# Submission

**By**

BusinessNZ
The voice of business

to the

# Accident Compensation Corporation

on the

# Levy Consultation 2016/17

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**ACC LEVY CONSULTATION 2016/17**
**SUBMISSION BY BUSINESSNZ[1]**

## 1.0 INTRODUCTION

1.1 BusinessNZ welcomes the opportunity to comment on the proposed levy rate changes set out in the ACC Levy Consultation 2016/17.

1.2 Many employers, employees and motorists will welcome the levy cuts proposed for the 2016/17 year; these are in aggregate significant ($450 million) and will, on average, provide a slight boost in employees' take-home pay while reducing employers' non-wage labour costs.

1.3 An 11% reduction is proposed for the average work levy (from $0.90 to $0.80 for every $100 of liable earnings), a decrease of 4% for the Earners' Account (from $1.26 to $1.21) and the Motor Vehicle account levy projected to drop by a significant 33% (from $194.25 to $136). According to ACC, the reduced work levy, together with the intended removal of the residual claims levy, will see around 75 percent of businesses paying a lower work levy for 2016/17.

1.4 BusinessNZ has for many years made submissions to ACC pointing out the deficiencies of the annual ACC levy consultation round so it is very pleasing that, finally, the recent passing into law of the Accident Compensation (Financial Responsibility and Transparency) Amendment Act has introduced a much more transparent process for levy determination.

1.5 The Act is a major breakthrough in minimising (but not completely eliminating) the risks associated with any government intervention in the premium setting process. The advent of a clear funding strategy, ensuring funds remain within 100 to 110 percent of full funding, is critical for avoiding the problems associated with both the significant over, or under, funding of the accounts. However, the proposals to "smooth" premiums effectively over a 10-year time frame, as outlined in the ACC Levy Consultation documents, are problematic as indicated below.

1.6 Despite the levy reductions outlined above, BusinessNZ has continuing concerns about the significant degree of cross-subsidisation in the Motor Vehicle Account, an issue raised in our submission to the Select Committee on the then Accident Compensation (Financial Responsibility and Transparency) Amendment Bill.

1.7 Therefore the balance of this submission deals with the proposed funding policy and with the cross-subsidisation issue, specifically as this relates to the Motor Vehicle Account. The submission makes a number of recommendations to ensure greater transparency for premium payers.

1.8 BusinessNZ would welcome the opportunity to discuss our recommendations with ACC officials and/or the ACC Board.

[1] Background information on BusinessNZ is attached as Appendix 1.

## RECOMMENDATIONS

BusinessNZ **recommends** that:

1. **The proposed levy reductions to the Work, Earners' and Motor Vehicle Accounts proceed.**

BusinessNZ **recommends** that:

2. **ACC's proposed funding policy of ensuring funds across the various accounts remain in the bounds of 100-110 percent of full-funding be implemented.**

**NOTHWITHSTANDING RECOMMENDATION 2**

BusinessNZ **recommends** that:

3. **ACC's proposed premium smoothing policy over the 10-year time frame be reduced to between 2-3 years to ensure premium rates facing premium payers are not unnecessarily distorted.**

BusinessNZ **recommends** that:

4. **A thorough investigation of Motor Vehicle Account funding be carried out to enable the costs associated with the scheme to be more closely sheeted home to claimants.**

BusinessNZ **recommends** that:

5. **If, after a thorough review of the Motor Vehicle Account, in the opinion of the ACC Board and the Government there is a sound public policy reason for the continued cross-subsidisation of motorcyclists (although no obvious reason occurs to BusinessNZ), the nature of the subsidisation be made transparent and the funding provided instead from general taxation. The funding will then clearly show in the government accounts, allowing the quality of the expenditure to be judged alongside all other areas of government expenditure.**

## 2.0 ACC FUNDING POLICY

2.1 BusinessNZ is broadly supportive of ensuring ACC funds remain within the ambit of 100-110 percent of full funding as proposed in the consultation document. However, we question the inconsistency of meeting this objective by means of differing funding paths across accounts and smoothing premiums over a 10-year period as outlined in the levy consultation papers.

