

Accident Compensation Corporation

“A workable alternative”

to the present scheme

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1. Executive Summary

1.1 Project

As a requirement for the 1997 *Kellog Rural Leadership Course* each student is required to complete a project of their choice. The writer had intended to research the Accident, Rehabilitation & Compensation Insurance Corporation (ACC) as a whole but after some research and background reading (which included interviews with ministers and ACC staff) the focus was narrowed down to make it more manageable and useful.

Before the project commenced it was anticipated that an immediate move to private competition for ACC would be a 'quick fix' solution, however the research showed that the problems were much more complex.

1.2 Objective

To make recommendations on a reform process for the ACC; the result being that in ten years (2007) New Zealand will have an affordable, clearly defined, no fault (not a return to the right to sue) accident insurance scheme that is acceptable to the employer, employee, taxpayer, the medical profession and politicians.

The aim of the project was not just to be a report as a requirement for the *Kellog Rural Leadership Course*, but something that may be of benefit to others including the ACC itself.

1.3 Conclusions

The present ACC scheme has, in the eyes of the New Zealand public, major problems. While most of these problems are misconceptions, major problems, present and future do exist.

Fraud and the ACC administration's failure to deal with it (for what ever reason) has meant the 'tail' (unfunded liability) has grown. This has led to a call from employers to change the present scheme or open accident insurance to competition. Injured people on the whole fare better under the New Zealand ACC than under the Australian Victoria work accident scheme.

The level of dissatisfaction has meant people are now no longer prepared to accept this.

To conclude, the above arguments in section five seem to create a strong case for a more modest role for the government in the short term in respect of insurance arrangements for loss of earnings through accidents. Another round of tinkering with such a flawed system cannot hope to

overcome its problems. Competition and freedom of contract have proven to be extremely effective arrangements for disciplining and motivating providers of private goods. To obtain improved outcomes, the primary step which needs to be taken is to introduce genuine competition into the provision of accident insurance cover leaving the government with an educational and regulatory role.

1.4 Recommendations

Reform of the ACC should start immediately. Key points.

1. The ACC needs a clear objective. Is ACC an accident insurance company or part of the welfare state?

Recommendation

The ACC adopts an accident insurance scheme only.

2. Separate the tail and deal with it separately. Reduce the number of people on it.

Recommendation

The tail should be self funding by the year 2007

3. The central government's role in accident insurance be examined

Recommendation

Central government's only role by 2002 is education and monitoring

4. Work and non work accidents dealt with separately

Recommendation

Government's work and non work accident insurance entities be turned into a state owned enterprise (SOE) in 2001. By 2002 competition will compete with the government in delivery of insurance.

5. Accident insurance (SOE) may be sold after the year 2004 depending on government policy at the time.

Recommendation

The two accident insurance SOE's be sold by the year 2007.

2. Introduction

ACC provides no fault 24 hour free medical, loss of earnings and rehabilitation compensation for accidents in New Zealand. It is funded mainly from contributions by employers and employees.

It is now seen by many to be inefficient, unaffordable (costs have increased in the last ten years) (Pinell: 1997) not treating those who genuinely desire it while fraud seems commonplace.

A statutory monopoly such as ACC means customers (employers and employees) cannot exert commercial pressure by taking their business elsewhere. There are no commercial incentives to reduce fraud and to get people back to work as soon as they are able. The natural response of a monopoly is to take the easy way out by increasing levies rather than reducing costs.

Changes have come about not as the best course of action to reform ACC, but have rather been the result of intricate compromises between many stake holders; the medical profession, employers, employees, ACC staff, the government and politicians.

This political interference provides the government with the opportunity to determine premiums based on political rather than financial aims. As with New Zealand Rail in the late 1970's and early 1980's, the policies and actions of the corporation could be used to hide unemployment figures. For instance the number of people on the unemployment benefit fell by 20,000 between June 1994 and June 1995. The number of people on the invalid and sickness benefit and the number of people off work on ACC rose. The net effect was that the number of people out of work fell only by 10,000. (Forest:97) Also ACC is funded by the employer and employee whereas the unemployment benefit is funded by the taxpayer.

