACC proposes to increase the 2010/11 combined average work levy rate from \$1.31 to \$1.89 for every \$100 of liable earnings.

The combined average work levy consists of two components:

- *a levy for 2010/11 work claims* that funds the costs of work-related injuries that occur during the levy year
- *a levy for pre-1999 work claims*, which pays for the ongoing costs of claims for work-related injuries that occurred before 1 July 1999, and establishes funding to meet future liabilities by 30 June 2014.

Here's how the proposed average rates compare with the current rates:

	<i>Current 2009/10 rates</i>	<i>Proposed 2010/11 rates</i>
Average levy for current year work claims	\$0.75	\$1.18
Average levy for pre-1999 work claims	\$0.56	\$0.71
Combined average work levy rate (per \$100 liable earnings)	\$1.31	\$1.89

Why is there an increase?

The 2010/11 levy assessment is not done in isolation; ACC also needs to look at future funding requirements, ongoing levy stability and expected fund levels. The overall aim is to ensure the ACC Scheme continues to be funded adequately and manage levy stability and smoothing over time.

2010/11 levy increases are mostly being driven by the need to maintain the funding required for existing claims. Levy increases are required to fund increases both in the expected future costs of existing claims (i.e. claims liability provision) and in the expected costs of claims that happen during the new levy year.

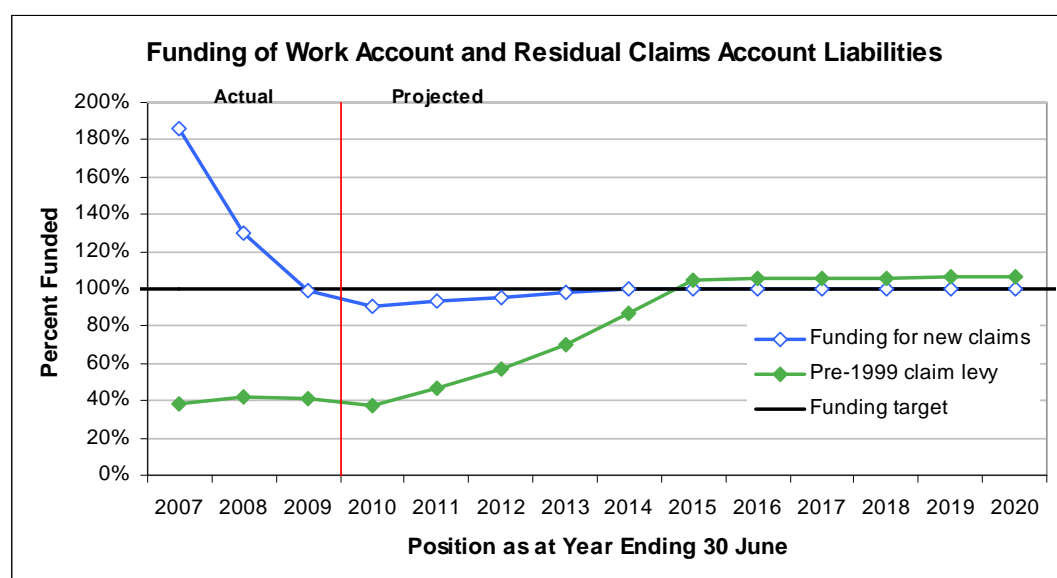
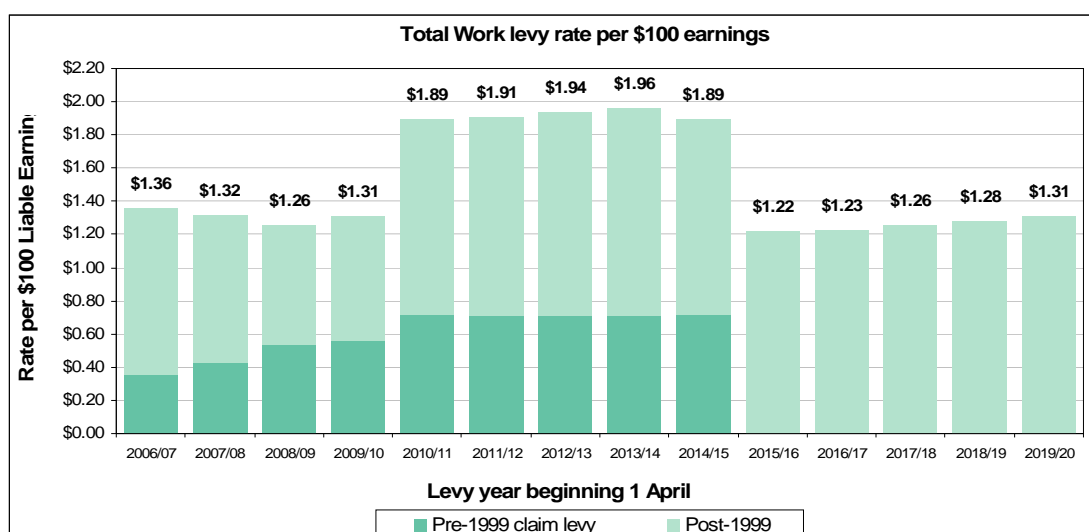
This increased funding requirement has been caused by:

- the current 2009/10 levy rate being set below actual claim costs (i.e. reserves are being used to fund a portion of the current claim costs)
- lower than expected investment income due to the current global recession
- increasing cost estimates for the ongoing liability of existing claims (i.e. increased claims liability provisioning).

Claims liability estimated increases have predominantly been in the following areas:

- weekly compensation costs - claim numbers have increased and people are remaining on the Scheme for longer periods
- elective surgery - the costs of surgery and related consumables (particularly implants) are increasing at rates much higher than inflation
- medical treatment - increasing costs are being driven by high medical-related inflation, increased uptake of services, increased contribution towards treatment and a changing mix of treatment being provided.

The graph below shows the historical combined average levy rates, the proposed combined average levy rate for 2010/11 and future projections to 2019/20. The next graph illustrates the current funding position and the period over which the full funding target will be achieved.



The above graphs illustrate how levy rates have been insufficient to cover increasing claim costs and reserves have been used to fund this shortfall.

ACC's 2010/11 levy proposals and future projections will manage the ongoing levy increases required over the next 10 years, while ensuring the funding target is met by the end of that 10-year timeframe.

Please read the following sections to find out more about the proposed changes in each of these levies.

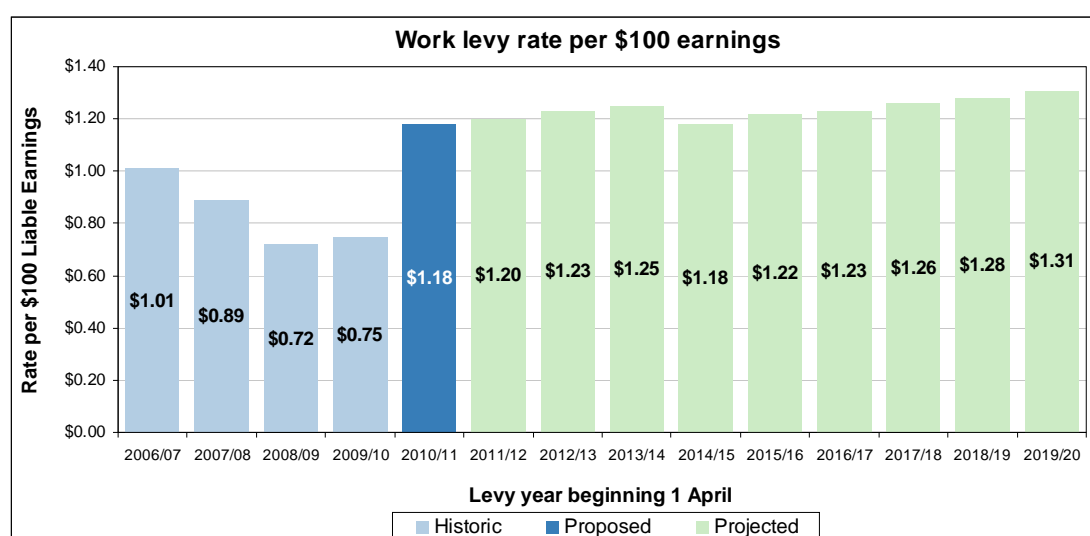
2.2 Levy rate for 2010/11 claims

The work levy for 2010/11 claims will be used to fund all of the current and future costs of work-related personal injuries to employees and self-employed people that happen from 1 April 2010 to 31 March 2011. We also include a funding adjustment to ensure the future costs of existing claims since 1999 remain adequately funded.

Proposed average work levy rate for 2010/11 claims

ACC proposes to increase the average levy rate for 2010/11 work claims by 43 cents from 75 cents to \$1.18 for every \$100 of liable earnings.

The graph below shows the historical average levy rate, the proposed average levy rate for 2010/11 and future projections to 2019/20.



Levy rates over the past three to four years have been held lower than actual costs so that excess reserves could be returned to levy payers. Reserves have now been returned to the fully funded target and as a consequence levy rates need to increase to cover costs.

ACC's 2010/11 levy proposals and future projections will manage the ongoing levy increases required over the next 10 years, while ensuring the funding target is met by the end of that ten-year timeframe.

