

SOME PERSONAL REFLECTIONS

Susan St John

Fifty Years From the Woodhouse Report: A Celebration and Assessment of ACC

Dec
11
2017

In December 1967 the Woodhouse Report was released, recommending a no-fault accident compensation scheme for

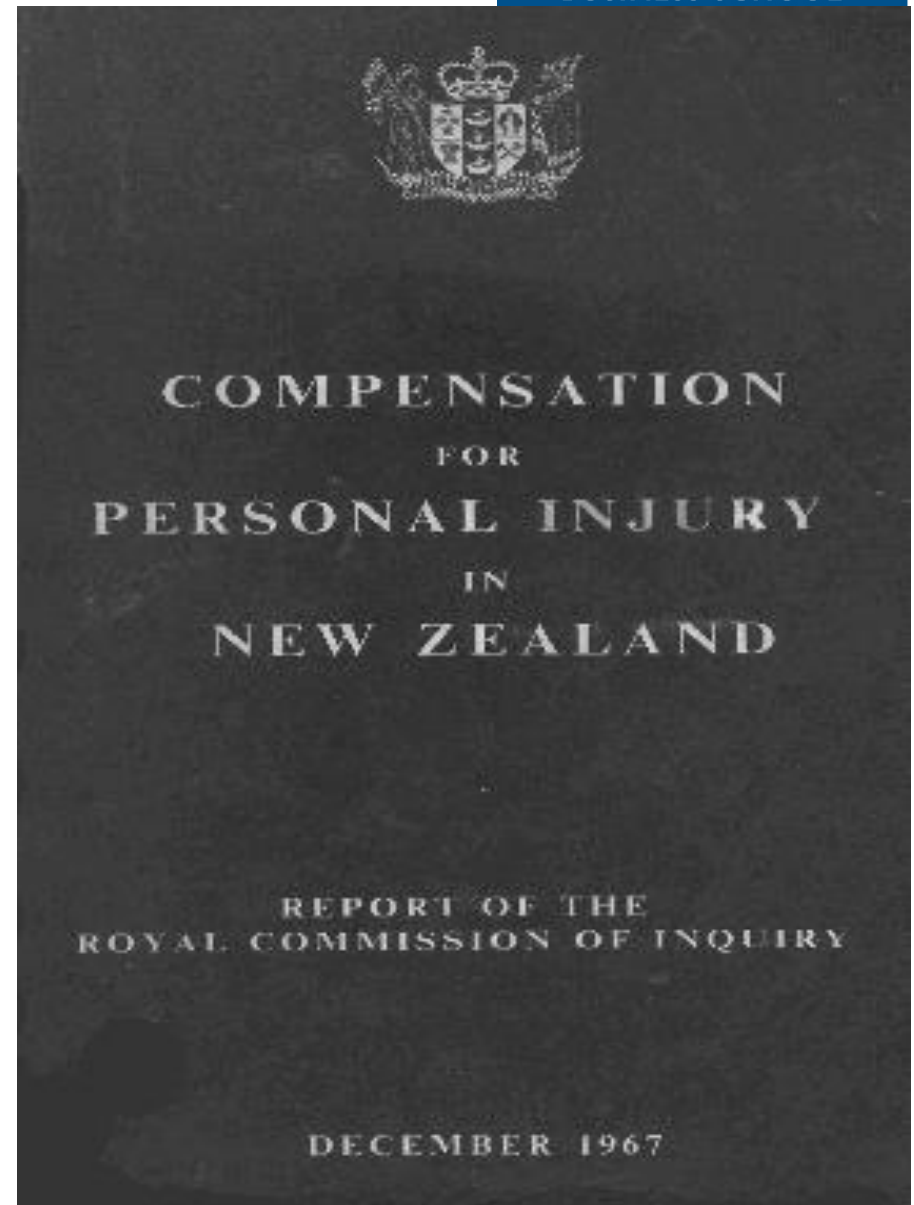
The 40th 2007



“This beautifully crafted Report is the work of a man with a deep-rooted social conscience fully aware of the needs and aspirations of the common man and woman.” High Court Judge Ted Thomas 1969

