

# **SOME PERSONAL REFLECTIONS**

Susan St John

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

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**Dec**  
**11**  
**2017**

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

## The 40<sup>th</sup> 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

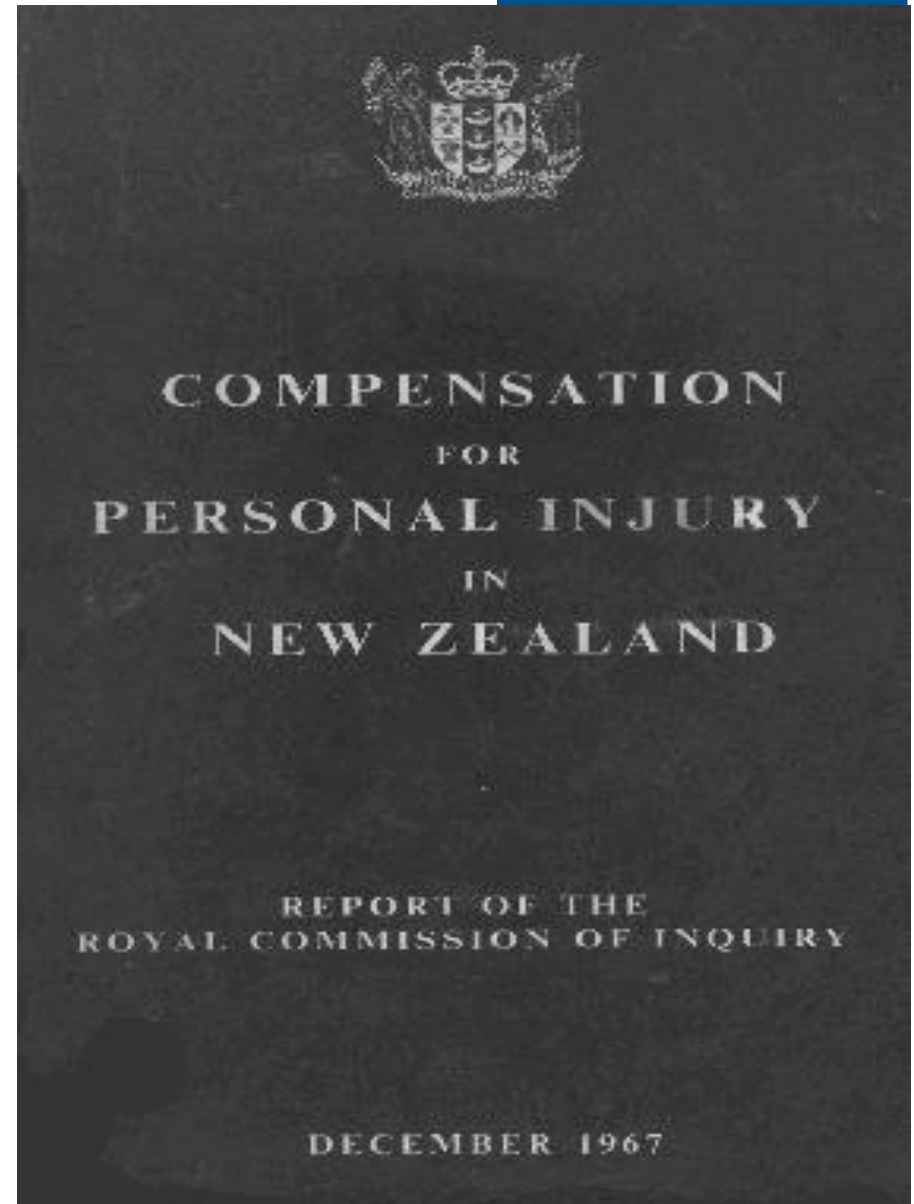


THE UNIVERSITY  
OF AUCKLAND

BUSINESS SCHOOL

# 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*

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# 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**

