Questions & Answers

1. What is the full schedule of levy decisions by Cabinet and how do they compare with the rates consulted on by ACC, recommended by ACC and recommended by DoL?

The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

	Composite Average Work Levy	**Composite Earner's Account Levy**
Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
Cabinet decision	$1.47	$2.00

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations, and legislation.

The motor vehicle levy rates apply from 1 July 2010. There is no change to the 9.90c per litre ACC petrol levy. The increases are in the ACC levy on vehicle registration fees. The rates for non-petrol vehicles are higher to take into account the fact that drivers of these vehicles do not pay a petrol levy.

Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
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Petrol Moped	58.97	257.58	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	327.70
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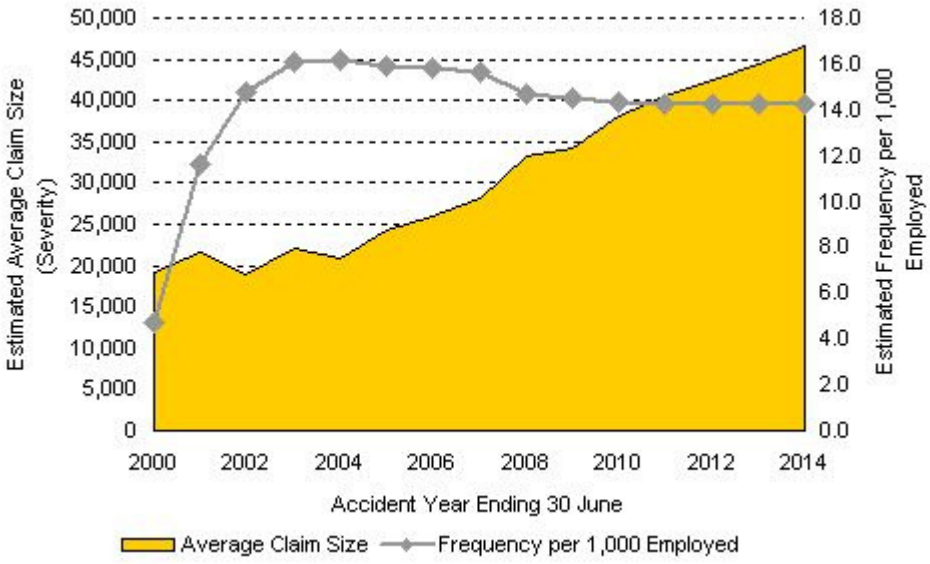
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

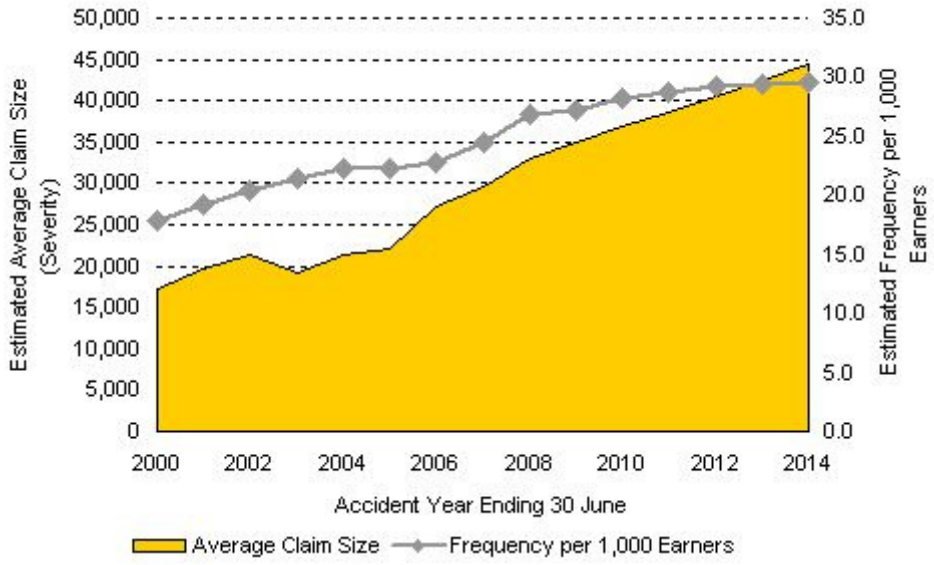
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

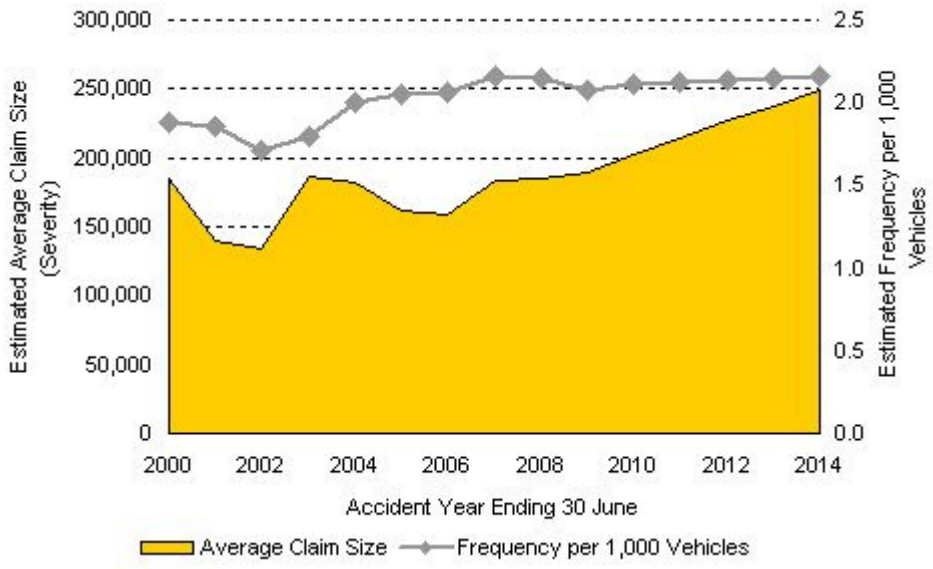
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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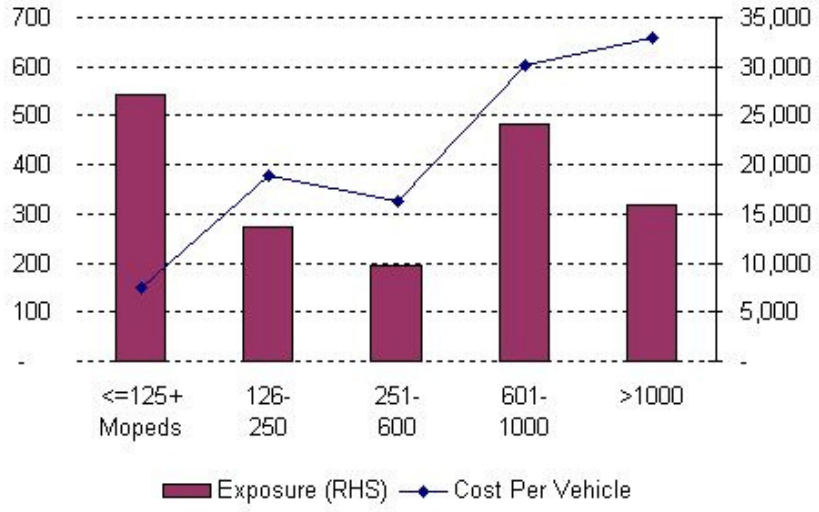
The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

Motorcycle numbers and relative costs by CC rating



The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

13. Why is the Government proposing to ring-fence $30 of the moped/motorcycle levy increase for injury prevention?

Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

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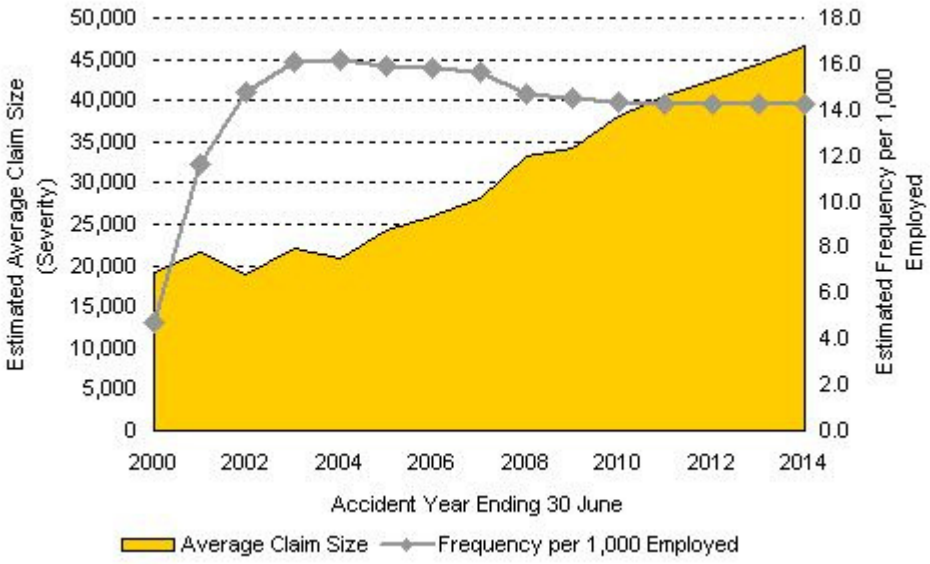

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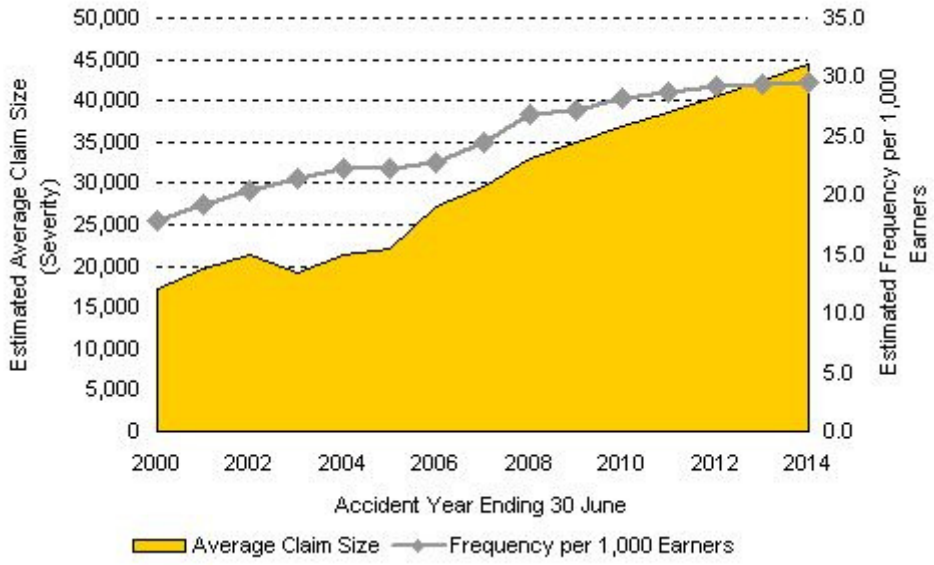

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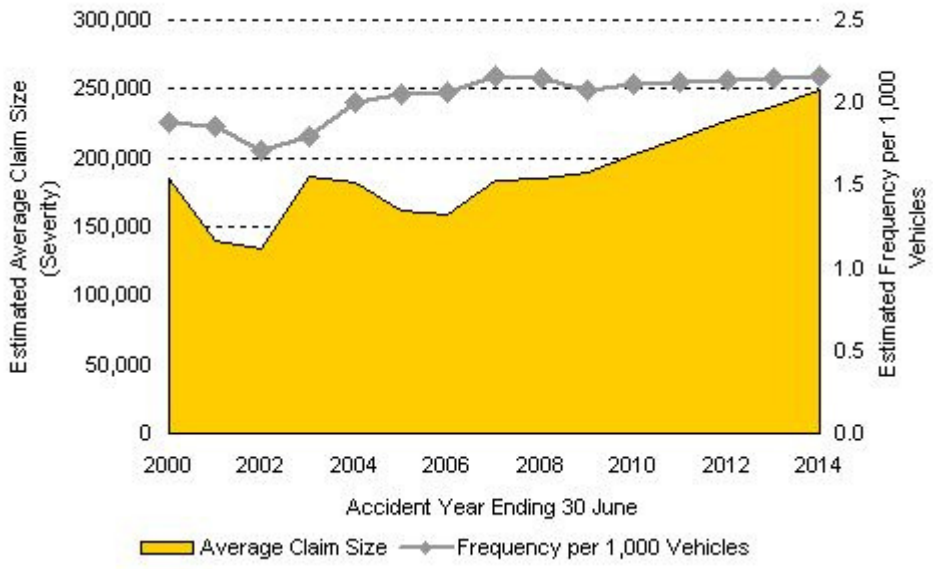

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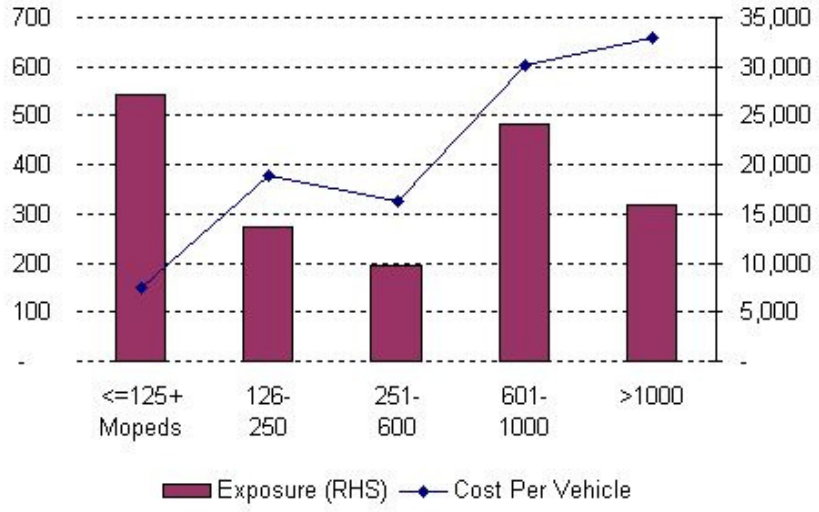

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Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

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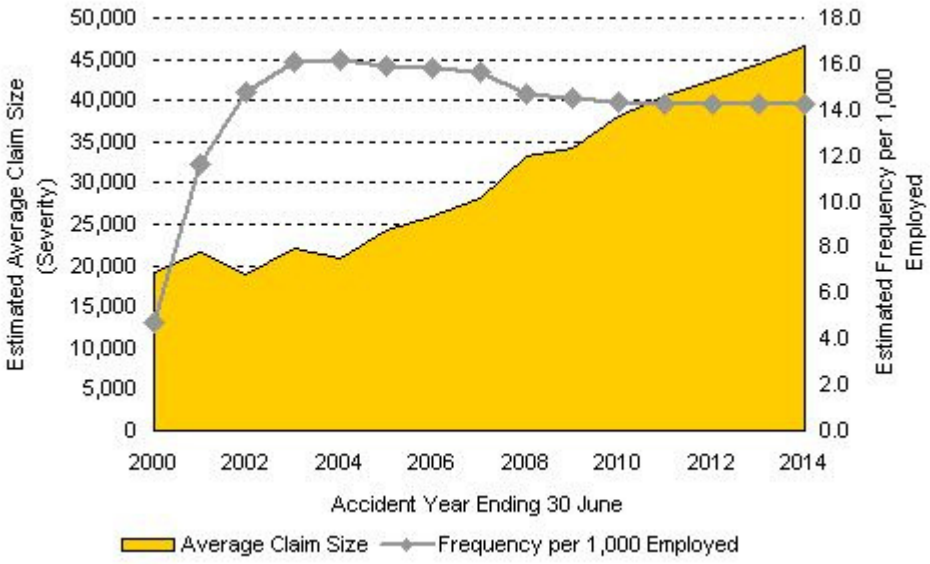
Composite Work levy

Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

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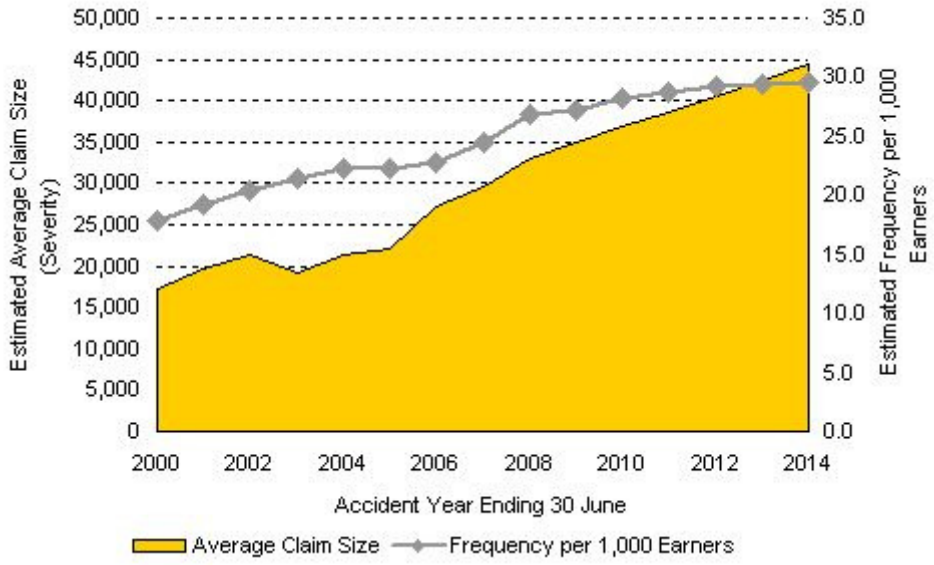
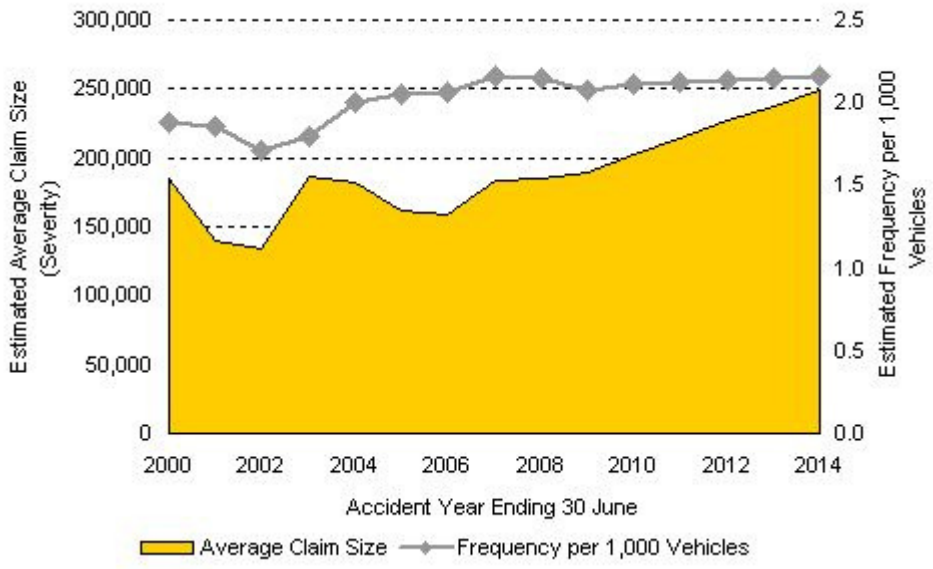


This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

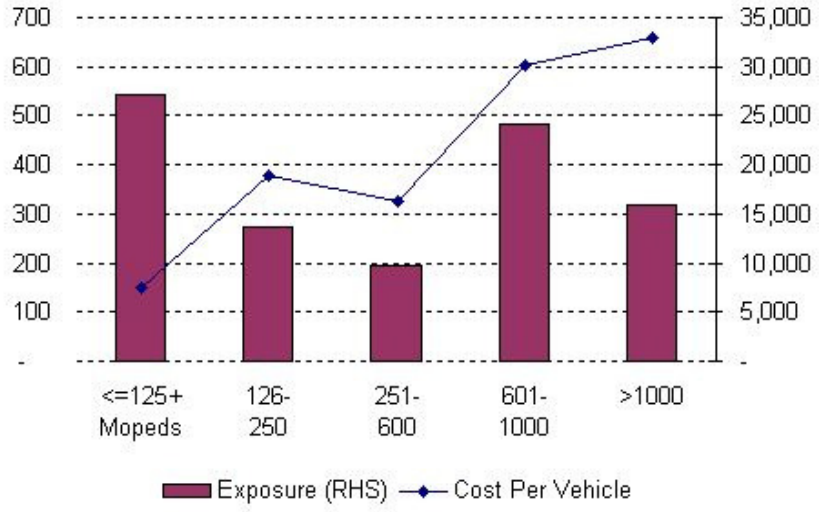
10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

11. Why has the cc rating of motorcycles been used to determine different levy rates?

The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

Motorcycle numbers and relative costs by CC rating



The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

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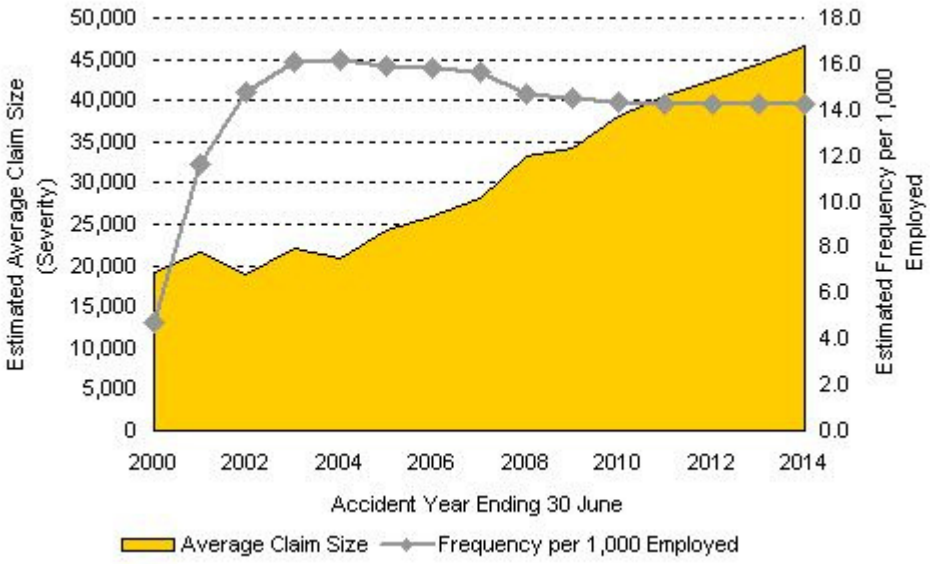

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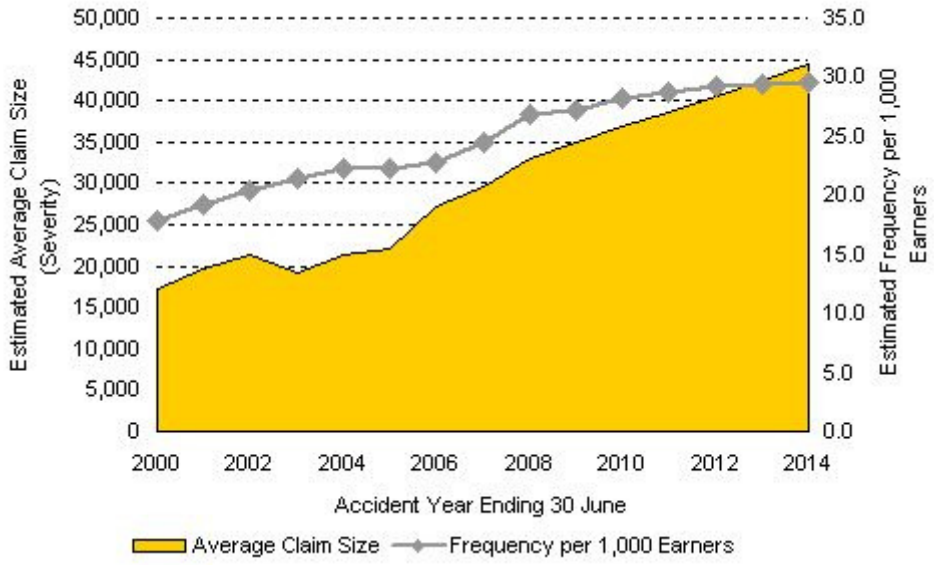

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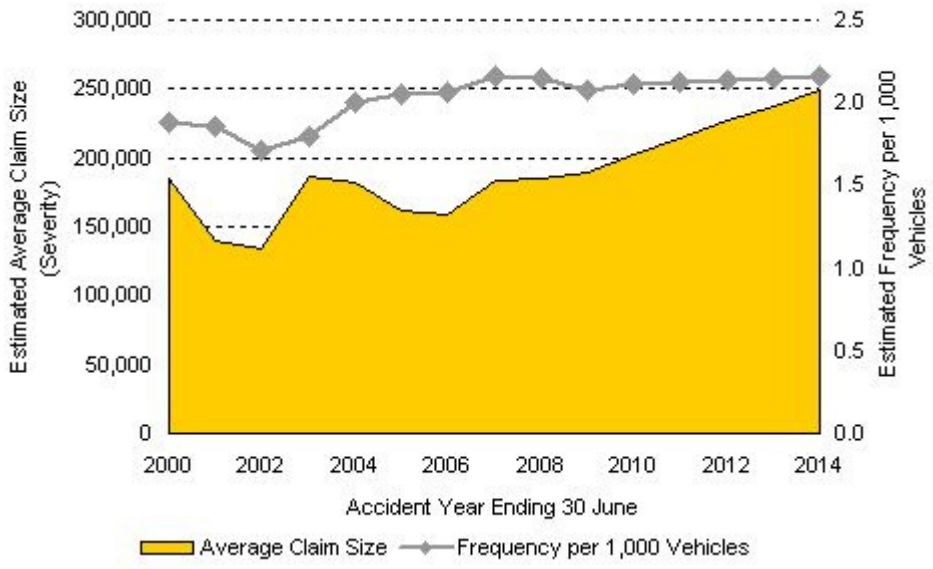

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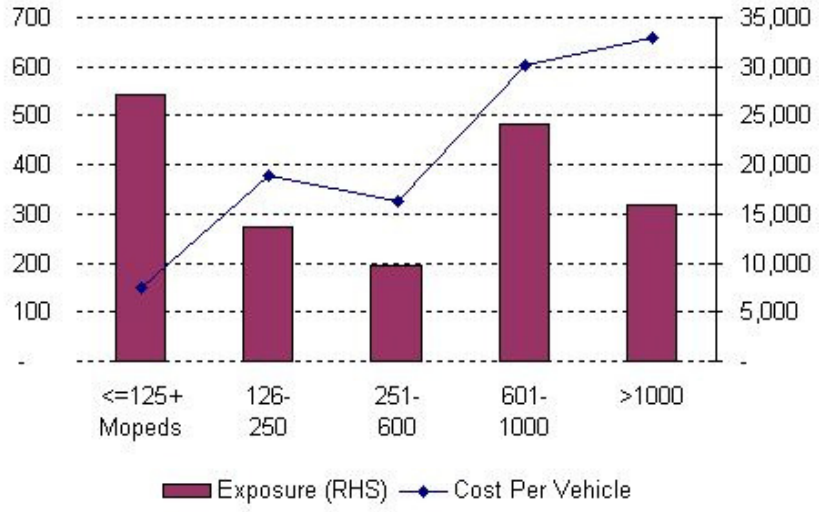

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Physiotherapy	$73m	$144m	$71m	97%
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Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