1967 report now digitalised

<https://www.library.auckland.ac.nz/guides/business/acc-research#=>



- *"His Report reflects his vision of a more humane, harmonious and responsible society. As such, it represents the most far-reaching exhortation to the community to engage significantly with those who are **less fortunate** since the enactment of the Social Security Act in 1938.*
- *The comprehensive and unified scheme which he advances to replace **a fragmented and capricious response** to the problem of personal injury is conveyed with a clarity, cogency and cohesiveness that few, if any, authors could emulate."*

– Ted Thomas 1969



Workers Compensation Origins 1900

- **Non-work accidents**: compensation if fault proven under common law
- **Workers compensation**: If fault could not be proven, meagre, time limited compensation for work-related accidents.

Demarcation problems

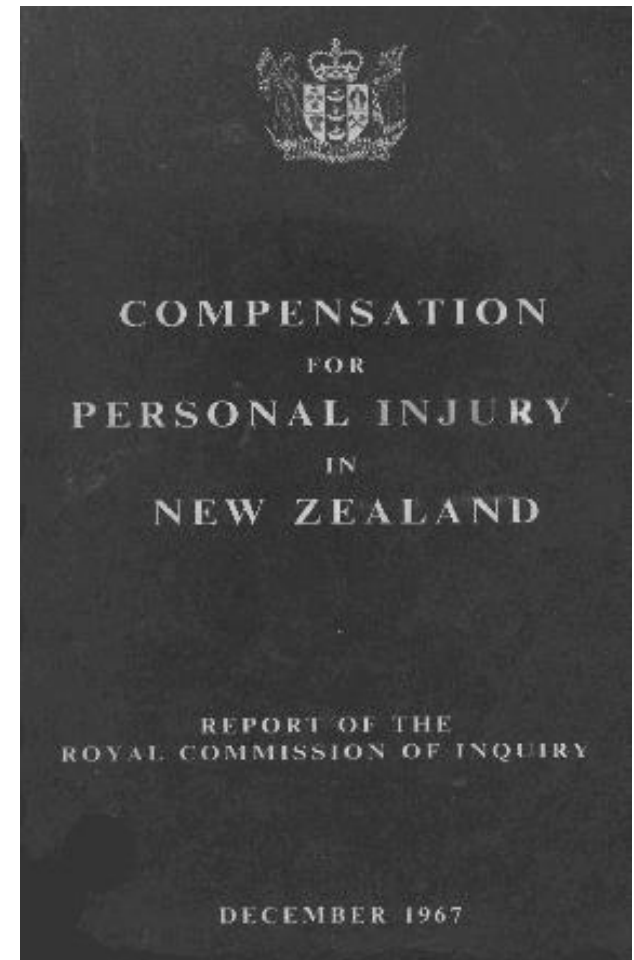
A paradigm shift ?

**We give up the right to sue, for 24/7 coverage
for all under community responsibility
principles**

ACC was to be Social insurance

“As the scheme will be a government-scheme of ***social insurance*** it must in the final resort receive the backing of the state.”

Woodhouse, p 175



Social insurance has many advantages

- Benefits can be more *redistributive* and *comprehensive* than private insurance
- No need for complex risk related levies
- Coverage and scope does not have to be set in stone Evolution possible
- Funding can be pragmatic rather than actuarial