What's behind the changes

This table shows at a glance what's behind the proposed average work levy rate for 2010/11 claims.

	<i>Current 2009/10</i>	<i>Proposed 2010/11</i>
To fund the cost of new claims during levy year	\$0.84	\$0.87
To fund Scheme costs	\$0.18	\$0.19
Funding adjustment	-\$0.31	\$0.08
Workplace Safety Management Practices discount funding	\$0.04	\$0.04
Work levy rate for claims per \$100 of liable earnings	\$0.75	\$1.18

The proposed increase in the average work levy rate for 2010/11 claims are driven by changes in the:

- cost and frequency of claims
- costs of running the ACC Scheme
- level of funds we expect to have.

The following table shows the major changes for 2010/11 and their impacts on levy rates.

	<i>Impact on levy rate for every \$100 of liable earnings</i>
Average work levy rate for 2009/10 claims	\$ 0.75
Change in:	
<i>Cost of claims</i> - increased weekly compensation costs, medical and elective surgery and rehabilitation costs are impacting the work levy	+\$ 0.03 ↑
<i>Scheme costs</i> - the overall Scheme costs have remained at the same levels	+\$ 0.01 ↑
<i>Funding adjustment</i> - previous years' levy rates were not sufficient to cover costs, which have resulted in reserves being run down below the fully funded target. The aim is to not allow the levy to go below that required to fund the estimated costs of the new levy year, while restoring reserves over the next ten years	+\$ 0.39 ↑
Proposed average work levy rate for 2010/11 claims	\$ 1.18

Please read on to find out more about the proposed changes to the average work levy rate for 2010/11 claims.

(a) Cost of claims

Impact: Increases the average work levy rate for 2010/11 claims by 3 cents.

The key drivers behind the estimated cost of new claims are the average cost of claims and the number of claims, especially 'entitlement claims'. An entitlement claim includes one that incurs costs for income replacement (weekly compensation) or rehabilitation after the initial medical treatment.

The total amount of employee and self-employed earnings impacts the levy rate. For example, higher salaries and wages mean the amount of levy to be collected is spread over a larger levy base, thereby reducing the levy rate. Income that ACC earns from investments also impacts on the levy rate. For example, higher interest rates mean ACC is able to earn higher investment returns on the funds held to meet future claim costs, so the amount to be collected by way of levies is reduced.

The following table shows the estimated cost of 2010/11 claims compared with last year and the impacts on the average work levy rate.

	<i>Current 2009/10</i>	<i>Proposed 2010/11</i>	<i>% change (current to proposed)</i>
A. Expected number of employees and self-employed	1,657,899	1,649,695	-0.5%
B. Entitlement claim frequency	1.44%	1.43%	-0.5%
C. Expected number of entitlement claims (= A x B)	23,803	23,567	-1.0%
D. Average claim cost discounted to the beginning of the levy year	\$24,217	\$25,333	+4.6%
E. Estimated cost of claims discounted to the beginning of the levy year (= C x D)	\$576.4m	\$597.0m	+3.6%
F. Expected liable earnings of employees and self-employed	\$68,696m	\$68,874m	+0.3%
G. Work levy rate per \$100 of liable earnings to fund the cost of claims (= E / F)	\$0.84	\$0.87	+3.3%

ACC has adjusted the definition of entitlement claim for pricing purposes to more adequately reflect the claims that produce significant costs for the Account. The information shown in this consultation document reflects the new methodology applied to both the 2009/10 levy rates and the proposed 2010/11 levy rates. Any comparisons made with previous consultation documents should take this change into account.

The next table shows the changes in the key drivers and the resulting impacts on the average employer levy rate needed to fund the cost of claims in 2010/11, excluding Scheme costs, funding adjustments and ACC Workplace Safety Management Practices (WSMP) discount adjustments.

Driver of levy rate change	<i>Impact on levy rate per \$100 of earnings</i>	<i>Additional % change due to this driver</i>
Levy rate for 2009/10 work claims	\$0.84	
Change due to average cost of claims	\$0.04	+4.6%
Additional change due to number of claims	-\$0.01	-1.0%
Additional change due to exposure (i.e. earnings)	\$0.00	-0.3%
Levy rate for 2010/11 work claims	\$0.87	+3.3%

Below are details about how changes to each of the key drivers affect the average work levy rate for 2010/11 claims:

(i) Change in average cost of claims

Impact: Increases the average work levy rate for 2010/11 claims by 4 cents.

The estimated average cost of claims is influenced by changes in the volume and cost of services provided to clients.

Forecast for 2010/11: The main reasons for the change in the average cost of an entitlement claim for 2010/11 have been the increased expected costs of weekly compensation, elective surgery, and medical treatment.

The following table shows the estimated average entitlement claim cost by type of entitlement.

<i>Type of entitlement</i>	<i>Estimated 2009/10 average claim cost</i>	<i>Estimated 2010/11 average claim cost</i>	<i>Total change</i>	<i>% change</i>
Weekly compensation	\$13,759	\$14,195	\$437	+3.2%
Death-related entitlements	\$309	\$311	\$2	+0.5%
Lump sums and Independence Allowance	\$300	\$299	-\$1	-0.4%
Vocational rehabilitation	\$870	\$886	\$17	+1.9%
Social rehabilitation	\$1,601	\$1,680	\$80	+5.0%
Elective surgery	\$2,180	\$2,352	\$172	+7.9%
Medical treatment	\$5,199	\$5,609	\$410	+7.9%
Total average claim cost	\$24,217	\$25,333	\$1,116	+4.6%

Costs of weekly compensation (income replacement)

There are two primary drivers of cost for weekly compensation - wage inflation and the length of time an injured worker requires to complete rehabilitation and return to work. The increase in the average cost for weekly compensation reflects the expected movement in the average weekly earnings and the recent lengthening of the rehabilitation period.

ACC has a number of initiatives targeted at ensuring the appropriate rehabilitation is provided as soon as needed to enable a timely return to work for the injured person. As these initiatives take effect, they may offset the future wage inflation effects and result in levy reductions in future years.

The discount rates for the 2010/11 levy year are higher than those used for the 2009/10 levy year as the economy is expected to be recovering. This increase in discount rate has reduced the size of the increase in average cost for weekly compensation by around 38%. A proportion of claims receiving weekly compensation will require a long rehabilitation period and the higher discount rate allows less funding to be collected initially to fund these longer-term payments.

Costs of medical treatment

This group of expenses is primarily driven by changes in the cost of services within the health sector and includes the cost of public hospitals, emergency transport and medical treatment.

The increasing costs of medical treatment have been driven by factors that include:

- wage inflation in the health sector, which is significantly higher than in other sectors of the community
- an increased uptake of specialist services and use of physiotherapy not requiring client co-payments
- an increasing use of high-tech radiology (mainly MRI) by medical professionals
- increases in the costs of services provided by accident and medical clinics.

As most medical treatment costs occur early in the life of an injury, the increase in discount rates from 2009/10 to 2010/11 has not significantly reduced the impact on the levy of the rising medical costs and increased use of high-cost services.

Costs of elective surgery

ACC undertakes a significant amount of elective surgery each year. In 2008/09 ACC paid around \$37 million for elective surgery performed on injured workers (ACC paid a total of \$240 million for elective surgery in 2008/09).

The cost of providing elective surgery is high because of the costs associated with setup and maintenance of facilities, the limited supply of surgeons, and the general high rate of inflation for both wages and consumables/implants associated with surgery.

ACC expects that the high level of price increase and the increasing use of elective surgery will continue for 2010/11.

(ii) Change in number of claims

Impact: Decreases the average work levy rate for 2010/11 claims by 1 cent.

Changes in the number of claims made can affect the average levy rate. The types of claim that have the most impact on levy rates are entitlement claims - ones that incur costs beyond the initial medical treatment. These costs include hospital treatment (such as surgery) and weekly compensation for time off work.

The more entitlement claims that are made, the more chance there is an increase in the levy rates - and vice versa.

Forecast for 2010/11: In recent years the number of work-related entitlement claims has been decreasing, while the number of entitlement claims in the Earners' Account has been increasing. For the upcoming levy year, the inversely related trends in both Accounts are expected to subside and stabilise. The number of work-related entitlement claims is estimated to be 1% lower than that of 2009/10.

(iii) Change in employee and self-employed earnings

Impact: No change to the average work levy rate for 2010/11 claims.

ACC uses actual earnings to assess liability for personal injury cover. For employers, this is the total liable earnings for the tax year. For self-employed people, this is their individual liable earnings during the previous tax year.

Changes in the total liable earnings can affect the levy rate, even if everything stays the same. For example, if total claim costs are stable but the earnings base is shrinking, the levy rate will have to increase each year to collect the same amount of money to cover claim costs. The reverse is also true.

Forecast for 2010/11: The combined earnings for employees and self-employed people for 2010/11 are expected to increase to \$68,874 million. This is 0.3% more than the earnings that were used to assess the 2009/10 levies.

(b) Scheme costs

Impact: Increases the average work levy rate for 2010/11 claims by 1 cent.