2.2 While levy stability is desirable, it should not take precedence over the important signals levy payers ought to receive about the true costs associated with accidents (whether the result is a reduction or an increase in premiums over time).

2.3 If ACC's accounts are effectively "over-funded" (i.e. fully-funded plus a substantial margin), the temptation might be for the government of the day to expand the scheme knowing the costs of expansion will be hidden, at least for the first few years. This would contravene the whole principle of a fully-funded model where changes to policies that impact either positively or negatively on premiums are felt almost immediately by premium payers.

2.4 Moreover, tying up unnecessary funding from employers (and earners) effectively means depriving the economy of money. On the margins at least, this will reduce employer investment in plant and equipment thereby limiting economic and employment growth.

2.5 Perhaps of even more importance, any funds retained distort the true costs of accident claims paid by premium payers (employers in the case of the work account). There is effectively a transfer of wealth from current to future employers, reducing the pricing signals future employers will face.

2.6 The use of excessive premium smoothing over a 10-year period, particularly given that the work and earners' accounts are well in excess of full funding, raises the risk that it will be thought, rightly or wrongly, that premiums have been set to take account of political realities rather than to reflect sound commercial practice.

2.7 Given the comments above, BusinessNZ is seriously concerned with ACC's proposed premium smoothing policy over a 10 year period.

2.8 While it is entirely appropriate to discount (or smooth) "one-off" events (such as extraordinarily high, or low, investment returns) for perhaps 2 or 3 years, smoothing over 10 years could result in the unnecessary fudging of premium rates faced by levy payers, distorting the scheme's real costs.

2.9 In the absence of premium smoothing, BusinessNZ considers even greater reductions in premium rates than those currently proposed (across the Work and Earners' accounts but not the Motor Vehicle account) would be possible, ensuring the accounts return relatively quickly to the 100-110 percent funding band.

2.10 Notwithstanding the comments above, if ACC decides to continue with the proposed funding policy of smoothing premiums over a 10-year time frame then at least a more consistent approach should be taken towards the various accounts. Decisions on funding paths still appear ad hoc to some degree. For example, the Work Account is proposed to be 109% funded by 2028, the Earners' account 111% funded by 2028 and the motor vehicle account 105% funded. A more consistent approach would likely entail reducing both the work and earners' levies slightly more than is contemplated for 2016/17 (given that the work account is currently 113% funded and the earners' account 125% funded) and reducing the Motor Vehicle levy by a lesser amount than the 2016/17 projection (given that it is currently only 102% funded).

## 3.0 <u>CROSS-SUBSIDISATION IN THE MOTOR VEHICLE ACCOUNT</u>

3.1 One of the key levy-setting goals and principles of the ACC Board is that each levy payer should contribute their fair share to the scheme's costs. Unfortunately, when it comes to the Motor Vehicle account, politics appears to gain the upper hand and this important principle is effectively ignored.

3.2 While the ACC Board is to be congratulated for continuing to move towards a framework for "risk based" rating cars on crash data, it is disappointing that the Corporation continues to refuse to grasp the nettle of cross-subsidisation between motor vehicle owners and motorcyclists.

3.3 While it is useful to move down the track of ensuring greater risk-rating of motor vehicles and the like, this should not be pursued with rigour before the major issue of the cross-subsidisation of motor vehicle owners and motor cyclists has been effectively addressed.

3.4 In the spirit of the recent Accident Compensation (Financial Responsibility and Transparency) Amendment Act, this ongoing issue should be dealt with urgently, otherwise levy payers will, rightly or wrongly, assume that the new legislation has not adequately addressed the old political games which marred previous annual consultations.

3.5 A number of road users, principally cyclists, effectively pay nothing towards the cost of on-road accidents (apart from those adjudged as being work-related, e.g. cycle couriers), while motorcyclists continue to be grossly subsidised by motor vehicle owners.

3.6 There have been moves over the past few years to reduce Motor Vehicle Account cross-subsidisation but these have been tentative to say the least, focusing mainly on removing some of the distortions within each vehicle class (e.g. between small and large motorcycles) rather than addressing motorists' cross-subsidisation of motorcyclists per se. This process has effectively continued under the 2016/17 consultation round.