It was therefore decided a ten year plan 1997-2007 to move ACC to that point would be required. At this point ACC would be a SOE competing for workplace insurance, recreation insurance and other insurances (i.e.: road accidents).

Whether ACC is then sold (or privatised) is up to the government and/or public of the day and is not covered in this report.

Competition in accident compensation has recently been addressed in Victoria, Australia. Lindberg (1996) states that reported claims and their average duration are both down 40%. Before 1985 the average premium was 12% of the payroll. It dropped to 4% in 1992 with the introduction of private sector competition. It is now 1.9% and still dropping. Such schemes in Australia place great emphasis on early rehabilitation and say that their return to work rates are good.

3. History

The Woodhouse (1967:?) report stated:

'The New Zealand public would give up the right to sue in exchange for 24 hour no fault accident social insurance backed by the state

The report was inspected closely over the next few years. The rest of the world believed that the legal and insurance fraternity would not give up such a large and lucrative sector of their business.

In 1974 the ACC scheme came into effect replacing the workers compensation scheme and the common law right to sue for damages arising out of personal injury. The ACC scheme carried on in more or less the same form for 18 years apart from some significant changes in 1982.

In 1992 the then minister of ACC Bill Birch brought about changes that provided a framework for reducing the rate of growth in ACC expenditure and removed the injured person's right to compensation for non economic loss (loss of enjoyment of life or lump sums).

Bruce Cliffe took over as minister of ACC in 1994. A report he initiated recommended sweeping changes was promptly disowned by the government. A committee set up to review the 1992 regulations recommended almost all be scrapped. Its findings were ignored.

Doug Kidd (ACC minister 1995) made changes to come into effect in 1997/8. While addressing problems with the rehabilitation regulations he left the scheme relatively true to the Birch model.

The present minister of ACC is Jenny Shipley who is continuing the reforms to make the corporation more competitive.

4. ACC today

(summarised from ACC 1996 Annual Report)

i) Administration

ACC has 1700 full time employers
300 part time employers

An income of \$1.7 billion 11.3% is administration
82.4% on rehabilitation and compensation
6.3% into reserves

ii) Funding

A) Income \$1.7 billion year ending 30 June 1996

Table 1

	\$ millions
Employers	955
Motor vehicle(inc. petrol)	248
Non earner	177
Earners	247
Subsequent work injury	1
Medical misadventure	8
Investment income	70
TOTAL	1706

B) Expenditure

Table 2

		\$ millions	\$ millions
1) Rehabilitation			496
2) Compensation	Income maintenance	820	
	Independence allowances	21	
	Lump sums	10	
	Death benefits	57	
3) Operating cost			192
Total expenditure			1597
Surplus			108

C) Reserves

\$850 million

iii) Claim Statistics

Claim statistics to the year ended 30 June 1996

Table 3

Total claims	1,438 568
Need on going help	135 094

Therefore 1,303 474 claims (more than 90%) needed no more than one or two visits to a G.P. or a physiotherapy session. In the 1995/6 year, ACC paid for \$2.8 million G.P. visits and \$2.7 million for physiotherapy sessions. While the proportion of ACC spending on these minor claims is small in terms of the total scheme costs, the administrative demands are high.

At present \$202 million per year of ACC payments for this first visit by claimants which is often the only visit.

iv) The Unfunded Liability

1. What is it?

The unfunded liability or 'tail' is simply the amount required to meet the continuing costs of all claims made before the current year. Many people with serious disabilities will be on ACC for life; some will have been receiving payments from the scheme since its inception in 1974.

Estimates quoted in a number of articles (Safeguard 1996, Readers Digest 1996, Duncan 1995 : 242 and ACC 1996:22) of the monetary values involved are between five and seven billion dollars.

