RCSA: Recruitment & Consulting Services Association Ltd

New Zealand

Submission:

Levy Consultation 2010/11

Work Levy Rates and Residual Claim Levies

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About the RCSA

The RCSA (Recruitment and Consulting Services Association Ltd) is the leading professional body for the Australian and New Zealand talent management sector with over 2,300 Member Companies and 900 Accredited Professional Recruiters in on-hire, recruitment, and workforce solutions services.

In New Zealand, the RCSA represents 203 Member Companies and 116 recruiters who have achieved the RCSA Accredited Professional Recruiters' program which requires a minimum 25 hours of continuing professional education annually including annual education on the RCSA Code for Professional Conduct.

New Zealand benefits from the talent management sector in a number of ways. Employers benefit from using RCSA Members' services as talent management firms can provide impartial advice and proven service from an arms-length professional, armed with the latest knowledge and technological structures who will find the best person for the job using their widespread knowledge of the employment market. This also benefits job seekers by helping to ensure that they are provided with unbiased and objective advice on their job hunting and career plans, provide the job seeker with a better understanding of the range of positions available to them, and refer them into job seeker-focused services as appropriate. As an indicator of the industry's contribution to the New Zealand economy, RCSA New Zealand Member Companies generate approximately NZ$416 million in annual revenues.

The RCSA sets the benchmark for the sector's standards through representation, education, research and business advisory support so that our Members may concentrate on their core business. All Members of the RCSA agree to abide by the Code for Professional Conduct that is authorised by the ACCC in Australia and acknowledged by the Commerce Commission in New Zealand.

The mission of the RCSA is to represent and serve the interests of its Members for the increased profile and professionalism of the sector.

The RCSA appreciates the opportunity to respond to this Levy Consultation and makes the following comments:

Executive Summary

The RCSA has considered the Consultation Documents, ACC's Annual Report, canvassed our members and their clients and have come to the view that:

- Levies at current levels are sustainable. Improvements in financial markets, workforce participation and a focus on rehabilitation / return to work will lessen pressure on the revised valuations of outstanding claims.

- The Employment Service Industry has experienced reduced injury rates and less serious injuries. Industry levies should reflect these improvements and remain at or below current levels with discounts for good performers.

- Residual Claims will be an ongoing burden on employers. Levy rates should remain at current levels and continue to be paid until such time in the future a fully funded state is achieved. Levies should not increase.

Problem Definition - ACC

ACC describes their problems as:

- A continuing rise of the cost of providing ACC services
- A more realistic approach to forecasting future costs and liability
- Rehabilitation performance has fallen
- Scheme extensions driven by legislative change
- Global recession

The RCSA has reviewed ACC performance and found that;

- ACC has experienced an 11.8% increase in cash costs for the 2009 financial year but also achieved an 11.9% increase in revenues.
- Valuations are dependent on "live" claims. The $10b deficit is a function of accounting and actuarial modelling and is projected over future generations.
- ACC's rehabilitation costs increased 11.8% for the 2009 financial year (similar to the overall cost increase) where as vocational compensation costs increased 13.4%
- Recent extensions to the scheme may have increased the range of cover. The increase in the costs of this cover appears to have been adequately offset by the increase in income.
- Investment revenue for the 2009 financial year dropped 5.6% off the back of a 19.6% increase in the 2008 year. 2009 appears to be a credible return given the difficulties since the onset of the Global Financial Crisis.

It is the RCSA view that ACC's accounts do not look nearly as bad as they are made out to be. It is our view that problems do exist and we wish to offer our ideas on each of these issues.

Problem Definition – RCSA

We propose that ACC review its levies with the following problems in mind:

ACC Investments

We note that ACC has approximately $14,000m, in assets and that returns of $0.7b for the three months to September 2009 were higher than forecast. We have been unable to identify the proportion of these held on behalf of the Employers Account or the Residual Claims Account.

If we take the account levy revenue as a guide it appears that 12% of the investments could be assigned to the Residual Claims Account and 13% to the Work Account.

The current Work Account is in credit by $1m so it is apparent there is no pressing problem with this Account. Furthermore this was on the back of a $48m cash surplus this financial year – suggesting if existing performance can be maintained there will be sufficient reserves in this account to cover current long term liabilities.
Recommendation: That no increase be made in Work Account Levies

The current deficit for the Residual Claims account is valued at $2,123m. 12% of the assets equates to $1,680m so there is clearly a shortfall of $443m. It appears the Residual Claims Account made a cash surplus of $192m this year – suggesting if existing performance can be maintained the Reserves target will be met before the 2014 deadline.
Recommendation: That no increase be made in Residual Claims Levies

Workforce Employment

Our Members are of the view that the current rate of redundancies will reduce through 2009 and into 2010. A survey of our Members and their clients reveals that employers intend to either hold their existing workforce or increase it. This means more people in employment - which will offset any loss of liable earnings due to redundancies and long term unemployed.

The current 2009/2010 levies already adequately cover the 2009/10 environment as we are aware that ACC, in calculating levies, builds in a prudential margin which we expect to cover any loss of income in that year.

