

**AA Submission: ACC 2007/08 Levy Rates for Motorists  
(10 Oct 2006)**

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Levy Consultation  
Accident Compensation Corporation  
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WELLINGTON

## **SUBMISSION ON 2007/08 LEVY RATES FOR MOTORISTS**

The New Zealand Automobile Association (the Association) welcomes the opportunity to make a submission on the consultation document concerning the proposed 2007/08 ACC motor vehicle levies.

The Association represents over one million Members on issues affecting motorists. Accordingly, we continue to have a particular interest in the ACC levy because of its effect on all motor vehicle owners and motorists.

The Association's views can be summarised by the following:

### *Increase in levy rate for 2007/2008 claims*

- Oppose increasing the levy rate for 2007/2008
- Oppose full funding

### *Increase in levy rate for pre 1999 claims*

- Oppose increasing the levy rate for pre 1999 claims
- Oppose 2014 target for full funding

### *Maintain petrol levy at 5.78 cents per litre (put all of the increase onto the vehicle licence fee)*

- Support this due to the current high petrol prices, but support a gradual move over time to a greater proportion of the levy being collected from fuel.

### *Maintain current nine levy classifications for 07/08 year*

- Oppose exempted vehicles

### **Increase in the 2007/2008 combined motor vehicle levy rate from \$190 to \$204.78**

This is due to an increase of \$16.03 for 2007/2008 claims; an increase of \$15.42 in the levy rate for pre-1999 claims; and a 'decrease' from last year of \$16.67 due to there being no requirement for an upward reserves adjustment.

### **Increase in levy rate for 2007/2008 claims**

The discussion document proposes an increase in the levy rate of \$16.03 for 2007/08 claims. The majority of this increase is due to the average costs of claims and number of claims being projected to increase. We note the explanation that the annual inflation of medical and hospital treatment costs has historically been significantly higher than the CPI and that the high rate of inflation of medical costs in New Zealand is similar to that experienced in most OECD countries.

The Association does not support this increase in the levy and consider there is a need to control costs better within inflation.

The Association continues to oppose the requirement for full funding. The Association's view is that the long time frames involved make the full funding of very long claims too difficult to predict. Very slight changes in assumptions on return on investment, claims costs and longevity of claims can multiply out over the time period, leading to huge changes in the total fund that ACC is aiming to build. This necessarily adds to instability in levies from year to year.

I reiterate the Association's position as stated last year

*"The Association, after careful consideration of possible options to provide for more equitable funding of the Motor Vehicle Account recommends that the account be funded on a partial fully funded basis, and not a totally fully funded basis.*

*Such partial approach would go some way towards addressing the economic arguments that will arise without the need to forecast claims many years into the future. This will reduce the uncertainty related to such forecasts. Such an approach will:*

- *Reduce the current liability for past claims down to a much lower level*
- *The premium for claims incurred in the current year will be reduced by the tail being removed and the revised levy rate having the following components:*
  - *Claims incurred limited to 5 years*
  - *Reserve adjustment (smaller than now due to less volatility) should average out to zero over the long term*
  - *Funding levy for past years accident up to 5 years; plus*
  - *Pay as you go cost for 6 plus years claims ("reinsurance" cost)*

*It is recognised that this estimated saving is only a deferral of costs, and sooner or later, vehicle owners will be paying the full actual costs of all claims incurred and paid. It is evident however that to move immediately to a fully funded system as a consequence of the change to the legislation, places an unfair burden on present motorists and vehicle owners, who must pay a substantially higher premium for the benefit of future vehicle owners. Future motorists will inherit a fully funded scheme, and all the on-going benefits that will then accrue from it".*

### **Injury prevention costs**

The Association supports the ACC, as a member of the National Road Safety Committee, continuing to deliver and/or fund a number of road safety programmes aimed at preventing injury. We are disappointed to note however that there is to be a decrease in spending on such programmes compared to the 2006/07 year.

### **Increase in levy rate for pre-1999 claims**

The document proposes an increase of \$15.42 in the levy rate for pre-1999 claims. This proposed increase is driven by claims remaining on the scheme longer; increases in the cost of medical treatment and diagnostic imaging; and increases in the cost and proportion of non-seriously injured people requiring assistance with home help, child care, activities of daily living and transportation.

The Association continues to oppose the 30 June 2014 date for fully funding the pre-1999 claims. As this target date gets closer it leads to an increasing inequity and greater volatility in the rates. The Association considers a phased approach would be better.

### **Maintain petrol levy at 5.78 cents per litre**

The Association continues to support a gradual move over time to a greater proportion of the levy being collected from fuel rather than the annual licence fees, for petrol-powered vehicles. This is because of the reasons mentioned in the discussion document - petrol consumption generally relates to distance travelled on the road – therefore if a higher proportion of the levy is placed on petrol, it has the effect of requiring frequent users of the road to fund the costs of claims to a greater extent than those road users who travel infrequently. Another advantage of this approach is that the petrol levy is more difficult to avoid and with 100% compliance, the cost is shared over more vehicles.

However, given that petrol prices are currently so high and there is increased sensitivity attached to increases, the Association supports that the increase in the levy for the 2007/2008 year is placed on the license fee rather than the petrol levy.

The Association is concerned to hear anecdotally about the high lack of compliance with vehicle registration and that this trend may be increasing. The fewer cars on the road that are registered, the greater the cross subsidy from registered to unregistered vehicles in the ACC levy, and the lower the levy recovery. The Association requests that the ACC look into the level of non compliance and if evidence suggests that this is indeed growing, we would support the increasing going on the petrol levy.

### **Maintain current nine levy classifications for 07/08 year**

The Association would support an increased levy on motorcycles and SUVs (the latter would require a change of class).

#### *Motorcycles*

Further, the Association considers that there is insufficient effort being undertaken to remove the cross subsidy in levy between light motor vehicles and motorcycles. Light motor vehicles have higher costs to purchase and maintain many vehicle safety features (seatbelts, frontal impact standards, airbags etc) for which motorcycle riders do not pay. Recent statistics show that the number of motorcycle registrations has been increasing sharply (44% between 2004 and 2005), which will put further burden on the other vehicle types.

#### *SUVs*

The Association recognises that the ACC is a 'no fault' scheme, but considers that ACC has a duty to consider the incentive that vehicle registration charges have on vehicle choice and consequently on road safety. There is significant and growing evidence that certain types of vehicles, in particular sports utility vehicles, result in greater levels of injury and fatalities than

the average light motor vehicle, both to other light vehicle occupants and to non-paying parties e.g. pedestrians and cyclists. Thus the Association considers ACC should investigate the practicality of providing some distinction in levy to reflect the increased injury risk posed.

**Oppose exempted vehicles**

The Association continues to be concerned that there appears to be no apparent logical framework for exemptions continually given to some vehicle classes (hearses, ambulances and fire service vehicles). For example hearses are solely a commercial operation. This aspect of the policy seems dated, and the Association again requests a review of the criteria for exemptions. The Association notes with concern that these exemptions provide a loophole used to avoid registration fees, for example stretching the definition of a hearse.

Thank you again for the opportunity to comment on the proposed 2007/08 rates. Please do not hesitate to contact me if you have any queries regarding this submission.

Kind Regards

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**New Zealand Automobile Association**