2. How did it come about?

Woodhouse (1967) anticipated the growth of the tail and presumed levies would be set at a level which would at least partially fund it. That is the levies collected in any one year would pay not only for all claims made during that year but also for a portion of expenses arising out of those claims still outstanding from previous years.

Changes are being put in place to address this i.e. the growth of the tail , meaning in the short term an increase in levies.

However the funded liability attributed to most industries means that with the experience rating system a dramatic drop in accidents would only result in a small reduction in levies paid (e.g halving meat industry accident claims would lead to a fall of just 20% in the required levy.)

3. How to deal with the unfunded liability?

The new ACC must be fully funded as a private insurance scheme would be. Fully funded means not only funding the cost of accidents that happen in any one year but also acquiring funding in that year for the ongoing costs arising in subsequent years.

Employer groups can be blamed in part for the size of the tail, who successfully lobbied the government on two occasions in the 1980's for a substantial reduction in levies. Without the reductions, the tail would be much smaller today.

This still leaves the problem of the existing liability. This can be dealt with in two ways;

- increase levies
- move long term claimants off the scheme by a work capacity test; light duties for part disabilities; move to other welfare benefit if it is felt the state had a moral responsibility; and investigate fraud.

The rules should be tightened so that less deserving claimants are removed from the scheme. ACC is too easy to enter; too hard to exit. A tougher return to work regime should be included in the rule tightening process so that long term claimants are put through regular work capacity tests. The preoccupation should be rehabilitation not compensation.

Cross subsidisation (employers with good accident histories subsidising those with poor accident histories in the same industry pool) should be removed. In examining the meat industry for example; a number of new players have entered the market and have very good accident records but they are saddled with the consequences of the past poor performance of companies with regard to their levies.

Employers do not pay the true cost of their behaviour because of massive cross subsidisation. The freezing industry pays for companies who are no longer in existence (Fortex, Weddel) Also complicating this are the privacy laws which make it impossible to identify these long term claimants to put them through a capacity test and a return to work.

v) Other problems with today's ACC

General

- Industries which have decreased in size (e.g. meat workers, railway workers) must fund a larger than proportionate tail
- Good operators subsidising poor operators
- Fraud
- Lack of incentives for employers to create safer work places presently being addressed by Occupational Safety and Health legislation.
- poor rehabilitation and failure to implement work capacity tests (planned introduction November 1997)
- Lack of competition has meant that efficiency is hard to measure
- Political interference
- Unclear objectives
- Scheme boundaries have been enlarged by the courts that were never envisaged by the Woodhouse Report (1967) as illustrated in McHardy Vs ACC (ACC 1996 Myths and Facts)
- 90% of claims are minor, making huge administrative demands on ACC's administration
- Changes in ACC has come about as a result of intricate compromises between many stakeholders resulting in a system that few are happy with.
- Increasing costs of injury treatment through better technology resulting in medicines being able to treat injuries that in past years were considered untreatable
- Statistically with people living longer, increases the probability of accidents in a life time.

Administrative Problems

- ACC compensation without any reference to the employer. The first an employer may hear about a gradual process claim could be an ACC questionnaire.
- Alternative work is too easily declined making it easy for people to stay on ACC.
- ACC is slow to resolve issues. Often injured people are in a position to return to alternative duties on day one of the injuries. However it can take months to obtain appropriate doctors certificates, appraisals by occupation physicians and therefore the correction opinion from ACC that the injured person should return to work.
- Often G.P.'s are the 'soft' touch and continue to issue 'totally unfit' certificates.(Harsent 1995)
- Employer claims notification schedules come as one interim report and a final schedule some months after the end of the year. Claimants often appear out of the blue with such delays making it very hard to find out what has actually happened.
- Companies involved in road transportation. The accidents that relate to this sector are assigned to the motor vehicle fund and not a draw on the experience rating of that industry. Therefore there is little incentive to fleet operators to employ suitable drivers and making sure driving hours are not abused and vehicle property maintained. (Harsent 1995)

5. ACC as a workable alternative

With the size of ACC and its present day problems it has become apparent that a clearly defined workable alternative could not be found in one or two years based on the evidence presented in this report. In particular the size of the unfunded liability would take a number of years to work its way out, once the scheme became fully funded.

