NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU FACT SHEET ON ACC CONTROVERSY

Introduction

This fact sheet has been prepared to provide some answers to questions being asked by union members about the current political controversy around ACC, including the removal of former CTU president Ross Wilson as ACC Chair.

Is ACC insolvent?

The Minister of ACC claims that ACC is insolvent. This is untrue. ACC has revenue of about $4 billion a year and expenditure of less than $3 billion a year. It also has reserves of more than $10 billion.

A leading actuary, John Eriksen, in the Dominion Post (12 March) described the ACC Minister's claims as "ill-founded scaremongering by a poorly informed government...in reality there's nothing wrong with it".

ACC has a total liability of $22 billion for the future cost of claims. It is in transition to full funding (i.e. collecting in the year of the accidents enough revenue to cover all current and future costs of the claims) from pay-as-you-go (i.e. collecting enough revenue to meet the cost of claims in the current year only) and the $10 billion reserve fund will increase over time which (with investment returns) will fund future claim costs.

> ***"For the Government to wrap legitimate concerns about slippage in ACC's performance in a whole lot of shrill scaremongering and scapegoating is gratuitous.***
>
> ***…ACC is a civilised and cost-effective approach to dealing with the injured. Why undermine confidence in the scheme, unless you plan to undermine the scheme itself?"***
>
> Brian Fallow, Economics Editor, New Zealand Herald 12.3.09

Are ACC costs "out of control"?

The Minister of ACC has claimed that "ACC costs are out of control". This is untrue. However it is true that the number and claims is increasing at a rate greater than population growth and the cost of claims is increasing at a rate higher than inflation. Reasons include legislation changes extending coverage, high increases in medical and physiotherapy treatment costs, and New Zealand's higher accident rates than other countries. The ACC Board has been considering, and implementing, operational changes to manage these costs and some legislative fine-tuning is necessary, but costs are certainly not "out of control".

As already noted ACC is also in a transition to full funding from pay-as-you-go. This has to be achieved by 2014 and is putting additional upward pressure on levies. The CTU supports moving the deadline to 2019.

Is the ACC scheme expensive?

ACC is one of the most cost-effective injury compensation schemes in the world. Employer levies (as a % of payroll) are more than twice as high in Australia, Canada, and the USA than under ACC in NZ. Similarly, comparable motor vehicle no-fault schemes (such as Victoria in Australia) have substantially higher motor vehicle levies.

Is ACC poorly governed and managed?

ACC is widely regarded internationally as a well run scheme. An extensive review last year confirmed that ACC is achieving international best practice and has comparatively low administration costs.

Has ACC suffered major investment losses?

Like all other investment funds ACC has suffered a reduction in the value of investments as a result of the international financial crisis. However, it has done better than almost every other fund manager, public or private over the past 12 months. In the first seven months of the current financial year to January 2009, ACC's investments showed a return of 2.73%

What is the billion dollar cost blowout the Minister and the media keep on about?

That is a reference to the increased taxation funding required from Government to fund the ACC Non-Earners Account. This has been caused substantially by increased, and costly, claims for medical treatment injury as a result of legislation changes passed by Parliament in 2005, as well as increased medical treatment costs for non-earners' injury claims. In fact the amount is about $300 million per year ($1 billion over 3 years).

The Government is concerned that this amount was not made public in the Pre-Election Fiscal Update (PREFU) which a Ministerial Inquiry has found was the fault of Treasury, not ACC.

Why has Ross Wilson been sacked as ACC Board Chair?

The real answer is probably that the National Government doesn't want a former union leader as Chair, and because of his known opposition to ACC privatisation. He has been replaced by an accountant who is an Associate Member of the NZ Business Round Table.

The reasons which have been given by the Minister and government spokespeople include:

"The ACC total liability for future cost of claims has increased from $18 billion to $22 billion over the past 12 months." In fact the ACC Board is able to influence less than 20% of the increases in liability most of which is related to economic impacts beyond its control. Although this was the reason stated by the Minister in a letter to the ACC Board he is now quoted in the DomPost (11th March) as saying that the real reason is not controlling increases in physiotherapy costs.

"That ACC has suffered major investment losses." In fact the ACC investment performance is better than almost any other fund manager, public or private.

"Failing to force Labour Ministers Cullen and Street to disclose in the Pre-Election Fiscal Update the expected additional funds required for the ACC Non-Earners Account." In fact the Mills Inquiry only last week found Treasury at fault and the Labour Ministers and the ACC Board were exonerated.

"ACC costs are out of control and financial skills are needed." The existing Board has a mix of skills and experience including financial. The new Chair has no knowledge of ACC matters.

"Not controlling increases in physiotherapy costs." In fact only the government can effectively control physiotherapy costs by legislative or regulatory changes.

"Deterioration in rehabilitation and return to work rates." In fact ACC has the best rehabilitation rates of any comparable scheme in the world (PWC Report 2008). There has been some decline over the past several years mainly due to legislative changes requiring ACC to do more to assist retraining etc. But ACC performance remains excellent on international standards.

"Unacceptable levy increases" ACC consulted on levies in October 2008 and all the pressures the Government is expressing surprise about were made public at that time.

Voice your concern

CTU Secretary Peter Conway said in a media release on 9 March 2009:

"It is vital that a worker/union perspective remains on the Board and Board members should not be politically scapegoated and gagged by the Minister from disclosing the truth.

"We urge the Government to take extreme care in its deliberations on ACC. This scheme has been built up over decades and we do not want it destabilised. There is always room for improvement in any scheme and the Government should recognise the social contract basis of the scheme and work with social partners on issues."

13 March 2009

The CTU is a member of the ACC Futures Coalition. The aim of the coalition is "*To build cross-party support for keeping ACC as a publicly-owned single provider, committed to the Woodhouse Principles, with a view to maintaining and improving the provision of a no-fault accident prevention, treatment, rehabilitation and compensation social insurance system for all New Zealanders."*

"All this talk of liabilities being blown out is complete nonsense. It's ill-founded and smacks of scare-mongering, which, given the current economic picture is the last thing people need to be told.

...on paper the losses have ballooned when in reality there's nothing wrong with it."

Jonathan Eriksen, Managing Director, Eriksen & Associates (international actuarial and strategic investment consultancy)