

Submission by



to the  
**Accident Compensation Corporation**

on the  
**Levy Consultation 2019-21**

October 2018

## ACC LEVY CONSULTATION 2019-21 SUBMISSION BY BUSINESSNZ<sup>1</sup>

### 1.0 INTRODUCTION

- 1.1 BusinessNZ welcomes the opportunity to comment on the proposed levy rate changes set out in ACC Levy Consultation 2019-21, along with changes intended to create more safe and healthy workplaces.
- 1.2 In exceptional circumstances, such as in the event of a substantial change in the financial position of the ACC significantly affecting the scheme's sustainability, the ACC Board and Government may recommend levies be re-set for the second year of the levy period. This is prudent policy.
- 1.3 Many employers will welcome the proposed Work Account levy cuts of 6.9 percent (on average) for years 2019-21 (which should equate to around \$40-\$50 million dollars savings per annum), although it is noted that there will be a slight increase in the Earners Levy of 2.5% and a significant increase in the Motor Vehicle Account of 12.1 percent over the same period.

|                             | What you currently pay | What we forecast in 2016 (for the 2019-2021 levy period) | What we are proposing today (for the 2019-2021 levy period) |
|-----------------------------|------------------------|--|---|
| <b>Motor vehicle levy*</b>  | \$113.94               | \$127.34   | \$127.68<br>(increase of 12.1%)                             |
| <b>Earners' levy**</b>      | \$1.21                 | \$1.32   | \$1.24<br>(increase of 2.5%)                                |
| <b>Work Account Levy***</b> | \$0.72                 | \$0.77   | \$0.67<br>(decrease of 6.9%)                                |

\*Average levy rate per vehicle

\*\* Levy rate per \$100 liable earnings

\*\*\* Average levy rate per \$100 of liable earnings

- 1.4 Tying up unnecessary funding from employers (beyond a full-funding requirement) effectively means depriving the economy of money. On the margin at least, this will reduce employer investment in plant and equipment thereby limiting economic and employment growth.

<sup>1</sup> Background information on BusinessNZ is attached as Appendix 1.

- 1.5 Proposed approaches to levy setting have improved over the last few years with ACC Board's approach now more rigorous and transparent, as indicated by its levy-setting principles/goals.
- 1.6 It is important for both the ACC Board, and ultimately the Minister, to be held to account in setting premium rates which reflect sound commercial practice and minimise the risk of ongoing interference to meet political objectives.
- 1.7 While levy stability is a desirable objective, it should not override the important signals which 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).
- 1.8 The levies proposed for 2019-21, across the various accounts, are lower than would be the case if the proposed years were fully-funded. This is legitimate because funds within the various accounts are now significantly in excess of a fully-funded state. Some of this excess will need to be returned to levy payers over time until the funding policy target is achieved, hence the use of the "funding adjustments" outlined in the Levy Consultation Document.
- 1.9 Notwithstanding the above, BusinessNZ has continuing concerns about the significant degree of cross-subsidisation in the Motor Vehicle Account, particularly in respect to motorcyclists who, as a group, continue to be heavily subsidised by motor vehicle owners. Other modes of transport e.g. cycling are not included within the ACC levy framework. Greater equity in funding the Motor Vehicle Account is required for existing and potential road users, given an increasing move to new transport modes, including cycling and other means of transport not using petrol (or diesel) e.g. Electric Vehicles.
- 1.10 The balance of this submission is in two parts. The first deals with the continued cross-subsidisation issue, specifically as this relates to the Motor Vehicle Account. The second looks at some of the proposals to help achieve safer and healthier workplaces through various incentive products.
- 1.11 The submission makes a number of recommendations to ensure greater transparency for premium payers.
- 1.12 BusinessNZ would welcome the opportunity to discuss our recommendations with ACC officials and/or the ACC Board.

## **RECOMMENDATIONS**

BusinessNZ **recommends** that:

- **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, reflecting the spirit of the Accident Compensation (Financial Responsibility and Transparency) Amendment Act.**
- **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 or any other new or existing road users (although no obvious reason occurs to BusinessNZ), the nature of the subsidisation be made transparent and funding provided from general taxation. The funding will then show clearly in the government accounts, allowing the quality of the expenditure to be judged alongside all other areas of government expenditure.**

### **2.0 CROSS-SUBSIDISATION IN THE MOTOR VEHICLE ACCOUNT**

- 2.1 A key levy-setting goal and a principle of the ACC Board is that levy payers should contribute their fair share to the ACC scheme's costs. Unfortunately, when it comes to the Motor Vehicle account, politics appear to gain the upper hand and these important aims are effectively ignored.
- 2.2 Many road users, principally cyclists, essentially pay nothing towards the cost of on-road accidents (apart from those judged to be work-related, e.g. cycle couriers), while motorcyclists continue to be grossly subsidised by motor vehicle owners.
- 2.3 As noted, modes of transport are changing in NZ as in other countries. It is, for example, understood that there are around 10,000 Electric Vehicles registered in NZ, and while still a minuscule portion of the cars on road, this number is increasing all the time in light of changing consumer habits. Cycling has also become more popular. Other transport modes are also becoming more noticeable from the increasing use of Mobility Scooters to e-scooters (both on and off-road).
- 2.4 Given the above, it is important ACC premiums reflect the risk on road associated with different modes of transport, particularly those that do not require registration or use petrol/diesel.
- 2.5 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 dealing with motorists' cross-subsidisation of motorcyclists per se. This process has effectively continued during the 2019-21 consultation round.