As employment improves through 2010 more levies will be paid which will see ACC's levy revenue situation improve.

Recommendation: that no increase be made to Work Account, Earner Account and Residual Claims Account on the basis the Workforce Employment will improve throughout the 2010/11 levy year.

Wage Growth

We have reviewed The New Zealand Income Survey (NZIS) data sourced from Statistics New Zealand. The June 2009 report suggests that over the last five years, real median earnings have increased by an average of 1.9% per annum. Wage growth is expected to weaken during the early stages of 2010 – but increases are still being anticipated.

Our Members have canvassed this issue with their clients and they report these clients are not anticipating increasing remuneration in the next year. This is consistent with ACC's expected liable earnings increase of a mere 0.03%

ACC can anticipate similar revenues (providing employment levels and levies remain steady) for the Employer and Earners accounts through a steady pool of liable earnings.

Recommendation: that no increase is made to Work Account, Earner Account and Residual Claims Account on the basis the wage rates will remain steady throughout the 2010/11 levy year.

Recession

ACC's current accounts reflect a business operating during a recession. Economic indicators are now suggesting the recession is over and that we can now expect low but some growth in GDP as we move into 2010. 2010 is expected to bring unspectacular growth – but growth all the same. It appears the worst is now behind the New Zealand economy so we can now cautiously look ahead with more optimism.

To keep on track the RCSA believes we need to see improvements in retail sales, export volumes, business confidence, housing and construction.

These improvements can only be made if employers have cash to invest in productivity and consumers have earnings to reduce debt, increase personal savings and make wise purchase decisions. Anything that reduces the cash available to these parties will increase the risk of a slow recovery. For this reason we cannot see an increase in ACC levies being good from an economic perspective.

To climb out of the recession we need two things

1. Cash to stimulate spending. If cash is taken away from employers and earners through increased ACC levies this stimulus will be hampered.
2. Cash to improve productivity through research and development as well as industry focussed skill training.

Increases in the Work Account and Residual Claims Account, especially to the level proposed by ACC, will hamper employers ability to invest in the future.

Recommendation: that no increase be made to Work Account, Earner Account and Residual Claims Account to ensure employers and earners have cash to help drive New Zealand out of the recession during the 2010/11 levy year.

Productivity

The Ministry of Social Development, in its 2009 Social Report indicates median hourly earnings of $18.20. We note from the 2009 Annual report that $966m was spent on earnings compensation – up 11.2% from $868m in 2008. That is a staggering 66,300,000 hours of lost productivity or approximately 37,800 workers off work on a full time basis. Add to that the “First Week” absence compensation that is paid by Employers (or sick leave paid to Earners) before ACC Earning Compensation is paid the lost productivity is most concerning.

We note also that according to the Ministry of Social Development that the number of people registered as unemployed has risen from 24,000 to 61,000. ACC appears to be turning into a de-facto social welfare department

As an Industry we are concerned about the number of productive people who are out of the work force. As part of our commitment to reversing this situation we have recently signed a Memorandum of Understanding with the Ministry of Social Development to work in partnership in assisting the unemployed back to work.

Our Membership has previously offered to work with ACC on reintegrated injured workers back into work – we would like to once again make an offer to work with ACC on this issue.

We anticipate that any increase in expenditure needed to return earners back to productive work will be offset by a reduction in the compensation entitlements made to those people.

Recommendation: that ACC's primary focus be on returning pre 2010/11 injured workers back to productive work within existing budgets.

Weekly Compensation – Work and Income

We note that ACC is anticipating 23,567 workers will create an average weekly compensation cost of $14,195 during 2010/11. This equates to over 1,000 hours of lost productivity per claimant.

Additionally the weekly compensation accounts for 56% of all entitlement costs.

This figure suggests to our Members that there is significant potential for establishing enhanced opportunities for return-to-work. The RCSA has recently signed an agreement with the Ministry of Social Development (Work and Income) which sees our members working in cooperation with Work and Income in a relationship which covers listing job opportunities and referring suitable candidates to these opportunities. Our Members see potential in working with ACC to establish services which utilise RCSA networks and skills to return newly injured workers quickly back into paid employment.

Recommendation. We would welcome an opportunity to discuss this potential further.

ACC Injury Claims

We note from the 2009 Annual Report that the number of new claims appears to have stabilised at around 1.75m. This is against a backdrop of an increase in population of 4.2m to 4.4m and no increase in expenditure by ACC on Injury Prevention activities.

Furthermore we note Statistics New Zealand reports that the total work-related injury claims fell from 246,800 claims in 2005 to 235,000 claims in 2007 falling further to 224,900 work-related claims for the year ended December 2008. They also report that as total claims fall so has the incidence rate of injury.

Statistics NZ report that elementary occupations such as labourers who traditionally have the highest incidence rate have fallen from a high of 292 claims per 1,000 FTEs in 2005 to 273 claims per 1,000 FTEs in 2007 then to 239 claims per 1,000 FTEs in 2008.