It is decided that a ten year time frame should be adopted hence the date 2007. What should be kept in mind however is that the framework for reform would be put in place in the first two to three years of this period. The present tail would take ten years to become self funding.

A number of ideas included have already been passed as legislation by the government under the guidance of the Hon. Doug Kidd when he was minister of ACC and these are presently being implemented under the guidance of the present ACC minister the Hon. Jenny Shipley.

The following pages of this report set out, with reasons, a vehicle to take the present system to a workable alternative accident insurance scheme.

This scheme would;

- have a clear definition
- be fully contestable by the private sector from the fifth year after which time the ACC S.O.E. could be sold off
- by the year 2007 the government role would be of a regulatory nature
- work and non work accidents would be dealt with separately
- injury prevention would come from two separate areas
- the present tail would be managed in a separate section by the government until reserves were sufficient to cover future liabilities for the remaining tail
- overseas visitors would pay for their own medical costs and have a right to sue
- non economic loss would not be covered
- the right to sue should not be reintroduced for New Zealanders

i) A clear definition

The ACC has struggled in part due to an unclear definition Is it a part of the welfare state? or a government run accident insurance scheme?

As a result of this dichotomy, little effort has been put into getting people off ACC as they would simply move to another benefit. This has two drawbacks from the government's point of view:

- a)Funding moves to the taxpayer
- b)Unemployment figures increase assuming a high number would move from ACC to the unemployment benefit.

Recommendation:

By early 1998 a clear objective for ACC.

'an accident insurance scheme which covers medical costs, rehabilitation, loss of earnings . The scheme is not part of the welfare system.'

Cover will be only available where physical injury has occurred. It will not include any psychological injury or non economic loss. It is proposed that accidents be spilt into two categories:

- work accidents
- non work accidents

when insurance is obtained in the private sector.

Minimum standards should be set out and monitored by the government. Individual employers as part of an employment package, may increase this cover.

The present ACC organisation should retain the present board structure with improved accountability. By the year 2000 it should be made a S.O.E. with the associated disciplines and 2002 making delivery contestable with the private sector both in work and non work accidents.

The section of the S.O.E. delivering work and non work accident insurance can then be either sold or retained as an independent insurance company depending on the political decisions of the day.

By 2005 after the insurance delivery has been separated, ACC would be left with

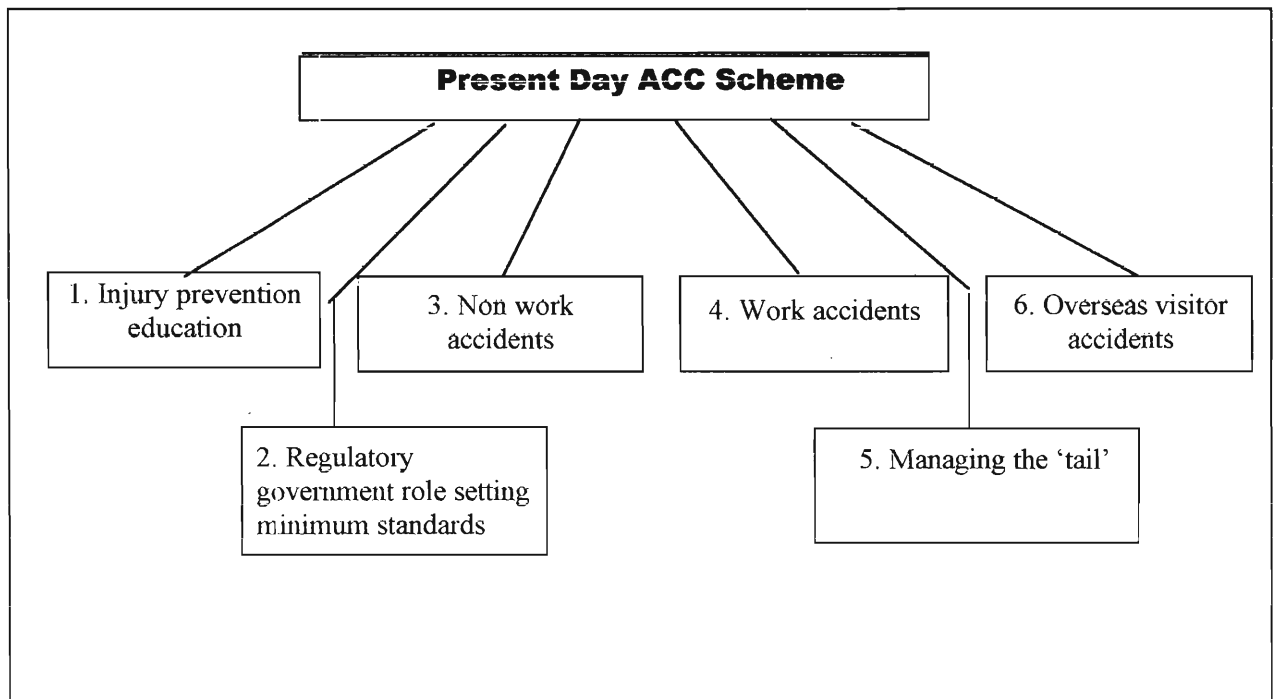
- injury prevention (see page 12)
- regulatory role (see page 12)
- managing the tail (see page 16)