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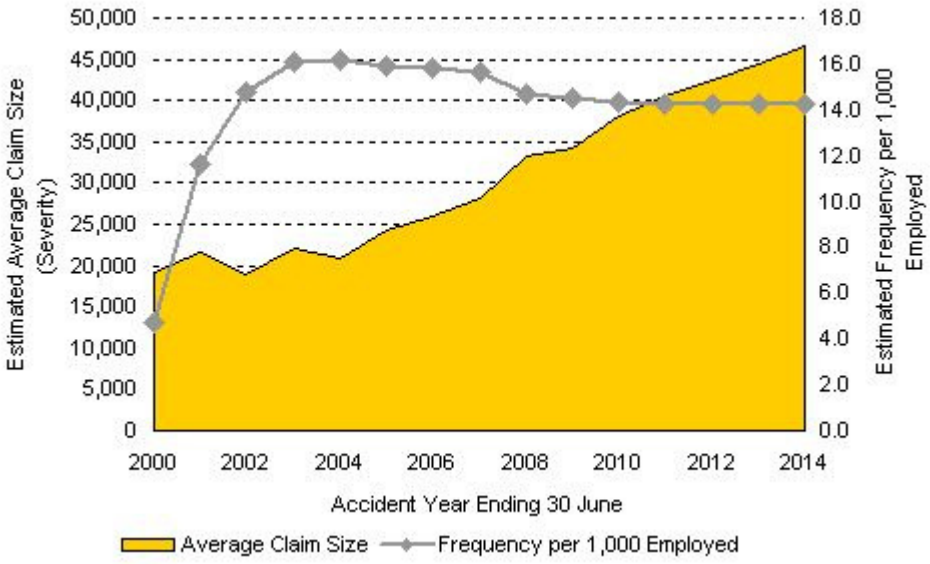
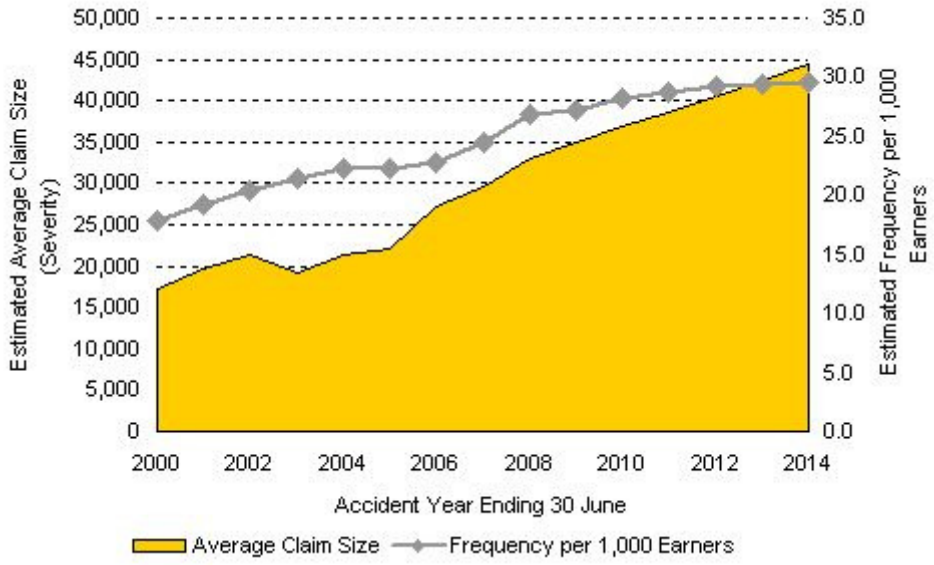


This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

Earners Estimated Frequency and Severity (Entitlement Claims Only)



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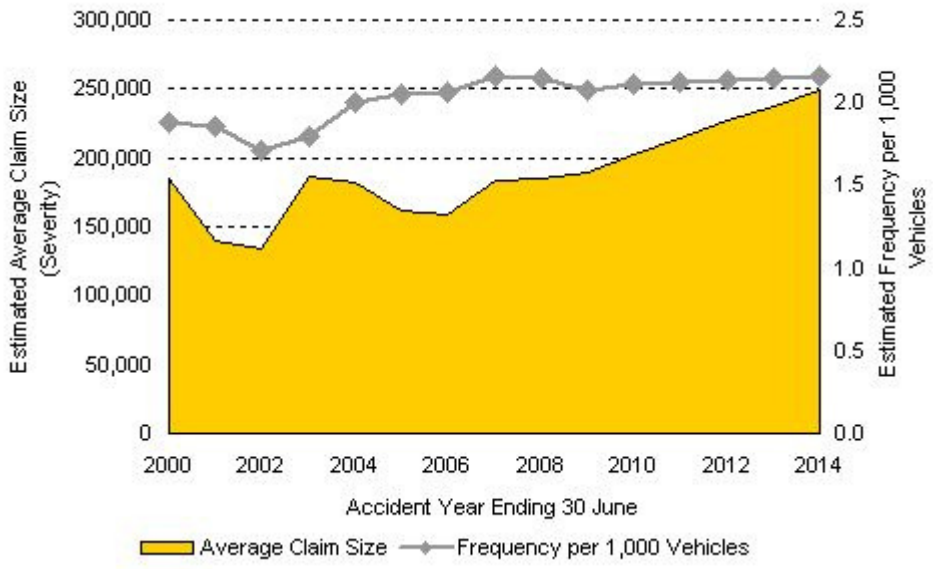
Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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8. What is 'full funding' and why does the Government have a policy to fully fund the ACC scheme?

A fully funded scheme raises enough levy income each year to cover the total costs of injuries sustained in that year, even if some of that money will not be paid out for several years. This means that the scheme must hold enough reserves to cover the estimated future costs of today's injuries.

The advantages of a fully funded scheme are that it better reflects the full costs of claims, meaning that people better understand the consequences of injuries, and place appropriate emphasis on reducing injuries. It also means that the group of people who make the claims pay for them, rather than leaving the costs to future generations. The cost must be declared on the government books under international financial reporting standards, and would show as a liability whether it is paid now or later.

A fully funded scheme also provides transparency about the cost of any new scheme extensions whereas a pay-as-you-go scheme provides immediate benefit but the cost is pushed out into the future.

9. Why are motorcycle levies being increased?

Motorcycle accident claims have risen from 871 in 1998 to 5044 in 2008, a greater increase than any other area of claims. While the annual road toll has been decreasing over the past decade (some 27% from 501 to 366), motorcycle fatalities have increased 21%. These increases cannot be dismissed simply on the basis of motorcycle numbers increasing, as the numbers of claims per motorcycle have grown significantly over the past decade.

Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
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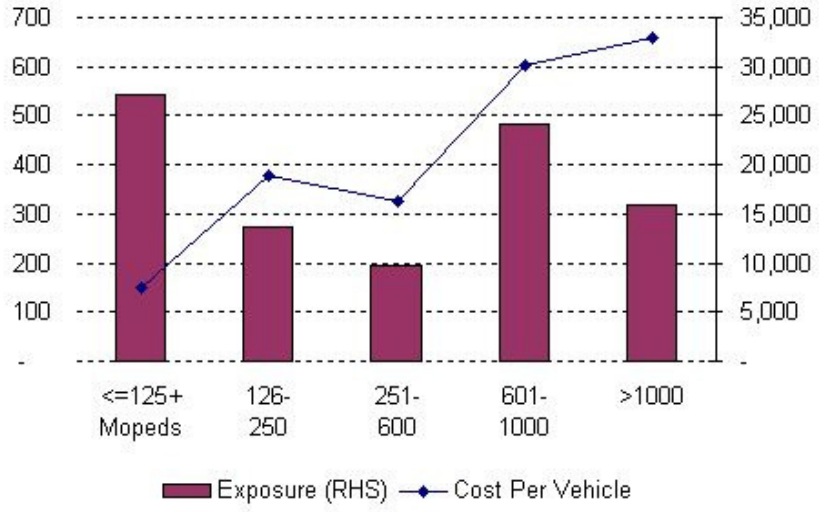

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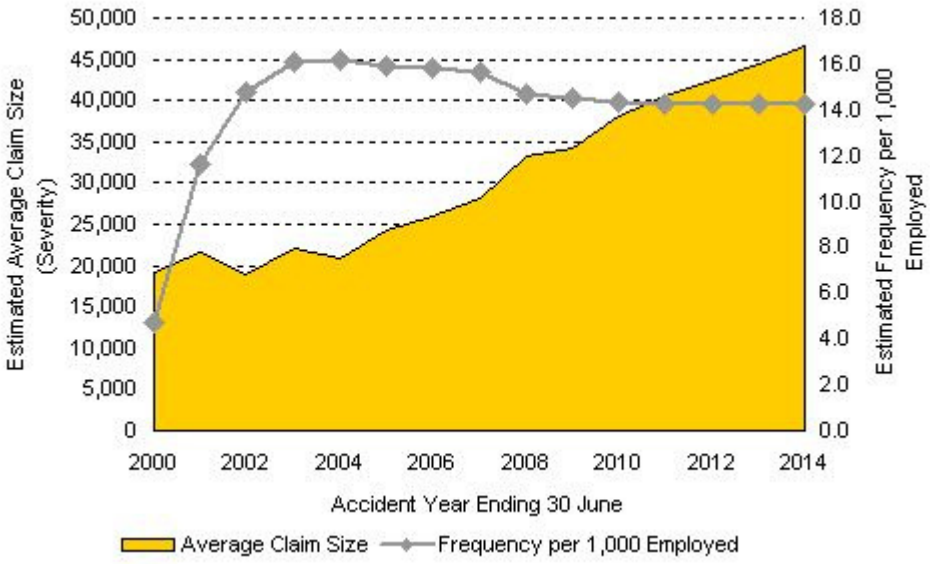

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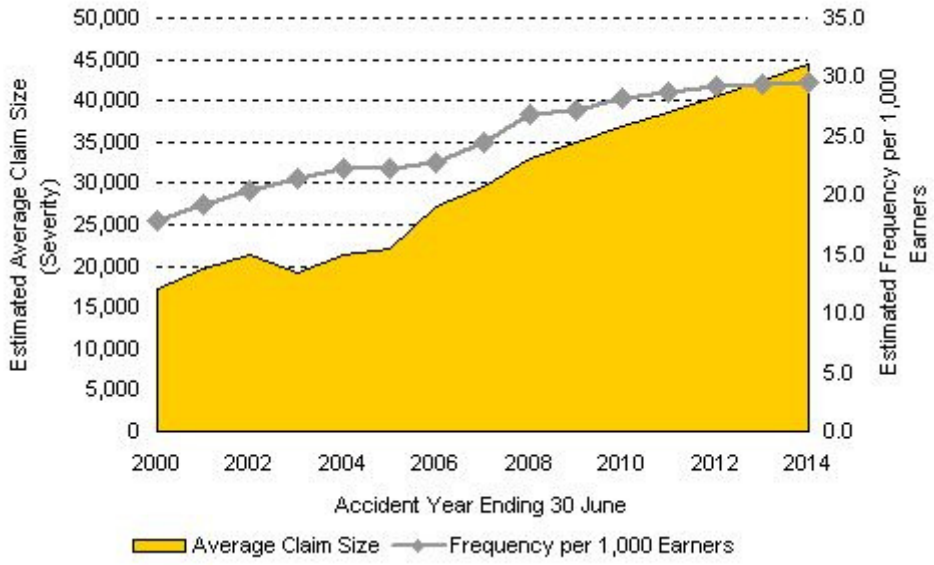

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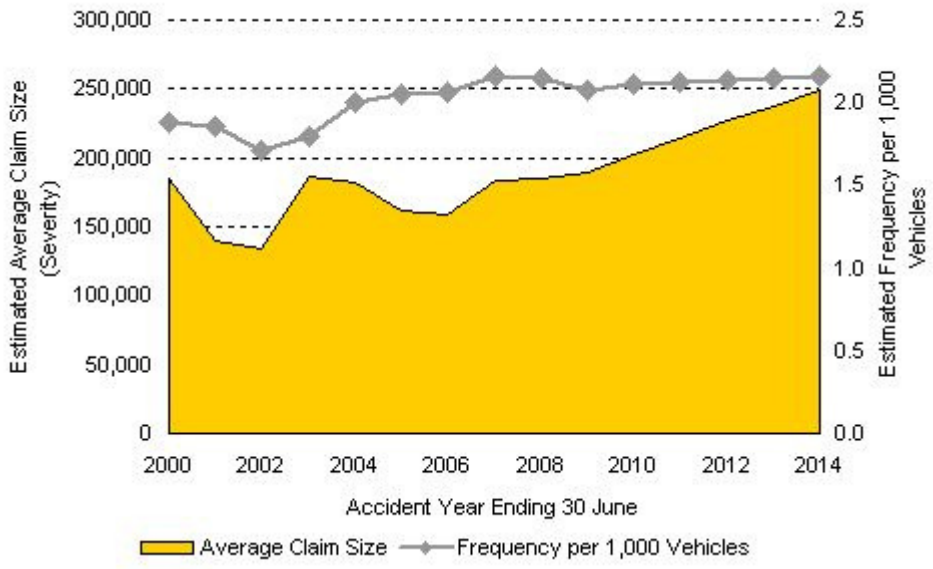

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2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
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2008	96,952	5,044	46	19

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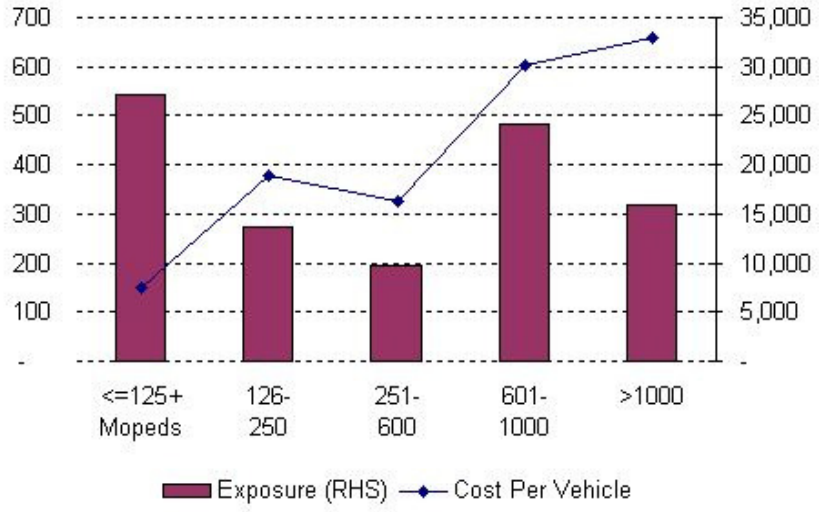

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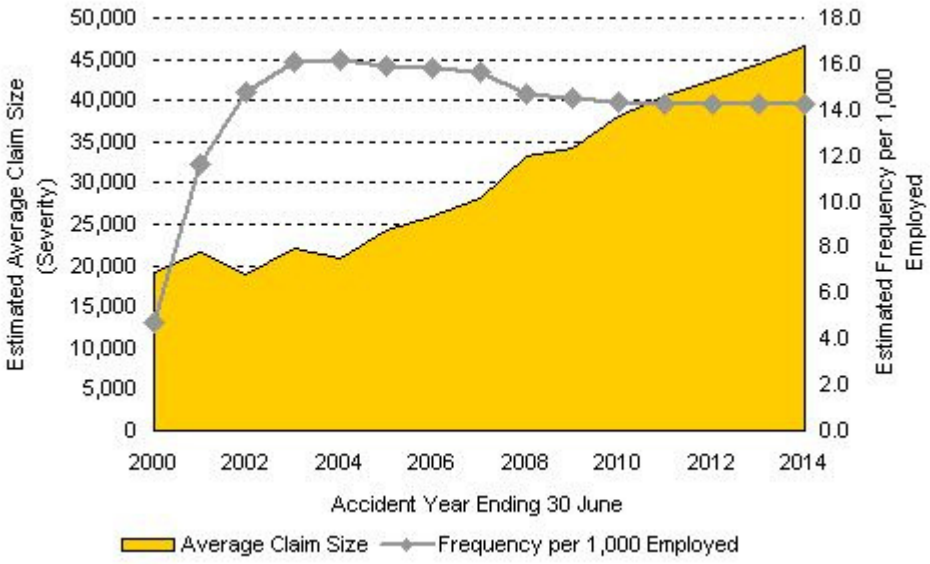
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

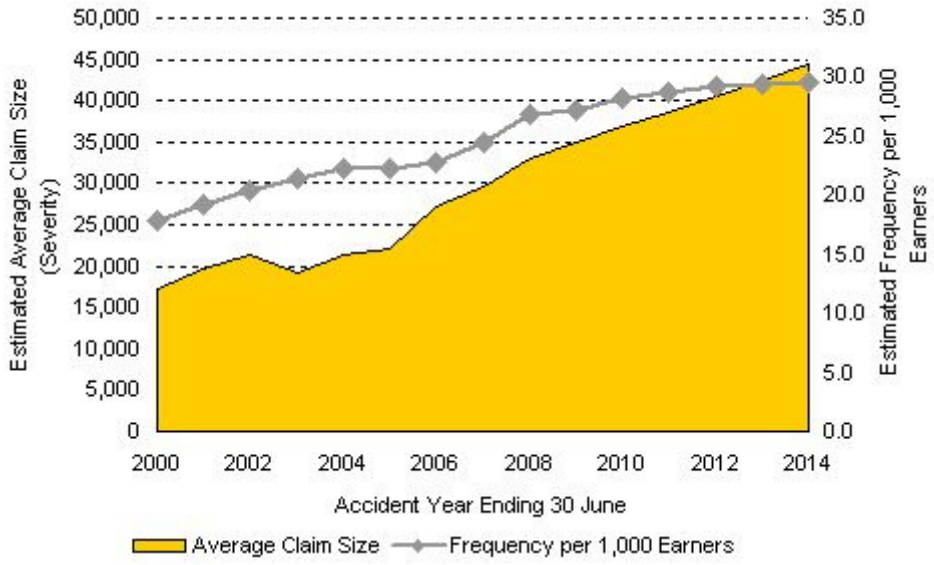
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

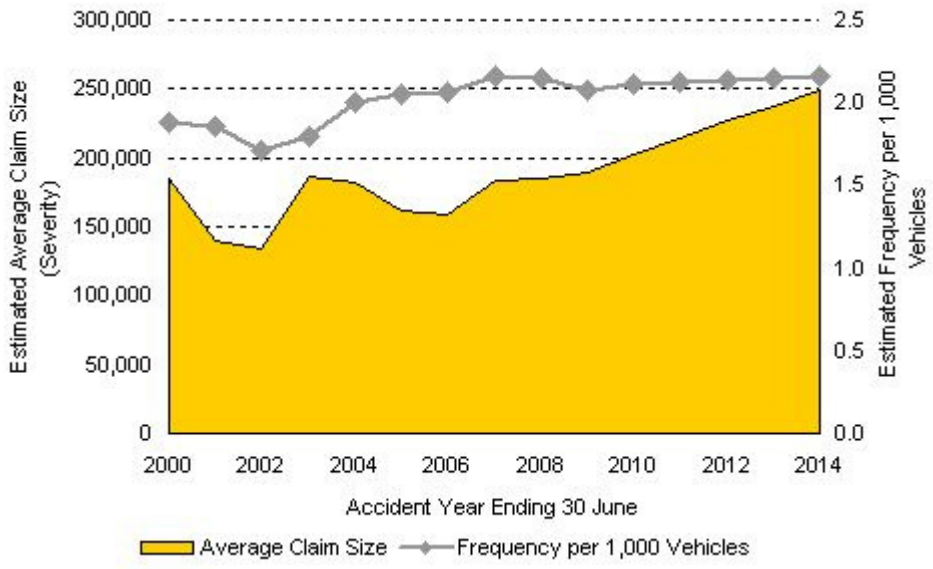
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

4. What impact will the levy changes have on the average employee?

An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

Their total levy payment to ACC for 2010/11 will rise from $1,128.42 to $1,306.92 – an increase of $178.50.

5. What are the individual work levy rates that self-employed and employers will pay as a consequence of these decisions?

The Work Account is divided into 117 levy risk groups and within those 535 classification units. ACC is currently calculating the 2010/11 work rates based on Cabinet's decisions and they will be available before Christmas. As a consequence of the claims history and claims costs within an industry, together with the level of risk, individual rates may increase more than the average, while others will see rates lower than the average. A guide to how individual rates might compare to the average can be found in ACC's levy consultation document http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

6. What response is this to assertions by the Opposition and some commentators that ACC's liabilities of $23.8 billion are overstated?

ACC's outstanding claims liabilities are prepared by PriceWaterhouseCoopers and are subject to independent audit by Ernst and Young on behalf of the Auditor-General (see http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm).

DoL also gets its own quality assurance review of ACC's outstanding claims liabilities from Finity, a firm of independent actuaries, prior to levies being set. This report concluded that "PWC estimates are not unreasonable as a central estimate" and that "we have not identified any material bias in the estimates" (see http://www.dol.govt.nz/publications/general/acc-monitoring/2009-qa-review/2009-qa-review-01.asp).

7. What impact have ACC's investment returns had on levies?

ACC's investment returns were affected by the global recession but levies are set on the basis of long run average returns, of 6% per annum. It would be inappropriate for short-term fluctuations in investment returns to trigger large increases or decreases in levies. The long term profile of ACC's investments shows very good returns for the period 2003 to 2007, lower than expected returns in the years 2007 to 2008, and a recovery since June 2009.

Independent actuaries have expressed concern about overly optimistic assumptions on ACC's investments in the past (see National Business Review 16/10/09). This confirms the Government's view that a cautious approach should be taken to ACC's recent positive returns, and that a long-term perspective is required when managing long-term liabilities.

The fluctuations in ACC investment returns through the global recession are expected and not central to ACC's financial difficulties. The problems are the increases in claim costs and their flow on into ACC liabilities.

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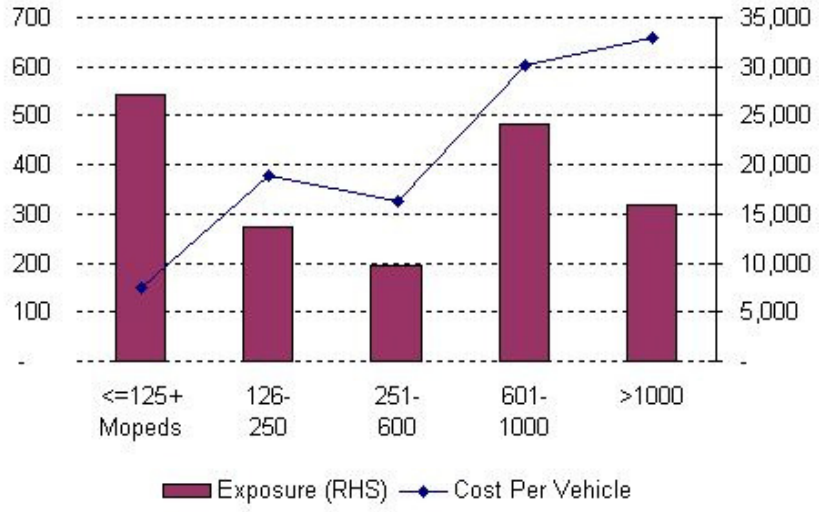

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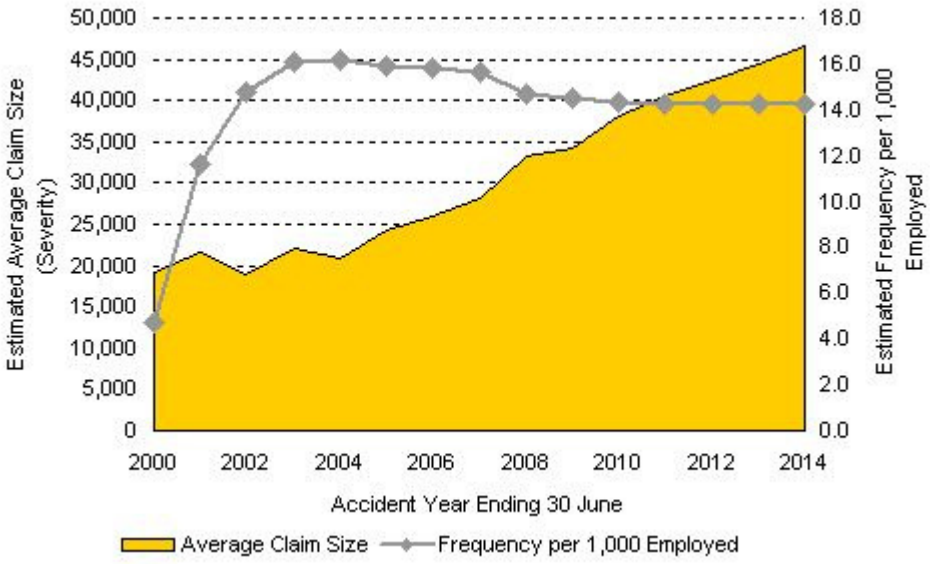

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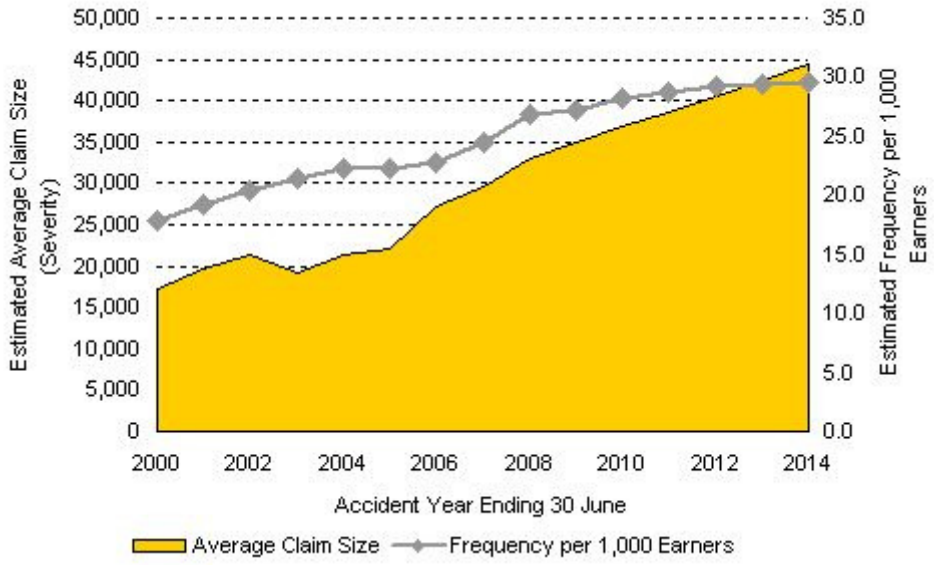
Composite Earners' Account levy

Earners Estimated Frequency and Severity (Entitlement Claims Only)



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Composite Motor Vehicle Account levy

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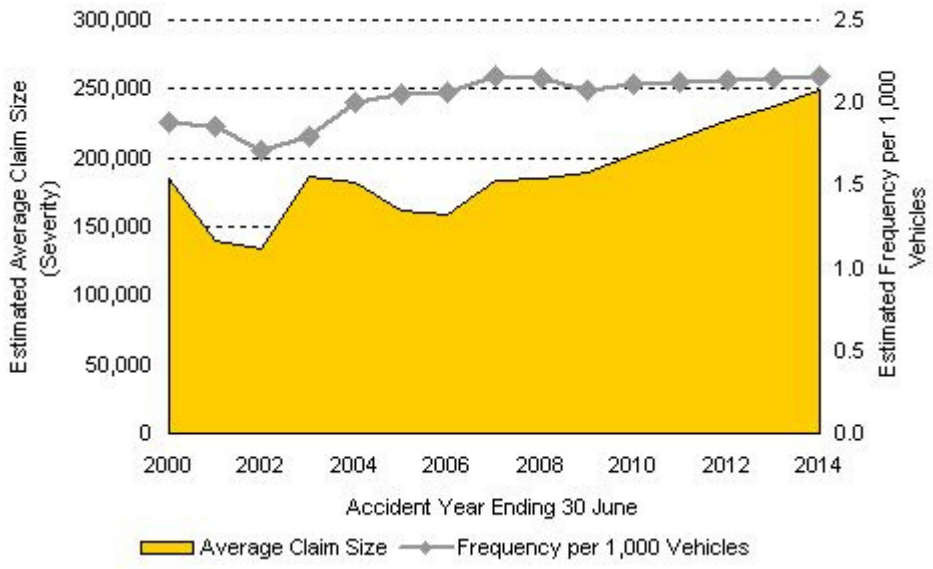

