

Government has many questions to answer on wisdom of privatising ACC

Bill Rosenberg

THE Government has justified changes to ACC by arguing the scheme was in crisis. There was never a crisis requiring the harsh cuts in entitlements and claim approvals that the Government has introduced. And the changes are not responsible for the improvement in ACC's books that has allowed for levy cuts.

The main reasons for ACC's improved results are better profits and a higher valuation of its large investment fund as world markets rise after the recession, plus changes in the assumptions made about future investment returns to calculate its long-term liability for existing claims.

The Government says privatisation of the ACC's services for people injured at work, by opening it to private competition, will bring lower costs and improved safety. Cabinet papers show that not even its own advisers believe that. Privatisation will increase costs and complexity through duplication, complicated regulation and new agencies. Costs to small employers are likely to increase. Rather than injuries being reduced, employers will be incentivised to reduce claims.

There is another major change the Government is also proposing. It wants to move more employers into a scheme called the Accredited Employers Programme, which allows employers to partly opt out of the standard ACC scheme.

ACC Minister Nick Smith justifies this by saying that the existing programme "delivered safer workplaces with 12 per cent fewer claims and more effective

rehabilitation with 15 per cent lower costs".

AEP employers pay for and manage their employees' claims rather than paying the usual ACC levies. If they can reduce their employees' claims, they can save money. Unions with experience of the existing AEP are worried it increases incentives for employers to scrimp on claims and rehabilitation, focusing on saving money rather than improving safety in workplaces.

The Labour Department acknowledges there is a risk some employers could make their claims records look better by discouraging employees from lodging claims for injuries, encouraging employees to say injuries are not work-related, or pressuring them to return to work before they are fully rehabilitated.

Some employers in the programme do take safety very seriously – but they did that before they joined the AEP.

The Government's proposal hinges on the credibility of Dr Smith's assertion about the programme's success. It is based on a review of all ACC claims from July 2000 till December 2009 carried out by the firm Melville Jessup Weaver for the Government's "stocktake" of ACC which recommended privatisation.

In fact, the review's evidence does not bear Dr Smith out. There are unaddressed problems in the way the review was done. Employers who consider they have the best accident records will be most likely to join the AEP.

If the AEP's record is better, it could well be because it attracts employers with lower claim rates – not because it leads to improved

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safety. Further, the review analysed claims, not accidents. While all valid claims result from an accident, not all accidents necessarily result in a claim. Where the party who pays for the insurance is not the one who suffers the most from the accident, there are incentives for claims to be avoided. Claim numbers may underestimate accident rates.

SO WHAT were the results of the claims analysis? Dr Smith said the AEP "delivered safer workplaces with 12 per cent fewer claims". But the review concludes that claim durations and claim rates actually fell faster during the decade for employers in the standard ACC scheme than for accredited employers.

It indicated faster treatment of injuries and return to work for standard employers. Claim rates for weekly compensation also fell steadily for standard employers, who had lower claim rates than the AEP by the end of the decade.

Dr Smith said the AEP delivered "more effective rehabilitation". If faster return to work is an indication, then the review showed

employers on the standard programme are better. Dr Smith's claims regarding safety and rehabilitation therefore lack credibility. To the contrary: we should be looking to see why the AEP has not done as well as the standard scheme.

Finally, Dr Smith asserts that accredited employers have "15 per cent lower costs". Yet "medical only" claims cost 34 per cent more for accredited employers, and the cost of other entitlements was also higher. The entire difference is due to costs of weekly compensation claims. The review found that standard employers spend more on social and vocational rehabilitation.

This raises some unanswered questions about how vocational rehabilitation costs are being recorded and the quality of the rehabilitation. And why have employers been leaving the AEP scheme, if their costs were really so much lower? The reality appears to be one of more rapid improvements in safety and rehabilitation in the standard ACC scheme than in the accredited employer programme, and unanswered questions about the nature of the financial savings accredited employers appear to be making.

This is shaky ground on which to make major decisions that will affect the safety of New Zealanders in their workplaces.

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Further details of the research quoted above, and other relevant research, can be found through the website at <http://union.org.nz>