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
“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 can't make the jump

[Image of Ireland]
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


Injury Prevention, Rehabilitation, and Compensation Act 2001

Accident Compensation Act 2001 (2017)
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
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Results

• Could establish statistically, better or worse companies but there they comparable?

• Depends on what measure of frequency
  – All accidents/100,000 manhours
  – Accidents over 7 days/100,000 manhours

• Was experience rating more about wrong classification?
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
The latest changes to the ACC scheme should be seen as compensation for our own terrible accident.

What terrible accident was that?

Having Bill Birch as ACC Minister in 1992...
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?

Let's build on the timeless Woodhouse principles?