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If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

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1999	59,390	684	26	87
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2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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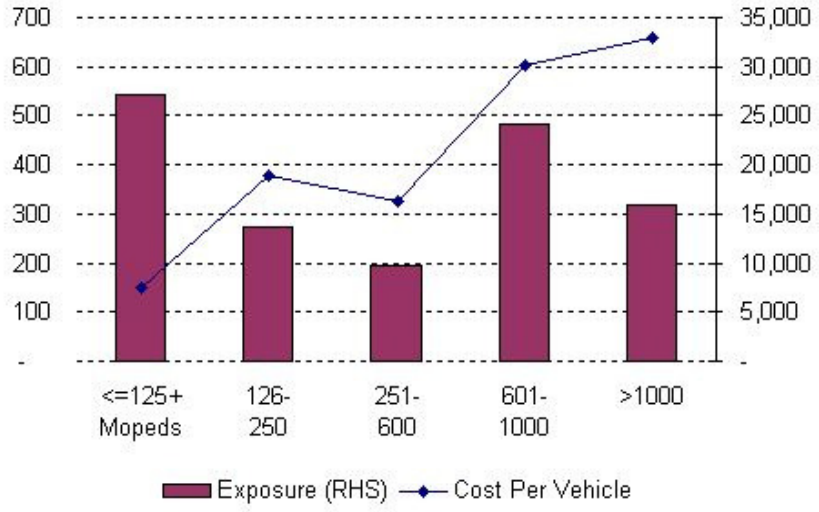

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The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

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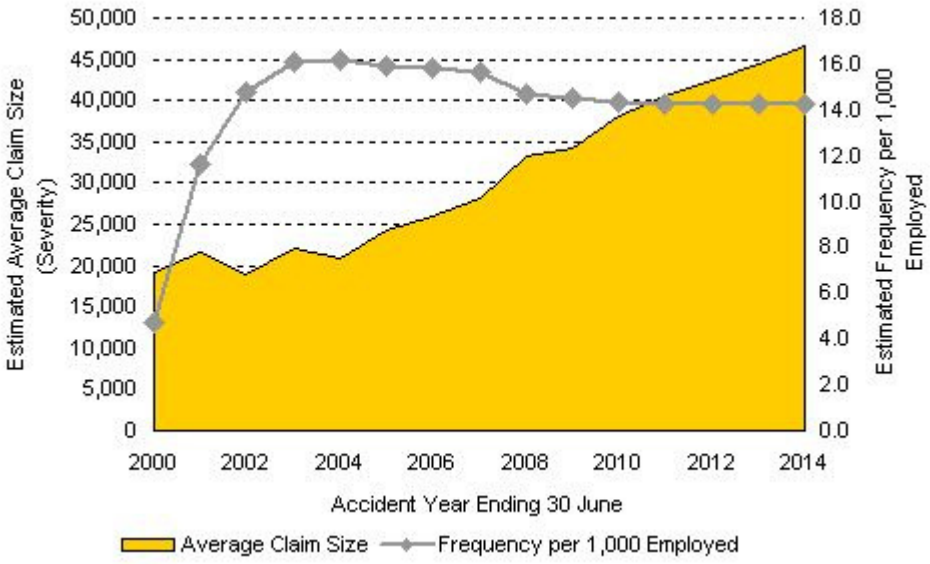
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

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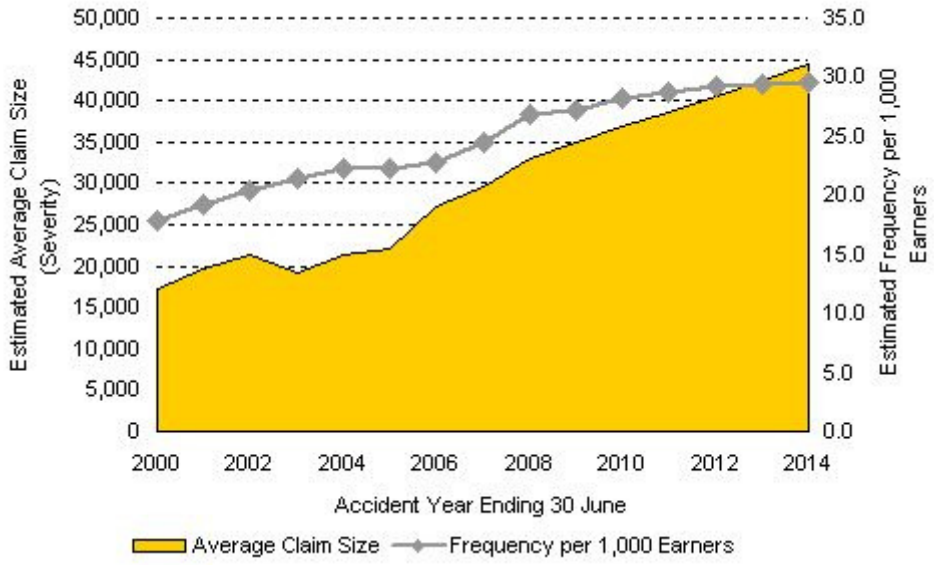
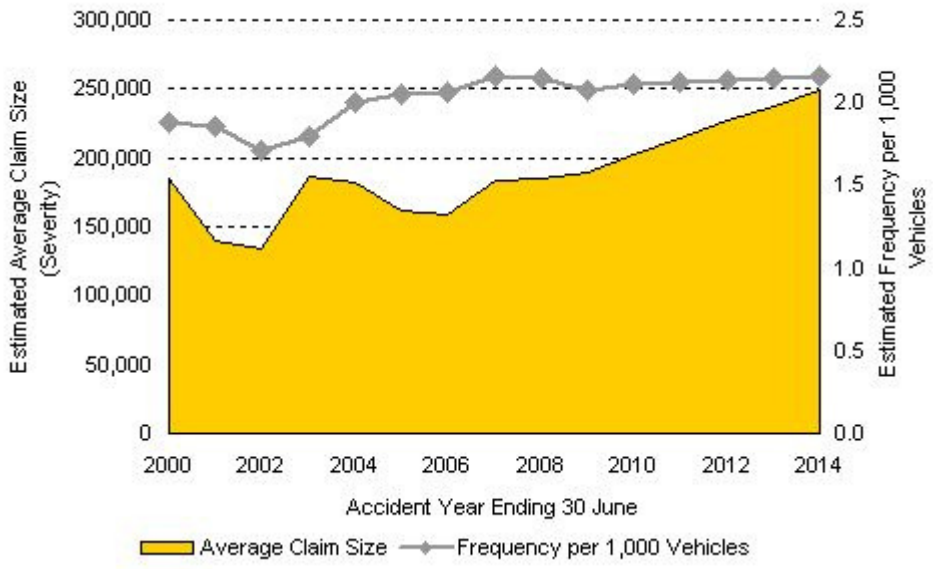


This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

4. What impact will the levy changes have on the average employee?

An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

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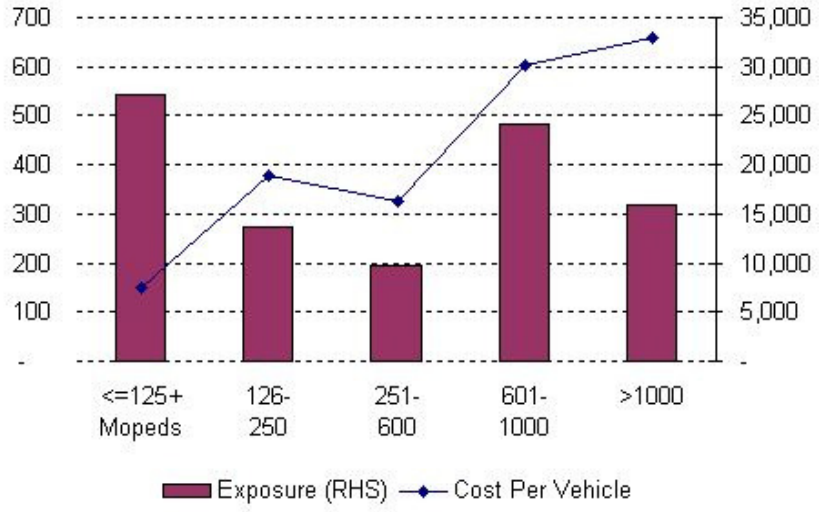

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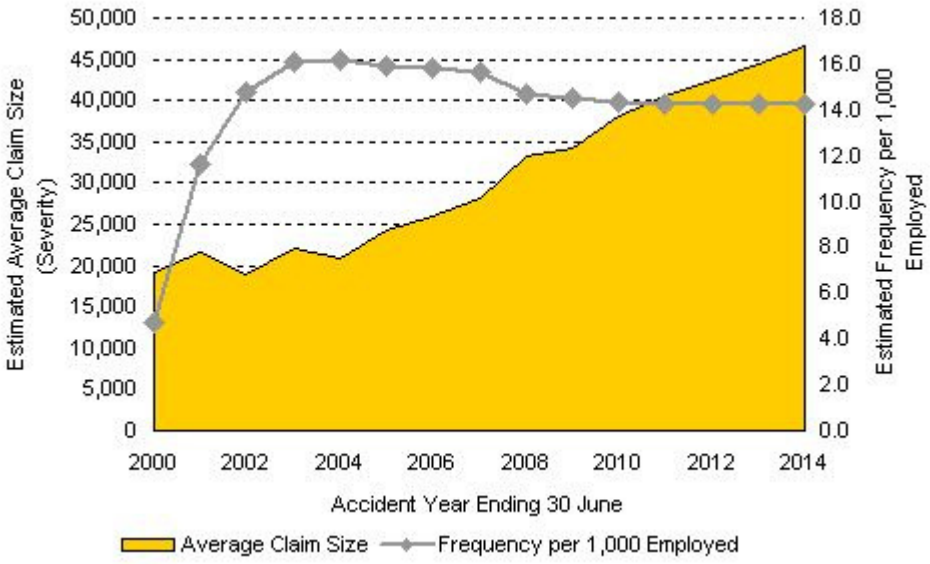

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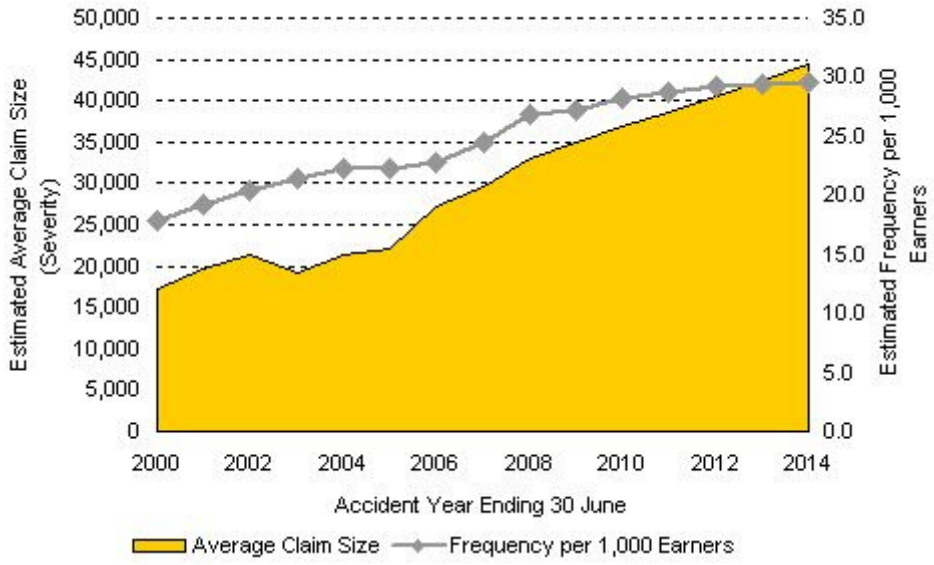
Composite Earners' Account levy

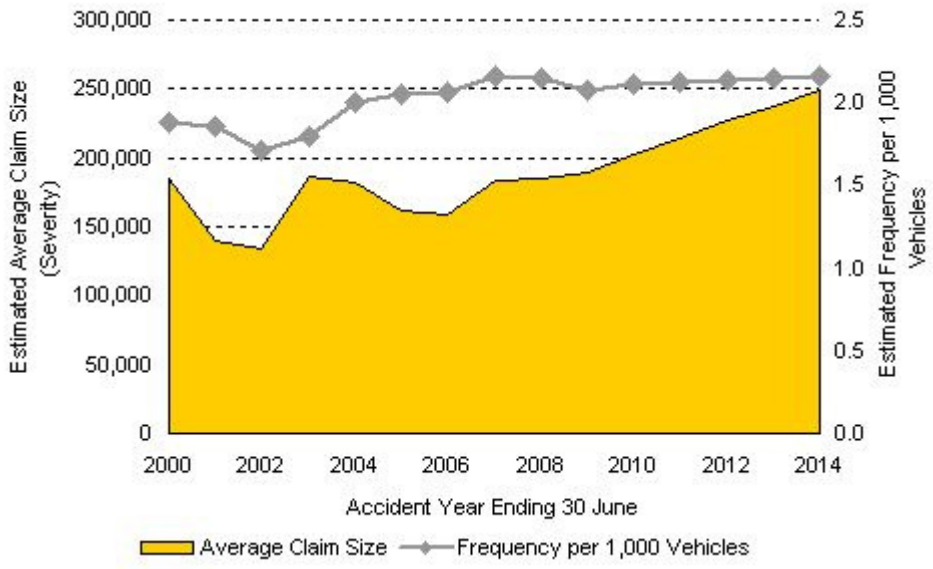
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

Their total levy payment to ACC for 2010/11 will rise from $1,128.42 to $1,306.92 – an increase of $178.50.

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The Work Account is divided into 117 levy risk groups and within those 535 classification units. ACC is currently calculating the 2010/11 work rates based on Cabinet's decisions and they will be available before Christmas. As a consequence of the claims history and claims costs within an industry, together with the level of risk, individual rates may increase more than the average, while others will see rates lower than the average. A guide to how individual rates might compare to the average can be found in ACC's levy consultation document http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

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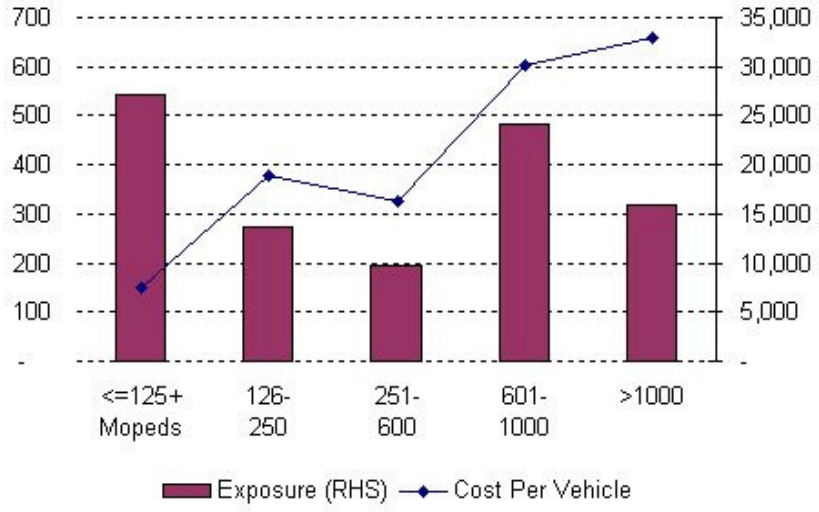

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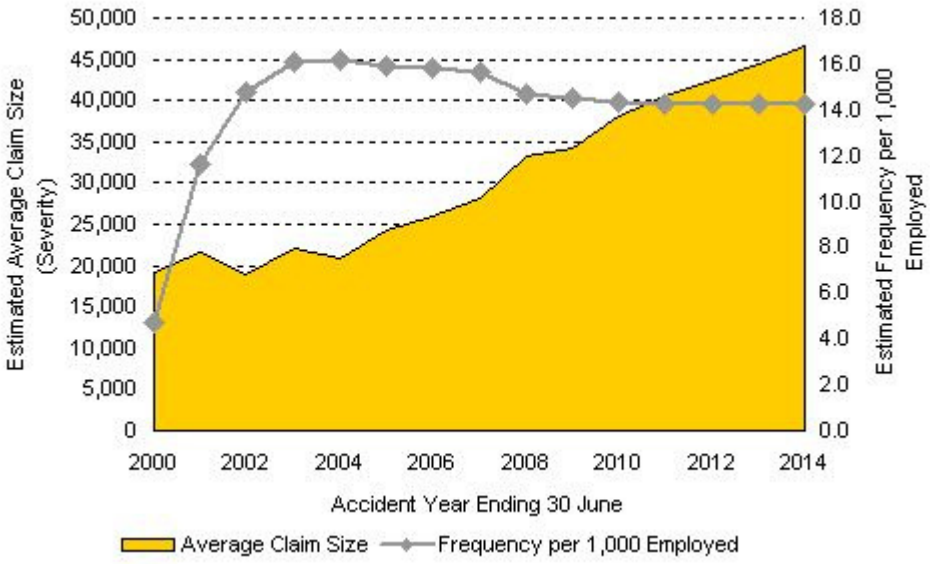
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

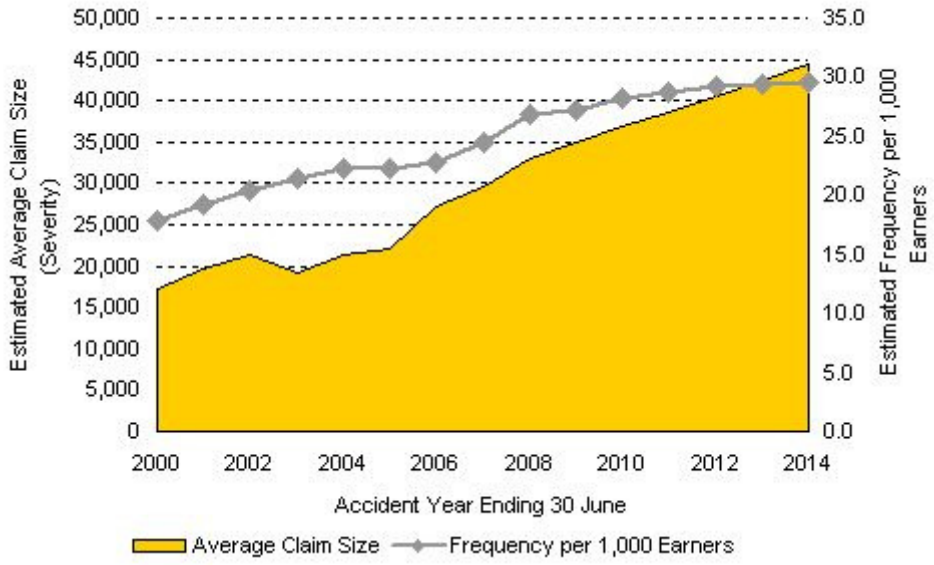
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

Earners Estimated Frequency and Severity (Entitlement Claims Only)



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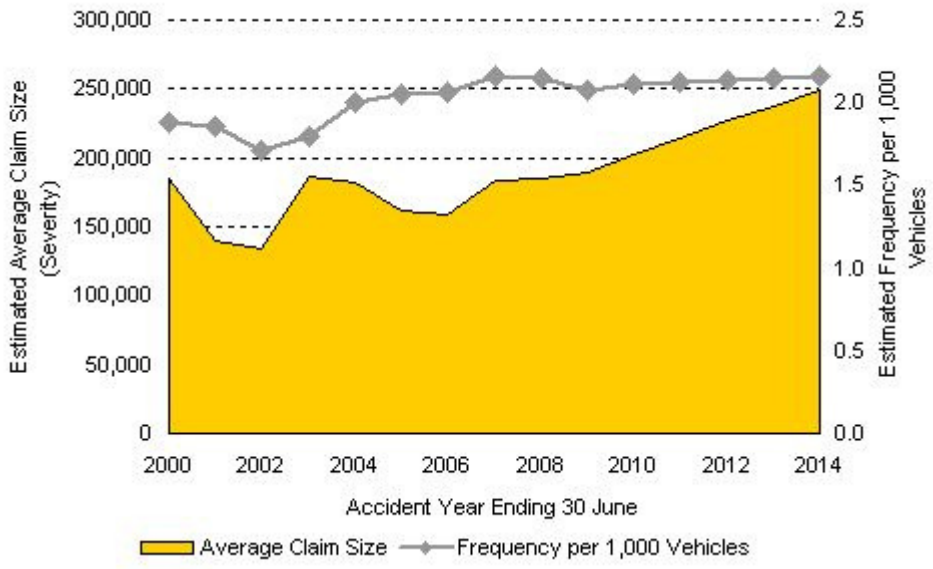

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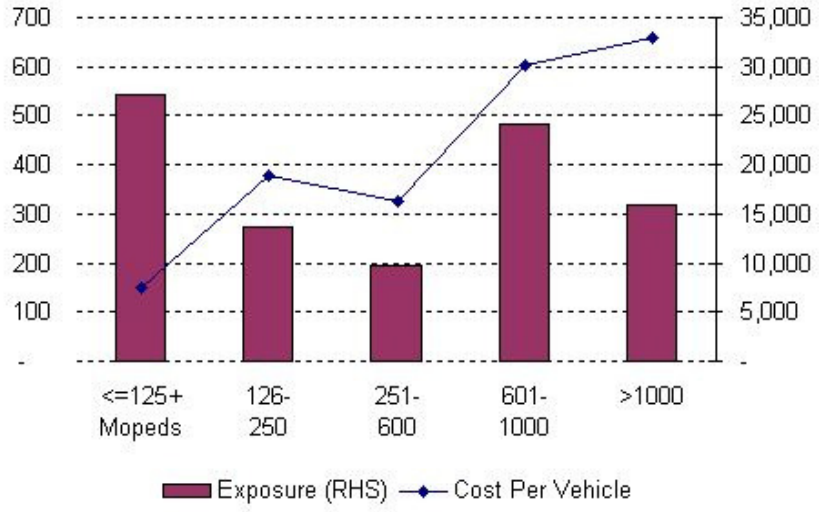

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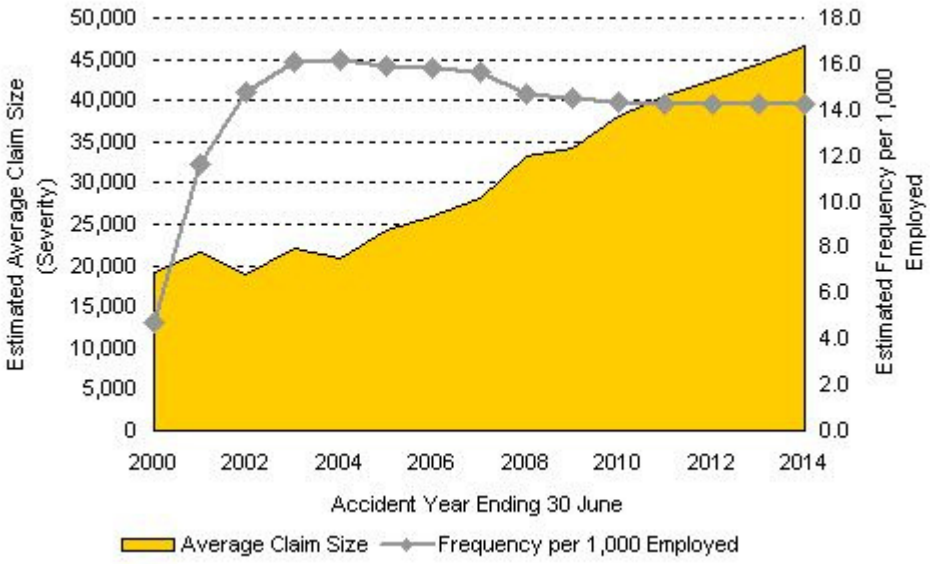
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

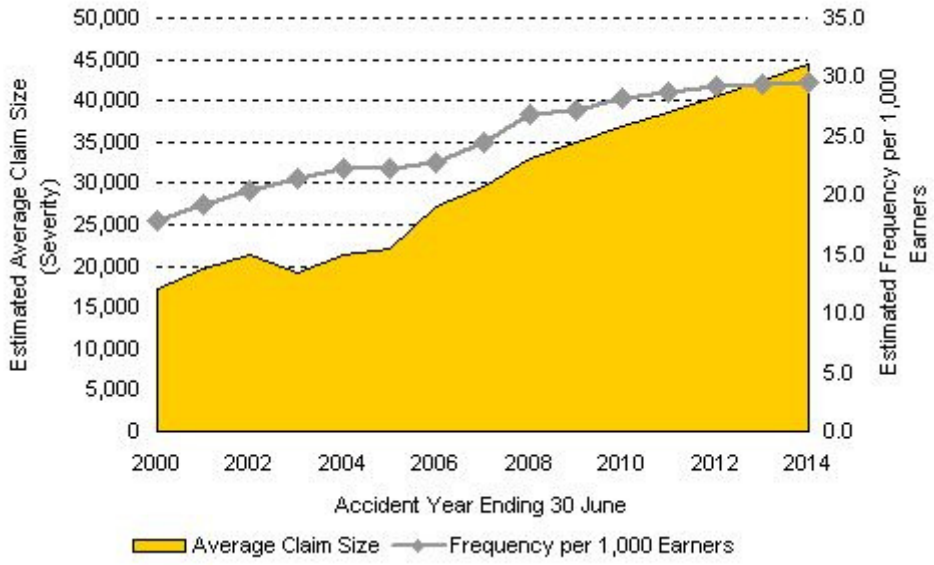
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

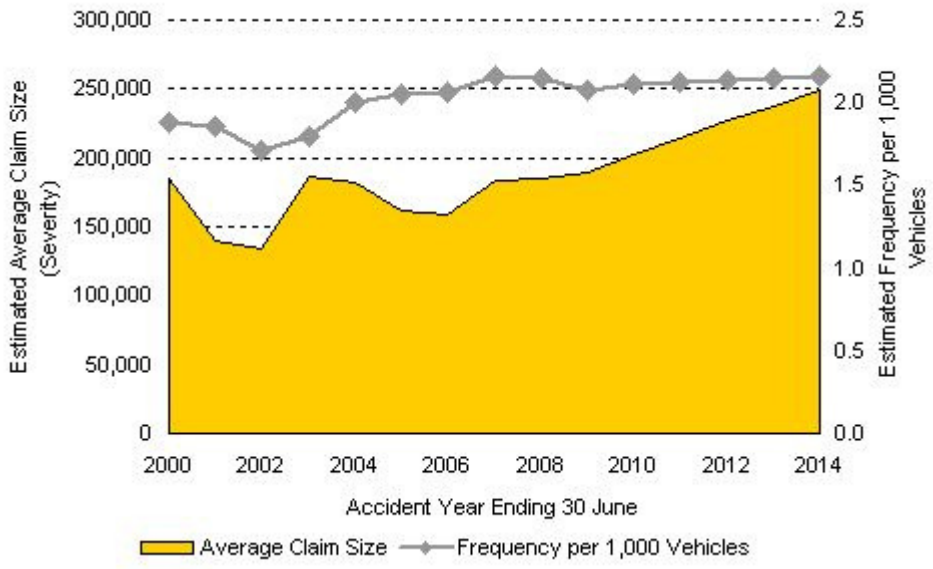
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

4. What impact will the levy changes have on the average employee?

An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

Their total levy payment to ACC for 2010/11 will rise from $1,128.42 to $1,306.92 – an increase of $178.50.

5. What are the individual work levy rates that self-employed and employers will pay as a consequence of these decisions?