Not only have claim numbers trended downwards so have the number of expensive entitlement claims. Statistics NZ again report that there were 34,900 in 2005 falling to 33,700 in 2007 and then to 30,100 in 2008.

Interestingly one small group of the working population created the most claims - plant machine operators and assemblers had the largest number of claims, with 7,000, which was 23 percent of all entitlement claims.

Recommendation: that no increase be made to Work Account, Earner Account and Residual Claims Account as an increase cannot be justified on the basis of injury trends.

Alternative Options for Rehabilitation

ACC recognise that people are remaining on the ACC scheme for longer periods and that the costs of elective surgery and medical treatment are increasing.

There may be two reasons for this

1. ACC has lost its focus on the rapid return to productive and paid work
2. ACC is a monopoly and a dependent consumer of elective surgery and medical treatment which does not provide suppliers with an incentive to look at how these services are provided or costed.

Our members are of the view that these entitlements should remain. However they are also of the view that the provision of these services should be opened to a competitive environment where it can be shown such action would result in lower levies.

Recommendation: That consideration is given to opening up the provision of the delivery of entitlements to competition.

Work Account Levies

We note ACC is proposing the following levies for our Members.

	Current Work Levy	Proposed Work Levy	% change
78610	0.18	0.32	77.8%
78620	0.18	0.32	77.8%
78621	2.2	3.53	60.5%
78622	1.0	1.69	69.0%
86131	1.15	1.88	63.5%
Average NZ Levy	0.75	1.18	57.3%

We have sought the claims details for our Industry from ACC but ACC was unable to provide these details due to pressure of work on ACC Actuaries.

We have surveyed our Members who report, on the whole, their Claim Frequency is reducing. Furthermore they report that the seriousness of their injuries is also reducing. Our Members report however that the costs of claims is either remaining steady or increasing.

This information suggests that our Members are succeeding in their Injury Prevention programmes – reflecting a lower number of injuries and less serious injuries when harm does occur. The increase in costs appear to be attributable to ACC's diminished focus on rapid rehabilitation.

We recognise that there may be some employers in our Industry who do not have the same commitment to Injury Prevention and return-to-work. It appears the industry levies are being set to cover the risk of these few individuals. Perhaps consideration should be given to rewarding those that are committed to safe work practices through a discount on levy relative to actual claims made during the year.

Recommendation: That there is no increase in levies for the four Employment Service industry PCU's

That discounts be provided to "safe" employers.

Residual Claims

We note ACC is proposing the following levies for our Members.

	Current Residual Claims	Proposed Residual Claims	% Change
78610	0.62	0.72	16.1%
78620	0.32	0.41	28.1%
78621	1.14	1.41	23.7%
78622	0.62	0.77	24.2%
86131	0.28	0.35	25.0%
Average NZ Levy	0.56	0.71	26.7%

We are staggered that ACC is not only still receiving claims for pre 1999 injuries but that the number of claims is increasing. A 4% increase in the number of claims registered with a 9% increase in Entitlement claims is of extreme concern to the RCSA.
We recognise the significant increase in number is due to legislative changes made in 2005. However we also note that non-seriously injured people are requiring assistance with home help and other entitlements. It appears that ACC is being used as a means of shifting people who would otherwise be a beneficiary of a government support (eg a Sickness Benefit) into that of a recipient of significant ACC payments funded directly by Employers rather than the Consolidated Account.

When changes were made to ACC to introduce the Residual Claims account our members were given a clear impression that certain claims would be eligible for payment under this account and that this account would be fully funded by 2014. We urge ACC to return to the roots of this account and do whatever is possible to, as a start revert to those initial provisions.

We recognise that ACC needs funds to provide entitlements under this Account. However we have canvassed our Members on their views on a method to optimally provide those funds. They are of the view that Levies should remain at current levels and that these levies remain steady until a “fully funded” status has been achieved at some non-defined point in the future. They consider an increase in levies, in these difficult financial times to be an unreasonable burden on Employers – especially when employers are being asked to funded non work injuries.

Recommendation: that no increase be made to Residual Claims Account levies.

Summary

It appears that ACC is taking a negative view of their accounts; future claim valuations and income. We do not share that pessimism. Indeed we are of the view that there is sufficient evidence (improving workforce participation, improving investment returns and capital, steady liable earnings) to suggest no increase in either the Work Account or Residual Claims Accounts levies are necessary. We are of the view that increases in levies will have unintended consequences – primarily by putting an anchor on New Zealand's economic recovery which will lead to business closures, negative business growth, rising unemployment with a consequential drop in liable earnings and levies.

We therefore recommend that:

1. That no increase be made in Work Account, Earner and Residual Claim Levies
2. That there be no increase in levies for the four Employment Service industry PCU's
3. That discounts be made available to "Safe" employers
4. That consideration be given to opening up the provision of the delivery of entitlements to competition.
5. That ACC's primary focus is on returning pre 2010/11 injured workers back to productive work within existing budgets.

Julie Mills
CEO
10 November 2009