and self funding by 2007.

Another issue to define clearly is an accident Vs gradual process injury in particular to back strain. Is the condition a result of an accident or general 'wear and tear' on the body in a physical job?

ii) How to get to a workable alternative

Over the next two and a half years ACC should be spilt into six divisions.



1. Injury prevention and education on a national basis e.g. drink/drive campaign (see page 12)
2. Regulatory role of government once ACC has been open to competition in the year 2002. The government must set minimum standards. (see page 12)
3. Non work accidents - sports injury, road accidents, and others (see page 13)
4. Work accidents - this to be separated along with non work accidents by the year 2000 (see page 14)
5. The unfunded liability or 'tail' estimate (value \$6 billion) separated by 1999 and managed separately. People who have been on ACC for 12 months or longer (see page 16)
6. Overseas visitor accidents including search and rescue costs (see page 17)

1. Injury, Prevention and Education

This area covers advertising campaigns such as drink/driving and other national issues which are deemed important by public awareness. Also included in injury prevention is specific high injury areas e.g. back and rugby injuries and determined by statistics. For example in 1995 27 out of 50 sporting deaths involved water sport; boating, diving and swimming etc.

Funding will come from the taxpayer through the consolidated fund. Approximate cost \$30 million (actual \$30.4 in 1996)

2. Government in a Regulatory Role

This area will be spilt off late in 1998.

Funding : From the taxpayer through the consolidated fund with an estimated cost of \$5 million once standards have been set.

This department will come into existence in 1998 for the opening up of accident insurance to competition in the year 2002.

The government role should be restricted to setting minimum standards in terms of service and delivery of benefits. Within such a framework the 24hour universal no fault principle will be retained.

After the minimum standards have been set, a continual monitoring system should be in place, tested by the courts from time to time.

M.R.L. research group undertook a survey in March 1995 for the Insurance Council of New Zealand which found among other things, that 62% of New Zealanders favour allowing insurance companies to compete with ACC as long as appropriate regulatory controls are in place.

3. Non Work Accidents

This in turn will be spilt into three subsections

Table 4

			1995 total costs \$ million
1	Sport and recreation injuries		95
2	Road accidents		161
3	Others	Non earner	104
		Earners	133

The cost of non-hospitalisation accidents is to be paid for by the person who received the injury from early 2000 onwards. Hospitalisation has been used as an instrument to judge a serious injury from a non serious one. A clearer definition must be provided for hospital admissions so that minor injuries do not rise to a higher status to enable the injured person to be treated at a lesser cost to themselves.