The Work Account is divided into 117 levy risk groups and within those 535 classification units. ACC is currently calculating the 2010/11 work rates based on Cabinet's decisions and they will be available before Christmas. As a consequence of the claims history and claims costs within an industry, together with the level of risk, individual rates may increase more than the average, while others will see rates lower than the average. A guide to how individual rates might compare to the average can be found in ACC's levy consultation document http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

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Independent actuaries have expressed concern about overly optimistic assumptions on ACC's investments in the past (see National Business Review 16/10/09). This confirms the Government's view that a cautious approach should be taken to ACC's recent positive returns, and that a long-term perspective is required when managing long-term liabilities.

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Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

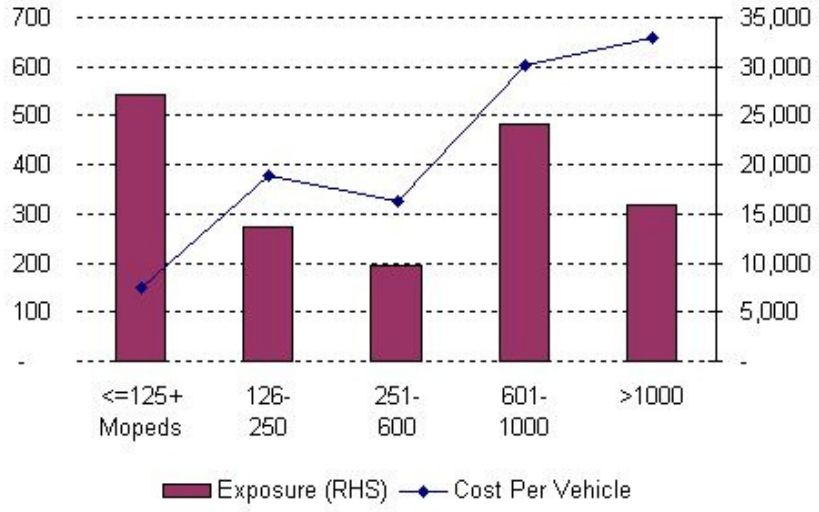
10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

11. Why has the cc rating of motorcycles been used to determine different levy rates?

The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

Motorcycle numbers and relative costs by CC rating



The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

13. Why is the Government proposing to ring-fence $30 of the moped/motorcycle levy increase for injury prevention?

Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

Questions & Answers

1. What is the full schedule of levy decisions by Cabinet and how do they compare with the rates consulted on by ACC, recommended by ACC and recommended by DoL?

The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

	Composite Average Work Levy	**Composite Earner's Account Levy**
Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
Cabinet decision	$1.47	$2.00

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations, and legislation.

The motor vehicle levy rates apply from 1 July 2010. There is no change to the 9.90c per litre ACC petrol levy. The increases are in the ACC levy on vehicle registration fees. The rates for non-petrol vehicles are higher to take into account the fact that drivers of these vehicles do not pay a petrol levy.

Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
Petrol car	168.46	272.72	198.46
Petrol Vintage/veteran vehicles and tractors	58.97	95.46	69.46
Petrol Moped	58.97	257.58	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	327.70
Petrol motorcycles 601cc and over	252.69	745.77	426.92
Petrol goods service vehicles	168.46	291.91	238.15
Non-petrol car	279.09	390.56	311.38
Non-Petrol Vintage/veteran vehicles and tractors	97.68	136.70	108.98
Non-Petrol Moped	97.68	292.93	163.12
Non-Petrol motorcycles up to 600cc	392.09	546.78	361.58
Non-Petrol motorcycles 601cc and over	392.09	781.12	460.08
Non-petrol goods service vehicles (trucks)	302.32	585.84	467.08

ACC consulted on including under 125cc with mopeds. This is the rate for 125cc to 600cc.

2. What is the process for setting ACC levies?

- Independent actuarial advice is sought on the liabilities in each of ACC's accounts (See: PriceWaterhouseCoopers Report: http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm).

- ACC Board publishes proposed levy rates based on its actuarial advice for consultation (See: http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

- ACC receives and considers submissions from the public on the levies. This year ACC received 2,850 submissions (up from 54 in 2008).

- DoL obtains independent actuarial advice on ACC's funding policies and methodologies as well as its liabilities (See: Finity http://www.dol.govt.nz/publications/general/acc-monitoring/2009-qa-review/2009-qa-review-01.asp) and provides advice to Ministers on recommended levy rates.

- Cabinet considers advice from ACC, DoL and the Minister for ACC and makes decision on levies.

- Parliamentary Counsel Office drafts regulations for Executive Council approval to formally set levies in the New Year.

3. What is the reason for the cost increases that are driving ACC levies up?

Claim costs have been increasing at significantly above the rate of inflation in recent years, due to increased claim numbers, higher treatment costs, deteriorating rehabilitation rates and scheme extensions. Some significant areas of cost increases can be categorised by areas of ACC expenditure and by ACC's accounts, as shown in the following table and graphs.

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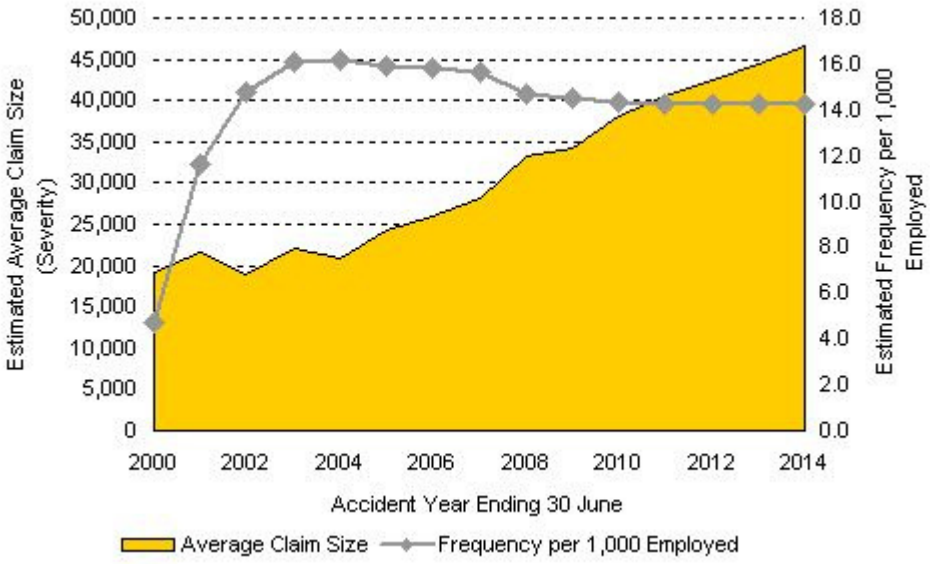

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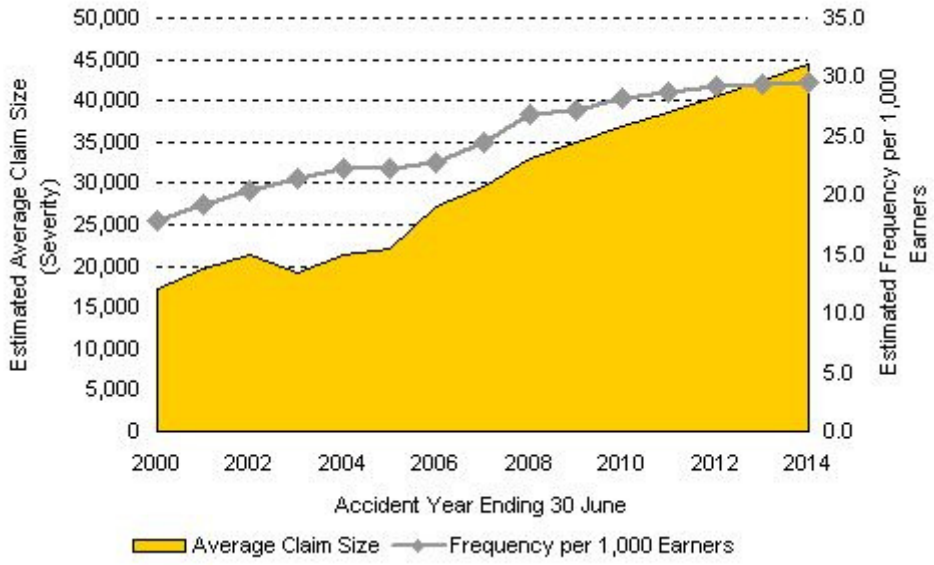
Composite Earners' Account levy

Earners Estimated Frequency and Severity (Entitlement Claims Only)



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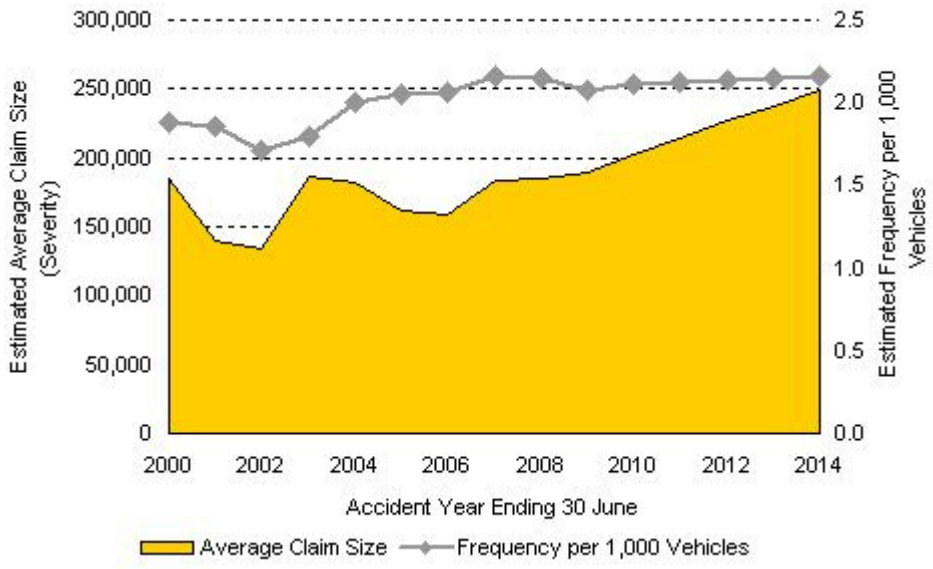

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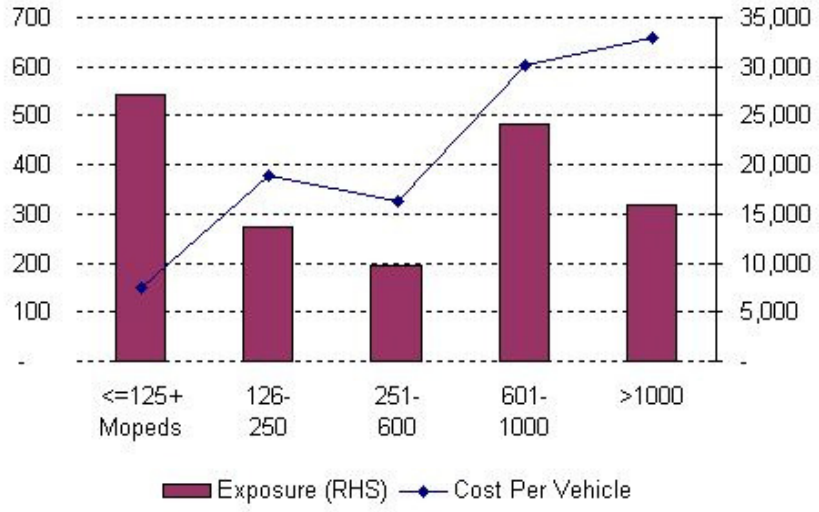

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ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
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	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

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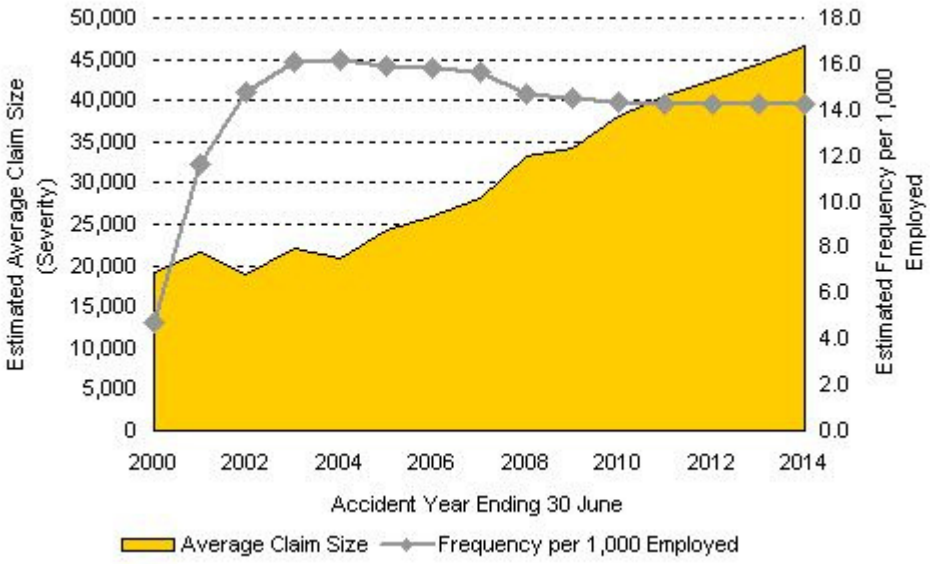
Composite Work levy

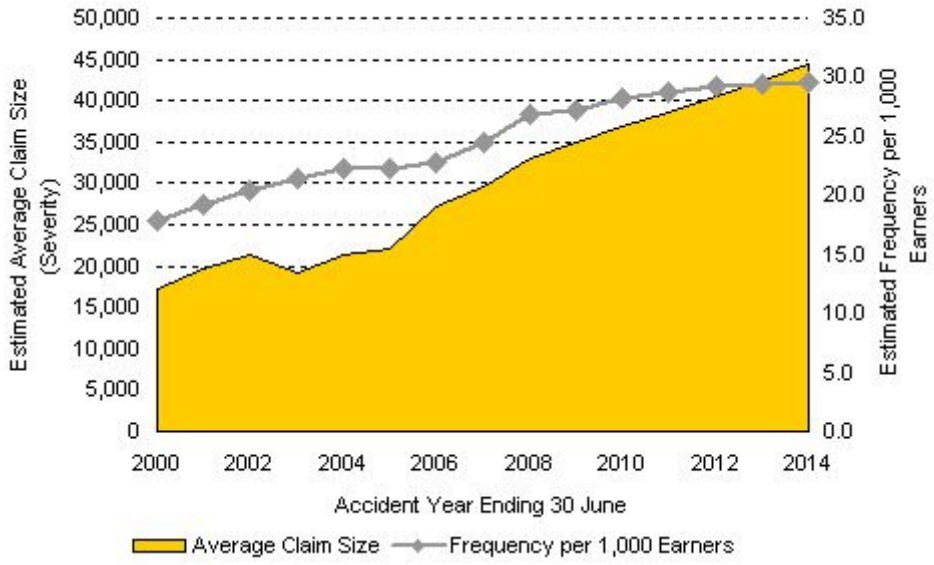
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

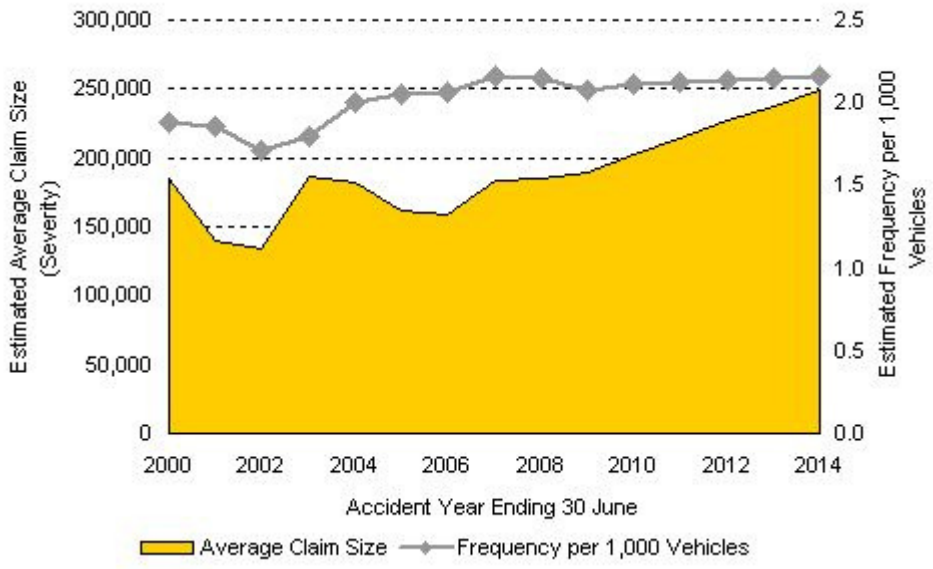
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
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10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

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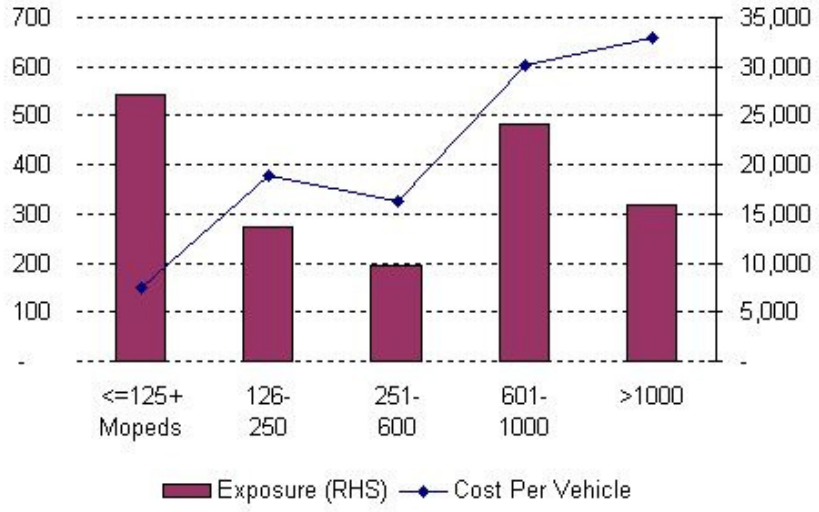

The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

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Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

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Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

Questions & Answers

1. What is the full schedule of levy decisions by Cabinet and how do they compare with the rates consulted on by ACC, recommended by ACC and recommended by DoL?

The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

	Composite Average Work Levy	**Composite Earner's Account Levy**
Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
Cabinet decision	$1.47	$2.00

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations, and legislation.

The motor vehicle levy rates apply from 1 July 2010. There is no change to the 9.90c per litre ACC petrol levy. The increases are in the ACC levy on vehicle registration fees. The rates for non-petrol vehicles are higher to take into account the fact that drivers of these vehicles do not pay a petrol levy.

Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
Petrol car	168.46	272.72	198.46
Petrol Vintage/veteran vehicles and tractors	58.97	95.46	69.46
Petrol Moped	58.97	257.58	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	327.70
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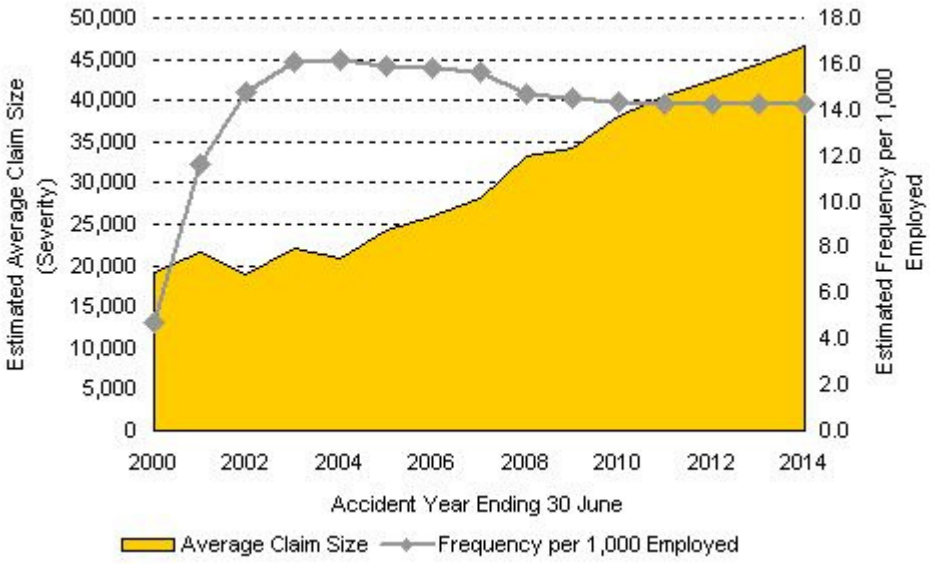

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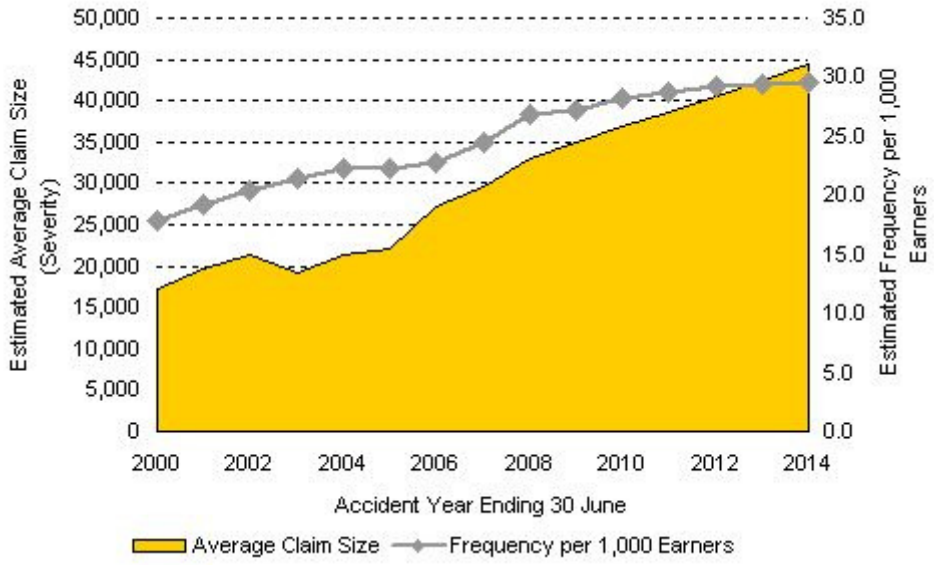

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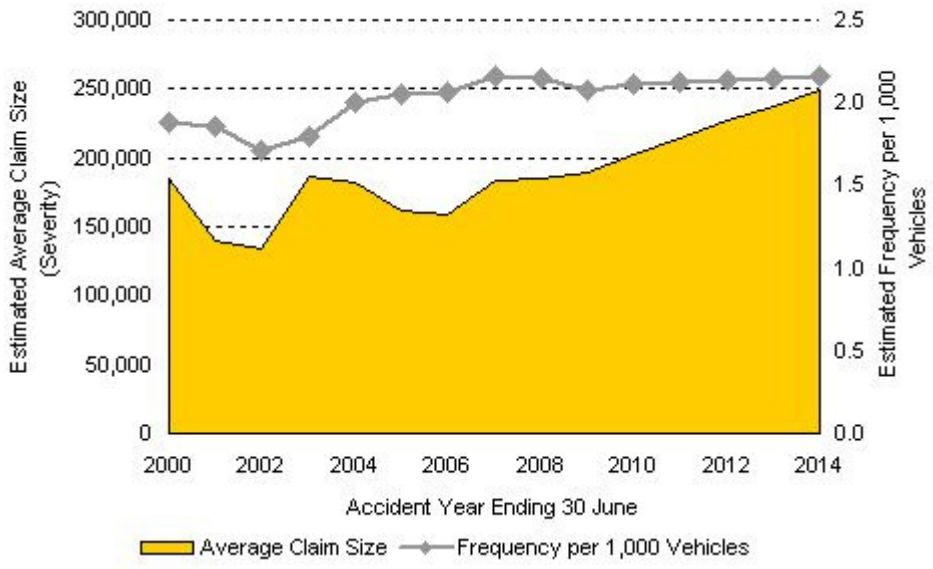

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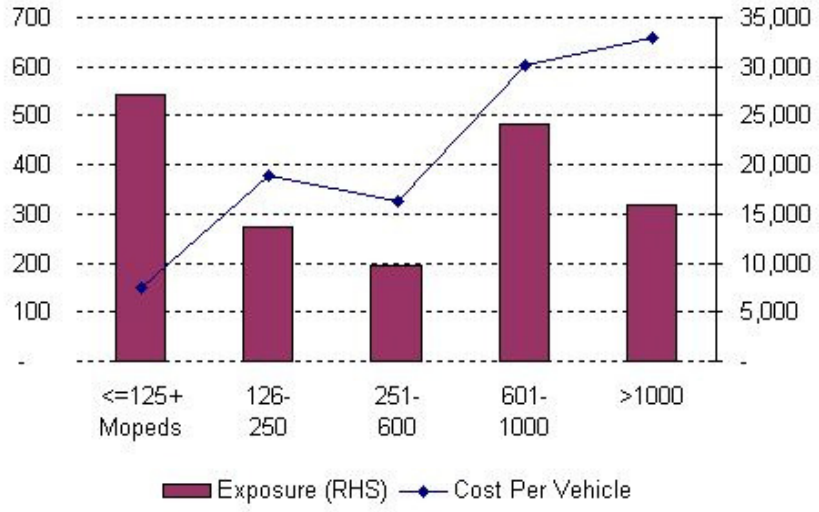

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Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
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Composite Work levy

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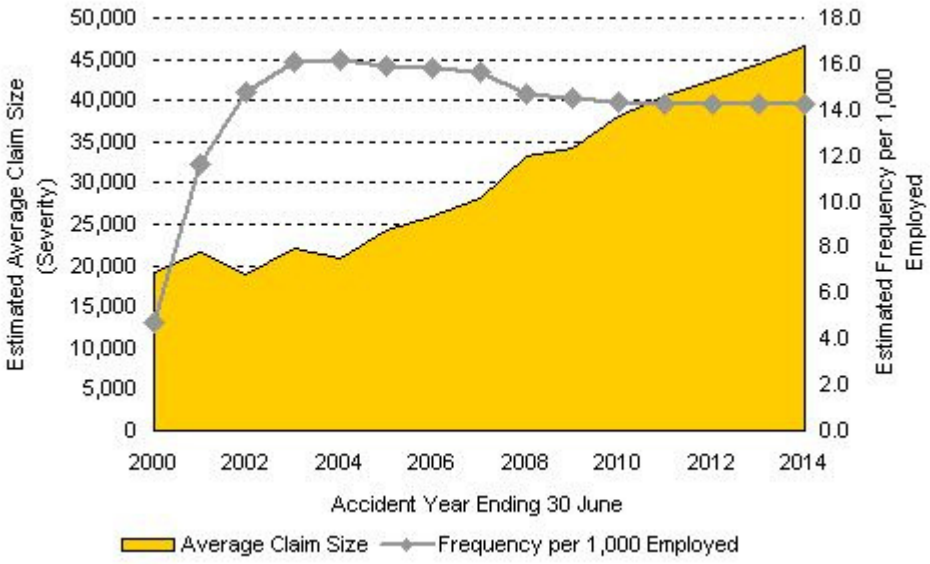