This is how much it costs each year to run the ACC Scheme, including injury prevention, levy collection and operating costs.

The following table shows the 2010/11 estimated Scheme costs for the Work Account.

Scheme Costs	Current	Proposed
Levy collection costs	\$13.1m	\$13.0m
Injury Prevention costs	\$17.0m	\$16.8m
Operating costs	\$93.3m	\$100.3m
H. Estimated Scheme costs	\$123.4m	\$130.1m
I. Expected employee and self-employed earnings	\$68,696m	\$68,874m
J. Average claims levy rate to fund Scheme costs (= H / I)	\$0.18	\$0.19

Increased operating costs for 2010/11 are due to an increased provision in the estimated claims liability for future management of existing claims and an increased provision for bad debts. This is being offset by the increase in estimated liable earnings.

(c) Funding adjustment

Impact: Increase the average work levy rate for 2010/11 claims by 39 cents.

The ACC Scheme is required to be fully funded. The ACC full funding policy is to hold assets equal to 100% of the estimated ongoing future costs of claims inclusive of risk margin.

Where actual funds are higher or lower than the funding target of 100% of estimated future claim costs, a funding adjustment is included in the levy assessment to restore funds to that target over a maximum of the next 10 years. Funds held in reserve can be used to smooth ongoing changes to levy rates.

Forecast for 2010/11: the change in the funding adjustment is the single largest contributor to the proposed increase in the average 2010/11 levy rate.

The funding adjustment applied in previous years effectively provided a "rebate" that returned excess reserves to levy payers via lower levy rates.

Funding levels are now slightly below the fully funded target of 100% of the estimated future claims costs, while assets are currently equivalent to 99% of the claim liability for claims for injuries after 30 June 2009. This is projected to reduce further to 90% of claims liabilities as at 1 April 2010 (i.e. the start of the new 2010/11 levy year).

This means additional funding is now required to restore these reserves to the funding target and the previous "rebate" is removed. The proposed levy rates will now cover claim costs and see reserves being restored over the following four years.

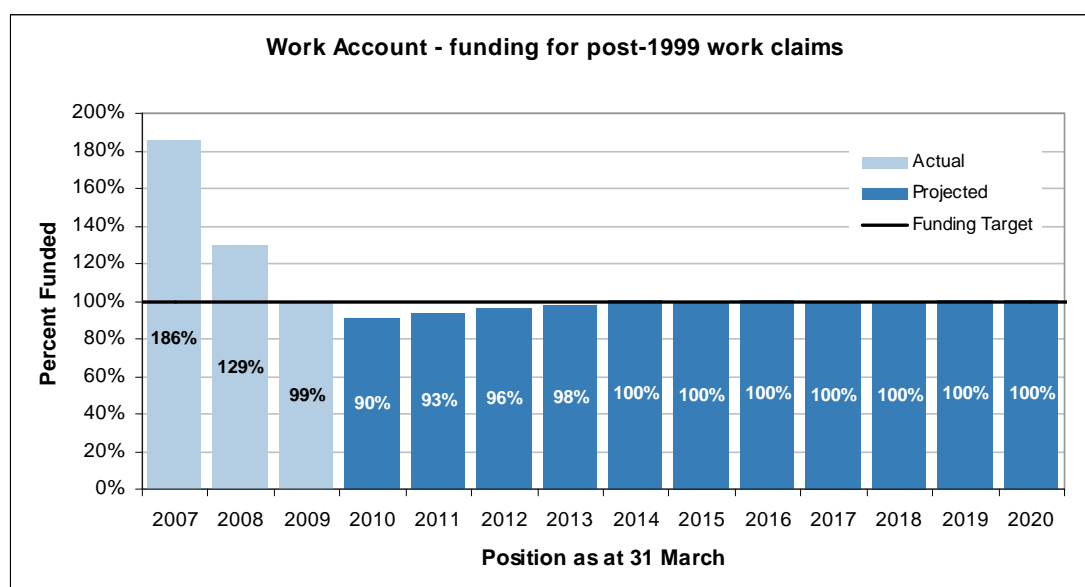
Reserves have been run down faster than expected over the past two years. In addition to setting the current 2009/10 levy rate below actual claim costs (i.e. using reserves to fund a portion of the current claim costs), increased funding requirements have been caused by:

- lower than expected investment income due to the current global recession
- increasing cost estimates for the ongoing liability of existing claims (i.e. increased claims liability provisioning).

Claims liability estimate increases have predominantly been in the following areas:

- weekly compensation costs - claim numbers have increased and people are remaining on the Scheme for longer periods
- elective surgery - the costs of surgery and related consumables (particularly implants) are increasing much higher than inflation
- medical treatment - increasing costs are being driven by high medical-related inflation, increased uptake of services, increased contribution towards treatment and a changing mix of treatment being provided.

The following graph shows the expected funding levels as at 30 June 2009 and the projected path to full funding through to 31 March 2020.



(d) ACC Workplace Safety Management Practices discount funding

Impact: No change to the average work levy rate for 2010/11 claims.

ACC Workplace Safety Management Practices (WSMP) discounts are funded by a loading on the average work levy rate. In 2009/10 this loading was 4 cents per \$100 of liable earnings.

Forecast for 2010/11: ACC proposes to maintain the WSMP discount proportion of the average work levy rate at 4 cents for every \$100 of liable earnings.

2.3 Levy rate for pre-1999 claims

The levy for pre-1999 residual claims is used to fund claims for work-related personal injuries that occurred before 1 July 1999, and gradual process claims related to employment before July 1999, which have ongoing payments. ACC still needs to collect levies to pay for the ongoing cost of claims that occurred before 1 July 1999, when not enough was collected to cover the full cost of the claims.

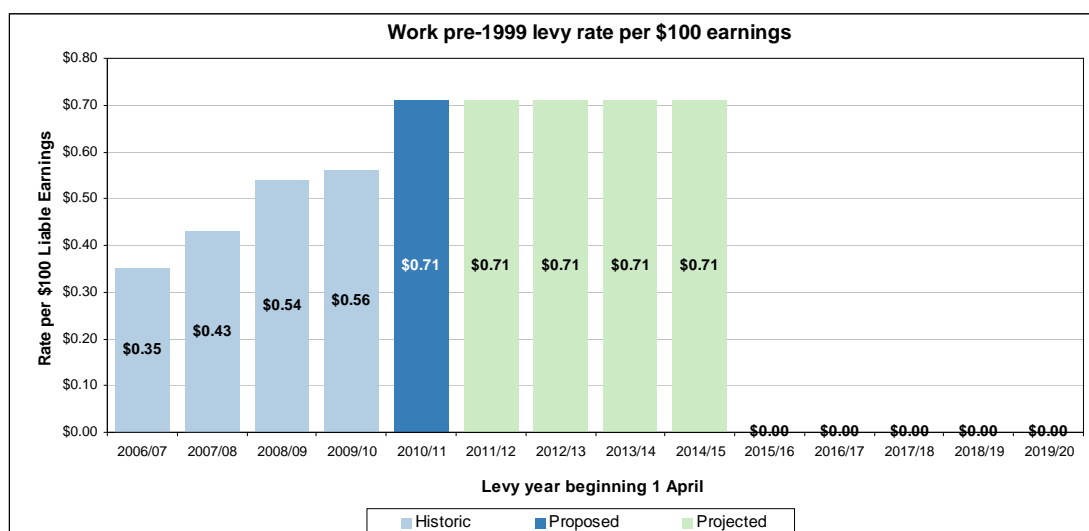
Levies are set with the goal of building up sufficient assets for the Residual Claims Account to be fully funded by 30 June 2014.

After 2014 there will no longer be a separate levy for pre-1999 claims.

Proposed average pre-1999 claims levy rate

ACC proposes to increase the average levy rate for pre-1999 work claims by 15 cents, from 56 cents to 71 cents for every \$100 of liable earnings.

The graph below shows the historical levy rates, the proposed levy rate for 2010/11 and projected levy rates to 2014.



What's behind the changes

The outstanding claim costs for pre-1999 work claims are sensitive to changes in the price of services provided to clients. The proposed increase in the levy rate for pre-1999 work claims is driven by:

- people remaining on the Scheme longer than in the recent past
- increased operating costs resulting from longer claim durations, which increase the number of claims requiring management at any one time
- increases in both the proportion of non-seriously injured people requiring assistance with home help, child care, activities of daily living and transportation, and the costs of providing these services
- increases in the costs of providing personal support services to seriously injured people

- an increased range of rehabilitation programmes available for seriously injured clients. These are designed to improve clients' abilities to attain optimal independence in their day-to-day activities.