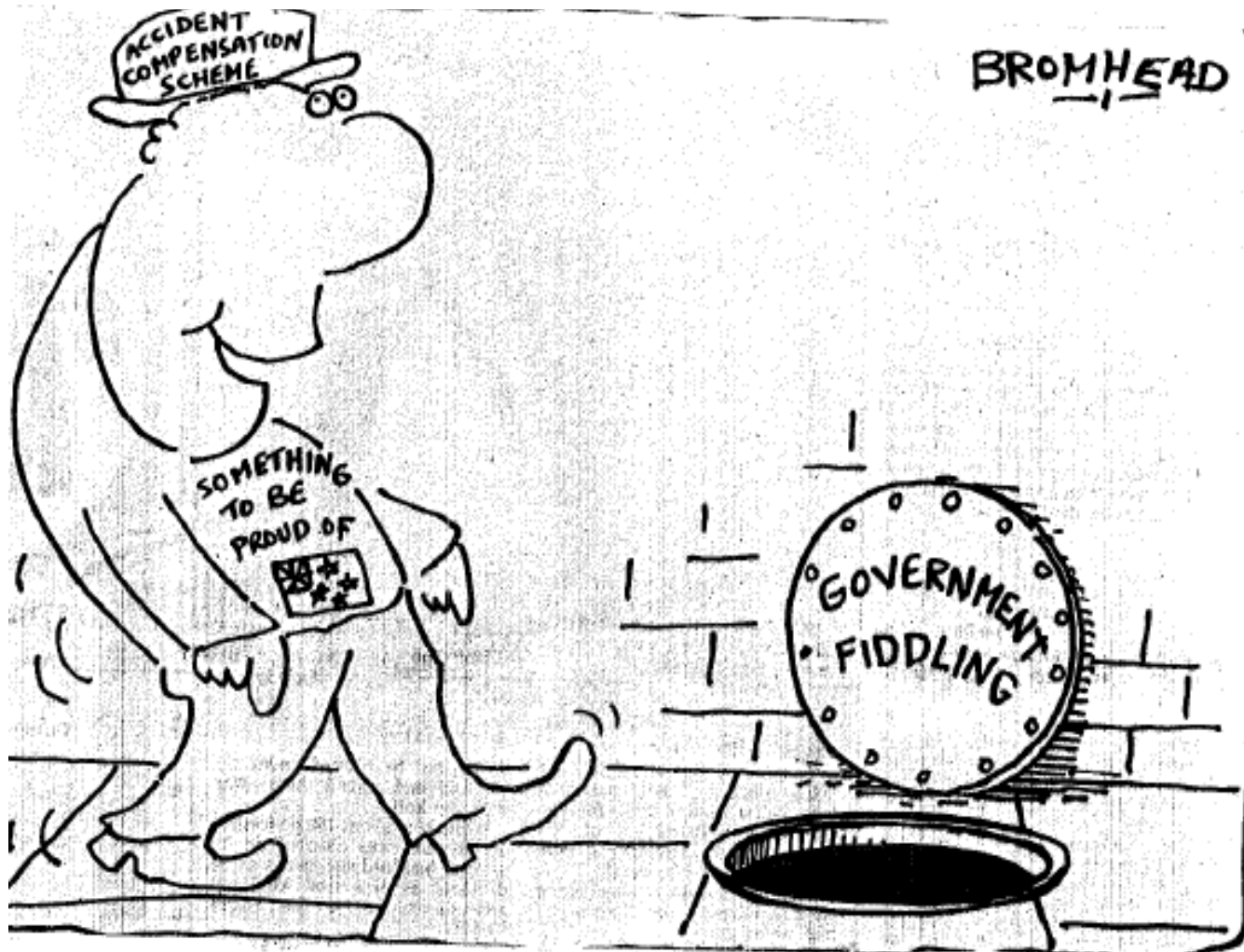
**BUT COULD WE MAKE THE
PARADIGM SHIFT, WOODHOUSE
ENVISAGED?**

New Zealand has had rare paradigm shifts before

- New Zealand Superannuation
- (non-contributory, inclusive, adequate first tier)
- Other countries cant make the jump



The Woodhouse vision was corrupted from start --Cartoon from the 1970s



Perennial arguments and dilemmas around insurance basis

- Language
- Funding
- Differential levies
- Experience rating

Changes of name reflect tensions

The Accident Compensation Act 1972,

The Accident Compensation Act 1982,

**The Accident Rehabilitation and
Compensation **Insurance** Act 1992**

The Accident **Insurance Act 1998.**

**Injury Prevention, Rehabilitation, and
Compensation Act 2001**

Accident Compensation Act 2001 (2017)

COST ALLOCATION IN THE NEW ZEALAND
ACCIDENT COMPENSATION SCHEME - SUSAN ST JOHN

My 1979 thesis

What possible point was there to retaining the complex levy system of pre ACC?