3.7 The ACC Consultation Document tries to justify this cross-subsidisation by stating (on p.2 of the motorcycle levies, 2016/17 Consultation) that **"….we didn't want to overburden motorcylists with high, perhaps even unaffordable, levies"**.

3.8 However, there will be motorcycle owners who can readily afford to pay the risk-rated premium associated with motor cycling while there will be car owners who struggle to pay the ACC licensing fee.

3.9 It is not clear from research that motorcyclists, on average, have any more or less ability to pay than do other motorists or indeed professional rugby players in respect to risk-based work levies.

3.10 ACC, correctly in the view of BusinessNZ, risk rates activities in the Work Account based on actual risk (not fault, as ACC is a no-fault scheme). This means a professional rugby player will pay over $6 per $100 of liable earnings for ACC-related claims, given the relatively higher risk of injury to professional rugby players compared with individuals working in less risky environments, e.g. office workers. So a professional rugby player earning $120,000 per annum will pay over $7,000 in ACC Work levies per annum.

3.11 It has been argued that cross-subsidisation is justified because motorcyclists are often not "at fault" where an accident involves a motorcycle, that is, they do not cause the accident. The following should be noted in response.

1. The "no fault" aspect of the scheme is simply government policy, providing cover for all accidents regardless of fault, with injured persons entitled to compensation without legal recourse;
2. ACC is attempting to recoup the costs of the scheme from those who incur the most cost, that is, whose costs are greatest, irrespective of fault;
3. Motorcycle riders (no external protection, no seatbelt, higher risk of not being seen by motor vehicles when overtaking etc) are more prone to serious bodily injury than people in cars. Injuries sustained by motorcyclists are likely to be more extensive both in collisions involving a motorcycle alone or collisions with another vehicle. Thus, regardless of who is at fault, riding a motorcycle, on average, results in a higher accident cost.

3.12 Motorcyclists in aggregate will pay around $27 million in the 2016/17 premium year towards the total cost of motorcycle accidents while other motor vehicle owners will contribute around $87 million. In other words, motorcyclists will pay around 23.7 percent of the total motorcycle accident cost.

3.13 The table over page shows the breakdown of cross-subsidisation in more detail between motorcycle sizes (cc rating).

The table below shows the expected cost of motorcycle claims based on actual claims experience.

| Description | Current total motor vehicle levy | Levy if actual claim costs are applied |
|---|---|---|
| Mopeds | $131.23 | $330 |
| Motorcycles 600cc or less | $329.80 | $986 |
| Motorcycles over 600cc+ | $429.07 | $2,114 |

These figures exclude the annual Motorcycle Safety levy.

3.14 While the levy that would apply to actual claims costs would be relatively high (relative to current subsidised rates), BusinessNZ considers rates should be more progressively based on risk, although it acknowledges that it might take a number of years to achieve true risk-based levies for motorcycle owners.

3.15 Individuals considered in need of taxpayer assistance (generally income-related) receive support via various tax measures together with income support to enable them to purchase essential goods and services.

3.16 If the Government decides that for some rigorously determined public policy reason (although BusinessNZ cannot think of any) motorcyclists should continue to be subsidised by other motor vehicle owners, then any subsidy should be transparent, funded out of general taxation and explicitly recognised in the government accounts, as is currently the case with government (taxpayer-funded) assistance to low income earners, the elderly (via NZ Superannuation payments) etc.

3.17 Continuing to cross-subsidise motorcyclists through increased levies on other motorists is both unjustified and defeats many of the principles that the ACC Board states are upheld in the levy setting process. Of more fundamental concern, this cross-subsidisation tends to defeat the important object of greater transparency provided for in the recently-introduced Accident Compensation (Financial Responsibility and Transparency) Amendment Act.

## APPENDIX 1

### BACKGROUND INFORMATION ON BUSINESSNZ

Encompassing four regional business organisations (Employers' & Manufacturers' Association, Business Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 82 member Major Companies Group comprising New Zealand's largest businesses, and its 74-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development.

*It should be noted that the Motor Industry Association of NZ (Inc) does not support recommendation 5 in this submission by BusinessNZ.*