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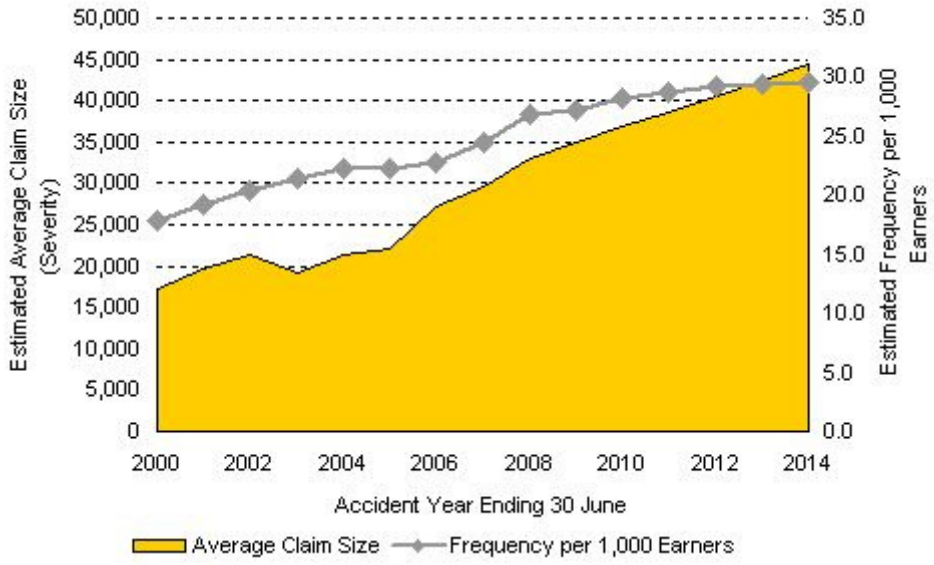
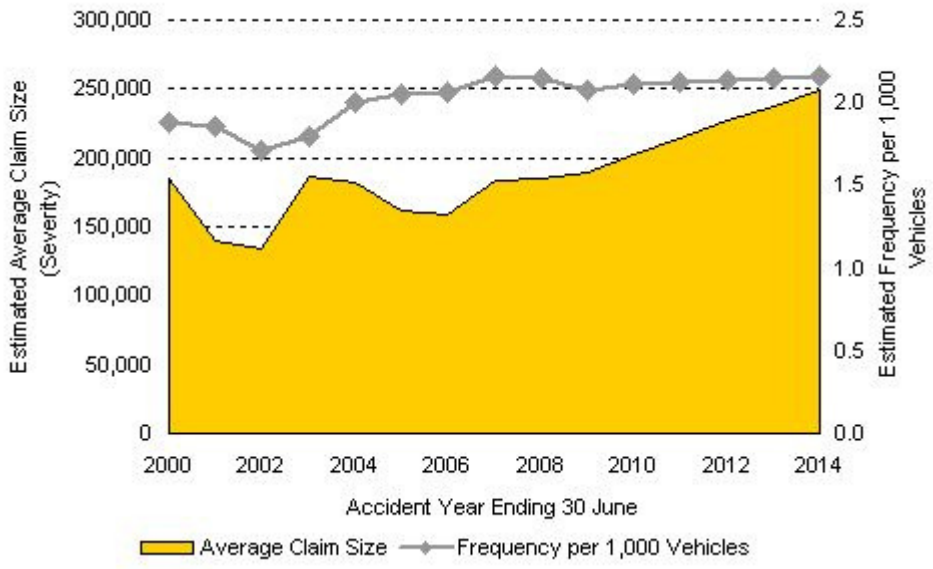


This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



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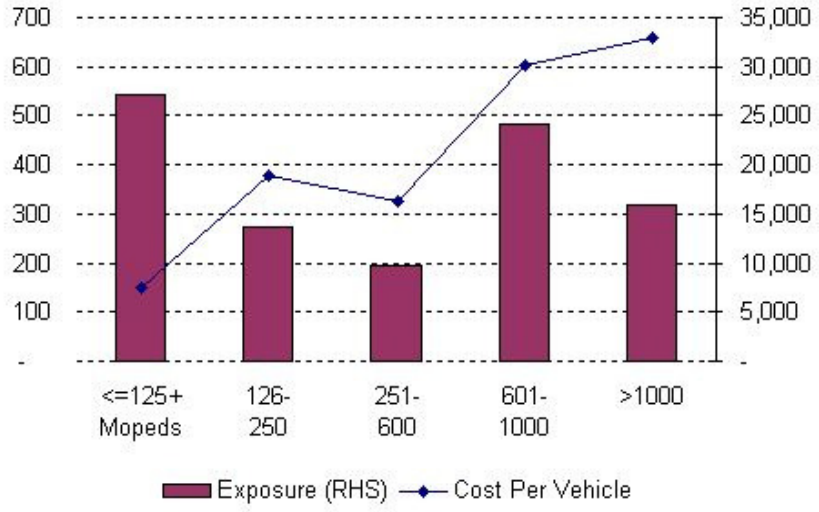

The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

13. Why is the Government proposing to ring-fence $30 of the moped/motorcycle levy increase for injury prevention?

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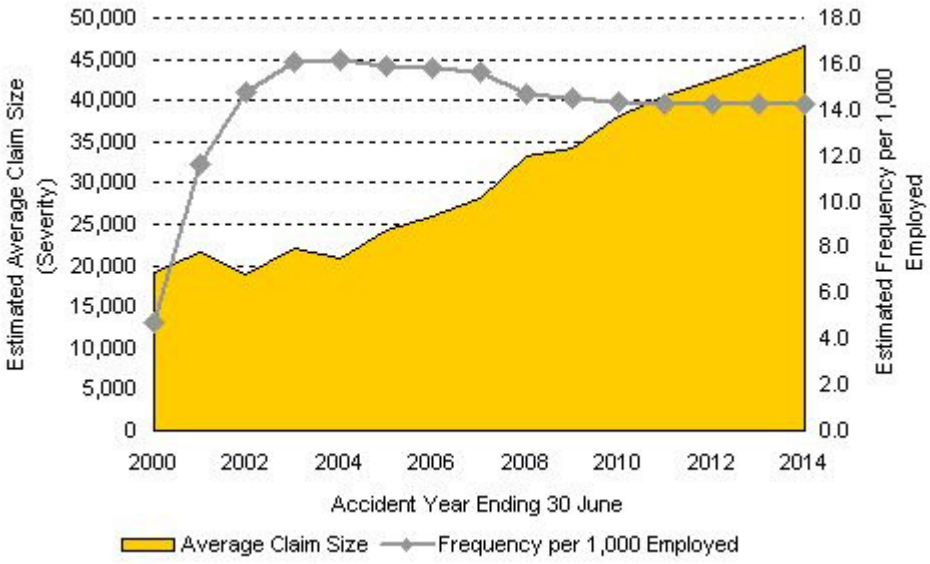

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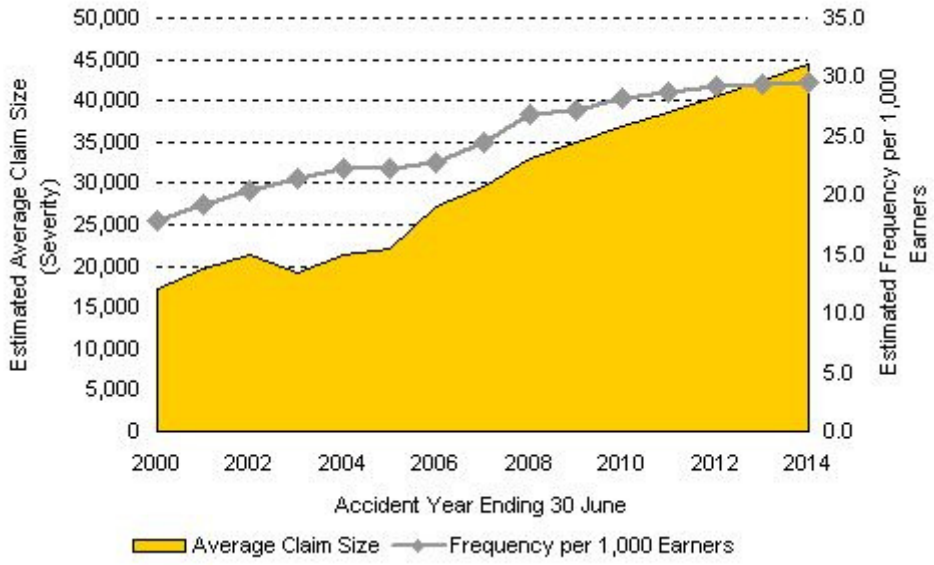

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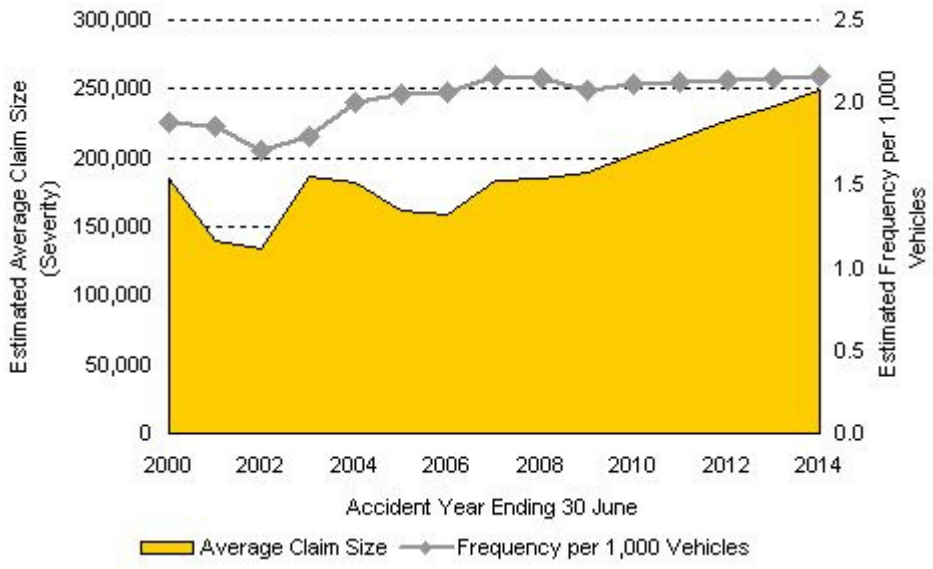

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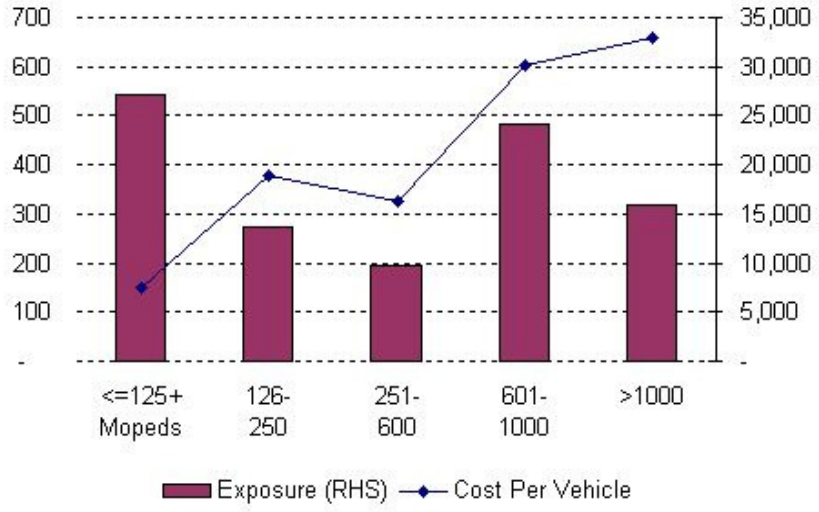

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TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

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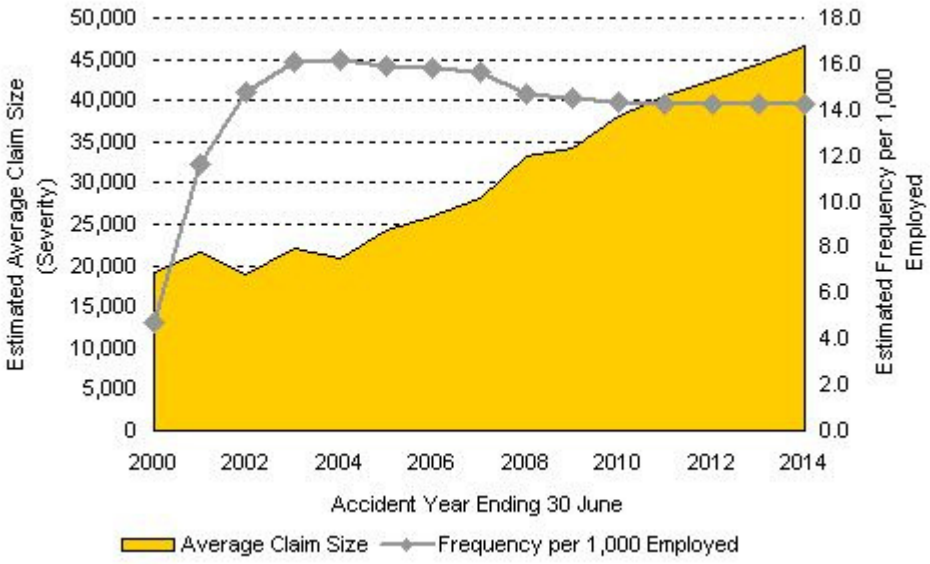

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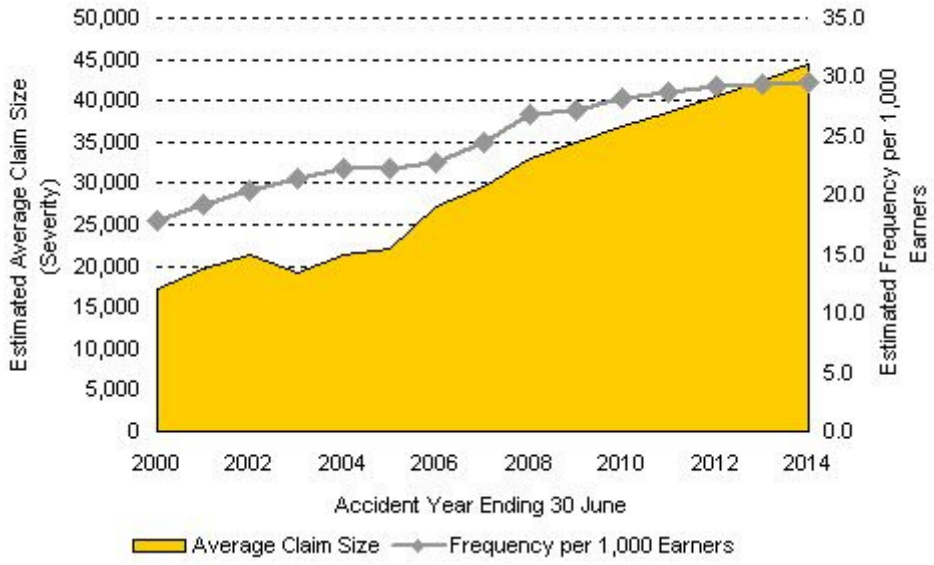

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Composite Motor Vehicle Account levy

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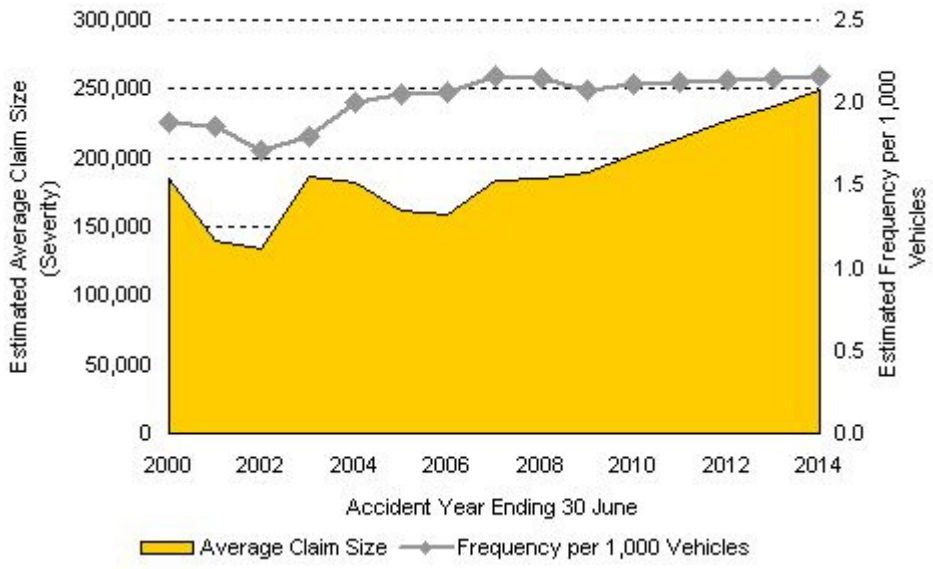

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9. Why are motorcycle levies being increased?

Motorcycle accident claims have risen from 871 in 1998 to 5044 in 2008, a greater increase than any other area of claims. While the annual road toll has been decreasing over the past decade (some 27% from 501 to 366), motorcycle fatalities have increased 21%. These increases cannot be dismissed simply on the basis of motorcycle numbers increasing, as the numbers of claims per motorcycle have grown significantly over the past decade.

Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

11. Why has the cc rating of motorcycles been used to determine different levy rates?

The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

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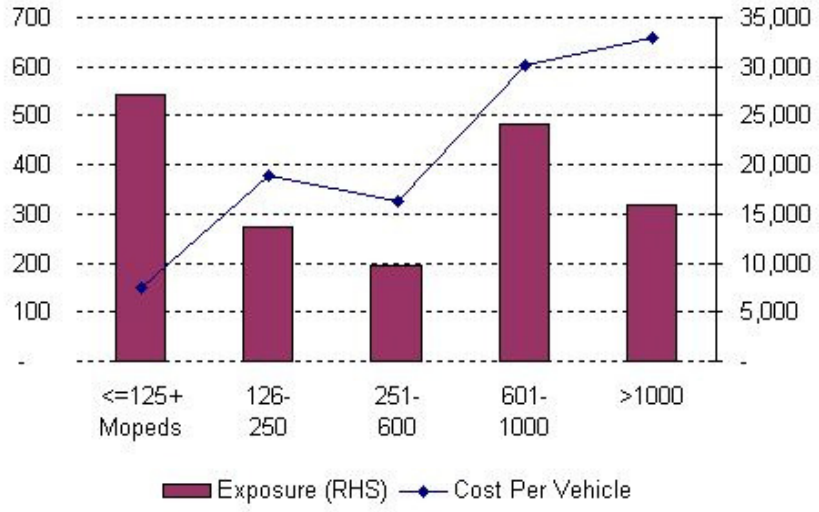

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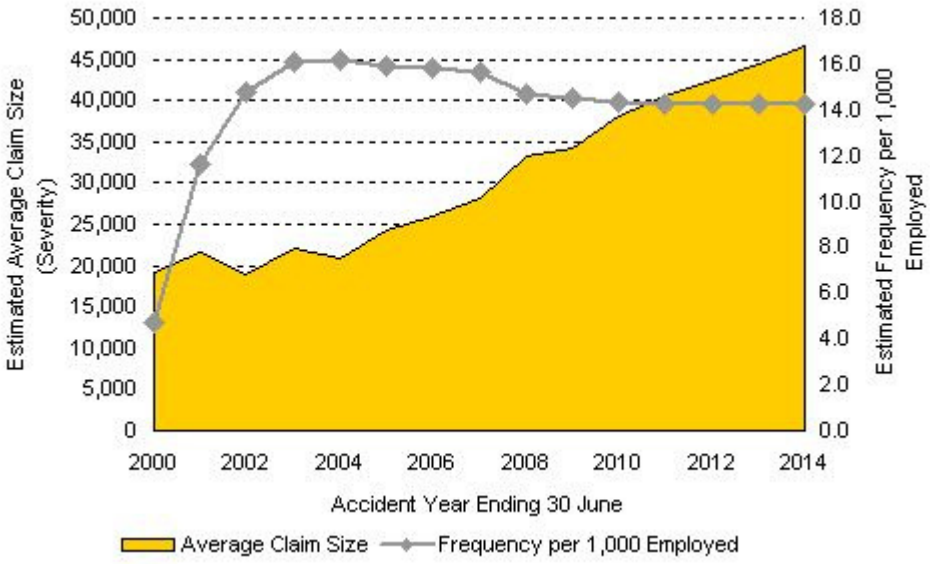

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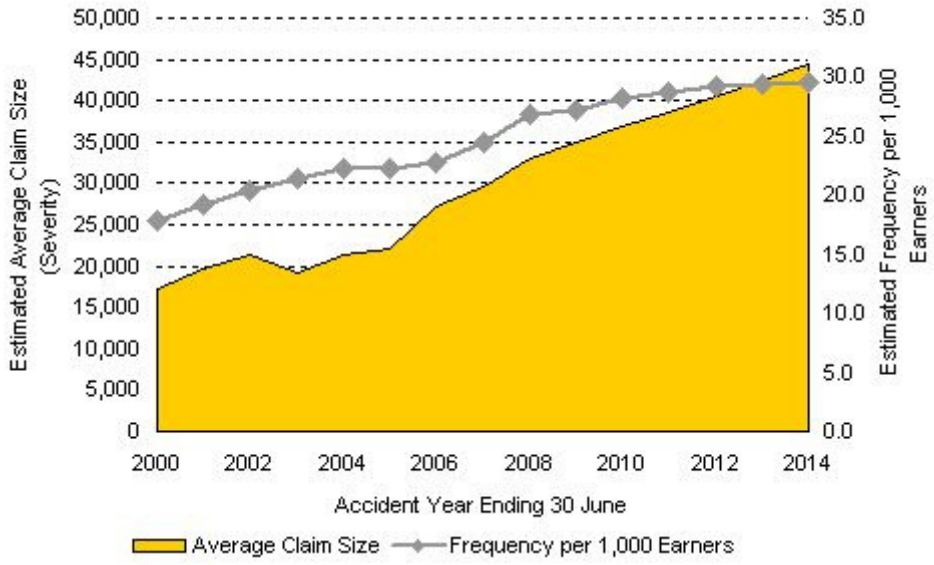

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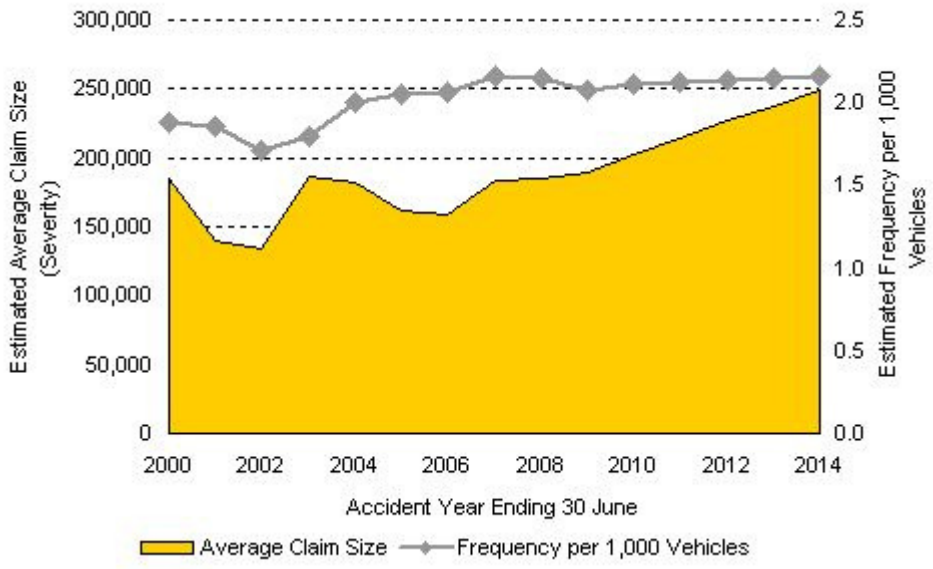

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Motorcycle accident claims have risen from 871 in 1998 to 5044 in 2008, a greater increase than any other area of claims. While the annual road toll has been decreasing over the past decade (some 27% from 501 to 366), motorcycle fatalities have increased 21%. These increases cannot be dismissed simply on the basis of motorcycle numbers increasing, as the numbers of claims per motorcycle have grown significantly over the past decade.

Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

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Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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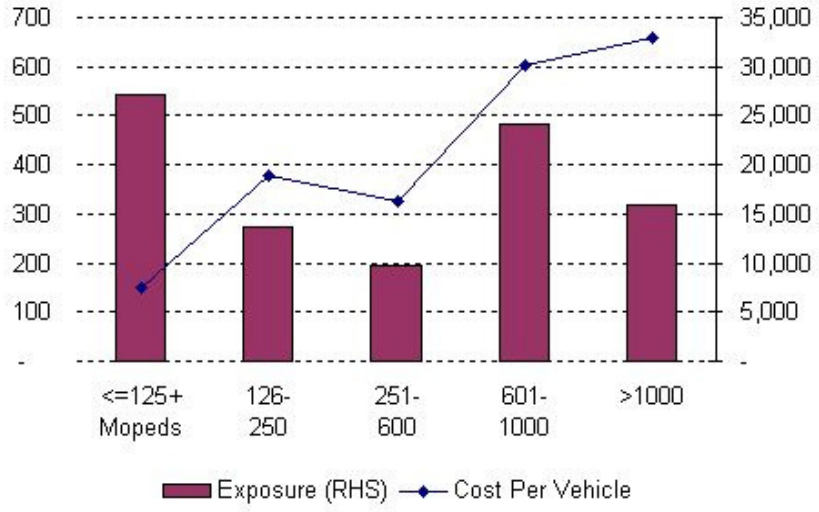

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Income Compensation	$655m	$966m	$311m	47%
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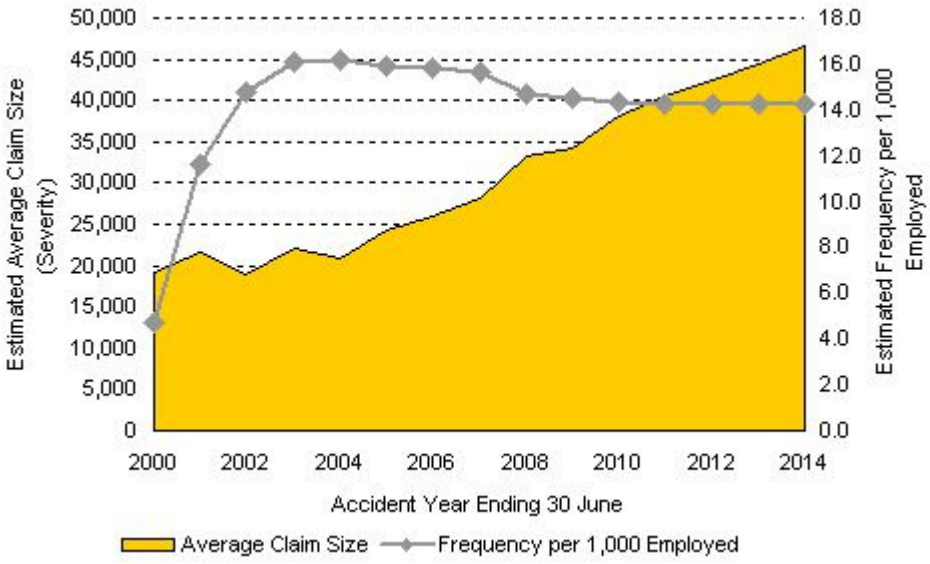
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

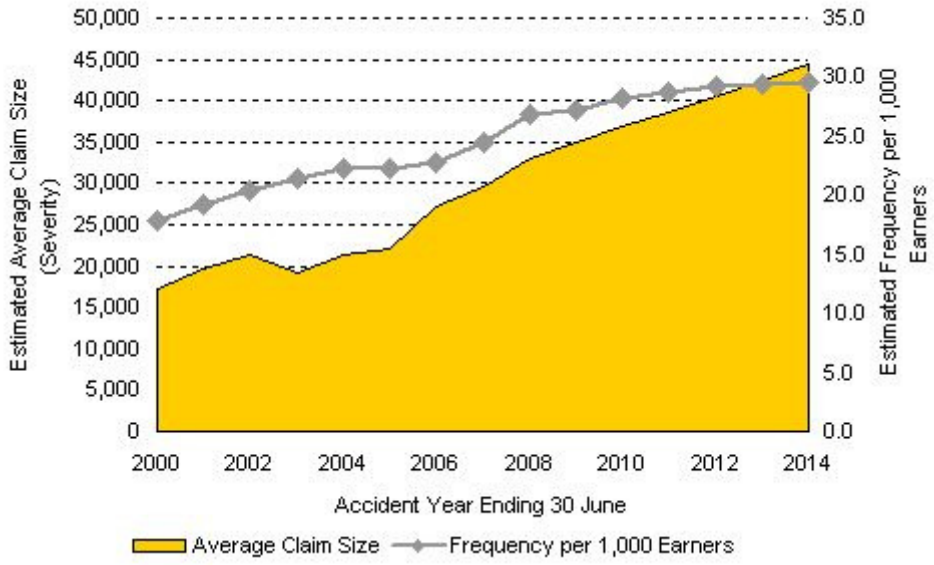
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

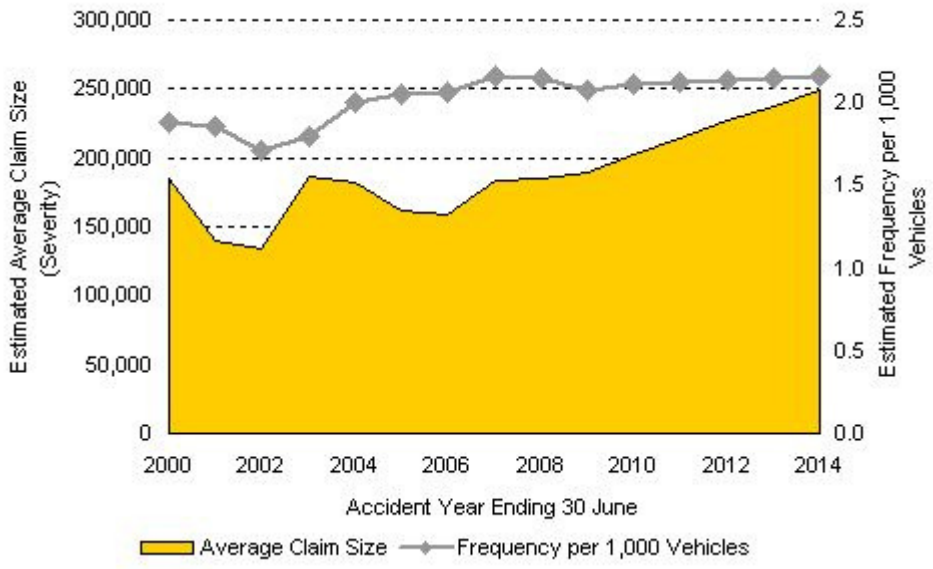
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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6. What response is this to assertions by the Opposition and some commentators that ACC's liabilities of $23.8 billion are overstated?

