



# Our new approach to helping create healthy and safe workplaces

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We're developing a three-pronged approach to how we help New Zealand businesses create healthy and safe workplaces. We want to more closely align initiatives designed to stop workplace injuries happening, with new incentives that will encourage businesses to invest in health and safety improvements, and with levy-based rewards for businesses that reduce the number and severity of their workplace accidents.

We think in the future businesses should be better rewarded through their ACC levies when they reduce workplace injuries and support the rehabilitation of their injured workers. Discontinuing our Workplace Safety Discount (WSD) and Workplace Safety Management Practices (WSMP) products is consistent with this approach, because those products recognised compliance rather than outcomes.

WSMP and WSD have been in place for 16 and 10 years respectively. Since their introduction, the workplace safety environment has changed significantly. Changes to the ACC Scheme's legislation as part of the Health & Safety reforms mean that WSMP and WSD are no longer aligned with the Health and Safety at Work Act and need to close from 1 April 2017. This was indicated to our customers during last year's consultation process. You can read more about this within the 'Our workplace incentive products' proposal document.

Our Experience Rating (ER) programme has many of the right attributes to reward good performance by businesses, and we have some initial thoughts on further enhancements. We would like to work with you on shaping how a future ER system might appropriately reward businesses who improve their health and safety performance.

## The current Experience Rating system

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Our current system offers a no-claim discount programme for small businesses, and an experience rating programme for medium and large businesses. We use the claims from a recent three year period to calculate a business' experience rating. For example, levies that will apply from 1 April 2017 are based on a business' claims that occurred between 1 April 2013 and 31 March 2016, taking into account payments on these claims through 30 September 2016. We do this so that each claim we assess has at least six months' costs associated with it, which in turn gives us a good degree of confidence that the levy rate we set will reflect how a business will perform in that levy year.

Under the no-claim discount programme, eligible businesses have their performance based on the volume of claims that require time off work. If the total number of days off work exceeds 70 (or a business has a fatality) then a business experiences a loading of 10% on their levy.

For medium and larger businesses, we take a more involved approach to reflect their experience. The calculation takes into account the experience of the industry of which the business is a part, and the business' own experience in terms of claim frequency and the time lost to work as a result of injury. This approach offers businesses a discount of up to 50% and a loading of up to 75%, according to their experience. However the full extent of the discounts and loadings does not apply to everyone, as limits are applied according to a business' liable earnings during the experience period.

## Why improve Experience Rating?

ER works well because it makes levies more equitable for businesses by reflecting their claims experience. It also reduces subsidisation between employers within the same levy risk group.

With the removal of the WSMP and WSD incentive programmes we want to review ER because we believe it can play a more effective part in supporting our wider drive to improve workplace health and safety.

For example, we have heard from our customers that ER is complex and it's not immediately obvious how a company's claims experience influences the levy they pay. Our customers believe this is partly due to the time lag between when a business' health and safety performance changes (for better or worse), and when these changes are reflected in a discount or loading on their levy. We believe this is a missed opportunity for direct feedback to drive improved performance.

For smaller businesses, the link between the performance of an individual business and the levy they pay is currently weighted heavily on the performance of their industry, and customers have told us this does not provide them with an incentive to improve their performance.

## How can we enhance our ER system?

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Our goals for enhancing our ER system are to:

- Improve how well the ER system motivates businesses to improve their health and safety performance
- Make the link between a business' performance and the levy rate understandable
- Improve how quickly the ER system responds to changes put in place by businesses.

When considering changes to a complex system like ER we need to keep in mind that some compromises may be required. For example if we want to improve how responsive the levy is to changes a business makes to reduce the risk of injury, we could shorten the experience period. That would mean the business' recent experience would have a bigger impact on their ER calculation; i.e. the levy would respond more to changes made by the business. However, it also means that the levy would fluctuate more – and would increase after a bad year.

There are a number of questions we would like to explore with customers while we create our future ER system. These include:

- What is the right balance between claim frequency (the claims per \$1m liable earnings) and claim severity (how long it takes to return an injured worker back to work/independence) when assessing a business' experience?
- How can the discounts and loadings be used more effectively to encourage behaviour change in businesses?
- Can we create an approach that is able to recognise changes businesses undertake to improve performance and reflect that in their levy rates faster than is currently possible?

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- Make the link between a business' performance and the levy rate understandable.
- Improve how quickly the ER system responds to changes put in place by businesses

We have developed two conceptual designs for ER systems drawing on approaches adopted in other countries as well as our thoughts on how to address some issues that have previously been raised with ACC. We are interested in your feedback on the concepts presented, including if you think we could combine different elements of the design in new ways, or even if you have a completely different approach you would like to share with us.