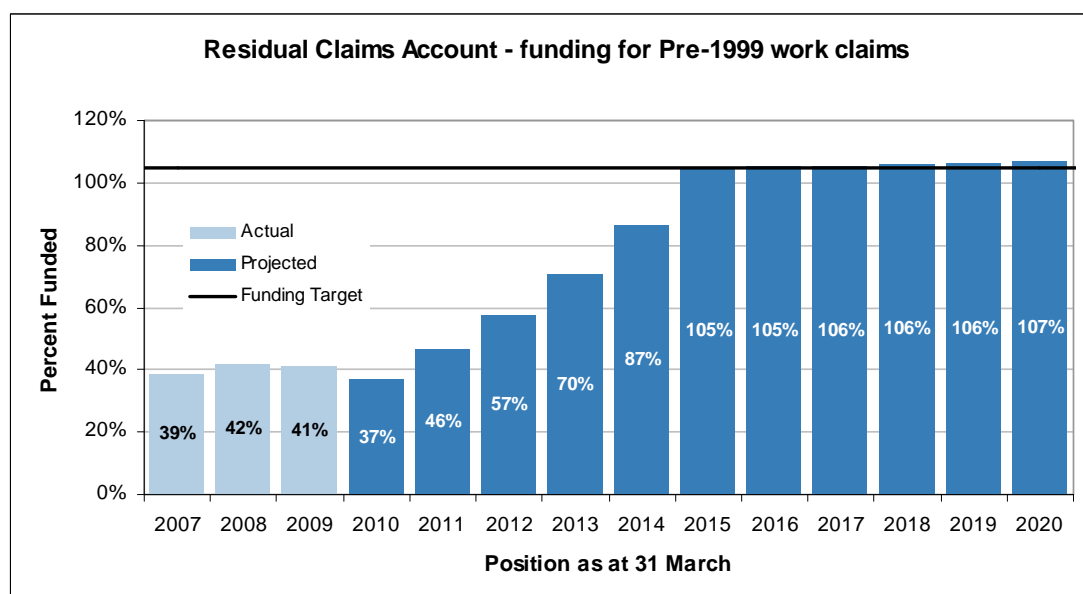
An amendment to the Injury Prevention, Rehabilitation, and Compensation Act in 2005 changed the funding rules regarding which ACC Account funds the costs of gradual process claims. This resulted in a significant increase in the number of gradual process claims now being funded from the pre-1999 residual claims levy.

The levy for pre-1999 work claims has been calculated as the levy required from each \$100 of earnings between 1 April 2010 and 31 March 2014 to ensure that the costs of the pre-1999 work claims are fully funded by 30 June 2014.

Funding requirement

The pre-1999 claims levies are assessed each year with the goal of building up assets so that the ongoing costs of these claims are fully funded from 2014, at which time this levy will stop being collected.

The following graph show how the funding of the pre-1999 work claims, including the risk and prudential margins, is anticipated to progress from 1 April 2009 to 31 March 2014.



2.4 Levy classifications and risk groups

In this section you'll find the proposed changes to the risk groups used to set levy rates for 2010/11 and to the classification units that will be used to set 2010/11 levies.

Classification and risk group proposals for 2010/11

ACC proposes to:

- *maintain the number of levy risk groups for the work levy at 117 and update their relativities based on the latest claims experience*
- *change the description of two levy classification units*
- *maintain the 41 risk groups and their relativities for the pre-1999 claims levy.*

Overview of classifications and risks

The purpose of a classification system is to classify employers and self-employed people into groups to facilitate fair and equitable levy rates. A classification system should ensure that the costs of claims are distributed fairly among the industries responsible for those costs.

ACC uses an industry-based classification system based on the Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC). Levy payers are classified by the type of industry in which they are engaged (not by the occupations of employees).

Employers and self-employed people are allocated to the levy classification unit that most accurately describes their activity, usually determined by the services provided or goods produced.

In setting levy rates, individual industrial activities (classifications) are grouped with others of similar activity and injury risk so that the cost of work injuries is fairly distributed among those with common characteristics (i.e. risk groups or insurance pools). Industry levies reflect the weighted average cost of all activities or occupations within each industry.

Classification principles and rules

ACC has adopted a set of principles and rules to guide equitable levy assessments and make sure we use cost-effective administration of the classification system for both ACC and levy payers.

These principles and rules have been developed in conjunction with levy payers and other interested parties. The principles are:

- Principle (a): Using a classification system to preserve equity between risk groups, encourage injury prevention and reflect the true cost of compensation.
- Principle (b): Grouping entities with similar business activities and further grouping these according to injury risk levels.
- Principle (c): Recognising levy payers' need for stability and predictability in levy rates.
- Principle (d): Making groups large enough to allow reasonable statistical credibility and stability in levy rates.
- Principle (e): Keeping the system flexible enough so that classification units can shift between groups where their relative cost of injury changes.

- Principle (f): Ensuring that definitions of activities included in each classification and group are clear and unambiguous.
- Principle (g): Using an externally developed and updated coding system as the basis for the classification units.
- Principle (h): Ensuring there is transparency and fairness in the system for classifying activities and setting levies.
- Principle (i): Ensuring that the levy classification system is administered in a cost-effective manner.

The following classification rules have also been adopted to ensure the development of the classification system in a way that complies with the above principles. The rules are:

- Rule (a): External classification system
The ANZSIC system is selected as the most appropriate independently maintained and up-to-date system. However a number of anomalies arise where ANZSIC codes have significantly different risks. Separate classification units have been created to distinguish between these risks, where necessary.
- Rule (b): Risk group size
To ensure that risk groups are not too small to ensure a statistically credible base on which to set levy rates, ACC has estimated that, where possible, each risk group should have on average a payroll of at least \$400 million. This minimum amount is indexed every year to reflect average weekly earnings inflation.
- Rule (c): Levy smoothing
To smooth ongoing adjustments to risk-based levy rates, ACC will consider levy-smoothing options for individual classification units each year in addition to or including any average change in the levy rate.
- Rule (d): Criteria for moving between risk groups
It is important to recognise that classification units can move between risk groups. The relative risk of each classification unit will be reviewed each year and allocated to risk groups that best match the expected risk.
- Rule (e): Levy assessment for new activities
Where new activities do not fit into existing levy classifications, the initial levy rate will be set based on all the relevant data available and may include an element of Corporation judgement of the probable injury risk. Supportive data can include other comparable New Zealand injury data and overseas experience.
- The resulting levy rate will be subject to review on an annual basis and adjusted within the agreed principles and rules, as for the rates for all other classification units.

Levy risk groups for work levies

The current levy classification structure comprises the following categories

Category		Number of risk groups or insurance pools
1.	Aggregate or total account	1
2.	Industry division	19
3.	Industry risk groups	39
4.	Sub-industry risk groups	117
5.	Classification unit	535

Industry divisions

Industry divisions are large categories of employers and self-employed people that are involved in the same area of the economy at the broadest level (i.e. ANZSIC industry divisions).

Industry risk groups

The purpose of industry risk groups is to pool the experience of several sub-industry risk groups within an industry. This grouping ensures that employers and self-employed people can recognise that they are classified fairly, since they share similarities with other employers in their industry risk group.

Where the minimum size criterion cannot be met by any of the individual sub-industry risk groups, then the sub-industry risk groups' experience is supplemented with that of the industry risk group to ensure statistically credible levy rates are assessed.

Sub-industry risk groups

The purpose of the sub-industry risk group category is to combine classification units into large enough insurance pools that their risk can be measured and therefore their future costs can be predicted. Using this information, ACC can calculate the appropriate levy rate to be charged to each sub-industry risk group.

A minimum size criterion generally ensures that sub-industry risk groups are large enough to be regarded as having some predictability for future claims experience. This allows ACC to assess statistically credible rates and also provides employers and self-employed people with an incentive to improve their current workplace safety record.

The minimum size for a sub-industry risk group is a group of classifications with at least \$400 million of payroll.

This minimum size criterion is based on actuarial principles and ensures that sub-industry risk groups are generally large enough to be viable for statistical and pricing purposes. This figure is indexed each year to reflect average weekly earnings inflation. For 2010/11 the inflated minimum payroll amount is \$439 million.

Classification units

The last category in the classification structure is the classification unit, which represents distinct business activities. Each classification unit is made up of a relatively homogeneous group of employers and self-employed people that are considered to be peers and often competitors in business.

The purpose of the classification category 'classification unit' is to allow ACC to define specific types of business precisely and to collect payroll and claims information for each one.

With this information, ACC is able to see which types of business have the greatest numbers of claims relative to payroll and should, therefore, be the focus of injury prevention activities. The precise definition of each classification unit also allows employers and self-employed people to verify that they are classified correctly and consistently with their peers and competitors.

To ensure that classification units accurately represent specific industrial activities, there is no minimum size for a classification unit. As a result many classification units are too small to calculate credible statistical data about their claims history which is why they are grouped into sub-industry risk groups.

ACC does not have enough data on recent claims to provide reliable estimates of future claims for a small group. Therefore, the calculation of statistics such as injury frequency and average cost per claim cannot be accurately done at the classification unit level. To overcome this problem, classification units are grouped into larger sub-industry risk groups.

2.4.1 Levy risk groups for the work levy

(a) Levy risk group structure

Businesses and self-employed people are classified by the type of industry in which they are engaged (not by the occupations of employees). ACC uses an industry-based classification system based on the Australian and New Zealand Standard Industrial Classification (ANZSIC), and from 1 April 2008 the system was updated so that it is now based on ANZSIC 2006.

For the 2010/11 levy year, ACC is proposing to maintain the 535 classification units, and the grouping into 117 levy risk groups.