ACC's outstanding claims liabilities are prepared by PriceWaterhouseCoopers and are subject to independent audit by Ernst and Young on behalf of the Auditor-General (see http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm).

DoL also gets its own quality assurance review of ACC's outstanding claims liabilities from Finity, a firm of independent actuaries, prior to levies being set. This report concluded that "PWC estimates are not unreasonable as a central estimate" and that "we have not identified any material bias in the estimates" (see http://www.dol.govt.nz/publications/general/acc-monitoring/2009-qa-review/2009-qa-review-01.asp).

7. What impact have ACC's investment returns had on levies?

ACC's investment returns were affected by the global recession but levies are set on the basis of long run average returns, of 6% per annum. It would be inappropriate for short-term fluctuations in investment returns to trigger large increases or decreases in levies. The long term profile of ACC's investments shows very good returns for the period 2003 to 2007, lower than expected returns in the years 2007 to 2008, and a recovery since June 2009.

Independent actuaries have expressed concern about overly optimistic assumptions on ACC's investments in the past (see National Business Review 16/10/09). This confirms the Government's view that a cautious approach should be taken to ACC's recent positive returns, and that a long-term perspective is required when managing long-term liabilities.

The fluctuations in ACC investment returns through the global recession are expected and not central to ACC's financial difficulties. The problems are the increases in claim costs and their flow on into ACC liabilities.

ACC investments have returned $661 million over budget, as reported in the Crown Accounts for October 2009. This goes some way to make up for the $1,222 million below budget returns in the past two years.

8. What is 'full funding' and why does the Government have a policy to fully fund the ACC scheme?

A fully funded scheme raises enough levy income each year to cover the total costs of injuries sustained in that year, even if some of that money will not be paid out for several years. This means that the scheme must hold enough reserves to cover the estimated future costs of today's injuries.

The advantages of a fully funded scheme are that it better reflects the full costs of claims, meaning that people better understand the consequences of injuries, and place appropriate emphasis on reducing injuries. It also means that the group of people who make the claims pay for them, rather than leaving the costs to future generations. The cost must be declared on the government books under international financial reporting standards, and would show as a liability whether it is paid now or later.

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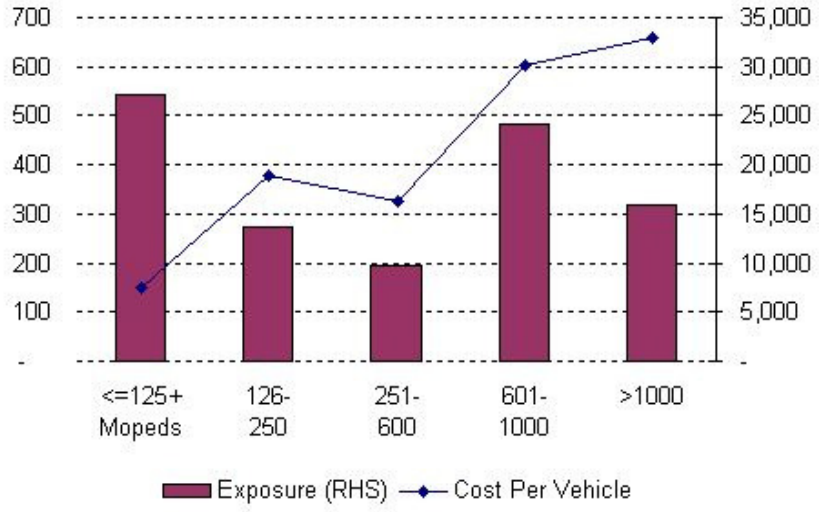

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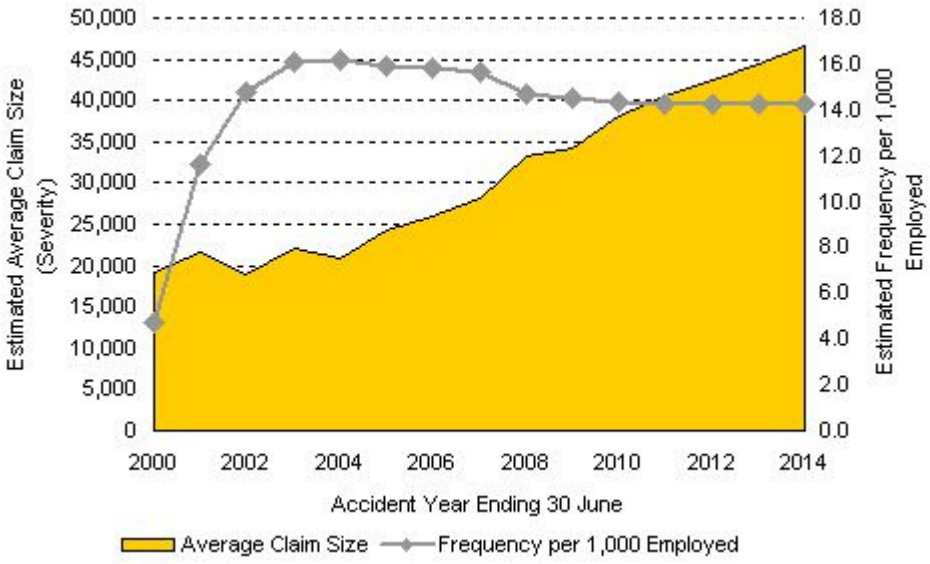

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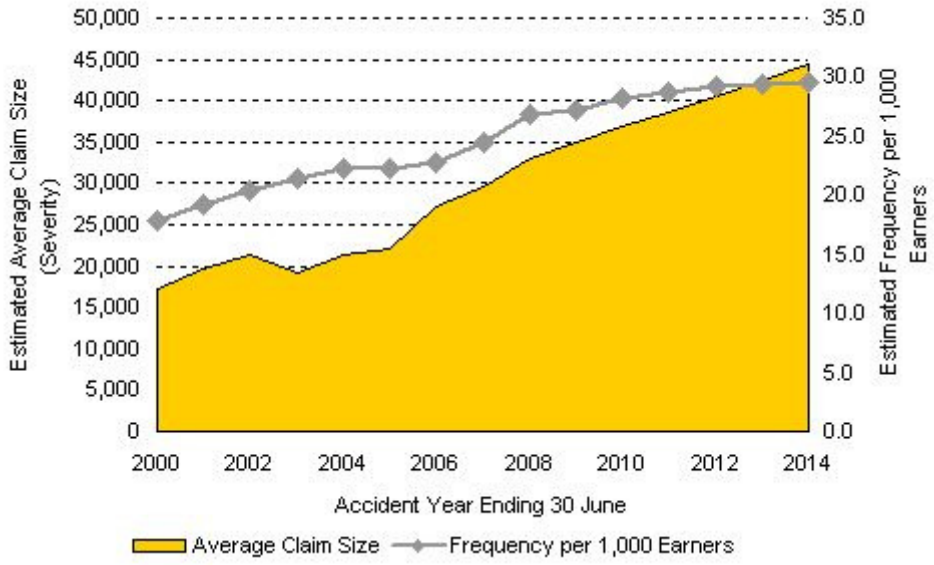

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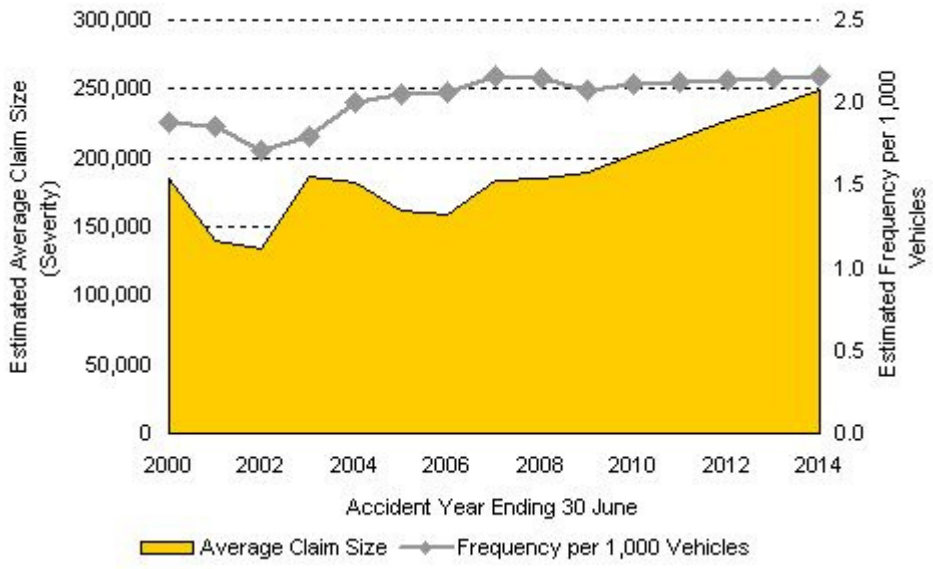

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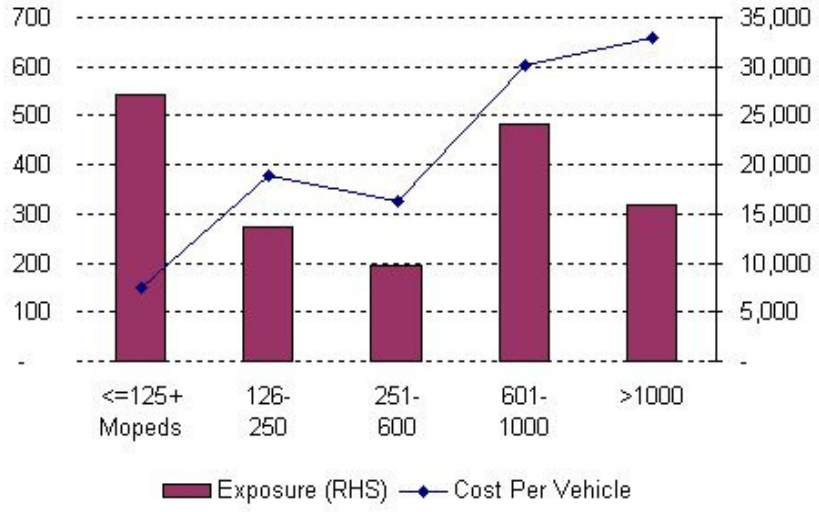

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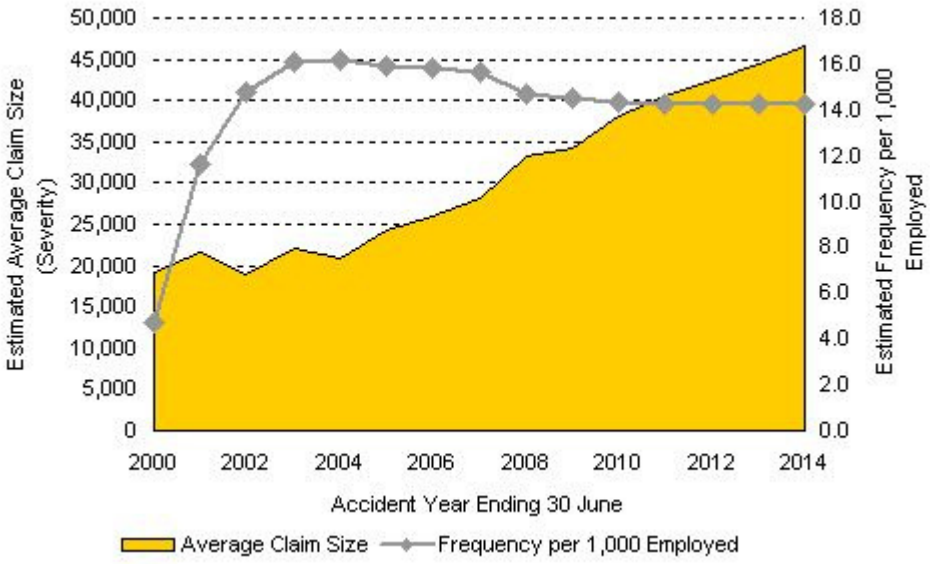
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

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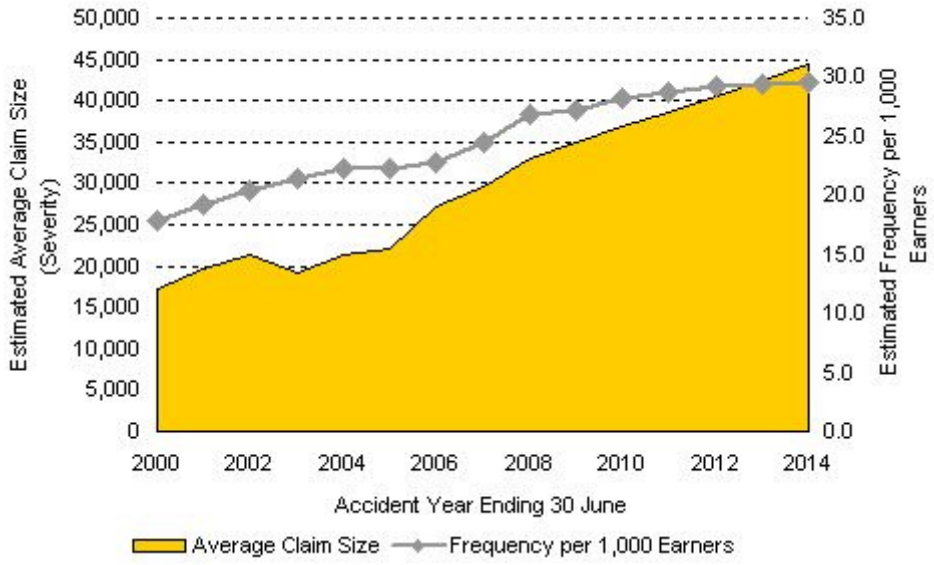
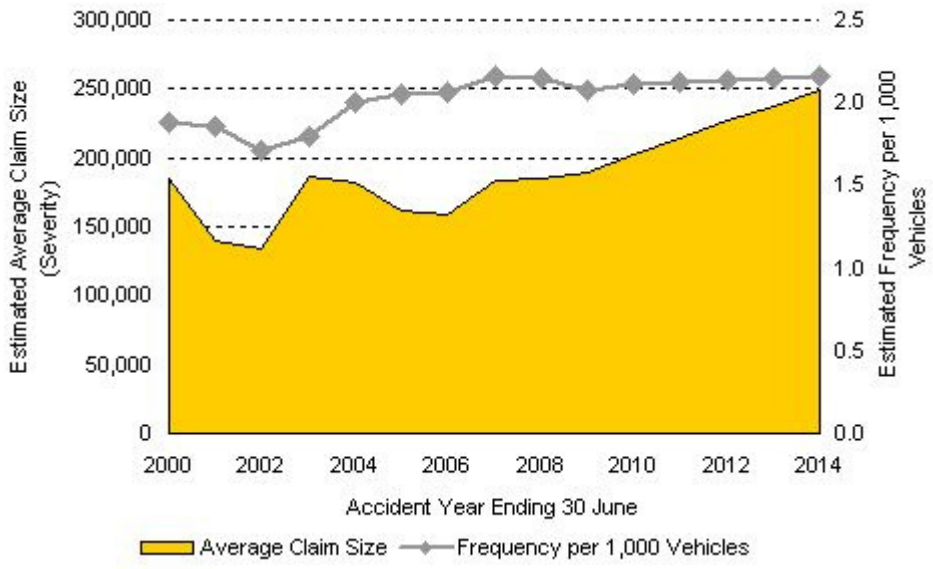


This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

4. What impact will the levy changes have on the average employee?

An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

Their total levy payment to ACC for 2010/11 will rise from $1,128.42 to $1,306.92 – an increase of $178.50.

5. What are the individual work levy rates that self-employed and employers will pay as a consequence of these decisions?

The Work Account is divided into 117 levy risk groups and within those 535 classification units. ACC is currently calculating the 2010/11 work rates based on Cabinet's decisions and they will be available before Christmas. As a consequence of the claims history and claims costs within an industry, together with the level of risk, individual rates may increase more than the average, while others will see rates lower than the average. A guide to how individual rates might compare to the average can be found in ACC's levy consultation document http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

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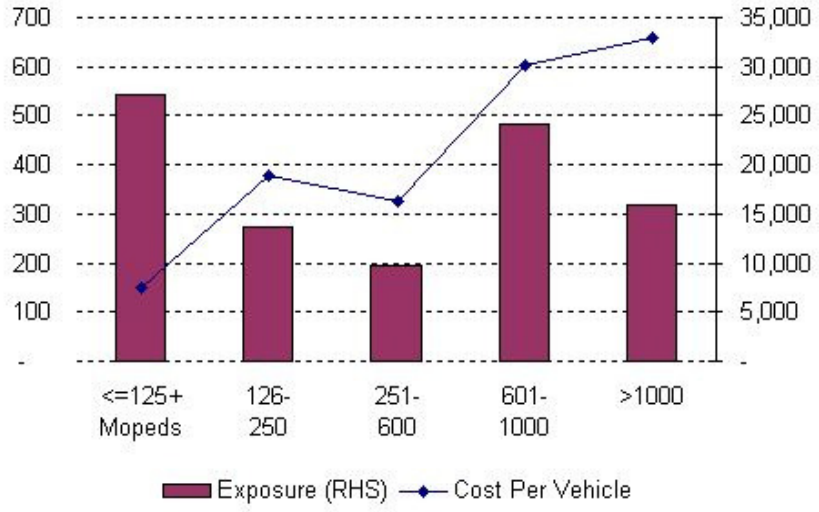

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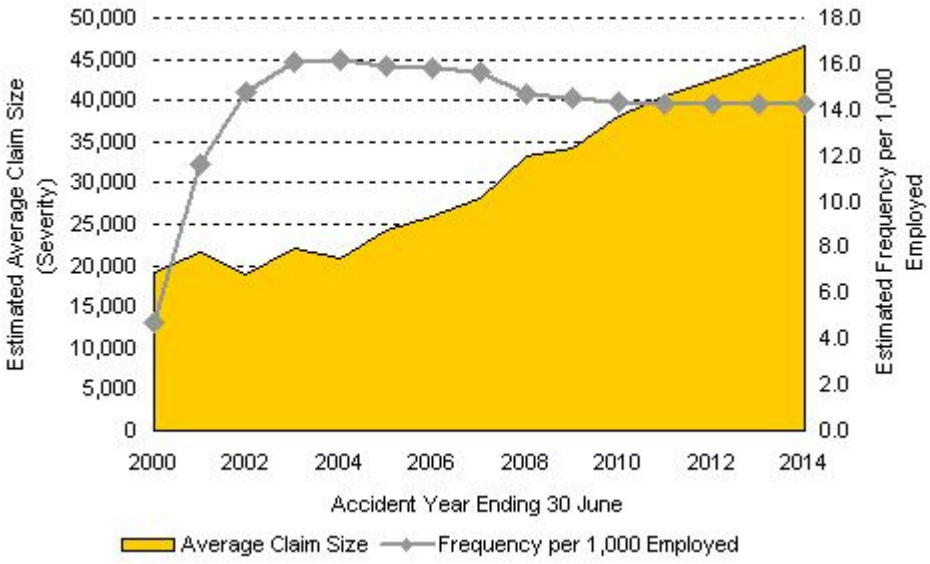

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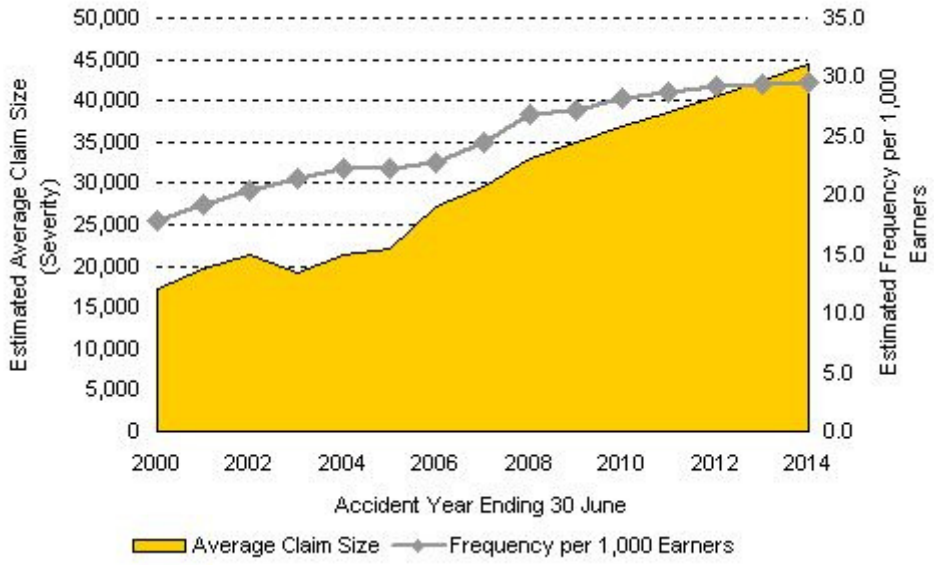

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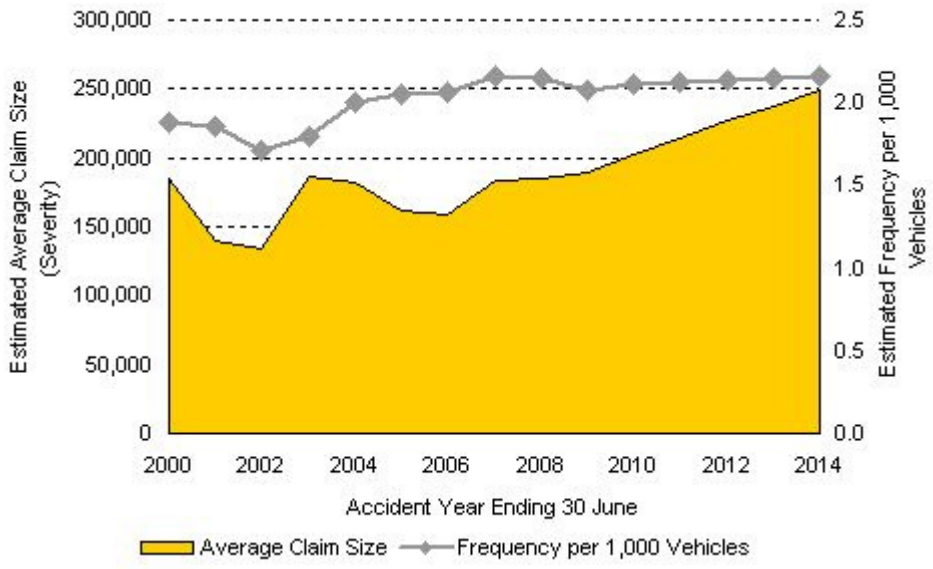
Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
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Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

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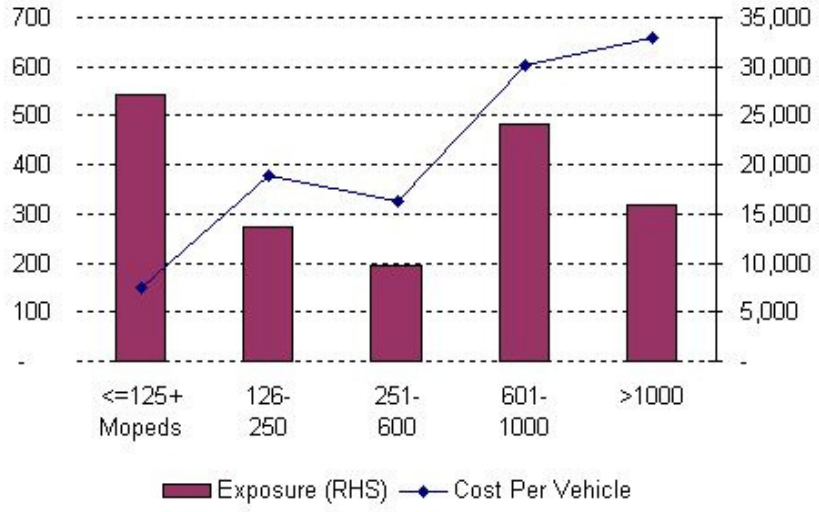

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The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

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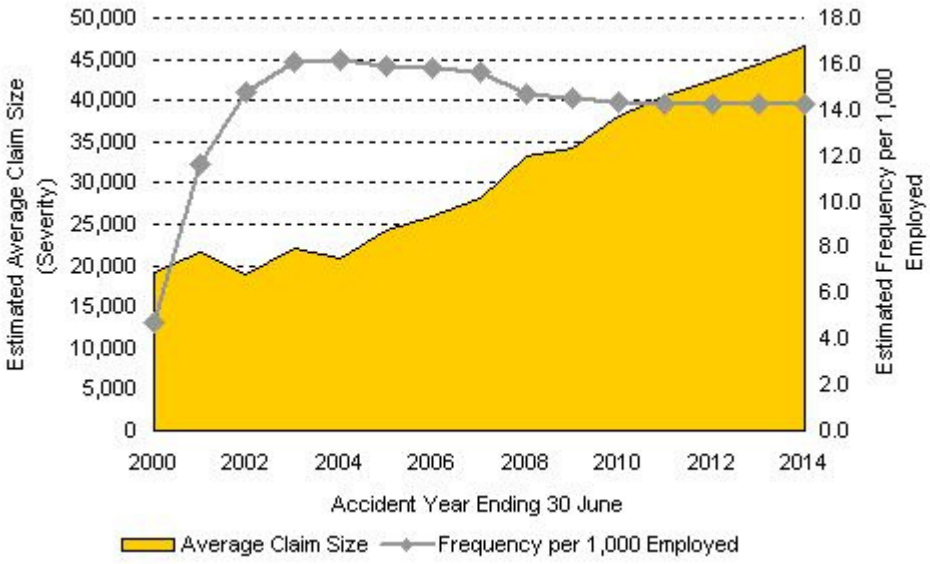
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