Each conceptual design is briefly presented below and is followed by a table that sets out the design differences from the current ER system and the consequences of incorporating that design element in a future ER system.

### Conceptual design 1: An experience rating system that emphasises responsiveness

In this ER system a business' ER is primarily based on performance in measures that align to health and safety outcomes such as fatal injuries and weekly compensation claims, with return to work performance a secondary factor. To improve responsiveness, the experience rating period would be shorter than the current three years, and the experience used to assess performance would be more closely aligned to individual businesses.

A business would receive their initial ER factor when they are notified of their indicative levy rate. When the final levy rate is calculated, we would apply any further experience that has occurred in the business since the initial assessment to produce the final experience rating.

Differences from the current system	Consequence of change
Shorten the experience period.	A business' discount or loading would change more frequently over time. Significant one-off events may have a higher impact than the current system, but would last for less time. Recent experience would contribute more to the rating than if the experience period was longer.
Increase the focus on claim frequency performance when assessing experience.	This improves the alignment between how performance is assessed, and what controls a business can use to influence their levies. Currently, 75% of experience is claim duration and 25% is claim incidence. Businesses may have more direct control over preventing injuries than returning workers to work.
Only the business' own experience is used to determine the rating.	This removes the use of the industry modifier in the current ER system. For some businesses this will lower the overall credibility of the final rating, which may mean the business' levies will be more volatile over time.
Remove modifiers within the experience rating calculations that limit the extent of discounts or loading due to business size.	The full extent of a business' experience is used to determine the experience rating outcome. For smaller businesses this may mean more significant swings in experience rating results over time resulting in more volatile levies.
Calculate an initial and then final experience rating.	Businesses may be able to influence their experience rating through their claims performance and the levy they pay during the year. However this would decrease a business' certainty about the size of the levy payable to us in any year.

### Conceptual design 2: An experience rating system that emphasises transparency and responsiveness

In this system a business' ER is only based on performance in measures that align to health and safety outcomes such as fatal injuries and weekly compensation claims. Like the conceptual design 1 above, to improve responsiveness the experience rating period would be shorter than the current ER system, and the experience used to assess performance would be more closely aligned to the individual business.

The range of experience rating results is distributed in steps, and ordered in sequence on a ladder (from highest loading at the top to highest discount at the bottom). There are rules which link performance in the experience period to a movement up or down a number of steps on the ladder.

An example of a rule could be that if a fatal injury occurs in the experience period then the business moves up the ladder two steps. Multiple rules can apply in an experience period and the starting position on the ladder is the final result from the last experience period.

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## Additional differences from the current system compared to conceptual design 1

## Consequence of change

Remove claim duration from consideration in the experience calculation.

Ensures a business controls all the levers to change its levy (rehabilitation is a partnership between the employer and employee, GP and ACC which may limit the degree of control an employer can exert over rapid return to work). However it may reduce the motivation for businesses to actively participate in return to work initiatives with injured workers.

Experience rating outcomes are discrete steps.

This clarifies for businesses what levels of discounts and loadings could be applied to them based on their performance. It provides an opportunity to manage the speed at which a business can increase its discount, or remove its loading over time. For example the steps do not have to be even – discounts/loadings could increase in slow increments at first and speed up as the maximum is approached.

How a business' experience results in a change to the levy is determined through rules.

This provides transparency for businesses regarding how their experience will impact their levies. It also allows them to forecast the pay-back in terms of reduced ACC levies from any successful health and safety activities.

Multiple rules can apply in an experience period.

This allows good performance in some areas to offset poor experience in another.

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## Change the range of discounts and loadings

In addition to changing how we calculate a business' experience rating we would like to receive feedback on whether the range of discounts and loadings should change. The current discount and loading ranges are set out below.

Size of business	Discounts and loadings that can be applied
Small businesses (no claims discount applies)	Discount: 0-10% Loading: 0-10%
Medium and large businesses (experience rating applies)	Discount: 0-50% Loading: 0-75%

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Increasing the level of discounts could require some businesses to pay more to allow the higher level of discounts to be funded.

## Having a conversation

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We want to take a new collaborative approach by working with businesses to create tailored and cost-effective improvements to ER to ensure that they're effective in the workplace and benefit businesses long-term. This is the start of a conversation with you. We'll be seeking your feedback on detailed proposals in the New Year. Your feedback now will help us to shape the improvements to ER.

We have used the conceptual designs to illustrate what changes could be made to the ER system. Many of the changes can be implemented individually or combined in different ways to create a different outcome than the concepts we have illustrated. We would value your feedback on each of the design changes we have illustrated in the conceptual designs above as well as the total package of changes set out by each concept.