(b) Changes to Classification Unit descriptions

Two changes to the names of Classification Units (CUs) are proposed. In each case the result will be to provide a suitable classification for entities that do not fit well within current definitions. The changes proposed are:

CU number	Current CU name	Proposed CU name	Reason for change
36103	Electricity Line System Operation (excluding maintenance and operation)	Energy and Services Utilities Operation (excluding construction, maintenance and plant operation)	To provide an appropriate classification for utilities (other than electricity line operators) who subcontract all field operations
61231	Taxi Organisations (excluding those that provide taxi services)	Taxi and Other Vehicle Scheduling Operations	To provide an appropriate classification for organisations who operate in the same manner as a taxi booking office, but schedule van and truck movements

(c) Merger of the Employers' and Self-Employed Work Accounts

The Employers' and Self-Employed Work Accounts were merged on 1 April 2007 into the Work Account. Since then ACC has been required to make an adjustment to the levy rates for each classification unit. These adjustments must be made until the beginning of the 2010/11 levy year, at which time the same levy rate must be charged for employers and self-employed people classified in the same industrial classification unit.

The average levy rates for employers and self-employed people have now been merged and the individual classification rates are the same for both groups.

Refer to the levy risk group documents at www.acc.co.nz/consultation for individual rates.

(d) Capping the changes to levy rates

To smooth the financial impacts of annual levy changes these are capped for each individual industrial classification unit, so that levy rates do not change by more than 25% in addition to the increase in the average work levy rate.

To ensure the Scheme continues to fund the overall expected costs, all other Work Account levy payers must fund any net shortfall caused by capping changes in levy rates.

2.4.2 Risk groups for pre-1999 claims

The 535 classification units are currently grouped into 41 risk groups. Each risk group has a separate levy rate assessed on the group's expected duration and the cost of existing claims.

ACC currently proposes to recommend that the current 41 risk groups be retained for the 2010/11 levy year.

The Residual Claims Account is closed off for new claims, except for gradual process claims where the exposure occurred before 1 July 1999. The ongoing risk grouping relativities for work-related claims have been 'frozen' to ensure that those industries that created the existing claim liability will fund that liability by 30 June 2014.

2.5 Determining your levy rate

To work out your own levy rate, you will first need to know your classification unit code. You can see the proposed levy rate for your classification by:

- using our online levy calculators at [ACC Levy Calculators](#)
- searching through the list of all classification units in the supplementary document - '*Proposed 2010/11 Work levy rates for each classification and risk group*', or
- reading the risk group document specific to your industry. You can find the levy risk group documents at www.acc.co.nz/consultation. On the title page of each risk group document is a list of the classification units that it covers.

2.6 ACC Partnership Programme

In this section you'll find the proposed changes to the ACC Partnership Programme.

Proposals for 2010/11

ACC proposes to:

- *set the ACC Partnership Discount Plan discounts to 49.8% and 58.6% for the one-year and two-year claim management options respectively*
- *set the ACC Partnership Programme administration fee at 2.3% of the standard levy (from 4.0% for 2009/10). Administrative costs of the programme are expected to decrease for 2010/11*
- *maintain the primary health cost fee at 1.5% of the standard levy*
- *decrease the bulk-funded public health care cost fee to 2.8% of the standard levy (from 4% for 2009/10).*

ACC Partnership Programme

The ACC Partnership Programme offers significant levy discounts to employers that are willing and able to take responsibility for their own workplace health and safety and the management of workplace injuries.

ACC Partnership Programme employers are still required to pay the Residual Claims Account levy. The Residual Claims Account levy is not discounted for accredited employers because the claims occurred before the Programme commenced and are managed by ACC.

The ACC Partnership Programme offers two plans - the Partnership Discount Plan and the Full Self-Cover Plan.

(a) Partnership Discount Plan

Employers that join this Plan accept injury management and financial responsibility for employees who suffer work-related injuries for a selected management period (for the duration of the cover period and an additional one-year or two-year period).

Current levy discounts average 51.5% and 58.8% of the standard ACC Workplace Cover levy for the one-year and two-year Partnership Discount Plan options respectively.

The levy payable by a Partnership Discount Plan employer depends on the industry concerned and is calculated by applying the relevant discount to the standard levy payable (detailed Partnership Discount Plan levy discount rates are available in the supplementary document - '*Proposed 2010/11 Work levy rates for each classification and risk group*').

On top of the discounted standard levy, Partnership Discount Plan employers pay the following fees:

- *ACC Partnership Programme administration fee* - to cover the administrative costs of the Programme (see page 33 for details)
- *unallocated primary health cost fee* - to cover primary health costs that should be paid by the Partnership Discount Plan employer, but are instead paid by ACC owing to clients failing to provide details at the point of service (see page 34 for details)

- *Stop Loss protection levy* - protection that limits an employer's claim liability costs (see page 34 for details). This cover is optional for Partnership Discount Plan employers.

(b) **Full Self-Cover Plan**

Employers who join the Full Self-Cover Plan assume full financial and injury management responsibility for:

- work-related injuries for a selected management period
- continuing financial liability for the life of a claim up to a pre-selected limit. At the end of the management period, the management of claims reverts back to ACC and any residual cost of claims remains the liability of the employer up to the pre-selected limit. This liability will be settled by payment of a lump sum to ACC at the end of the management period. Stop Loss protection is mandatory.

The levy payable under the Full Self-Cover Plan includes the following items:

- *ACC Partnership Programme administration fee* - to cover the administrative costs of the Programme (see page 33 for details)
- *unallocated primary health cost fee* - to cover primary health costs that should be paid by the Full Self-Cover Plan employer, but are instead paid by ACC owing to clients failing to provide details at the point of service (see page 34 for details)
- *bulk-funded public healthcare costs (BHC)* - the acute health services provided to injured workers are funded via a bulk payment to the Ministry of Health (see page 34 for details). This fee covers the Full Self-Cover Plan employer's share of those costs
- *Stop Loss and High Cost Claims Cover levies* - protection that limits an employer's claim liability costs (see pages 34 and 35 for details). Stop Loss cover is mandatory for Full Self-Cover Plan employers; however, High Cost Claims Cover is optional.

Proposed Partnership Discount Plan discounts for 2010/11

The average levy discounts for the Partnership Discount Plans for 2009/10 were 51.5% and 58.8% for the one-year and two-year claim management options respectively.

The following table shows how we work out the average 2010/11 levy discounts applicable to the Partnership Discount Plan. The proposed 2010/11 discounts are 49.8% and 58.6% for the one-year and two-year claim management options respectively.

<i>Average Partnership Discount Plan discount¹</i>			
	<i>Standard</i>	<i>Claim management period subsequent to cover period</i>	
		<i>1yr</i>	<i>2yr</i>
Direct claim costs ²	0.80%	0.40%	0.32%
Bulk-billed claim costs ³	0.04%	0.04%	0.04%
Claims handling expense	0.09%	0.03%	0.02%
Administration expense	0.03%	0.00%	0.00%
Levy collection costs	0.02%	0.00%	0.00%
Provision for doubtful debts	0.04%	0.04%	0.04%
Funding adjustment	0.07%	0.04%	0.03%
Net average employer work levy	1.10%	0.55%	0.45%
ACC Workplace Safety Management Practices discount funding	0.04%		
Total average employer work levy rate to pay	1.14%		
Partnership Discount Plan discounts⁴		49.8%	58.6%

The key driver of the levy discounts applicable to the Partnership Discount Plan is the proportion of direct claim costs expected to be paid during the selected claim management period. Owing to the differing nature of claims across industries, this proportion varies considerably according to risk group. For example, an industry with a relatively high proportion of low-cost claims should receive a larger discount, as the employers will make a higher proportion of ultimate claim payments in the accreditation period.

You'll find the proposed 2010/11 Partnership Discount Plan discount rates in the supplementary document - '*Proposed 2010/11 Work levy rates for each classification and risk group*'.

Proposed administration fee for 2010/11

For 2009/10 the administration fee was 4.0% of the standard levy. It is proposed that the administration levy for 2010/11 decreases to 2.3%.

The total expenses allocated in 2009/10 and proposed for 2010/11 for the ACC Partnership Programme are:

<i>Categories</i>	<i>2009/10 (\$000)</i>	<i>2010/11 (\$000)</i>
Levy setting	493	437
Levy collection	50	67
Injury prevention	714	306
Health and safety	776	1,025
ACC Partnership Programme support	3,645	3,703
Total	5,678	5,538

¹ Figures expressed as percentages of earnings

² Based on a 12-month accident period

³ Acute BHP levy and ambulance

⁴ Discount on standard levy

Proposed unallocated primary health cost fee for 2010/11

Historically, around 4% to 5% of costs within the Work Account cannot be attributable to an individual employer. This fee covers the estimated unallocated primary health costs that ACC is unable to attribute to an accredited employer.

The unallocated primary health cost fee for 2009/10 was 1.5% of the standard levy. It is proposed that the fee for 2010/11 be maintained at 1.5% of the standard levy.

Proposed bulk-funded public health care (BHC) costs for 2010/11

For 2009/10, the BHC cost was 4.0% of the standard work levy.