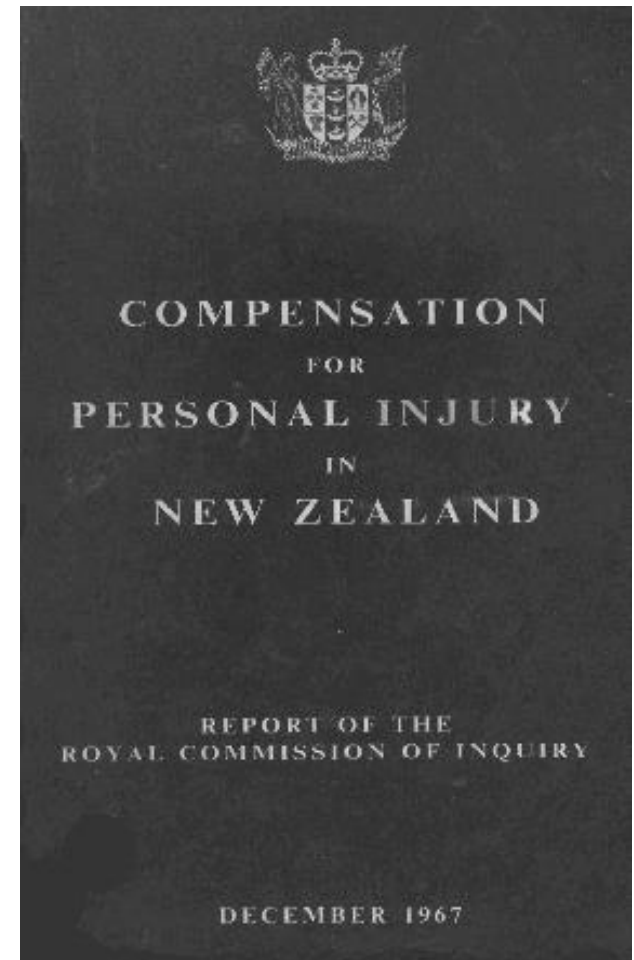
# **A paradigm shift ?**

**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?**

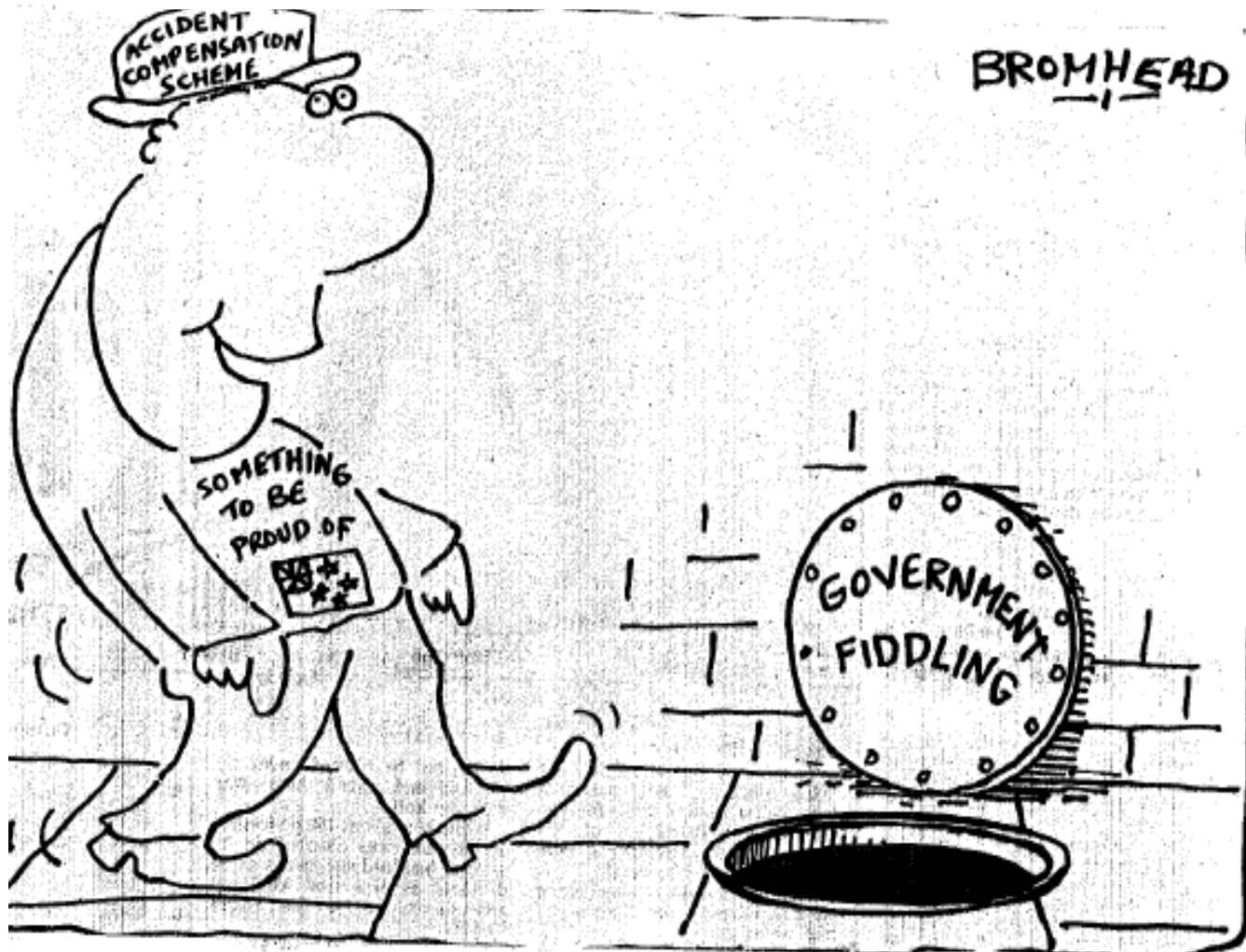


# New Zealand has had rare paradigm shifts before

- 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

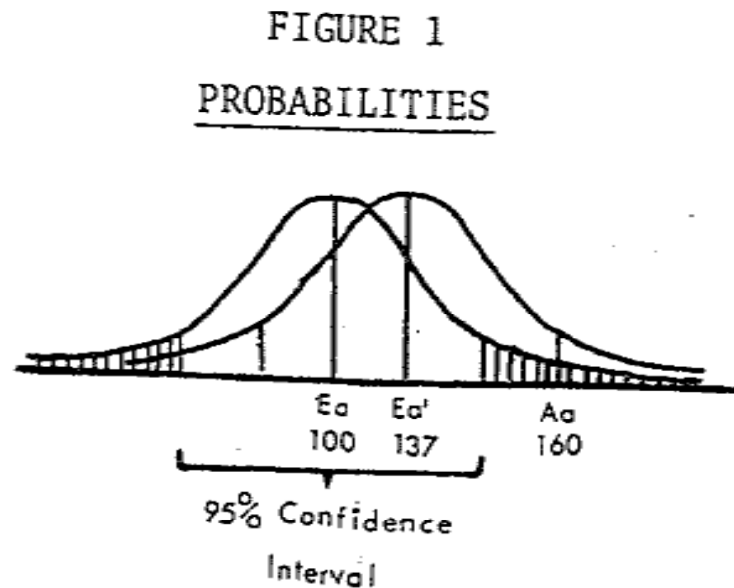


TABLE 2  
REBATES AND PENALTIES FOR FIRMS IN THE FREEZING INDUSTRY  
USING TWO FREQUENCIES BASES  $F_1$  AND  $F_2$  FOR THE YEAR MARCH 1976 TO MARCH 1977

Works No.	Estimated Levy Paid	Adjusted Levy <sup>1</sup>	Rebate (+) or Penalty (-) $F_1$ Data <sup>2</sup>	Rebate (+) or Penalty (-) $F_2$ Data <sup>3</sup>
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 wages?