Loss of earnings is the individual's responsibility. The individual may insure against this as is possible with earnings lost through illness.

For accidents that require hospitalisation funding will be derived from the area where the accident occurs. For example; road accidents - 24c a litre tax on petrol and \$100 per car per year registration charge. By increasing the cost of car registration, the number of cars on the road will be reduced. The income earned by petrol and car registrations should equal the cost of road accidents that require hospitalisation.

Only the cost of treatment and associated rehabilitation is to be paid for by the state.

Loss of earnings is to be the responsibility of the injured person. The government will provide a safety net for uninsured persons.

Sports injuries are to be covered by a levy on sports bodies or clubs or a levy on the sale of sporting equipment. This will become easier as sports move to a greater degree of professionalism.

It is recommended that the point of entry be monitored by independent personnel with strict guidelines. Control of the gateway should be taken away from the organisation.

Service specifications should be strict with preferential service providers in all areas both location wise and specialty service.

Selected G.P.'s preferably occupational physicians or those with a knowledge of surrounding work sites should be utilised rather than regular G.P.'s.

4. Work related accidents

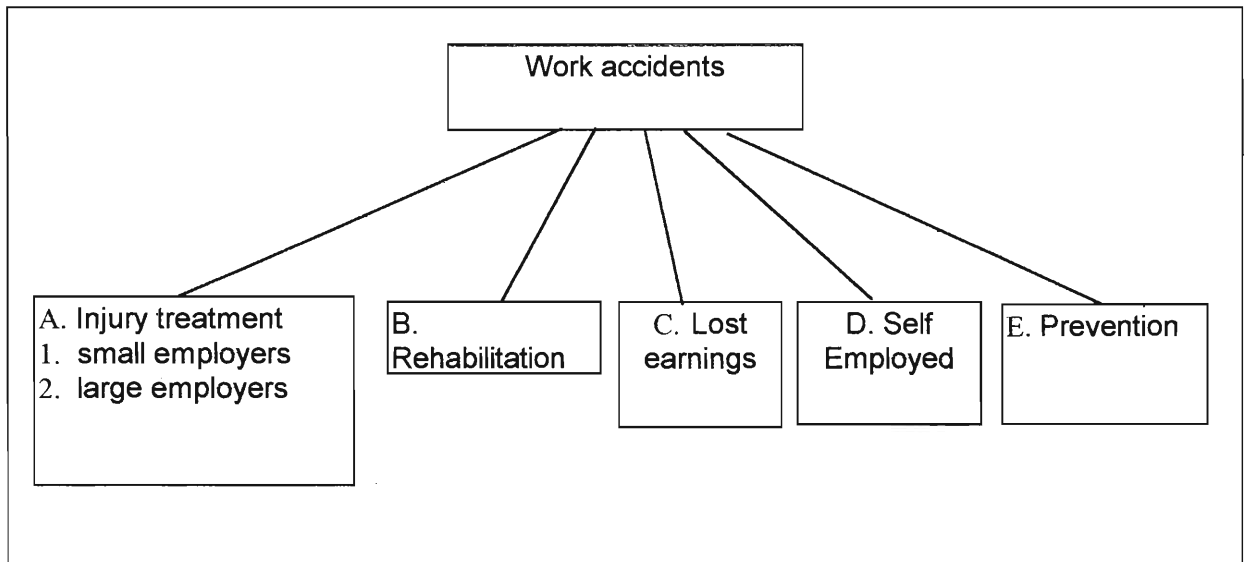
This presently costs the country \$912 million (1995)

It is envisaged that funding from an employer levy until contestability is introduced in 2002. This must be fully funded from 1999 onwards when the 'tail' is separated off.

Workers will be covered 100% for accidents that occur at the work place. Non fault insurance is to be retained (not a return to the right to sue)

Work accidents can be more clearly viewed in five separate areas.

Figure 2



A. Injury Treatment

1. Small employers (100 employees or less)

The employer is to pay all the costs associated with the accident including hospitalisation. After 12 months the claim is to be handed back to ACC or after 2002 with a private insurance company. It is compulsory for the company to insure itself against major accidents in the first 12 months.