1979 Study of how the proposed rebate and penalty system could apply

Case study: The freezing industry
36 competing firms
High accident rate
Good data- Nordmeyer report 1977 on accidents in 1976-7

Experience rating statistical basis

- Accidents are random- approximate to a Poisson distribution

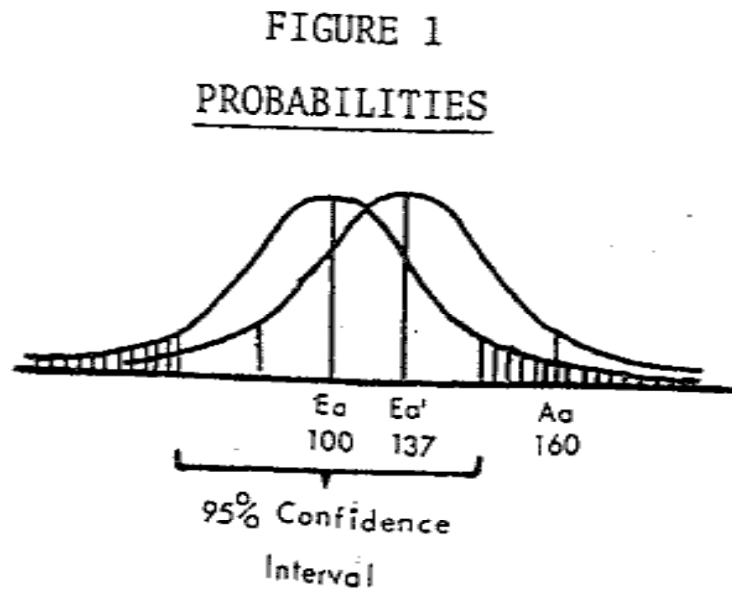


TABLE 2
REBATES AND PENALTIES FOR FIRMS IN THE FREEZING INDUSTRY
USING TWO FREQUENCIES BASES F_1 AND F_2 FOR THE YEAR MARCH 1976 TO MARCH 1977

Works No.	Estimated Levy Paid	Adjusted Levy ¹	Rebate (+) or Penalty (-) F_1 Data ²	Rebate (+) or Penalty (-) F_2 Data ³
1	58,000			
2	116,500	44,000	+ 29,000*	+ 29,000*
3	86,000	88,500	+ 58,000*	+ 53,000
4	164,000	65,500	+ 40,500	+ 35,500
5	91,500	124,500	+ 71,000	+ 82,000*
6	60,000	69,500	+ 37,000	+ 45,500*
7	97,500	45,500	+ 19,000	+ 13,500
8	41,000	74,500	+ 32,000	+ 17,000
9	141,500	31,000	+ 11,000	+ 10,500
10	43,000	107,500	+ 36,000	+ 66,500
11	182,500	32,500	+ 7,500	-
12	31,000	138,500	+ 40,000	-
13	131,000	23,500	+ 4,000	-
14	51,000	99,500	+ 22,000	+ 6,000
15	71,000	38,500	+ 6,000	-
16	126,000	54,000	+ 5,500	-
17	38,000	96,000	+ 10,500	+ 11,500
18	90,500	29,000	+ 1,500	-
19	266,500	69,000	+ 4,000	-
20	82,500	202,500	+ 2,000	+129,500
21	224,000	62,500	-	- 27,500
22	39,000	170,000	-	+ 18,500
23	135,000	29,500	-	-
24	163,000	102,500	-	+ 3,000
25	111,000	123,500	-	+ 27,000
26	126,500	84,500	-	+ 5,000
27	207,000	96,000	- 2,000	- 7,500
28	101,500	157,500	- 17,500	-111,500
29	55,000	77,000	+ 7,500	-
30	103,000	41,500	- 8,500	- 24,000
31	36,000	78,000	- 19,500	- 79,000
32	183,000	27,500	- 6,000	- 11,500
33	230,000	139,000	- 65,500	- 57,000
34	198,500	174,500	- 97,500	-202,500
35	91,000	151,000	-115,000	+ 44,000
36	34,000	69,000	- 60,500	- 91,000*
		26,000	- 34,000*	- 12,500

Results

- Could establish statistically, better or worse companies but there they comparable?
- Depended on what measure of frequency
 - All accidents/100,000 manhours
 - Accidents over 7 days/100,000 manhours
- Was experience rating more about wrong classification?

While the Government continues to review the Accident Compensation Act, Auckland economist Susan St John asks . . .

