HELP DESK

Time for a change?

Dean Kaye highlights some of the issues surrounding ACC levies for business owners. Could you be paying too much? Read on.

Are you a business owner or self-employed? Would you like to reduce your ACC levies by as much as 50 percent in a couple of easy steps? Due to ACC changes effective from July 2010, you may now be eligible to do so. So how is it done?

Firstly, ensure your work classification code reflects your actual position in the company. If you're 'off the tools', for example, you may be eligible for an office administration classification. Previously everyone in the same company would pay under the same classification, from shop floor to administration.

"ANYONE WHO IS SELF-EMPLOYED CAN REDUCE THEIR ACC COVER TO A MINIMUM OF $21,218"

Secondly, adjust your level of cover to an agreed value with ACC. This gives you more certainty and less paperwork at claim time.

Because of new regulations you can no longer talk to just anyone on this subject.

Effective from 31 March 2011, all financial and insurance advisers are now required to register on the 'Financial Services Providers Register' (the list is available via the Company Office website). It is only these registered advisers who can offer you a plan to switch to ACC 'Cover Plus Extra' and assist with any shortfalls. ACC themselves have been proactive in educating insurance professionals about the 'Cover Plus Extra' option, and I've personally seen fantastic results for many of my clients who have made the switch.

ACC levies are fairly high for this reason – claimants receive payment after just one week away from work. I'm sure you've heard of cases where ACC has rejected a claim that they believe is not accident-related but, instead, due to illness or a possible congenital condition. We all pay ACC levies to cover accidents, and those of us who have a private income protection policy are covered for illness as well.

Dial down or dial up

Business owners, partners and the self-employed can choose to 'dial down' and reduce their level of cover with ACC and then insure privately. Claims statistics show that for those people off work for medical reasons, there is a one-third to two-third split between those suffering from accidents and those from illness. It is also a harsh fact of life that the probability of becoming disabled due to an illness, rather than an accident, increases as we get older. So, income protection becomes more important to protect your lifestyle and retirement. However, there is little point in paying for accident insurance twice – that is, ACC and privately, hence the options now available via ACC.

Anyone who is self-employed (not on PAYE) can reduce (dial down) their ACC cover to a minimum of $21,218* (in some scenarios you can halve your levy) or, alternatively, increase their ACC contribution (dial up) to a maximum cover per annum of $89,335* or their taxable income, whichever is the lesser. (Agreement on annual cover above one's taxable earnings is negotiable with ACC on a case-by-case basis.)

ACC levies are charged to a company based on the type of work it does. For example, if you work for a construction company, it's most likely everyone employed by that company is being charged ACC levies at a construction rate — including the office workers and tea lady. I recently assisted two office-bound directors of a construction firm to reduce their levies to an office-worker rate and switch to 'Cover Plus Extra', therefore reducing their contributions. The annual savings in ACC levies for the pair was a little over $9000. Obviously, this was a welcome relief; but if you multiply this figure by 25-plus years – assuming they retire at 65 – then the real savings amount to more than $250,000.

However, before you rush out and dial down your cover, it is vitally important that you have a robust insurance programme in place. ACC also pays on accidental death, which is significantly greater than the widows' benefit paid by WINZ. It is based on the income of the spouse or the 'Cover Plus Extra' amount. You must ensure that you have adequate life, trauma and income protection in place before altering your ACC levies. The $9,000 plus-per-year in the example above will certainly contribute to establishing an appropriate, more encompassing insurance programme that also includes illness.

Finally, take your current income and multiply this by the number of years you have until retirement. This figure is your future income-earning potential, without pay increases. Most will agree that this is worth insuring. Without this income your life could fall over like a pack of cards. So why only have accidents, or one-third of the potential likelihood of loss, covered?

*Figures current as at April 2011

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