In accordance with sections 6.7A and 9.3 of the Partnership Programme Framework, the public health care services levy for 2010/11 has been derived as:

$$\begin{aligned}
 C &= \text{Estimated bulk health costs for the 2010/11 period} = \$24.97\text{m} \\
 LE_T &= \text{Estimated total liable earnings across all employers} = \$81,569.64\text{m} \\
 APR &= \text{Average work levy rate for employers} = \$1.09 \text{ per } \$100 \text{ liable earnings} \\
 BHC &= (C / LE_T) * (100 / APR) \\
 &= (\$24.97\text{m} / \$81,569.64\text{m}) * (100 / 1.09) \\
 &= 2.8\%
 \end{aligned}$$

The proposed public health care services levy (BHC factor) for 2010/11 is therefore 2.8% of the standard levy including a provision for WSMP discounts.

Stop Loss cover

To limit their claim liability costs, accredited employers can elect a 'Stop Loss' level. This protects them against any unexpectedly high total injury costs incurred during a cover period.

Stop Loss protection is compulsory for the Full Self-Cover Plan, but optional for the Partnership Discount Plan. Accredited employers can choose a Stop Loss amount between set minimum and maximum limits of the industry levy they would otherwise have had to pay ACC.

The risk levy for Stop Loss cover is determined in relation to an employer's expected variability in claim experience. The main factors influencing the variability of an employer's expected claim experience are:

- the size of the employer - smaller employers will generally have more variable claim experiences
- the average cost of claims - employers with a relatively low average claim cost will tend to have less variable claim experiences. For example, an employer with an expected experience of 100 claims of \$5,000 will have a more stable claim experience than an employer with an expected experience of 10 claims of \$50,000
- the likelihood of a high-cost, serious injury claim.

Changes to Stop Loss limits

ACC allows accredited employers to choose any dollar amount as their Stop Loss limit (within set maximum and minimum levels).

The maximum and minimum Stop Loss limits are reviewed annually. Each year, changes in the components of the standard levy result in changes to the Stop Loss cover being offered.

The maximum and minimum Stop Loss limits are set as 250% and 160% respectively of the expected claim costs. The calculated maximum and minimum Stop Loss limits (as percentages of the standard levy) are shown in the table below:

	<i>Partnership Discount Plan 1 year (PDP1)</i>	<i>Partnership Discount Plan 2 years (PDP2)</i>	<i>Full Self- Cover</i>
160% of expected claim costs	56.0%	65.6%	110.4%
250% of expected claim costs	87.5%	102.5%	172.5%

Partnership Discount Plan employers pay for claim-related costs in the cover period plus the claim-related costs in a selected management period of either one additional year (PDP1) or two additional years (PDP2). Full Self-Cover Plan employers are responsible for claim-related costs for the lifetimes of the claims.

As a result, Full Self-Cover Plan employers are expected to pay more claim-related costs (as a percentage of the standard levy) than PDP2 employers, who are in turn expected to pay more claim-related costs as a percentage of the standard levy than PDP1 employers. Consequently, the Stop Loss limits, as percentages of the standard levy, for PDP1 employers should be lower than those for PDP2 employers, which in turn should be lower than those for Full Self-Cover Plan employers.

High Cost Claims Cover

With the Full Self-Cover Plan, accredited employers have the option of choosing High Cost Claims Cover. This additional cover limits the accredited employer's liability for claims arising from a single event.

Accredited employers can select a High Cost Claims Cover excess level of \$250,000, \$500,000, \$750,000, \$1 million, \$1.5 million, \$2 million or \$2.5 million per event.

If the accumulated claim payments resulting from a single event reach the nominated level, any further claim payments arising from the event will be reimbursed by ACC. Accredited employers continue to manage all claims, including those with aggregate costs higher than the nominated High Cost Claims Cover excess level, until the end of the selected claim management period.

There is a positive interaction between the existing Stop Loss cover and the High Cost Claims Cover. This means that if High Cost Claims Cover is purchased, the Stop Loss cover rate will be lower. The overall cost of cover for the two components (Stop Loss and High Cost Claims Cover) will be at least as high as the Stop Loss levy would have been without the inclusion of High Cost Claims Cover. This is because High Cost Claims Cover provides more protection against adverse claim experience.

2.7 ACC Workplace Safety Discounts

In this section you'll find the proposed changes to the ACC Workplace Safety Discounts programme.

Proposal for 2010/11

ACC proposes to:

- *increase the maximum liable earnings entry criterion from \$450,000 to \$495,000.*

Impact on levy rates

ACC legislation requires that the cost of this discount programme be funded by a loading on the levy rate for work-related personal injury insurance in each industry sector where the discounts are to be made available.

This funding strategy is consistent with ACC's other levy discount programmes. The funding strategy is based on the premise that good workplace safety practices reduce claims for work-related injuries, but that the impact of any reduction in claim rates is difficult to predict and will not be quantifiable in the short term. Given this uncertainty, ACC has adopted a conservative funding strategy that ensures levy payers that take action to prevent injuries pay less while levy payers that take no action pay more, but makes no assumptions about the financial impacts of claim reductions in the short term. In the long term, if the initiative works, the benefits will follow.

The level of loading needed to fund discounts varies by classification unit because the expected programme participation and revenue base for each are different. All businesses in the affected industrial classification units will pay the loading required to fund the proposed workplace safety discounts. The level of loading for each classification unit is listed on pages 37 to 39.

Proposed changes to the ACC Workplace Safety Discounts programme

Proposed changes to maximum liable earnings

The current programme entry criteria include either a maximum liable earnings figure for a small business of \$450,000 per annum or 10 or fewer fixed term employees (FTEs).

It is proposed that this maximum liable earnings figure be increased to \$495,000. This increase is based on the March 2009 Quarterly Employment Survey, which shows that the average total weekly earnings have increased to \$950.62 (i.e. \$49,432.24 per annum, or \$494,322.40 per annum for 10 FTEs).

Impact on 2010/11 levy rates

The levy rate tables in the document - '*Proposed 2010/11 Work levy rates for each classification and risk group*', include the estimated loadings on the work levy rates for the proposals discussed above.

In summary, the impacts on 2010/11 levy rates are:

- a maximum loading of up to 20 cents on the levy rate for employers and self-employed people in the industry sectors where the discounts are offered. The majority of classification units, however, won't experience any loading
- there is no loading on the levy rates for employers or self-employed people in industry sectors where the discounts will not be offered

- over time the levy loading to fund subsequent discounts will increase as participation levels increase. However, overall this increase should be offset by lower injury rates in future years.

Summary of proposed eligible classification units and level of loading

The table below is a summary of all the proposed eligible classification units and the level of loading for each classification unit for employers and self-employed people. The level of loading is applied to the work levy rate for every \$100 of liable earnings. These loadings are included in the levy rate tables in the supplementary document - 'Proposed 2010/11 Work levy rates for each classification and risk group'.

<i>Industry</i>	<i>Classification unit name</i>	<i>Classification unit code</i>	<i>Work levy loading (dollars)</i>
Agriculture	Nursery Production	1110	0.00
Agriculture	Turf Growing	1111	0.00
Agriculture	Floriculture Production	1120	0.00
Agriculture	Vegetable Growing	1130	0.00
Agriculture	Grape Growing	1140	0.00
Agriculture	Apple and Pear Growing	1150	0.00
Agriculture	Stone Fruit Growing	1160	0.01
Agriculture	Kiwifruit Growing	1170	0.00
Agriculture	Olive Growing	1180	0.00
Agriculture	Fruit and Tree Nut Growing (not elsewhere classified)	1190	0.00
Agriculture	Citrus Fruit Growing	1191	0.00
Agriculture	Berry Fruit Growing	1192	0.01
Agriculture	Grain Growing	1210	0.00
Agriculture	Crop Growing (not elsewhere classified)	1690	0.00
Agriculture	Mushroom Growing	1692	0.00
Agriculture	Grain-Sheep or Grain-Beef Cattle Farming	1220	0.01
Agriculture	Sheep-Beef Cattle Farming	1230	0.01
Agriculture	Sheep farming	1240	0.01
Agriculture	Beef cattle farming	1250	0.00
Agriculture	Dairy Cattle Farming	1300	0.01
Agriculture	Pig Farming	1510	0.00
Agriculture	Deer Farming	1530	0.00
Agriculture	Livestock Farming (not elsewhere classified)	1590	0.00
Agriculture	Beekeeping	1593	0.00
Agriculture	Poultry Farming (Meat)	1410	0.00
Agriculture	Poultry Farming (Eggs)	1420	0.00
Agriculture	Agriculture and Fishing Support Services (not elsewhere classified)	2190	0.00
Agriculture	Shearing Services	2120	0.01
Agriculture	Horse Farming and Horse Agistment	1520	0.00
Construction	Sewerage and Drainage Services	37020	0.00