WHERE'S THE LOGIC IN THE LEVIES?



Are policemen at a rate of 75c per \$100 of wa

1980 article in the
NZ listener

If it didn't make
sense in the
freezing industry
then it did not
make sense
anywhere

The 1980s bonus scheme

- Timid experiment November 1980
- \$1 million paid in bonuses
- Reward was well-divorced from experience.
- Air New Zealand rewarded in spite of the worst aviation disaster in New Zealand's history in November 1979

Paper on safety incentives
NZEP1981

Complexity remains in 2017

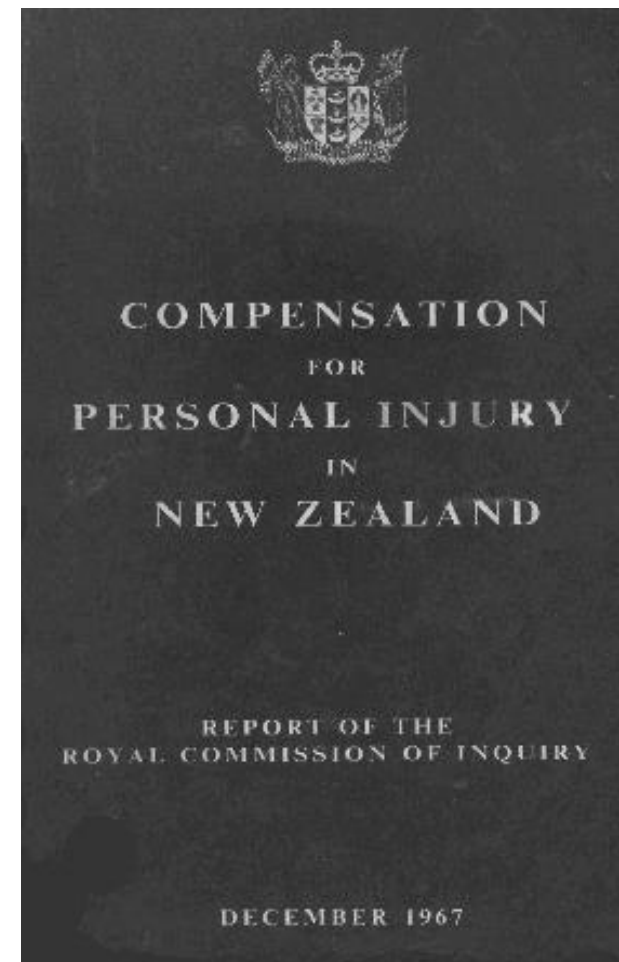
ACC Levy Guidebook

Your guide to 2017/18 levy rates, industry classifications and invoices

- Not willing to adopt whole paradigm
- Same with full-funding issue

Woodhouse asked: How much would it cost?

- 1% levy to replace worker's compensation premiums
- Scheme's income would be greater than outgoings for first years
- Surplus invested
 - Useful contingency reserve
 - Beneficial side effect
- *Never to be on a fully-funded actuarial basis*



The 1970s

- **1972 ACC Act sets up a funded basis. Actuarial reports required**

“This basis of funding is likely to prove no more successful than it did for general accident insurance under the old scheme.” **Palmer 1977, p 201**



Why was he so sceptical ?

Rapid inflation - long tail of claims

“... makes the estimate of contingent liabilities very much a matter of guesswork”

Worth “preserving the **pretence** of a funded scheme until plateau reached”