- 2.6 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.
- 2.7 It is not clear from research that motorcyclists, on average, have any more or less ability to pay than other road users, or indeed professional rugby players, in respect to risk-based work levies.
- 2.8 ACC, correctly in BusinessNZ's opinion, 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 significant ACC levies 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.
- 2.9 It has sometimes also been argued that cross-subsidisation is justified because the motorcyclist is often not "at fault" in an accident involving a motorcycle, that is, does not cause the accident.
- 2.10 In response, the following should be noted:
- 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;
  - ACC is attempting to recoup the costs of the scheme from those whose costs are greatest (have the highest accident costs), irrespective of fault;
  - 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 are people in cars. Injuries sustained by motorcyclists are likely to be more extensive whether the collision involves a motorcycle alone or is with another vehicle. Thus, regardless of who is at fault, riding a motorcycle, on average, results in a higher accident cost.
- 2.11 While the levy applying to actual claims costs would be relatively high (relative to current subsidised rates), BusinessNZ nevertheless considers rates should be more progressively based on risk. However it is acknowledged that it might take a number of years to achieve true risk-based levies for motorcycle owners.

- 2.12 Individuals considered in need of taxpayer assistance (generally income-related) receive support via various tax measures, including income support to enable them to purchase essential goods and services.
- 2.13 If government decides, for some rigorously determined public policy reason (although BusinessNZ cannot think of one), that motorcyclists, or any other road users (e.g. cyclists, Electric Vehicles owners etc) should be subsidised by other motor vehicle owners, the subsidy should be transparent, funded out of general taxation and explicitly recognised in the government accounts, as is currently government (taxpayer-funded) assistance to low income earners and the elderly (via NZ Superannuation payments) etc.
- 2.14 Continuing to cross-subsidise motorcyclists, or any other road users where it is practicable for them to pay for their behaviour through increased levies on other motorists, is both unjustified and defeats many of the principles the ACC Board states are upheld in the levy setting process. Of more fundamental concern, cross-subsidisation tends to defeat the important object of achieving the greater transparency provided for in the Accident Compensation (Financial Responsibility and Transparency) Amendment Act, promoted by the Government as a game changer in respect to ACC levy setting transparency.

BusinessNZ **recommends** that:

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- **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 or any other new or existing road users (although no obvious reason occurs to BusinessNZ), the nature of the subsidisation be made transparent and funding provided from general taxation. The funding will then show clearly in the government accounts, allowing the quality of the expenditure to be judged alongside all other areas of government expenditure.**

### **3.0 RETHINKING THE WORKPLACE INCENTIVES ACC OFFERS**

- 3.1 As the Consultation Document indicates, ACC wants to use ACC levies to reward businesses that reduce injuries and support the rehabilitation of injured workers.
- 3.2 BusinessNZ is generally supportive of simplifying the current experience-rating system.
- 3.3 BusinessNZ has long advocated the benefits of experience-rating and welcomed its introduction into the Work Account from 1 April 2010.
- 3.4 An accident insurance scheme should focus primarily on the provision of an appropriate framework so that accident numbers and their severity can be reduced.
- 3.5 Reducing the overall costs associated with an accident insurance scheme requires all stakeholders (funders, claimants, health professionals and insurers) to face strong incentives to minimise the number of accidents that occur. For employers, employees, health professionals and insurers the right incentives matter.
- 3.6 BusinessNZ considers experience-rating essential to ensure employers have strong incentives to improve their accident rates. Employers with an accident rate consistently lower than average (within their risk class) will then be rewarded while those with a poorer than average rate will face higher premiums.
- 3.7 Often within the same industry, similar businesses will have significant ongoing differences in accident claims and associated claims' costs, demonstrating the need to focus on individual enterprise risk. Experience rating is therefore crucial if employers are to benefit from better than average outcomes within their risk category.

## **Appendix One - Background information on BusinessNZ**



[BusinessNZ](#) is New Zealand's largest business advocacy body, representing:

- Regional business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Employers Otago Southland](#)
- [Major Companies Group](#) of New Zealand's largest businesses
- [Gold Group](#) of medium sized businesses
- [Affiliated Industries Group](#) of national industry associations
- [ExportNZ](#) representing New Zealand exporting enterprises
- [ManufacturingNZ](#) representing New Zealand manufacturing enterprises
- [Sustainable Business Council](#) of enterprises leading sustainable business practice
- [BusinessNZ Energy Council](#) of enterprises leading sustainable energy production and use
- [Buy NZ Made](#) representing producers, retailers and consumers of New Zealand-made goods

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 and services for enterprise, BusinessNZ contributes to Government, 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 ([OECD](#)).

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