2. Large employers (101 employees or more)

Same as for small employers but insurance for the first 12 months is optional.

The injuries of 12 months or more is what ACC covers and this is open to competition from the year 2002.

The effect of A 1&2 would be to remove the 1.3 million minor claims which have a high administration cost.

B. Rehabilitation & C. Loss of Earnings

These are to be treated the same as injury treatment. The advantage of having the employer involved directly with the injured employee is to facilitate a quicker return to work should it be possible. It will enable both parties to deal directly with each other rather than involving the third party, currently ACC.

Other options

1. Another option is for large employers to self insure from the year 2002. This would be to government monitored standards.
2. At present employers are charged premium on an industry specific pool related to that industry's experience rating or accident history. The problems associated with this are
 - good operators subsidise poor operators
 - if an industry down sizes (the meat industry for example), the few companies that are remaining pay heavily for those no longer in existence.
 - long term claimants on the 'tail' are very hard for the present day industry to identify and as a result got off ACC. As a result halving the ACC accident rate per year only cuts the premium down by 18%.
3. In preparation for opening up to competition in 2002, in 1999 large companies should make a company specific pool where the premium is charged directly according to that company's accident performance. An underwriting premium would also be charged in case the company goes bankrupt.
4. There should be a legislative requirement for employees to report all work accidents to their employer of the onus of proof should fall on the claimant to verify same.
5. There should be a provision on the M46 (ACC claim form) that states that when the claimant is claiming the injury arose from a work accident, there is certification from the employer acknowledging this fact. Also there needs to be an indication from the employer that alternative work is available/unavailable. ACC should not commence payments until discrepancies are investigated.

D. Self Employed

Self employed people have not been well supported under current ACC legislation especially where loss of earnings is involved and the associated weekly compensations. Self employed have often found it difficult to prove loss of earnings on a yearly basis where only a few weeks of work has been lost.

Therefore it is recommended that early in 1998, a system of deemed weekly earnings levy calculation system for self employed people be introduced, enabling them to nominate the sum for which they wish to be insured.

E. Prevention

While nationwide prevention campaigns will still be run by the ACC S.O.E. from 2002 on, there is however room for prevention activities as they relate to a particular company and its accident insurance company and how much premium is charged.

Point to note: All employers who self insure, included in the premium must be a levy to cover insurance companies that go bankrupt so that their 'tail' does not end up falling back on the government

5. Managing The Tail

The cost of managing this per year is unknown. It is currently funded from existing reserves in ACC. Currently funding is from existing reserves in ACC and will continue to be funded on a 'pay you go basis' from a surcharge levy while new claims are handled separately and are fully funded.

The approximate value of the 'tail' is \$5-7 billion. The size of it means that a ten year time frame must be adopted to remove it once it has been separated or ring fenced from the present day ACC.

A reserve of \$700 million (ACC Annual Report, 1996) should stay with the 'tail'. Next a notice to all 26,000 long term claimants stating that 90% of the 'tail' will be expected to be back at work in one year's time. This will be achieved by:

- 1) Introduction of the work capacity test with associated update medical records including X rays etc. where back strain and occupational overuse syndrome (OOS) are involved.
- 2) Medical practitioner reports should be questioned with regular second opinions sought.
- 3) Independent investigators should be employed where fraud is suspected.
- 4) Gradual process injuries are not to be included.
- 5) After twelve months reduced entitlement gradually with fair warnings of doing so.
- 6) During the initial 12 month period to rehabilitate the 26,000 people in the 'tail'. No expense should be spared to do the best job possible to get people back to work.

At the end of 18 months, approximately 10% will remain as genuine cases, unable to return to work. Part time employment should be arranged at home if necessary to build self confidence. This will cost more than the value of the product generated from the employment. However in the long term it will assist a return to work.

Of note is that no relationship exists between the seriousness of the injury and the return to work time frame. It is psychological determination that has the largest effect.