<i>Industry</i>	<i>Classification unit name</i>	<i>Classification unit code</i>	<i>Work levy loading (dollars)</i>
Construction	Electrical Services (including telecommunication services within buildings)	42320	0.00
Construction	Air Conditioning and Heating Services	42330	0.00
Construction	Fire and Security Alarm Installation Services	42341	0.00
Construction	Building Installation Services (not elsewhere classified)	42342	0.00
Construction	Plumbing Services	42310	0.00
Construction	Plastering and Ceiling Services	42410	0.01
Construction	Tiling and Carpeting Services	42430	0.00
Construction	Painting and Decorating Services	42440	0.00
Construction	Glazing Services	42450	0.00
Construction	Landscape Construction Services	42510	0.00
Construction	Road and Bridge Construction	41210	0.00
Construction	Heavy and Civil Engineering Construction (not elsewhere classified)	41220	0.00
Construction	Land Development and Subdivision	41222	0.00
Construction	Site Preparation Services	42100	0.00
Construction	Hire of Construction Machinery and Cranes with Operator	42101	0.00
Construction	House Construction	41110	0.01
Construction	Residential Building Construction (not elsewhere classified)	41120	0.01
Construction	Non-Residential Building Construction	41130	0.00
Construction	Concreting Services	42210	0.00
Construction	Bricklaying Services	42220	0.01
Construction	Roofing Services	42230	0.01
Construction	Structural Steel Erection Services	42240	0.00
Construction	Carpentry Services	42420	0.01
Construction	Construction Services (not elsewhere classified)	42590	0.01
Construction	Heavy Machinery and Scaffolding Rental and Hiring	77430	0.00
Construction	Building Completion Services - All Trades Subcontracted	42592	0.00
Construction	Residential Property Operators and Developers	77110	0.00
Construction	Non-Residential Property Operators and Developers	77120	0.00
Fishing	Fishing (not elsewhere classified)	4190	0.00
Fishing	Offshore Aquaculture	4210	0.00
Fishing	Onshore Aquaculture	4220	0.00
Fishing	Rock Lobster and Crab Fishing or Potting	4110	0.20
Fishing	Prawn Fishing	4120	0.00
Fishing	Fish Trawling, Seining and Netting (including processing on board)	4130	0.09
Fishing	Line Fishing (including processing on board)	4150	0.10
Forestry	Forest Product and Moss Gathering and Processing	3021	0.00
Forestry	Hunting and Trapping	2200	0.02

<i>Industry</i>	<i>Classification unit name</i>	<i>Classification unit code</i>	<i>Work levy loading (dollars)</i>
Forestry	Forestry	3010	0.07
Forestry	Logging	3020	0.03
Forestry	Forestry Support Services (excluding tree cutting and felling)	3030	0.07
Forestry	Log Sawmilling	23110	0.00
Forestry	Wood Chipping	23120	0.00
Forestry	Timber Resawing and Dressing	23130	0.00
Forestry	Timber Wholesaling	45310	0.00
Forestry	Firewood, Coal and Coke Retailing	52592	0.00
Motor Trades	Car Wholesaling	46210	0.00
Motor Trades	Commercial Vehicle Wholesaling	46220	0.00
Motor Trades	Trailer and Motor Vehicle Wholesaling (not elsewhere classified)	46221	0.00
Motor Trades	Motor Vehicle New Part Wholesaling	46230	0.00
Motor Trades	Car Retailing (including associated vehicle servicing)	53110	0.00
Motor Trades	Motor Cycle Retailing (including associated vehicle servicing)	53120	0.00
Motor Trades	Trailer and Motor Vehicle Retailing (not elsewhere classified)	53130	0.00
Motor Trades	Motor Vehicle Parts Retailing	53140	0.00
Motor Trades	Petroleum Fuel Retailing (including associated vehicle servicing)	53210	0.00
Motor Trades	Automotive Electrical Services	53220	0.00
Motor Trades	Automotive Body, Paint and Interior Repair and Maintenance	53230	0.00
Motor Trades	Automotive Repair and Maintenance (not elsewhere classified)	53290	0.00
Motor Trades	Motor Vehicle Dismantling and Used Part Wholesaling	46240	0.00
Motor Trades	Tyre Retailing	53240	0.00
Road Freight	Road Freight Transport	61100	0.00
Road Freight	Transport (not elsewhere classified)	65090	0.00
Road Freight	Transport Support Services (not elsewhere classified)	66190	0.00
Road Freight	Freight Forwarding Services	66420	0.00
Road Freight	Courier Pick-up and Delivery Services	71120	0.00
Waste Management	Waste Treatment and Disposal Services	96340	0.00
Waste Management	Solid Waste Collection Services	96350	0.00
Waste Management	Waste Remediation and Materials Recovery Services	96370	0.00
Waste Management	Waste Collection Services (not elsewhere classified)	96380	0.00

2.8 ACC CoverPlus Extra

In this section you'll find the proposed changes to ACC CoverPlus Extra.

Proposals for 2010/11

ACC proposes to:

- *give customers the option of 12 months' ACC CoverPlus Extra from the date of purchase*
- *give customers the option of increasing the stand-down period from seven days up to 91 days.*

ACC CoverPlus Extra background

ACC offers self-employed people an alternative cover option called ACC CoverPlus Extra. ACC CoverPlus Extra allows self-employed people and non-PAYE shareholder employees to choose, with the agreement of ACC, a guaranteed level of weekly compensation they would receive if they are injured and need time off work to recover. Other entitlements, such as medical care and rehabilitation help, remain the same as those for the standard cover.

Ability to change end date

The optional ACC CoverPlus Extra product for self-employed people and non-PAYE shareholder-employees allows them to choose an agreed level of weekly compensation payable for a work or non-work claim resulting in time off work. The cover period normally runs from 1 April to 31 March or part thereof each year.

It is proposed to allow customers the option to purchase 12 months' cover from any date they choose.

The rationale for this change is that it will give customers more financial control and the ability to match their cover period with financial accounting years. The impact on levy rates is considered minimal.

Ability to choose a stand-down period for selected periods up to 91 days

It is proposed to provide customers with choice in being able to select a stand-down period more suitable to their personal needs. Currently all customers default to a seven-day stand-down period after which the weekly compensation benefit becomes payable.

The choices currently proposed would be for a maximum period of up to 91 days. These would most likely be 28 days, 56 days and 91 days.

The rationale for this change is that it will give customers more financial control and ability to match the financial resources available to them with the cover they require.

Impact on levy rates

The impact on levy rates will only affect those wishing to utilise this product option and should result in a potential Work and Earner levy discount of between 5% and 20%.

The levy rate tables in the supplementary document - '*Proposed 2010/11 Work levy rates for each classification and risk group*' - include the estimated work levy rates.

2.9 Use-of-money interest rate

In this section you'll find the proposed changes to the use-of-money interest rate.

Proposals for 2010/11

ACC proposes to:

- *change the use-of-money interest rate.*

ACC is required to pay interest to employers where the difference between their estimated and actual work levy payable for any year is more than \$1,000.

The use-of-money interest rate is set by regulation 47 of the Work Account Levies Regulations, and is currently set at 6%.

The use-of-money interest rate will be changed to reflect the interest rates in the current economic environment. We expect this to be set at a rate similar to the Reserve Bank of New Zealand 90-day bill rate as at 1 December 2009.

To improve flexibility and ensure that the interest rate is kept up-to-date ACC will be looking at possible proposals to amend the IPRC Act to enable linking the use-of-money interest rate to a market benchmark (such as the Reserve Bank of New Zealand 90-day bank bill rate).

3.0 Financial projections for levy proposals

Work Account
Residual Claims Account

Financial projections for levy proposals

Work Account

The following financial projections for the Work Account are based on the proposed 2010/11 average levy rate.

Income Statement	For year ended 30 June 2009 (unaudited) *	9 months to 31 March 2010 **	Levy year ending 31 March 2011	Levy year ending 31 March 2012	Levy year ending 31 March 2013	Levy year ending 31 March 2014
	\$000	\$000	\$000	\$000	\$000	\$000
Levy Income	538,654	378,023	792,870	841,123	901,813	989,695
Claim Payments	418,993	336,100	473,867	511,989	555,733	611,225
Bulk Billed Public Health Costs	24,154	20,814	30,151	32,760	35,594	38,674
Total Cash Cost of Claims	443,147	356,914	504,018	544,749	591,327	649,899
Claims Handling Costs	74,872	40,640	61,030	64,542	68,968	75,205
Increase/(Decrease) in Claims Liabilities	566,518	192,743	215,130	255,414	291,912	332,457
Total Claims Incurred	1,084,537	590,298	780,179	864,704	952,206	1,057,561
Net Operating Costs	15,694	4,838	6,696	6,904	6,840	7,022
Injury Prevention	16,645	12,944	17,142	17,592	18,061	18,544
Levy Collection Costs	10,817	9,979	13,234	13,592	13,957	14,332
Total Scheme Costs	43,156	27,761	37,071	38,089	38,858	39,898
UNDERWRITING RESULTS	(589,039)	(240,036)	(24,380)	(61,670)	(89,251)	(107,764)
Net Investment and Other Income	76,812	39,673	73,226	109,904	146,073	171,219
Surplus/(Deficit)	(512,227)	(200,362)	48,845	48,233	56,822	63,454
Outstanding Claims Liability	2,078,793	2,271,536	2,486,666	2,742,080	3,033,992	3,366,449
Net Assets Held	2,062,339	2,054,720	2,318,696	2,622,343	2,971,076	3,366,988
Account Funding Surplus/(Deficit)	(16,454)	(216,816)	(167,971)	(119,737)	(62,916)	539
Funding Ratio	99%	90%	93%	96%	98%	100%

NOTES: * The outstanding claim liability as at 30 June 2009 is slightly different from the valuation due to differences in discounting methodology used for levy setting.

