Submission To:

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SUBMISSION

ON THE

EMPLOYERS ACCOUNT CONSULTATION
RESIDUAL CLAIMS ACCOUNT CONSULTATION

Submission From:

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1. INTRODUCTION

1.1 The New Zealand Manufacturers Federation Inc (ManFed) is pleased to have the opportunity to make a submission on the 2001/02 employer premium and residual claims levy regulations.

1.2 ManFed represents both regional associations and sector groups of manufacturers and has a total membership of about 2,600 companies. The sector is a significant (about 18% of GDP) contributor to the New Zealand economy. In its broadest definition, manufacturing comprises 87% of New Zealand exports, sector sales total $51 billion and total employment numbers 280,000.

1.3 Statistics New Zealand data for the 1998/99 financial year shows that total ACC premiums and levies for the manufacturing sector were $203 million while salaries and wages paid to employees were $7,930 million. Total premium and levy costs have been falling steadily since peaking at $287 million in the 1996/97 financial year and will fall significantly over the next year if the premium proposals to the Government proceed.

1.4 It is our view that this fall in accident insurance costs is largely due to the introduction of the experience rating scheme and related improvements in the information provided to employers. Manufacturers are now much more aware of the level of accident claims being registered by their employees as well as the financial benefits from improved management to reduce the level of accident claims. In the five years since the introduction of experience rating there has been a significant reduction in the level of new claims and signs that employers are now better managing the rehabilitation of employees following an accident.

2. PRUDENTIAL MARGIN

2.1 ManFed understands the argument for applying a prudential margin to expected premiums and levies and supports the concept that the margin should provide for greater stability in premiums. We note, however, that over the last seven years there has only been one year when claim costs were higher than anticipated. In some years there was a significant gap between expected costs and actual costs when actual costs fell from the previous level.

2.2 We consider a margin to the level proposed is inappropriate for the following reasons:

(a) experience has shown that the level of actual costs has more consistently been below forecast costs so a positive margin is inappropriate;

(b) building in a high margin on forecasts is in itself risky because of the concern that forecasting will be treated less seriously; and

(c) a high positive margin means there are no incentives for ACC to act proactively to ensure claim costs are minimised.

2.3 It is also critical that there be significantly increased transparency applied to monies collected and monies actually expended for residual claims purposes. The dynamics of the variables on which estimates are made for residual levies may result in significant movements that should be apparent to all stakeholders. Without such transparency there will be no intrinsic support for any future increase in funding. Equally, windfall gains should be returned to employers for reasons similar to those discussed in section 6 below.

3. PROPOSED PREMIUM RISK GROUP CHANGES

3.1 We note that Business and Professional Associations (classification 96210) are classified in a low to medium risk group (588 Business Services) with a proposed annual premium of $0.70 per $100. This is high compared with the premium levels charged for similar services activities. Examples of some of the services provided by Business and Professional Associations that have separate classifications include:

	Premium from 1 April 2000
Secretarial Services	0.26
Accounting Services	0.26
Business Administrative Services	0.26

3.2 Central and local government administration also has much lower premium levels, with a proposed levy of $0.39 per $100.

3.3 We suggest consideration should be given to transferring Business and Professional Associations to the Property and Business Services (Risk Group 584) group.

4. WORKPLACE SAFETY MANAGEMENT PRACTICES

4.1 An average loading of $0.05 per $100 of payroll is proposed to fund premium discounts of between 10% to 20% in recognition for meeting and maintaining workplace standards. ManFed is concerned that compliance costs in meeting the audit requirements will mean only a small proportion of companies will be in a position where the level of discount available will be greater than the cost of meeting the audit requirements.

4.2 We consider that if the workplace standards are effective in reducing the level of accident claims, the savings through reduced costs should fund the discounts provided. Most small to medium sized businesses will not be in a position to apply for premium discounts because of the cost of meeting the audit requirements so it is not appropriate to apply the loading to them.

5. EXPERIENCE RATING

5.1 It is our view that the adoption of workplace standards will not achieve any similar reduction in accident claims to that achieved during the five years the experience rating scheme was in place. Reasons for this are:

- the small number of firms able to economically implement the workplace standards;
- the lack of any penalty for firms with a consistently high level of accident claims; and
- the lack of any information for firms on how their accident levels compare with other firms in their sector. The penalty under experience rating drew to their attention that changes were required.

5.2 We believe the workplace standards can usefully complement experience rating since they provide a useful tool for a firm wishing to improve its performance and create a safer environment for its workforce.

5.3 However, if ACC is seriously committed to helping industry reduce the level of accident costs to industry we believe the following measures are required:

(a) reintroduction of experience rating;

(b) development of a workplace standard suitable for small to medium sized businesses; and

(c) development of benchmarking data for industry sectors so they can identify the risks and the range of performance by firms in their sector.

5.4 In the event that Government policy precludes the reintroduction of experience rating, the ACC should significantly expand the number of occupational classifications.

6. RESIDUAL LEVY

6.1 The residual levy is a major cost for industry sectors where there has been a substantial decline in business activity. In most cases this reduction in activity is the result of deliberate Government policy. A good example is the removal of import licensing and tariff protection for the apparel and textiles sector. Total employment in this sector has fallen from 41,919 (full-time equivalents) in February 1995 to 20,641 in February 1999, a fall of 51%. Further falls are expected as imports continue to take a greater share of the domestic market.

6.2 This fall in employment and business activity is increasing the level of ACC costs for remaining employers as they now have to cover the cost of claims incurred by firms that have gone out of business. The impact of this is shown in Statistics New Zealand data from the Labour Cost Index. The index was established in 1992 and shows that ACC employer premiums comprised 1.7%

of total labour costs but by 1998 the share had increased to 2.2%, an increase of 30.7%.

6.3 In the Textile and Apparel sector, ACC employer premiums were 1.8% of total labour costs, very close to the economy wide average. By December 1998 they had increased to 3.2%, a 76% increase from 1992. The average ACC employer premium labour cost for the sector is now nearly 50% higher than the average for the total economy.

6.4 Employment in the sector is expected to continue to decline even though the current tariff freeze is expected to result in a slower growth in imports. The sector is therefore going to face greater difficulty in funding the cost of past accident claims. There is a clear case for a Government financial contribution to the residual account or otherwise the competitiveness of the remaining companies in the sector may be compromised.

7. RECOMMENDATIONS

7.1 That no prudential margin be applied to Employers' Account and Residual Claims Account premiums.

7.2 That there be significantly greater transparency applied to monies collected and actually expended to enable all stakeholders to identify the costs and estimated costs of residual claims. Windfall surpluses beyond a prudent margin should be returned to payers.

7.3 That ACC review the risk grouping of Business and Professional Associations.

7.4 The proposed loading of $0.05 per $100 of payroll to fund premium discounts be removed.

7.5 That experience rating be reintroduced and if this is precluded by Government policy, the number of occupational classifications should be expanded

7.6 That ACC develop a workplace standard or standards suitable for small to medium sized employers.

7.7 That ACC develop sector benchmarking databases.

7.8 That the Government contribute to the funding of the residual levy account, recognising the impact of Government policy on residual levies for some sectors.