A large number of people on the 'tail' will end up transferring to another welfare benefit namely the unemployment benefit.

People receiving benefits whether they be by way of taxpayer's money or a cost against an ACC account, should forfeit some of their rights under privacy legislation. At the moment ACC cannot speak to the Department of Social Welfare to see if people are doubling up on benefits. Information is easily withheld from employers and they are entirely dependent on ACC to get such information.

Employers who take on long term ACC beneficiaries, those currently on the tail, should not be experience rated again with regard to these individuals.

6. Overseas Visitors

Because 80% of overseas visitors have travel medical insurance accidents should be paid for by the victim.

Industries (mainly tourism) who deal with overseas visitors should carry liability insurance as with the removal of ACC scheme cover and entitlements. This will mean a return to the right to sue for injured people.

Overseas visitors should also pay for the cost of search and rescue exercises where negligence is found to lie with the visitor.

iii) The Advantages

Opening accident insurance to private competition has a number of advantages; the two main ones being reduced costs and a high return to work.

In Victoria, Australia, work accident insurance has been opened to competition for a number of years. Victoria's experiment with private-sector compensation has proved fruitful. Reported claims and their average duration are both down 40%. Before 1985, the average premium in Victoria was 15% of the payroll. It dropped to 4% in 1992 with the introduction of private sector competition. Currently the average premium is not 1.9% and is headed still lower. Such schemes in Australia place great emphasis on early rehabilitation and claim their return to work rates are good.

iv) The Disadvantages

1. The major disadvantage of the proposed scheme will be an increase in levies in the short term (two years)
2. The scheme will not cover psychological problems.
3. Injured employees may be coerced to return to work too soon and be threatened with court action if they refuse.
4. Hospitalisation as a yard stick between major and minor injuries may be abused.
5. A large transfer of beneficiaries onto the unemployment benefit with the reduction of the 'tail'.
6. Legal challenges are likely to the work capacity tests.
7. Light work programmes set up by employers to help workers return to work may be unsuitable for claimants and may be seen as harassment and degradation when work is simply created for nothing.
8. Communicating directly with the injured person's doctor from the insurance company may breach privacy laws.

v) Calendar of Events

January	1998	Fox report accepted
Early	1998	Clear definition Self employed deemed weekly earnings Work capacity test introduced
Mid	1998	Retain board structure with improved accountability and associated disciplines ACC sectioned into six separate entities
Late	1998	Injury prevention and education split off Government regulatory division split off
Early	1999	Policy on overseas visitor accidents set up The 'tail' ring fenced and managed separately
Early	2000	Work accident insurance separated Non work accident insurance separated
	2001	Work accident insurance S.O.E. Non work accident insurance S.O.E.
	2002	Contestability allowed in work and non work accidents
	2004-2007	Government owned insurance S.O.E. may be sold
	2007	Present day 'tail' now self funding

6. Conclusions

The present ACC scheme has, in the eyes of the New Zealand public, major problems. While most of these problems are misconceptions, major problems, present and future do exist.

Fraud and the ACC administration's failure to deal with it (for what ever reason) has meant the tail (unfunded liability) has grown. This has lead to a call from employers to change the present scheme or open accident insurance to competition. Injured people on the whole fare better under ACC in New Zealand than under the Victoria work accident scheme.

The level of dissatisfaction has meant people are now no longer prepared to accept this.

To conclude, the above arguments in section five seem to create a strong case for a more modest role for the government in the short term in respect of insurance arrangements for loss of earnings through accidents. Another round of tinkering with such a flawed system cannot hope to overcome its problems. Competition and freedom of contract have proven to be extremely effective arrangements for disciplining and motivating providers of private goods. To obtain improved outcomes, the primary step which needs to be taken is to introduce genuine competition into the provision of accident insurance cover leaving the government with an educational and regulatory role.

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Reform of the ACC should start immediately. Key points.

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The tail should be self funding by the year 2007

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8. Acknowledgements

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Janet Fox

Alison Fox

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