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

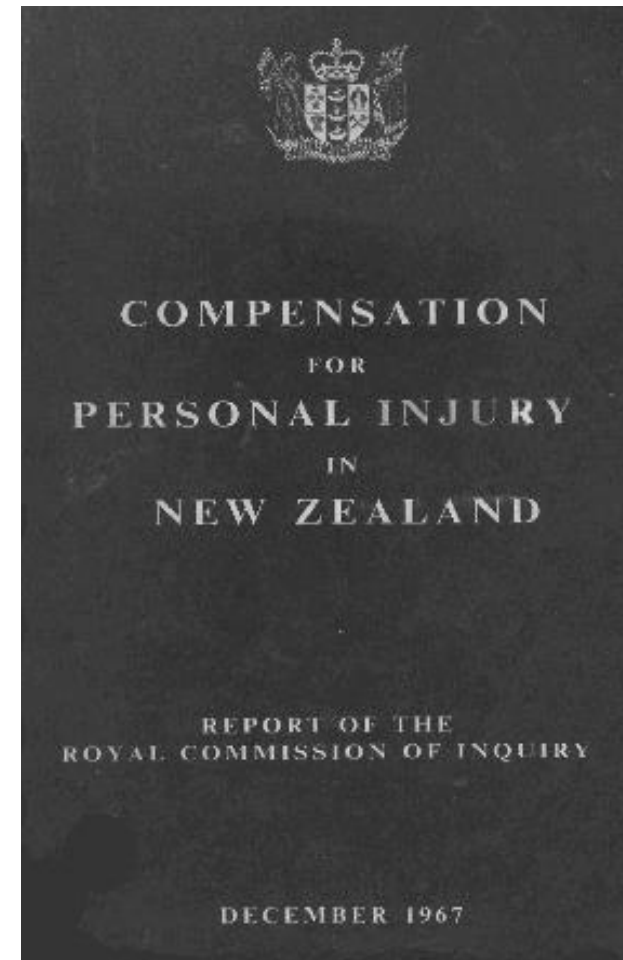
## ACC Levy Guidebook

*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”

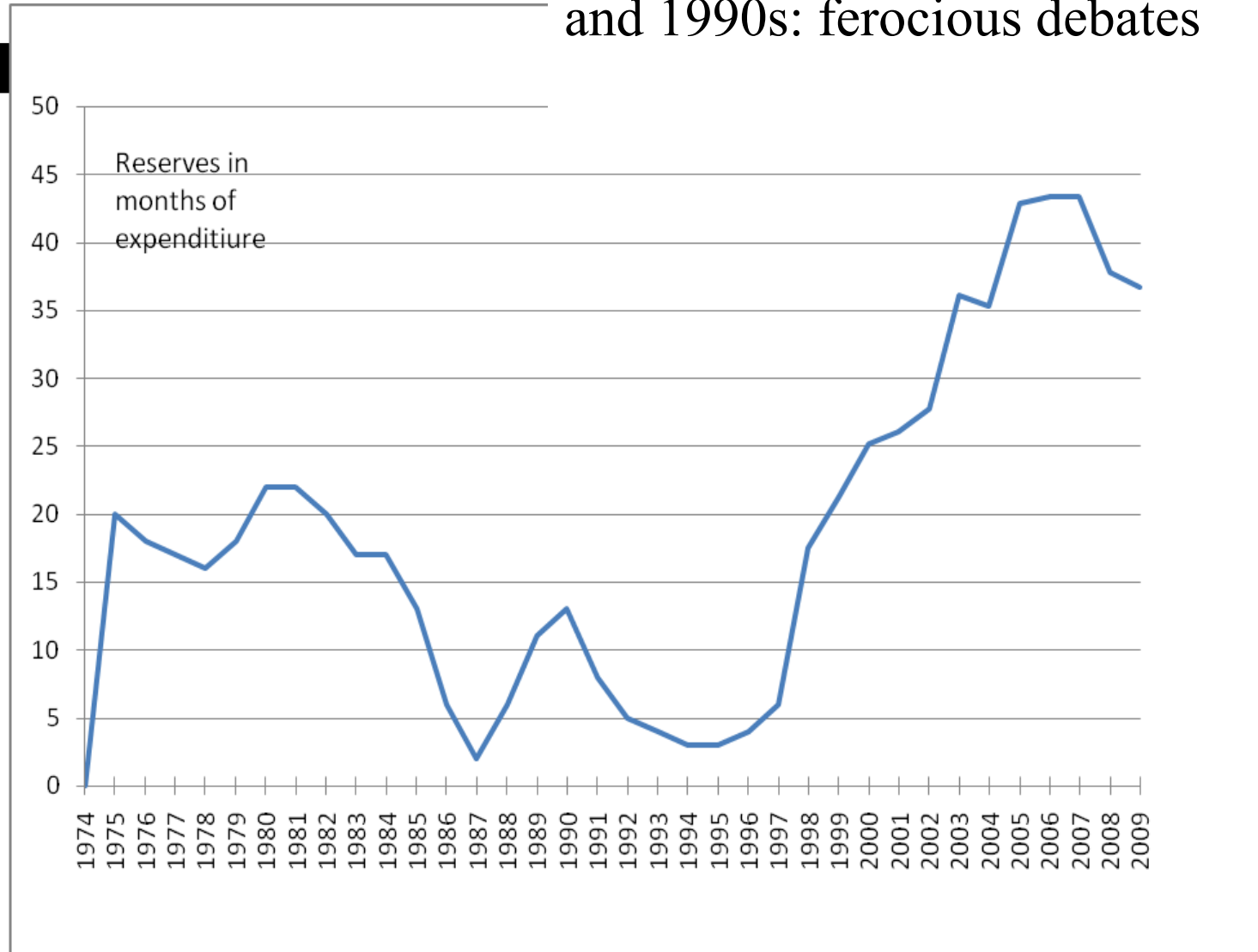
End result a “curious mixture”