** Financial projections through period ending 31 March 2010 represent three quarters of activity between 30 June 2009 and 31 March 2010. The change in the funding ratio is due to differences in the discounting methodology applied in levy setting compared to the valuation.

Residual Claims Account

The following financial projections for the Residual Claims Account are based on the proposed 2010/11 average levy rate.

Income Statement	For year ended 30 June 2009 (unaudited) *	9 months to 31 March 2010 **	Levy year ending 31 March 2011	Levy year ending 31 March 2012	Levy year ending 31 March 2013	Levy year ending 31 March 2014
	\$000	\$000	\$000	\$000	\$000	\$000
Levy Income	496,275	359,074	605,332	625,067	657,744	711,013
Claim Payments	309,360	241,899	286,075	273,735	265,444	261,816
Bulk Billed Public Health Costs	22					
Total Cash Cost of Claims	309,382	241,899	286,075	273,735	265,444	261,816
Claims Handling Costs	22,961	23,539	26,144	25,422	25,050	24,647
Add Gradual Process Future Claims Liability		781,244				
Increase/(Decrease) in Claims Liabilities	514,826	(80,999)	(183,002)	(123,800)	(93,467)	(94,383)
Total Claims Incurred	847,169	965,683	129,216	175,358	197,027	192,080
Net Operating Costs	3,045	717	992	1,022	1,013	1,040
Injury Prevention						
Levy Collection Costs	6,929	7,144	9,823	10,089	10,360	10,638
Total Scheme Costs	9,974	7,861	10,814	11,111	11,373	11,678
UNDERWRITING RESULTS	(360,868)	(614,470)	465,302	438,598	449,345	507,255
Net Investment and Other Income	38,530	17,159	38,558	67,794	102,577	134,380
Surplus/(Deficit)	(322,338)	(597,311)	503,861	506,393	551,922	641,635
Outstanding Claims Liability	3,619,073	4,319,317	4,136,315	4,012,515	3,919,048	3,824,665
Net Assets Held	1,497,402	1,600,336	1,921,194	2,303,786	2,762,241	3,309,493
Account Funding Surplus/(Deficit)	(2,121,671)	(2,718,982)	(2,215,121)	(1,708,729)	(1,156,807)	(515,172)
Funding Ratio	41%	37%	46%	57%	70%	87%

NOTES: * The outstanding claim liability as at 30 June 2009 is slightly different from the valuation due to differences in discounting methodology used for levy setting.

** Financial projections through period ending 31 March 2010 represent three quarters of activity between 30 June 2009 and 31 March 2010. The change in the funding ratio is due to differences in the discounting methodology applied in levy setting compared to the valuation.

4.0 What we're working on

ACC initiatives
Stocktake of ACC
Proposed amendments

4.1 Improvement initiatives

The levy rate proposals developed by ACC are based on the best information and trends known at this stage, however both ACC and the Minister for ACC appreciate that the increasing levels of Scheme costs are resulting in unacceptably high levy rates for all New Zealanders.

Therefore, a number of key initiatives are being considered to manage the ongoing growth in claims and Scheme costs. These initiatives will include changes to the way ACC manages the levy Accounts and possible changes to the Regulations and Legislation that govern the levels of assistance, treatment and rehabilitation provided by the ACC Scheme.

4.2 ACC initiatives underway

The ACC Board has significant concerns about increasing cost pressures and its focus is on addressing the challenges facing both the organisation and the Scheme. A number of initiatives and improvement plans have been formulated that are already showing positive results.

The ACC Board is expecting to deliver significant reductions in the projected claims liability over the next three years, however some initiatives are still being developed and there is little historical trend information available on which to base robust changes to levy assessments at this stage.

Initiatives underway to manage the growth in Scheme costs and liability include:

- better management of the social rehabilitation costs for seriously injured clients through the National Serious Injury Service - this provides specialised case management of seriously injured clients to improve rehabilitation outcomes and reduce Scheme liability and future levies
- reducing the duration of long-term weekly compensation claims by:
 - introducing a new long-term claims specialist service from March 2009 - a revised approach to the management of long-term claims, providing an increased focus on claims with a duration of 2 ½ years or longer, with the aim of returning these clients to work sooner
 - partnering with others to increase ACC's capacity to manage long-term claims
- improving rehabilitation performance by:
 - identifying higher risk claims earlier and assigning them to intensive claims management through a new service delivery model - introduction of a specialised claims triage function which allows for early identification of client needs, and prompt allocation to appropriate claims management
 - commissioning a best practice claims management review to ensure the price, quantity and standards achieved by ACC's claims management are optimal, and to identify opportunities for improvement
 - introducing internal innovation hubs to identify innovative approaches to claims management
- better management of treatment and rehabilitation costs by:
 - reviewing the way in which ACC purchases physiotherapy

- reviewing how much ACC should contribute to a client's non-injury related hearing loss, where the client has both injury and non-injury-related hearing loss
- working more closely with General Practitioners to provide services for clients that improve return to work rates - two new services have been piloted which encourage return to work and stay at work initiatives for clients
- reviewing the way in which ACC purchases elective surgery, high tech imaging, and short term packages of home and community support services
- implementing a '*preventing re-injury*' project to reduce the number of clients with multiple or repeat injuries - a programme of work to reduce the rate of re-injury for those injury types that have the greatest impact on Scheme costs, capitalising on the opportunity to use frontline staff to deliver this programme to clients who have just had an injury
- reviewing ACC's investment strategy.

Further detailed work is underway to quantify exactly the impact of each initiative and how these will flow into improved financial positions and lower levies for each Account.

4.3 Stocktake of ACC Accounts

The Minister has announced a Stocktake of ACC Accounts (the Stocktake) that will look at how the Scheme can remain affordable for families, businesses and the Government.

The Stocktake will involve a thorough examination of all ACC Accounts covering motor vehicles, earners, employers, non-earners, treatment injury and residual claims. It will investigate drivers of the cost increases, alternative options for service provision and funding, the potential for experience rating, management of risks, and monitoring of ACC. It will also examine the governance and oversight of ACC's \$10 billion investment portfolio.

The objective of the Stocktake is to deliver practical recommendations for improving performance and to ensure our accident insurance Scheme remains affordable for levy payers and taxpayers.

4.4 Proposed amendments

The Minister for ACC is also considering amendments to:

- improve the flexibility - such as extending the funding horizon for residual claims
- achieve cost containment opportunities
- facilitate closer working arrangements between ACC and other Government agencies, and
- require improved financial accountability from ACC.

Legislative change will be subject to the usual scrutiny, with members of the public being given an opportunity to express their views on the proposals through public consultation and/or the Select Committee public consultation process.

4.5 Estimated impact on levy rates

This package of possible changes to management practices, regulations and legislation that govern the levels of assistance, treatment and rehabilitation provided by the ACC Scheme is expected to deliver ongoing reductions to the levy requirements of each Account.

While not enough is yet known about the detailed levy impact of these changes to be able to include these in the current levy proposals, the following table provides an indication of possible reductions for some of these initiatives.

The impact by Account is shown below that includes an estimate of the impacts on levy rates for:

- the reduction of long term claim duration
- changing the way ACC purchases physiotherapy
- reviewing the contribution ACC makes to non-injury related hearing loss
- the legislative amendments relating to extending the final full funding date for residual claims out to 2019 and the cost containment opportunities.

Work Account (excluding GST)

	<i>Levy rate</i>	<i>Percentage change</i>
Work Account levy (2009/10)	\$0.75	
ACC proposed Work Account levy (2010/11)	\$1.18	+ 57.3%
Estimated reduction	\$ 0.06 - \$ 0.07	
Levy rate including estimated reduction (based on mid-point)	\$1.11*	+ 48.0%

Residual Claims Account (excluding GST)

	<i>Levy rate</i>	<i>Percentage change</i>
Residual Claims Account levy (2009/10)	\$0.56	
ACC proposed Residual Claims Account levy (2010/11)	\$0.71	+ 26.8%
Estimated reduction	\$ 0.30 - \$ 0.40	
Levy rate including estimated reduction (based on mid-point)	\$0.36*	- 35.8%

Combined Work levy (excluding GST)

	<i>Levy rate</i>	<i>Percentage change</i>
Combined average work levy (2009/10)	\$1.31	
ACC proposed combined average work levy (2010/11)	\$1.89	+44.3%
Combined average estimated reduction	\$ 0.36 - \$ 0.47	
Levy rate including estimated reduction (based on mid-point)	\$1.47*	+ 12.2%

* Note that once the legislative amendment is passed the ACC Board will reconsider its overall funding requirements before the final recommendations are made to the Government. The final recommendation may be different from that shown above.

Some of the recent changes in Scheme performance have implicitly been incorporated within the ACC levy proposals. As the remaining initiatives are rolled out and demonstrate ongoing improved results future levy proposals will be reassessed.