



# INTER CHURCH WORKING PARTY ON TAXATION

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**Date:** 9 November 2009  
**To:** Levy Consultation ACC  
P O Box 242  
**WELLINGTON 6140**  
**Fax:** 04) 918-4395

Dear Madam/Sir

## **RE: 2010/11 ACC LEVY CONSULTATION**

### **ABOUT THE SUBMITTER**

1. The Inter Church Working Party on Taxation (ICWPT) represents the major Christian Churches in New Zealand.
2. The ICWPT may be contacted through Mr Norman Hopkins at the above address.
3. Could you please continue to include us in consultations for future years.

### **SUBMISSION**

4. That ACC should revert to its original pre-1999 status as a “pay-as-you-go” personal injury insurer for all New Zealanders and return to the proper underwriting of its future liabilities.

Although by legislation ACC is obliged to act as though it were an insurance company, it is no longer undertaking proper underwriting. Insurance companies do not endeavour to fully fund future liabilities from current premiums, but rather they address that issue by maintaining prudent reserve levels and entering into re-insurance contracts. We submit that ACC should revert to that model.

Your Chairman, John Judge, writing in the NZ Herald (9 November 2009) states it makes good financial sense to fully fund, and to not do so would be irresponsibly handing a problem to our children.

Life is not so neatly compartmentalised! We bequeath to our children assets in the form of the earning capacity of New Zealand and its people – its economy, education, infrastructure and so on. With those assets come some liabilities. It is not balanced to focus only on a particular liability. Would Mr Judge also suggest an immediate increase in taxes to fully fund future NZ Super commitments and health care costs, and to pay off government debt?

John Judge also states that ‘debt builds on itself’, and you need to act quickly or you may start paying interest on your interest. This is nonsense! The ACC has money in the bank (\$10.6 billion in reserves at 30 June 2009!), and the liability is the outcome of a forward looking actuarial model.

5. We appreciate that changing the basis of ACC’s operations will require legislative change and that that is the role of the Government rather than ACC itself. Nevertheless we find it necessary to call for these essential changes through the submission process. Otherwise we would be concentrating very much on the minutia of the levy increases themselves whilst ignoring the “elephant in the room”.

6. The outworking of the 1999 change (to a fully-funded model) is having an adverse impact and in the context of the worst economic climate in decades, ACC is looking to increase the levy for 2010/11 by a massive 44.3%. The level of increase in itself tells us that there is something wrong with the fully funded arrangements. Imagine the uproar there would be if a City Council were to announce a 44.3% increase in rates, yet that is exactly what ACC is proposing! Such an increase is unprecedented and since it coincides with growing rates of unemployment and a severe drop in the living standards of most New Zealanders, we believe it to be totally inappropriate.

In short, the timing could hardly be worse and we are reinforced in that view by your table of Total Work Levy Rates spanning the period 2006/07–2019/20. As you know, this increases the levy per \$100 earnings from \$1.31 in 2009/10 to \$1.89 in 2010/11. Levy rates then continue at or above the dollar \$1.89 level until 2014/15 before dropping to \$1.22 in 2015/16\*. We believe this is both unwise and unnecessary. We submit that the Government made a mistake in 1999 in changing from the previous pay-as-you-go system to a fully funded basis and that we should revert to the earlier model.

7. By reverting to the original ACC model (pay-as-you-go coupled with proper underwriting arrangements), the great bulk of the more than \$10bn reserves currently held by ACC could be utilised by the Government to reduce its borrowing programme over the next few years. We believe this would greatly benefit the New Zealand economy at this critical time. We see little sense in the Government borrowing vast amounts of money to cover essential services such as health, education, social services, and law and order whilst, at the same time, retaining a Fund of \$10bn built up from ACC levies, to pay for personal injury costs arising in the future that could be funded quite simply by a pay-as-you-go system.
8. Should the submissions outlined above not be accepted, we submit that fully funding the Residual Claims Account should be spread forward over a much longer period of time.

We appreciate this will involve change to the current ACC legislation. However we believe it is the right thing to do given New Zealand's current economic circumstances and the burden which is currently being carried by New Zealand households during these difficult times. We see no reason and have seen no reason advanced, if the "fully funded" model is to be pursued, why that goal cannot be spread over a period of 20 – 30 years.

9. We do not accept ACC's contention that the increased funding for the Residual Claims Account is required because of lower than expected investment income due to the current global recession. This argument is disingenuous and in making it ACC is trying to 'have its cake and eat it too'. If the scheme was pay-as-you-go then a current shortfall, or one that was expected to persist into the future or get worse, may be a concern. But pre-funding by definition implies taking a long term view of the ups and downs of investment returns.

It is true, that along with all other funds of this kind worldwide, ACC's investment fund has lost a considerable amount in the year ended 30 June 2009. However we are also conscious that, beginning at about that time, much of the loss which followed the economic meltdown (the subsequent sharp drop in the price of equities and other financial investments) has now been recovered. ACC is a long-term investor and therefore it should, consistent with its long term return strategy, ignore temporary unrealised ups and downs in the financial markets. Investment gains and losses are always characteristic of financial investments and this must be accepted if the choice has been made to pre-fund the scheme. Would levies be reduced if investment returns were ahead of modelled expectations?

*\*We note that the Government is now proposing to extend the timetable for total pre-funding from 2014 to 2019. However this small timing change in no way alters or addresses the central principle we are addressing in this submission.*

10. In summary we consider that ACC should revert to the original management system conceived by Justice Woodhouse and included in the ACC legislation, which states that ACC should act in the same manner as a commercial insurer.

With all good wishes,

Yours sincerely



Mrs Gillian B H Robertson  
**CHAIRPERSON**  
**INTER CHURCH WORKING PARTY ON TAXATION**

P.S. Your Chairman, Mr John Judge is concerned not to bequeath to future generations an unfunded ACC liability. We note that Mr Peter Neilson is Deputy Chair of ACC, and also Chair of the New Zealand Business Council for Sustainable Development. Does Mr Neilson believe that the exorbitant increase proposed for motorcycle levies will enhance NZ's sustainability? Motor bikes have a smaller carbon footprint than cars. Does ACC really wish to discourage motorcycle use, relative to the alternatives?

CC Hon Dr Nick Smith