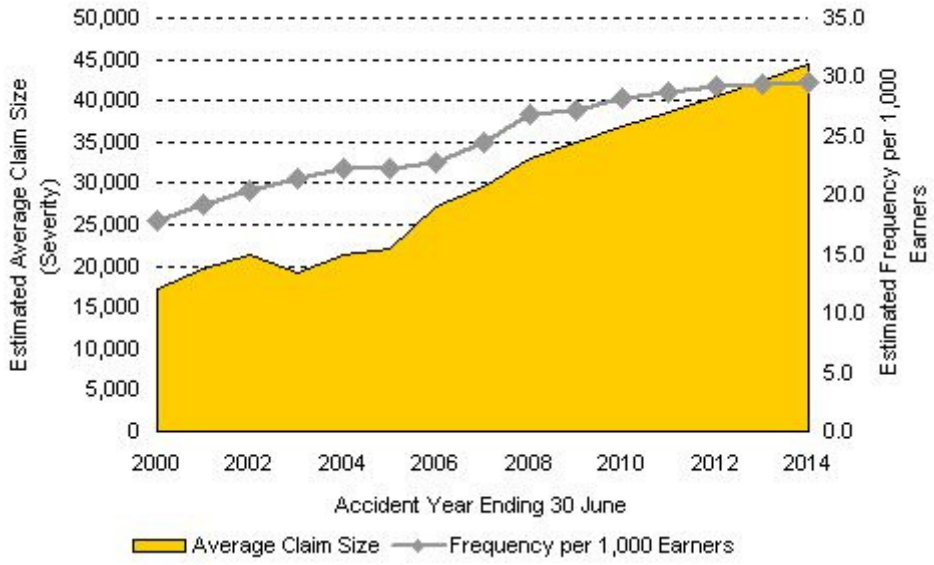
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

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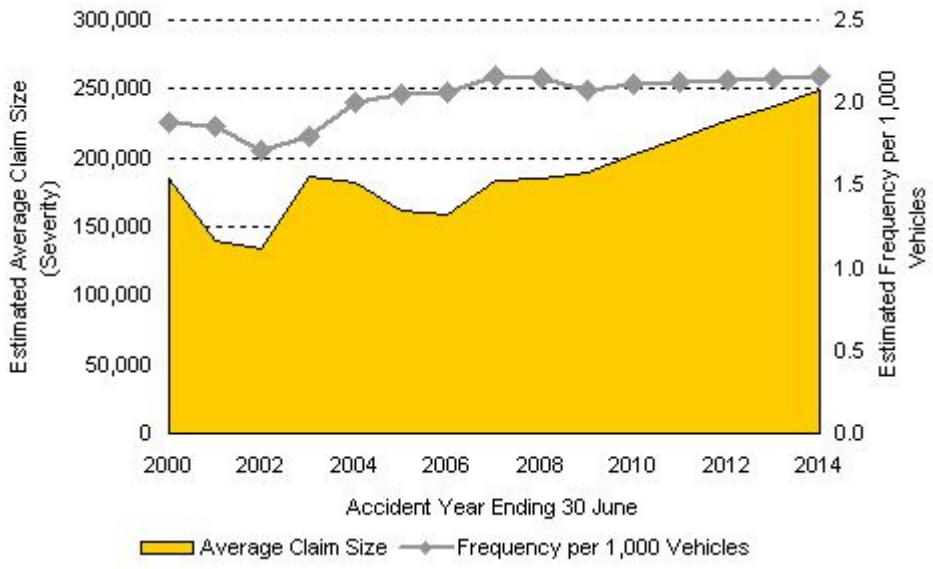

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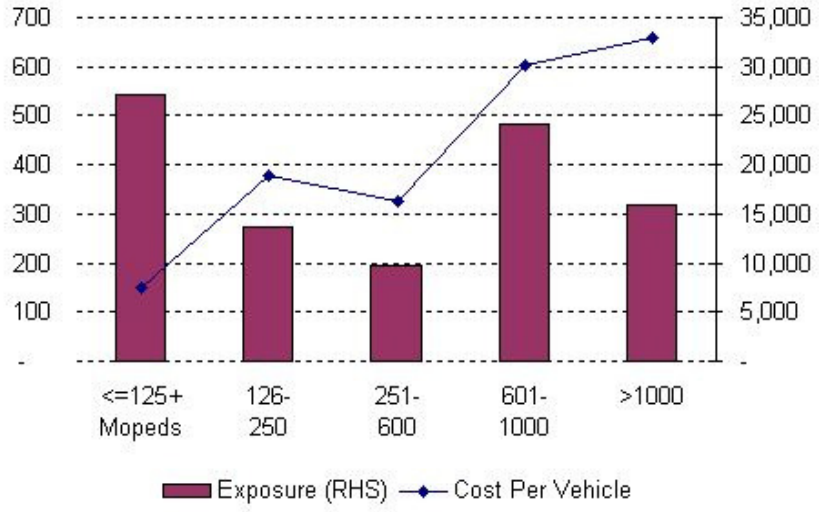

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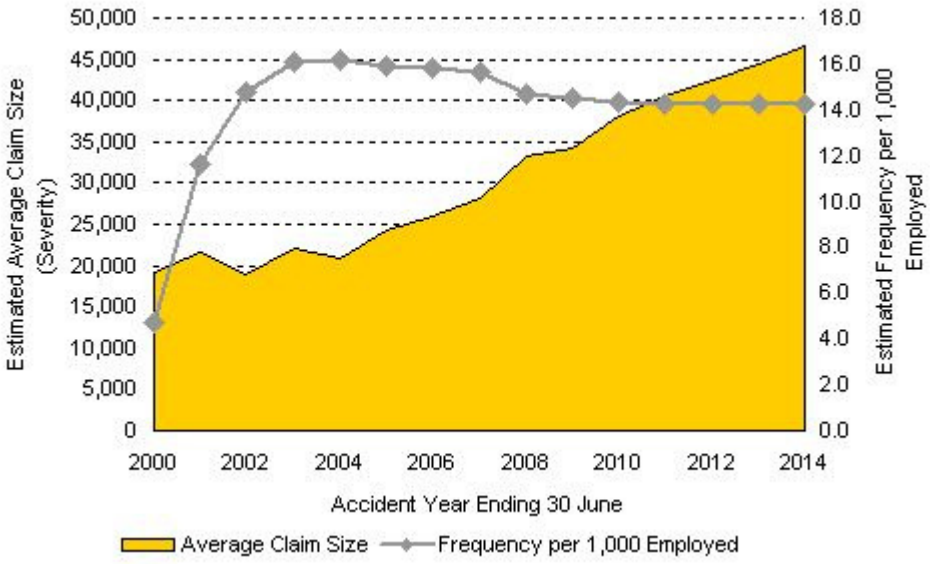
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

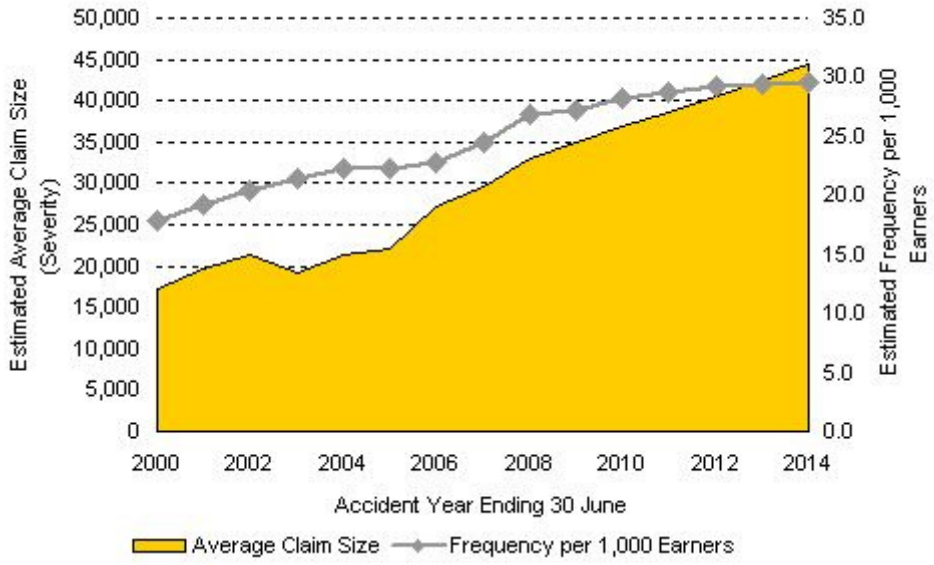
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

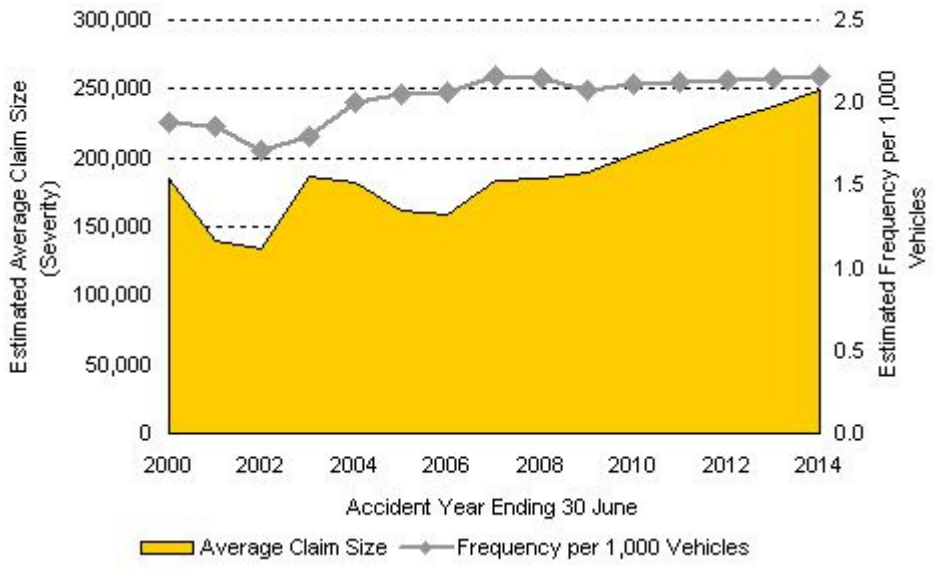
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

4. What impact will the levy changes have on the average employee?

An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

If they own a car, their ACC levy on registration will rise from $168.46 to $198.46, an increase of $30 per year. They will also typically pay $118.46 in petrol levy (based on average usage) which is not increasing.

Their total levy payment to ACC for 2010/11 will rise from $1,128.42 to $1,306.92 – an increase of $178.50.

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Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
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2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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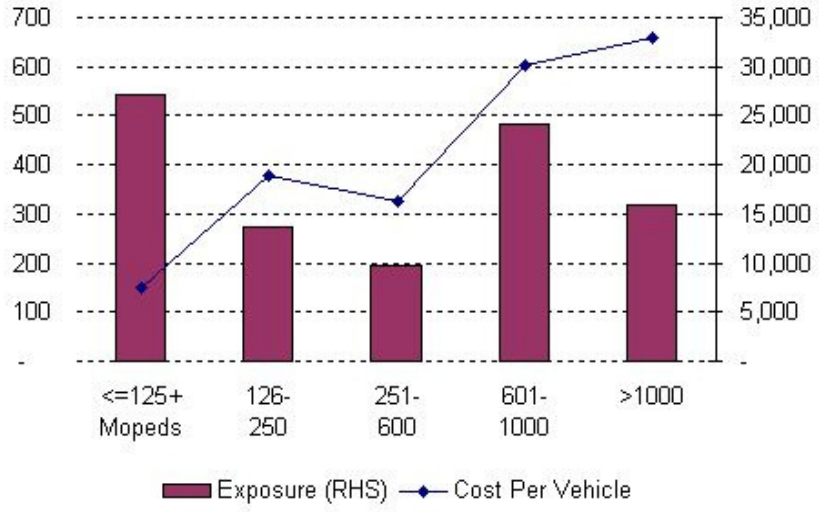

The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

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Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

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The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

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Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
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DoL recommended rate	$1.57	$2.70
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Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
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ACC consulted on including under 125cc with mopeds. This is the rate for 125cc to 600cc.

2. What is the process for setting ACC levies?

- Independent actuarial advice is sought on the liabilities in each of ACC's accounts (See: PriceWaterhouseCoopers Report: http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm).

- ACC Board publishes proposed levy rates based on its actuarial advice for consultation (See: http://www.acc.co.nz/for-business/levy-consultation/consultation-process/levy-consultation-2010-2011/index.htm#P16_810).

- ACC receives and considers submissions from the public on the levies. This year ACC received 2,850 submissions (up from 54 in 2008).

- DoL obtains independent actuarial advice on ACC's funding policies and methodologies as well as its liabilities (See: Finity http://www.dol.govt.nz/publications/general/acc-monitoring/2009-qa-review/2009-qa-review-01.asp) and provides advice to Ministers on recommended levy rates.

- Cabinet considers advice from ACC, DoL and the Minister for ACC and makes decision on levies.

- Parliamentary Counsel Office drafts regulations for Executive Council approval to formally set levies in the New Year.

3. What is the reason for the cost increases that are driving ACC levies up?

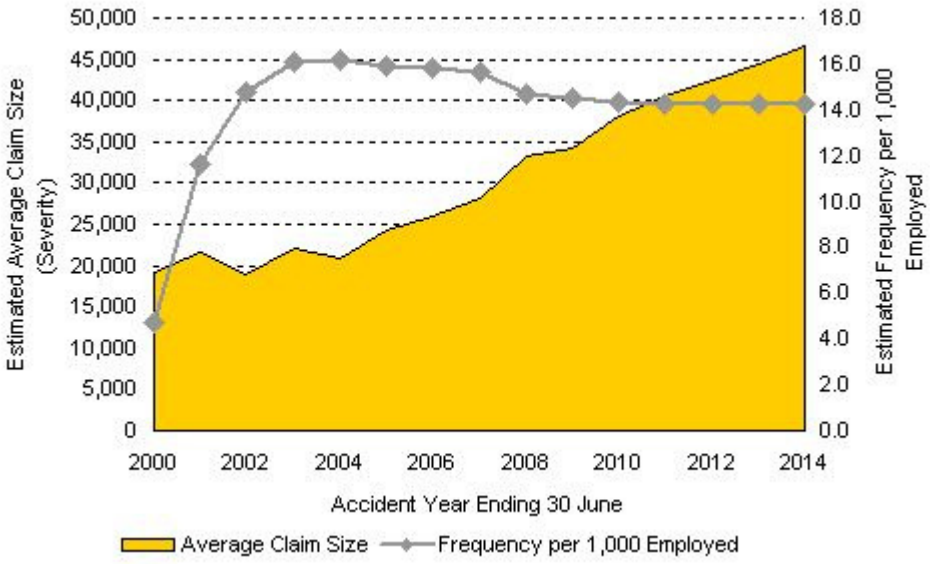
Claim costs have been increasing at significantly above the rate of inflation in recent years, due to increased claim numbers, higher treatment costs, deteriorating rehabilitation rates and scheme extensions. Some significant areas of cost increases can be categorised by areas of ACC expenditure and by ACC's accounts, as shown in the following table and graphs.

	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

Work Estimated Frequency and Severity (Entitlement Claims Only)



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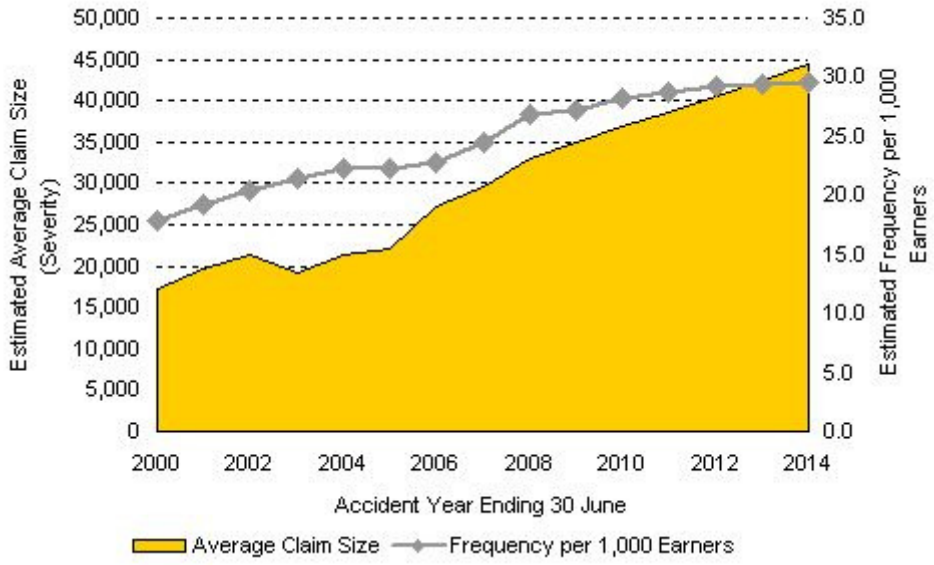
Earners Estimated Frequency and Severity (Entitlement Claims Only)



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Composite Motor Vehicle Account levy

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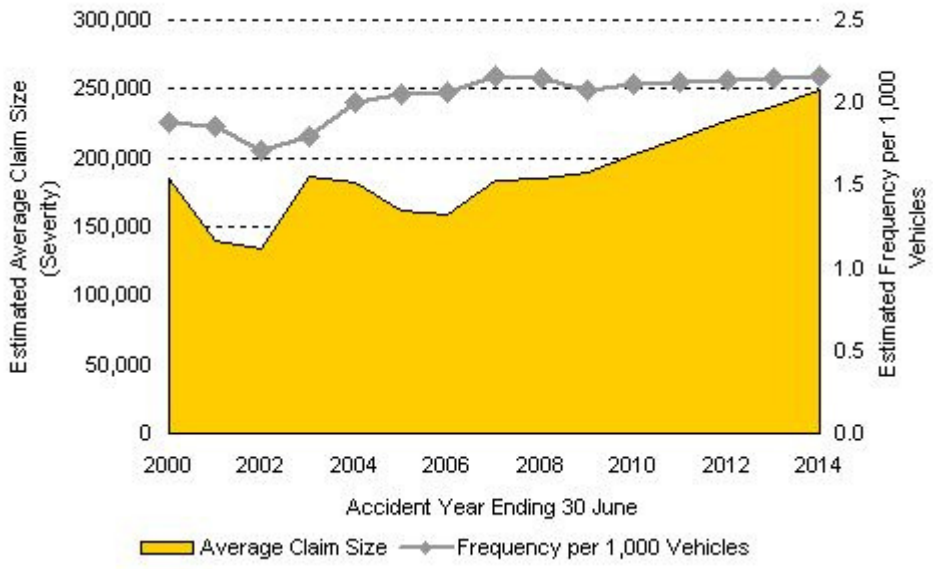

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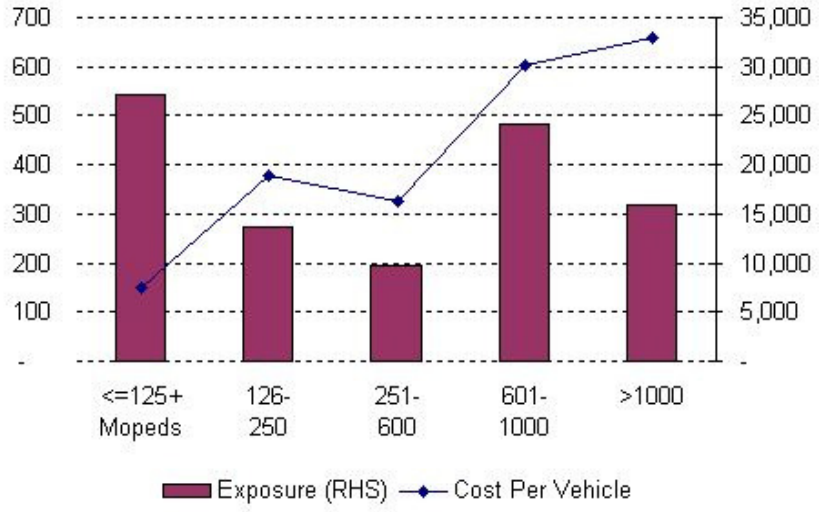

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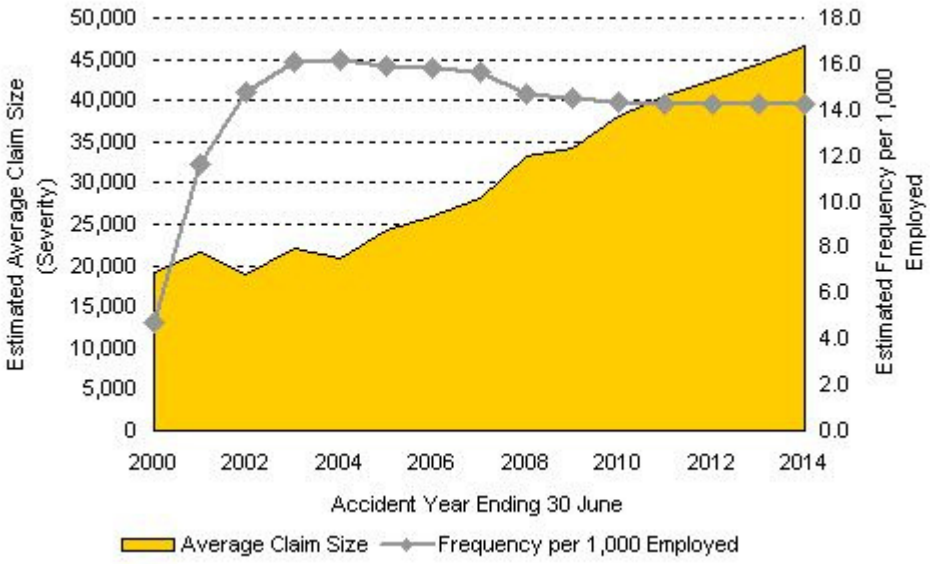
Claim costs have been increasing at significantly above the rate of inflation in recent years, due to increased claim numbers, higher treatment costs, deteriorating rehabilitation rates and scheme extensions. Some significant areas of cost increases can be categorised by areas of ACC expenditure and by ACC's accounts, as shown in the following table and graphs.

	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

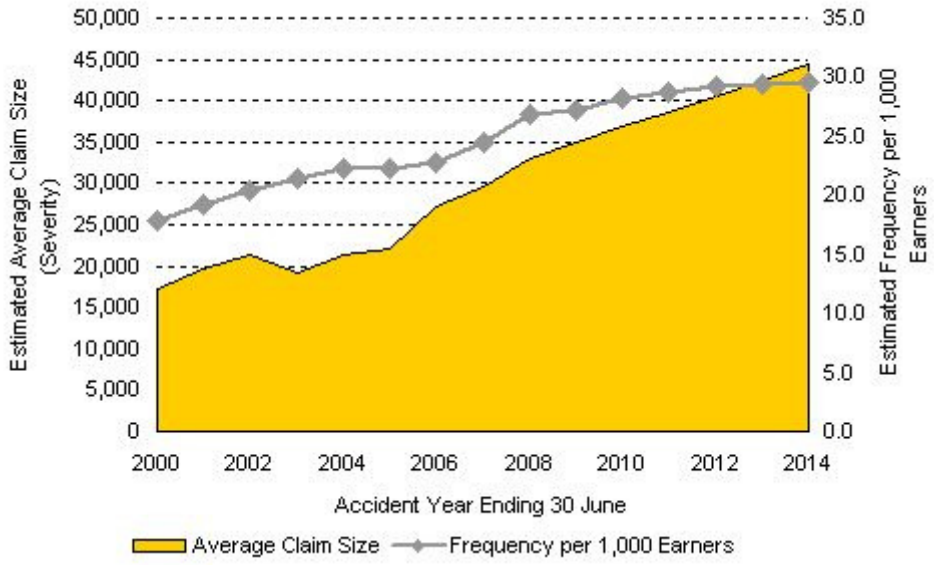
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

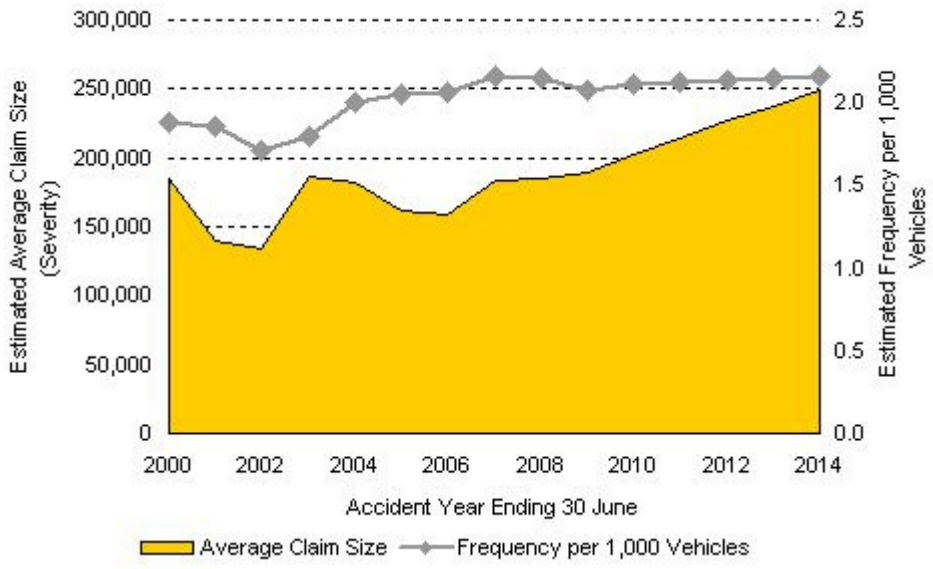
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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Calendar Year	Number of motorcycles	Claims accepted for injuries	Claims for fatal injuries	Number of motorcycles per claim
1998	60,458	871	38	69
1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

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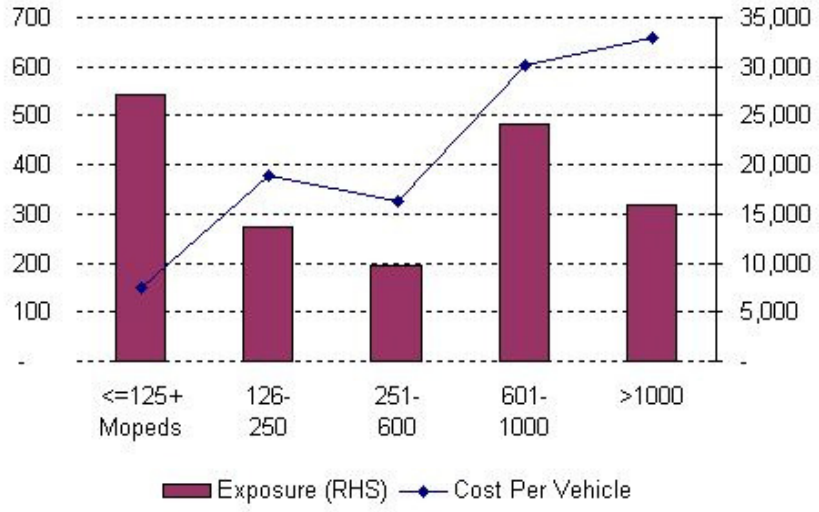
The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

Motorcycle numbers and relative costs by CC rating



The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

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Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

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The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

	Composite Average Work Levy	**Composite Earner's Account Levy**
Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
Cabinet decision	$1.47	$2.00

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations, and legislation.