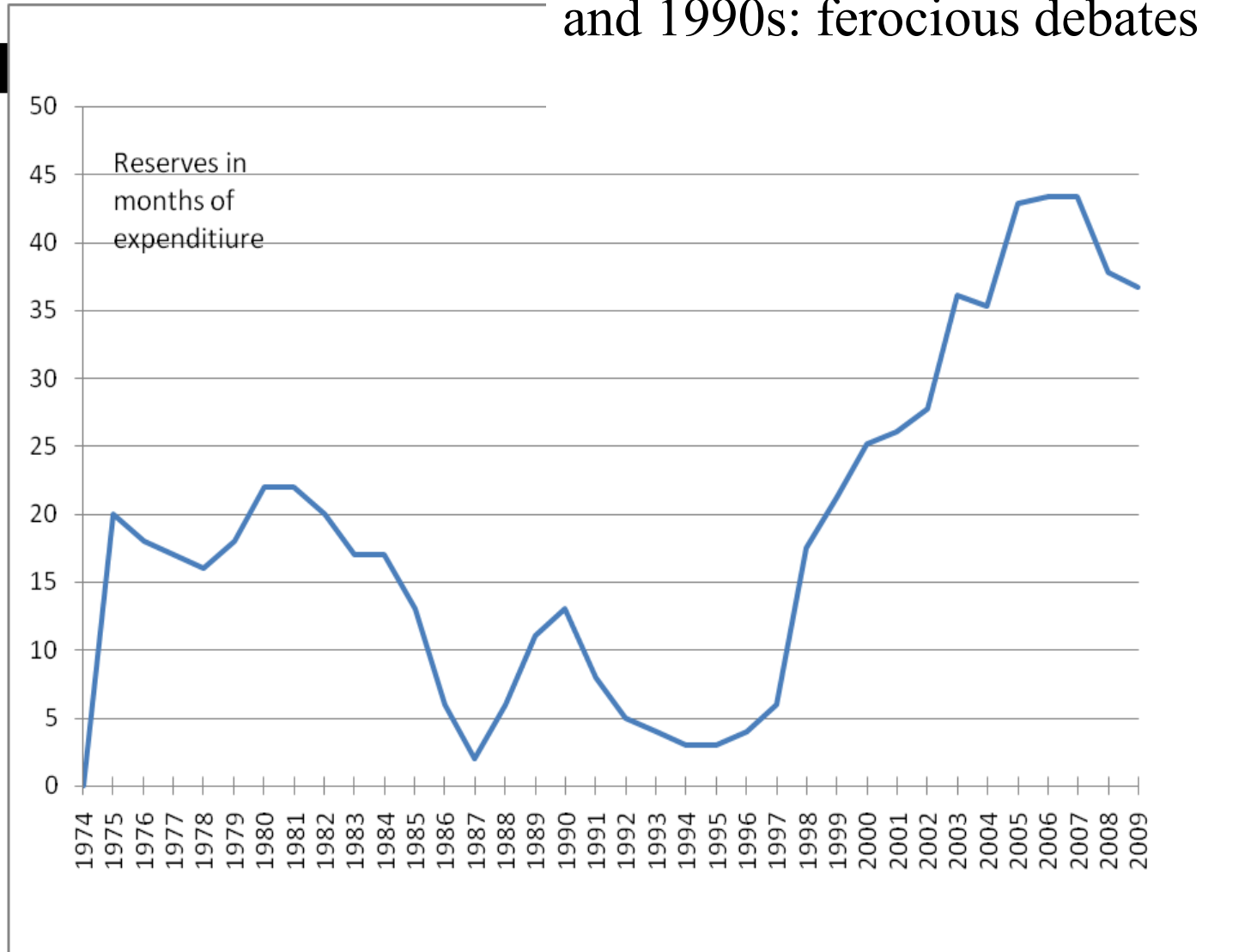
End result a “curious mixture”

Provides “useful insulation and flexibility”