Provides “useful insulation and flexibility”

**Palmer 1977, p 201**

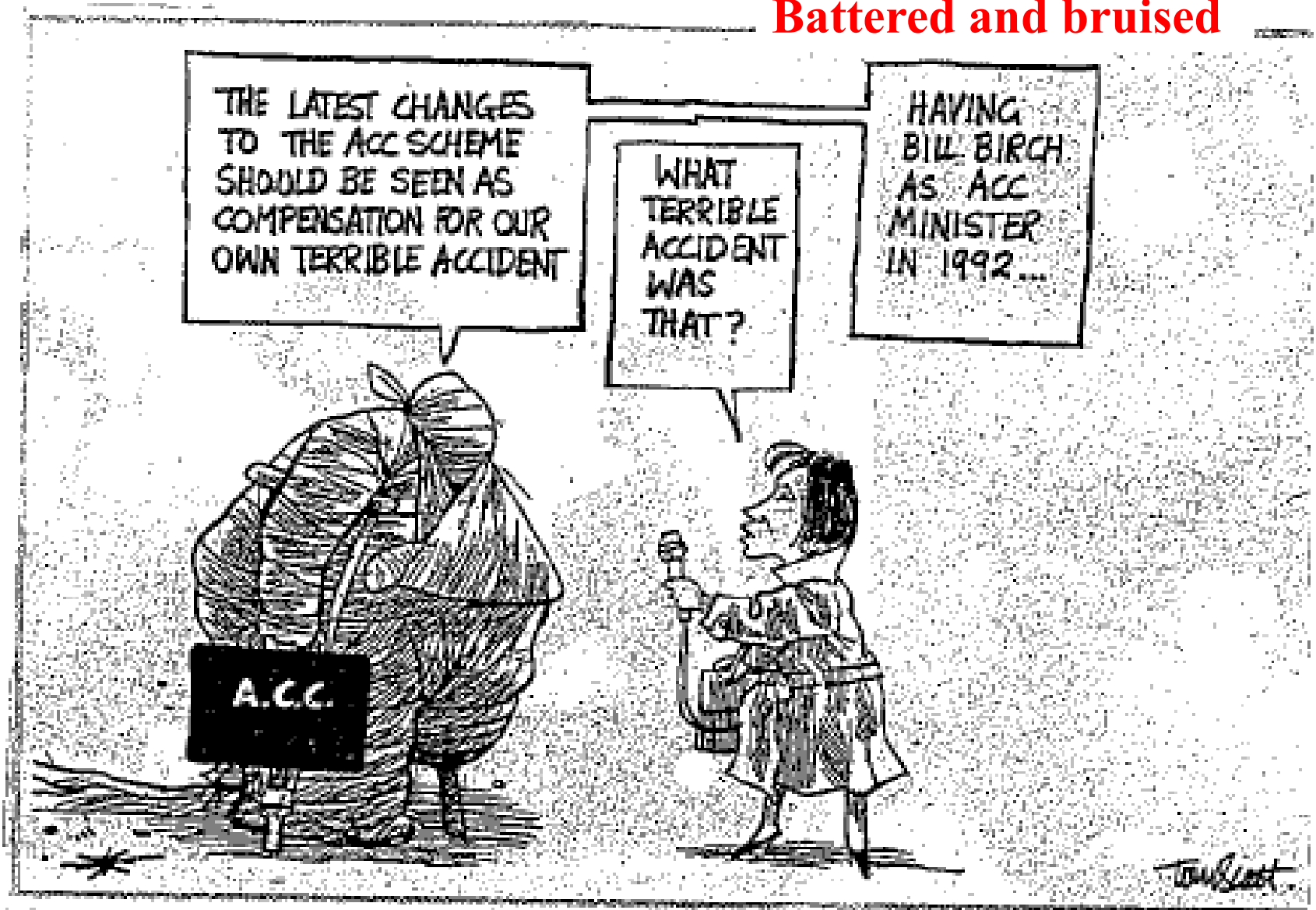
## PAYGO or Full Funding?

The roller-coaster ride of the 19880s and 1990s: ferocious debates





## Battered and bruised



# Accident **Insurance** Act 1998

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- ▲ **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 20<sup>th</sup> century?**

# 21<sup>st</sup> century    Everything has changed

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- 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?