The motor vehicle levy rates apply from 1 July 2010. There is no change to the 9.90c per litre ACC petrol levy. The increases are in the ACC levy on vehicle registration fees. The rates for non-petrol vehicles are higher to take into account the fact that drivers of these vehicles do not pay a petrol levy.

Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
Petrol car	168.46	272.72	198.46
Petrol Vintage/veteran vehicles and tractors	58.97	95.46	69.46
Petrol Moped	58.97	257.58	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	327.70
Petrol motorcycles 601cc and over	252.69	745.77	426.92
Petrol goods service vehicles	168.46	291.91	238.15
Non-petrol car	279.09	390.56	311.38
Non-Petrol Vintage/veteran vehicles and tractors	97.68	136.70	108.98
Non-Petrol Moped	97.68	292.93	163.12
Non-Petrol motorcycles up to 600cc	392.09	546.78	361.58
Non-Petrol motorcycles 601cc and over	392.09	781.12	460.08
Non-petrol goods service vehicles (trucks)	302.32	585.84	467.08

ACC consulted on including under 125cc with mopeds. This is the rate for 125cc to 600cc.

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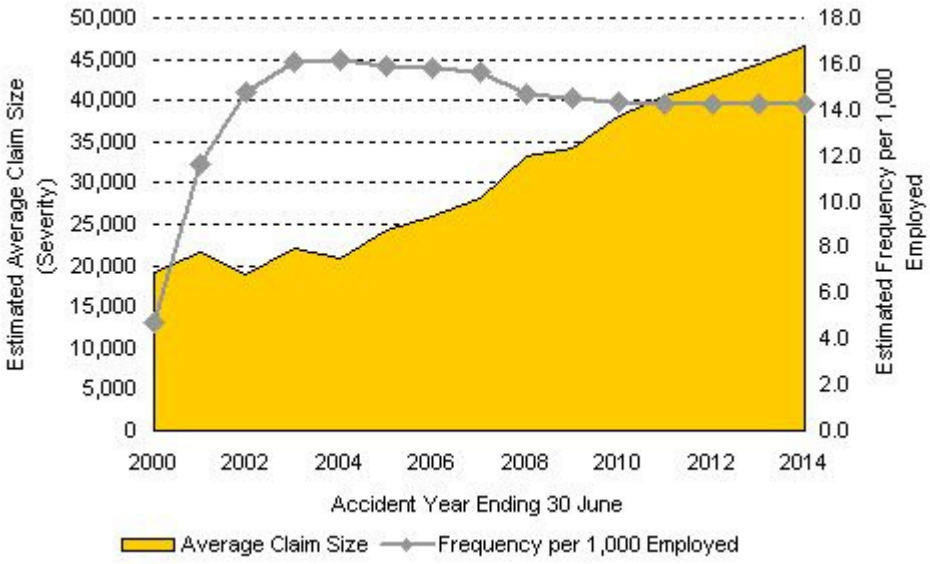

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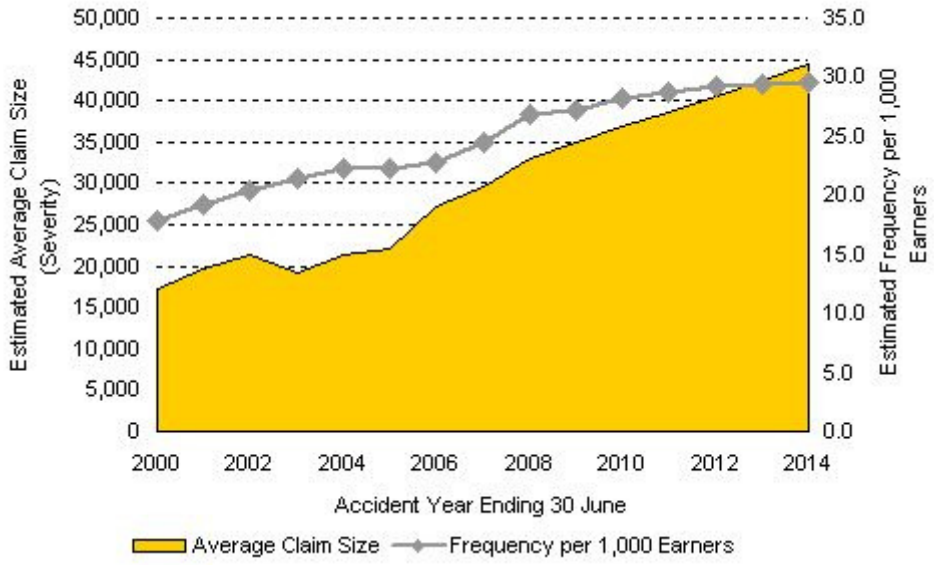

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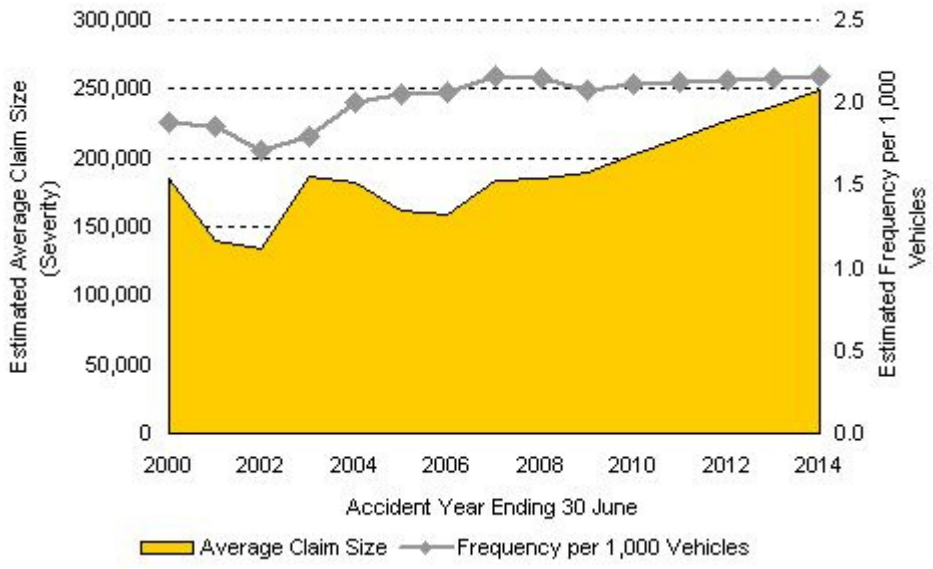

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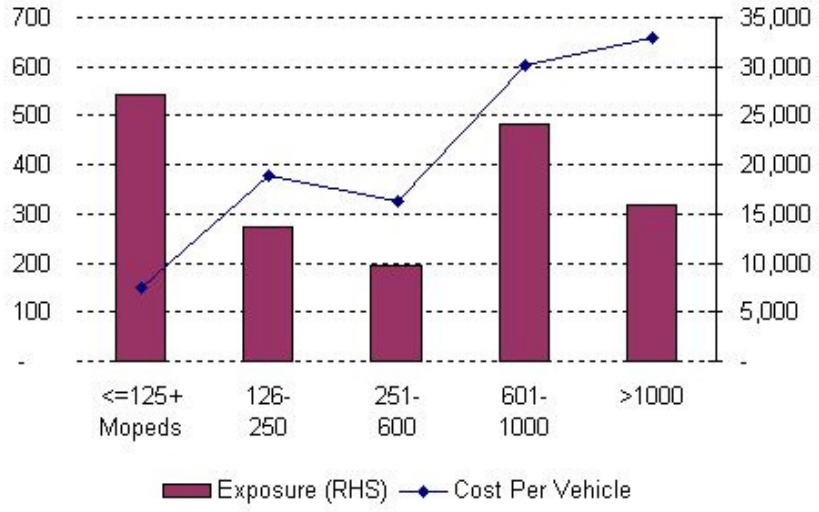

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ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
ACC recommended rate	$1.89	$2.80
DoL recommended rate	$1.57	$2.70
Cabinet decision	$1.47	$2.00

* This rate is from information included in ACC's consultation documents that was based on possible changes to management practices, regulations, and legislation.

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Registration	**Current 09/10 ($)**	**Consultation rate ($)**	**2010/11 ($)**
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Petrol Vintage/veteran vehicles and tractors	58.97	95.46	69.46
Petrol Moped	58.97	257.58	129.24
Petrol motorcycles up to 600cc	252.69	511.43*	327.70
Petrol motorcycles 601cc and over	252.69	745.77	426.92
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Non-Petrol motorcycles up to 600cc	392.09	546.78	361.58
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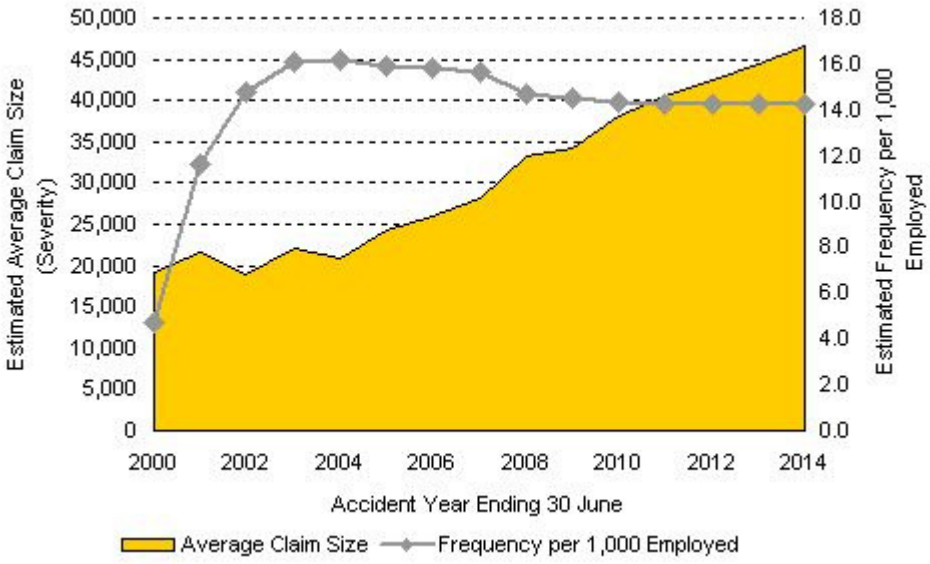
	2004/05	**2008/09**	**$ Increase**	**% change**
Income Compensation	$655m	$966m	$311m	47%
Personal Support	$159m	$285m	$126m	79%
Elective Surgery	$128m	$240m	$112m	87%
Public Hospital Costs	$289m	$380m	$91m	31%
Physiotherapy	$73m	$144m	$71m	97%
X-Rays / MRI / CT Scans	$44m	$97m	$53m	120%
Hearing Loss	$44m	$61m	$17m	37%
Suicide / Self Harm	$2.1m	$14.5m	$12.4m	590%
TOTAL ACC EXPENSES	$2,268m	$3,558m	$1,290m	57%

These increasing costs have resulted in the $12.8 billion gap between assets and liabilities that now needs to be funded.

Composite Work levy

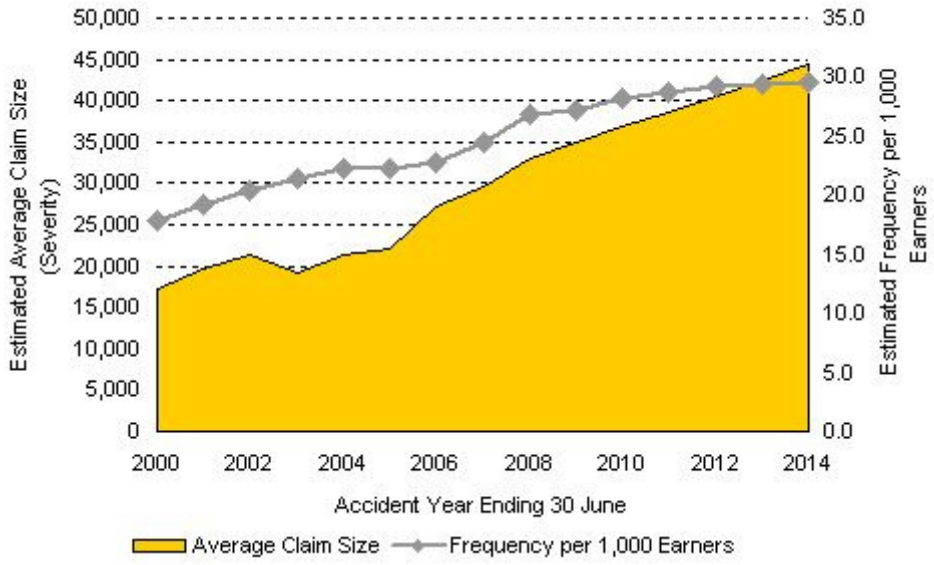
Work Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in recent years there has been a drop off in the number of Work claims made, which is good news. However, the cost of each claim has been increasing and it is projected to continue increasing at a rate higher than inflation. This is the main driver of costs for the Work Account.

Composite Earners' Account levy

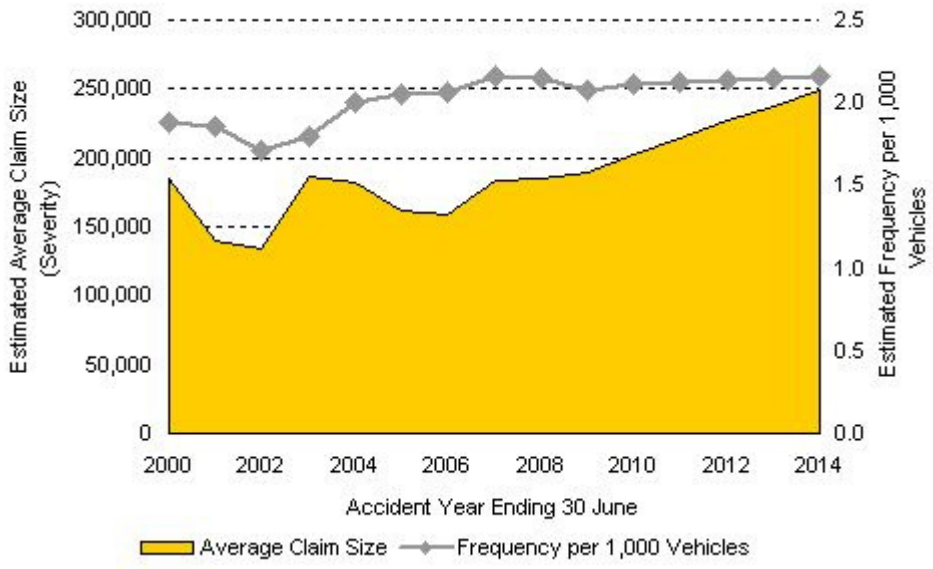
Earners Estimated Frequency and Severity (Entitlement Claims Only)



This graph shows that in the Earners' Account both the number of claims and the average cost of claims have increased in recent years, especially since 2005. This has increased the costs to ACC.

Composite Motor Vehicle Account levy

Motor Vehicles Estimated Frequency and Severity (Entitlement Claims Only)



Over the past three years the number of claims and the average cost of each claim in the Motor Vehicle Account have increased and ACC forecasts that this will continue for the next few years. These increases mean bigger costs for ACC.

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An employee on the average income of $49,500 per year will face an increase in their ACC earners' levy, deducted from each pay packet by IRD, from $841.50 (2009/10) to $990.00 (2010/11), an increase of $148.50 per year (or $2.86 per week).

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1999	59,390	684	26	87
2000	58,566	1,072	29	55
2001	57,836	1,757	36	33
2002	57,454	1,636	31	35
2003	56,047	2,433	32	23
2004	58,659	2,670	33	22
2005	63,756	3,659	34	17
2006	75,171	4,265	38	18
2007	85,356	5,013	38	17
2008	96,952	5,044	46	19

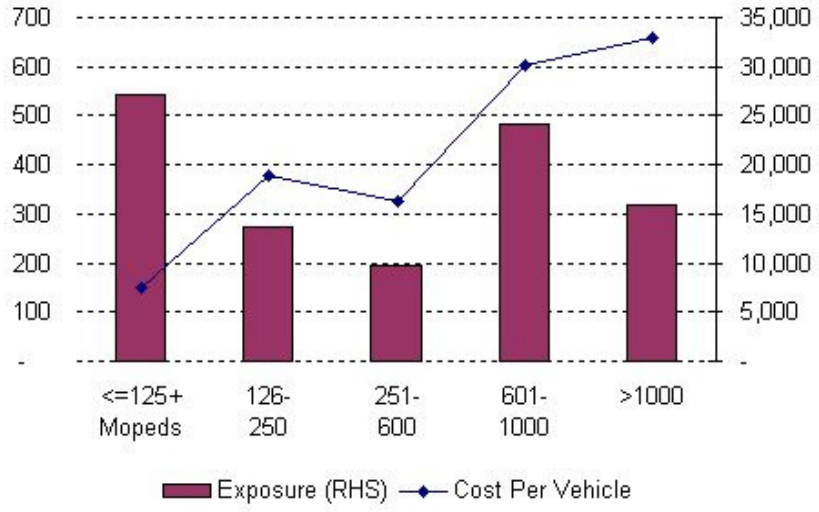
10. How has the rate for motorcycles been set?

Different risk factors are applied to different classes of motor vehicle based on an assessment of accident risk. A 50% factor has been applied to mopeds, a 150% factor to motorcycles up to 600cc, and 200% for motorcycles over 601cc, plus a specific $30 per bike safety levy. Other motor vehicles such as goods service vehicles also face a risk factor based on an assessment of higher risk. This approach to setting motorcycle levies on relativity to the standard motor vehicle is intended to apply into the future.

11. Why has the cc rating of motorcycles been used to determine different levy rates?

The Government is satisfied that the accident risk cost is related to the cc rating, i.e. that larger and more powerful bikes have a greater cost risk. Analysis of the accident data shows that the most significant variation with motorcycle size is not the frequency of accidents, but the cost of these accidents i.e. the bigger the bike, the harder the fall. Victoria, Tasmania, and South Australia also have differential levies for motorcycles on cc rating.

Motorcycle numbers and relative costs by CC rating



The Government has opted to create a separate moped class; the accident cost per vehicle for mopeds is sufficiently less than that for larger bikes. We were also concerned by the scale of increases facing moped owners from $55.97 to $257.58 under ACC recommendations, when this is not the area in which there is the most significant increase in accidents.

The Government does not believe that there are sufficient motorcycles in the 50-125cc range to justify a separate class, so has opted for a single class for motorcycles up to 600cc.

The Government is satisfied that ACC and DoL analysis of the actual risk for motorcyclists shows that it is significantly greater than the high levies proposed. The decision to opt for smaller increases is in respect of affordability and a desire to engage constructively with motorcyclists on improving safety.

Questions have also been asked about why cc rating rather than power (kw) or weight (kg) is not used to differentiate motorcycle size. While it is accepted that cc rating is imperfect, it is the measure that is readily able to be used from the motor vehicle registration system.

The cost to ACC of 601cc and greater motorcycles could justify charging approximately double the rate for motorcycles under 600cc, however, the Government has decided on a significantly lesser differential.

12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

13. Why is the Government proposing to ring-fence $30 of the moped/motorcycle levy increase for injury prevention?

Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.

Questions & Answers

1. What is the full schedule of levy decisions by Cabinet and how do they compare with the rates consulted on by ACC, recommended by ACC and recommended by DoL?

The composite average work and composite average earners' levies apply from 1 April 2010 and are rated as per $100 of liable earnings.

	Composite Average Work Levy	**Composite Earner's Account Levy**
Current rate 09/10	$1.31	$1.70
ACC consultation rate 2010/11	$1.89	$2.80
ACC reduced rate 2010/11 from information in consultation documents*	$1.47	$2.45
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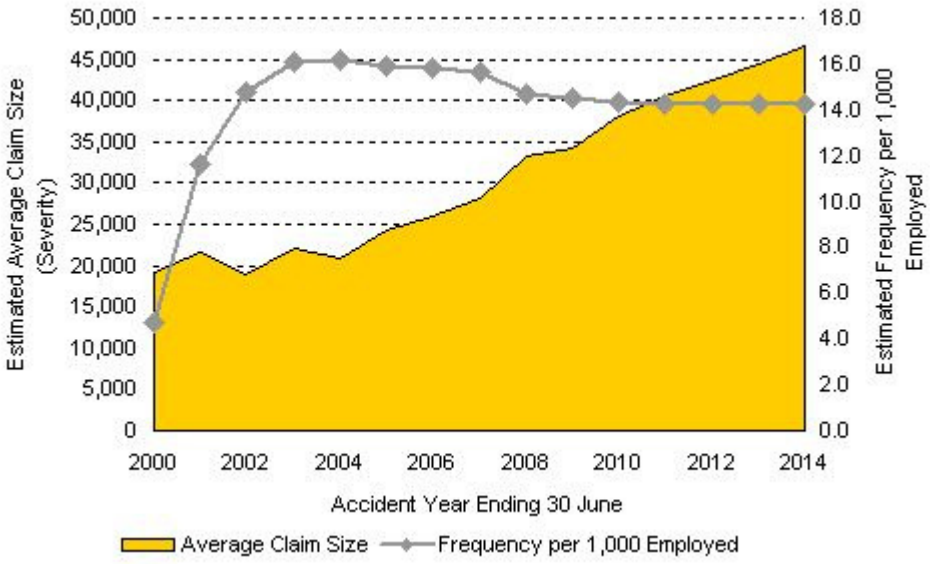

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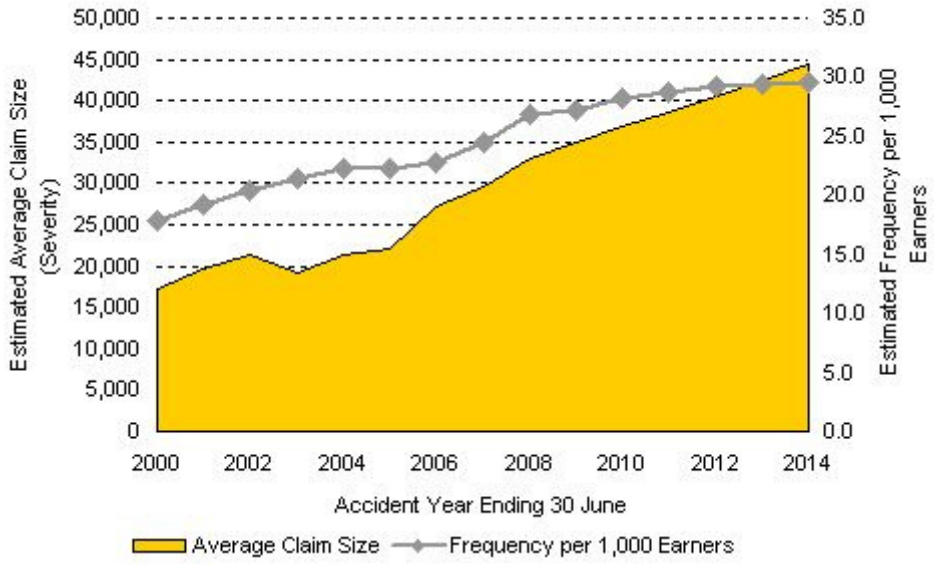

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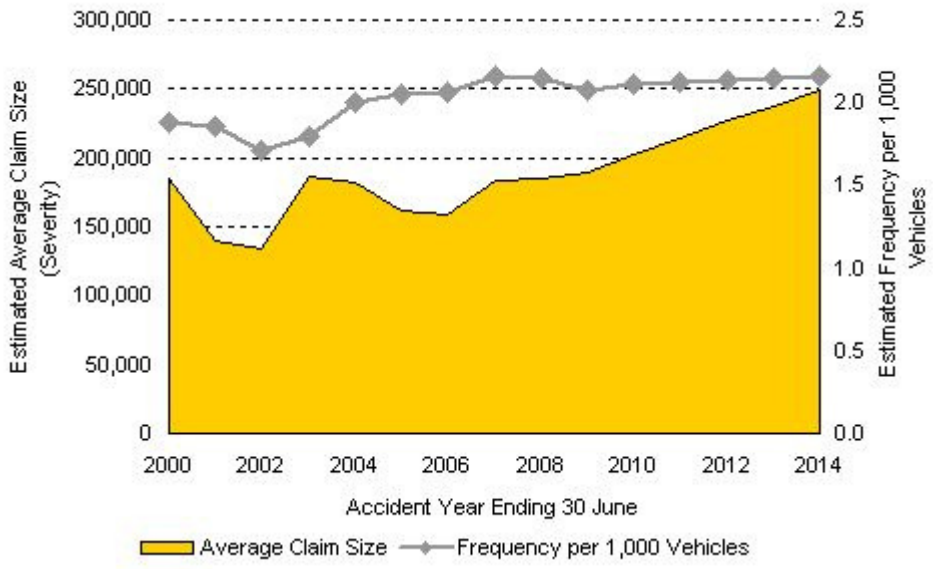

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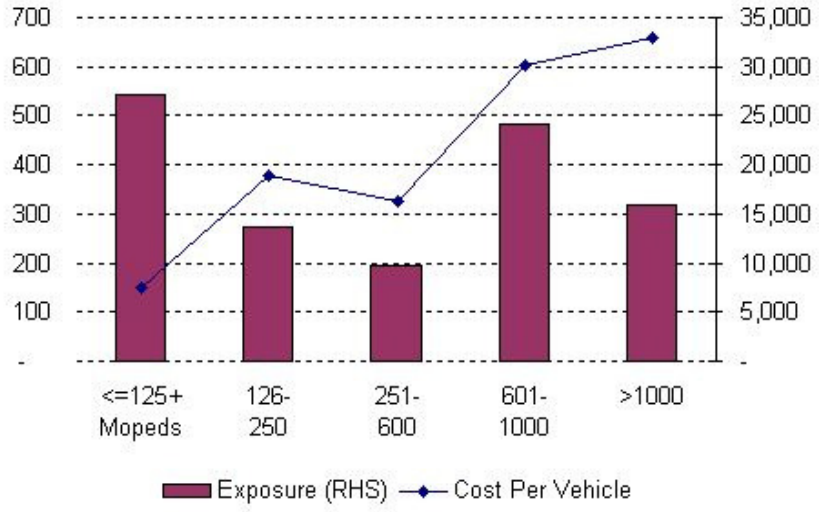

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12. Do ACC's motorcycle accident costs unfairly include off-road accidents and the costs of accidents caused by other motorists?

Off-road motorcycle accidents are not included in the analysis and are charged against the Work Account (if the driver was working, for example on a farm), the Earners' Account (for a working person who was riding for recreation) or the Non-Earners' Account (for a non-working person).

The accident data shows that 29% of motorcycle accidents do not involve any other vehicles and that these costs alone would justify increases above the proposed and final levies. Ministry of Transport data also shows that 55% of motorcycle accidents involving another vehicle had no rider fault identified, as compared to 10% of partial fault and 35% in which the motorcyclist bore primary responsibility. Assigning costs on the basis of this data would still have motorcycles paying levies way in excess of the levies announced.

No matter what way the analysis is done, motorcycles are higher risk.

13. Why is the Government proposing to ring-fence $30 of the moped/motorcycle levy increase for injury prevention?

Motorcycle clubs like Ulysses and BRONZ have indicated a strong interest in working with ACC on improving motorcycle safety, and have been critical of the small sum of approximately $250,000 per year that has historically been spent on injury prevention.

The Transport Accident Commission in Victoria, Australia introduced a motorcycle safety levy of $49.50 for every motorbike to create a targeted fund to improve motorcycle safety (see (http://www.vicroads.vic.gov.au/Home/Motorcycles/). While overall motorcycle fatalities in Australia have grown similarly to New Zealand, Victoria has achieved a 20% reduction.

The new ring-fenced fund of $3 million per annum will be modelled on the Victorian experience. The Government will be inviting representatives of motorcyclists to assist in ensuring the funds are well targeted at the sorts of training, information, and road improvements that will be effective.