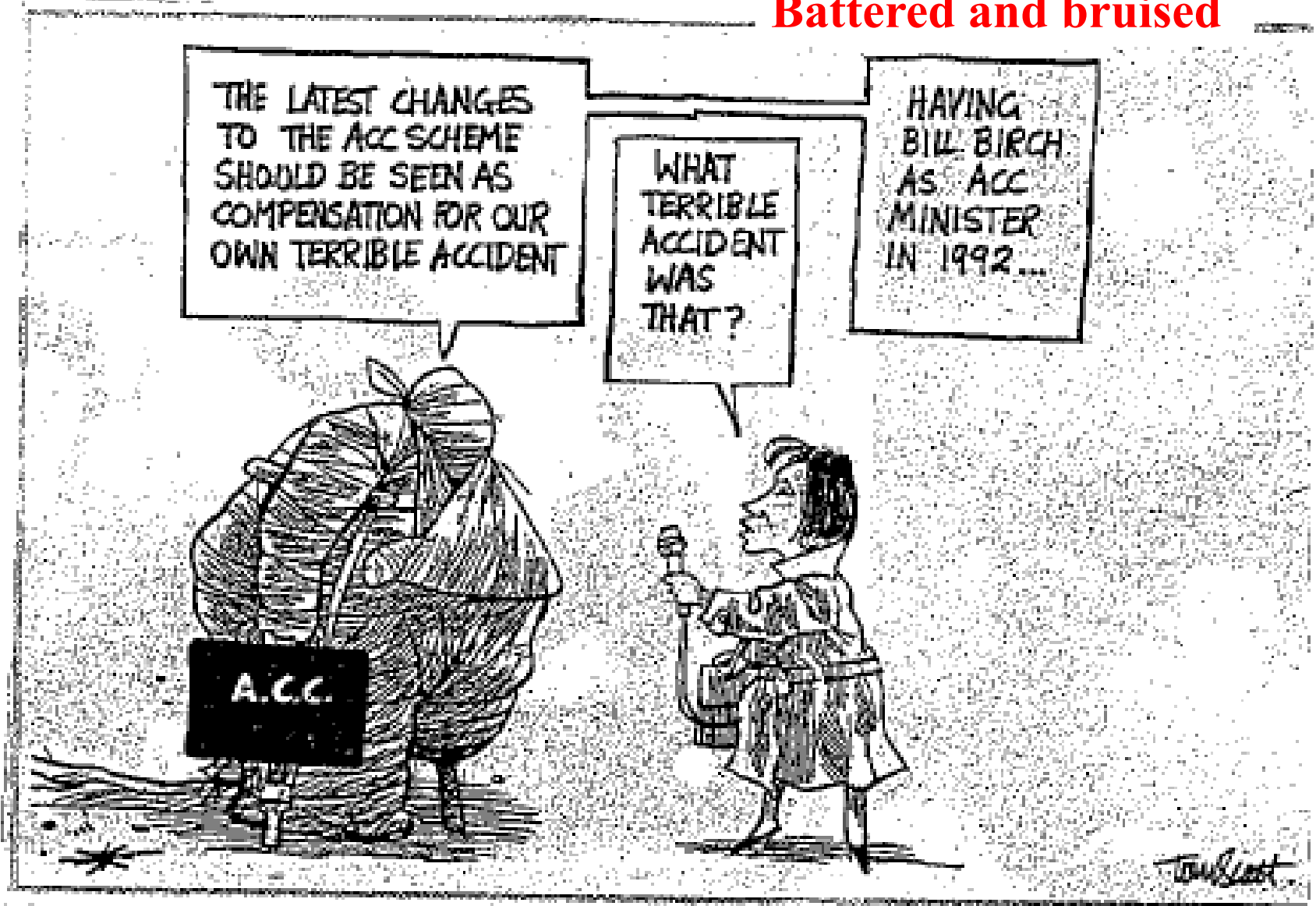
Palmer 1977, p 201

PAYGO or Full Funding?

The roller-coaster ride of the 1980s and 1990s: ferocious debates



Battered and bruised



Accident **Insurance** Act 1998

▲ **Full funding by 2014**

▲ **Clearly ACC was to be viewed as *insurance***

▲ **Full funding facilitated the introduction of Private competition**

The curious 2000s

Election of Labour saw social insurance principles firmly reinstated



- Injury Prevention, Rehabilitation, and Compensation Act 2001
 - “to reinforce the social contract represented by the first accident compensation scheme.”

Reversed privatisation experiment of the AIA

So why did the 2001 Act keep actuarial funding by 2014?

- **Didn't it just pave the way for new government to:**
 - **Claim ACC insolvent?**
 - **Charge higher levies – offset inappropriate tax cuts?**
 - **Cut entitlements**
 - **Privatise ?** (St John ACC forum 2010)

Are these just the faded debates of the 20th century?

21st century Everything has changed

- Family
- Relationships
- Nature of work
- Natural disasters
- Expectations
- Demography
- Ethnicity
- Technology
- Inequality
- Suicides
- Women are not having it anymore



How can we shift into a new paradigm?

Lets build on the timeless Woodhouse principles?