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A Practical Approach to ACC Advice

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Thrive Consulting Limited

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Workshop Objectives

- Build a deeper understanding of the benefit of helping self employed clients with ACC
- Develop insight into the interaction between ACC and Income Protection to provide clients with optimal solutions
- Develop greater confidence and competence about ACC advice
- Help you position ACC and Income Protection advice with Accountants

Workshop Content

- Disablement ‘Demographics’
- ACC Product Overview
- ACC and Income Protection – how they ‘fit’ together
- Assessing ACC entitlements
- Structuring ACC and Income Protection solutions
- Center of Influence opportunities – building collaboration with accountants

The Problem

- ACC is mandatory – there is an element of cost that cannot be avoided
- Disablement from injury is not the only event that will create financial risk
- The liable income of a self employed person or shareholder employee may not reflect the financial loss that will occur
- Proving the loss at claim may not be straightforward

The Objectives



**Optimise
Protection**



**Reduce
Complexity**



**Increase
Certainty**



**Minimise
Cost**

Disablement Demographics



14 Males out of
100 between age
45-64



16 Females out of
100 between age
45-64



34% of Disablement
caused by injury

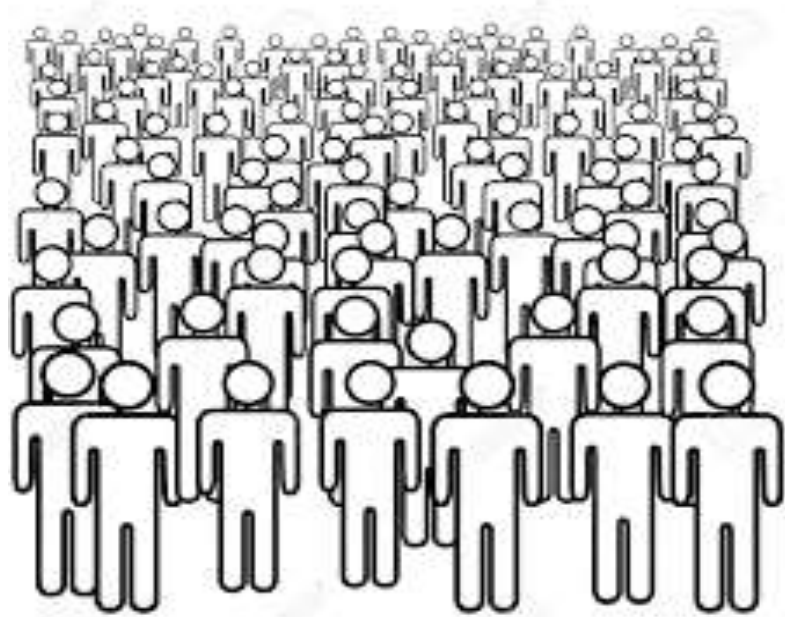


42% of Disablement
caused by illness



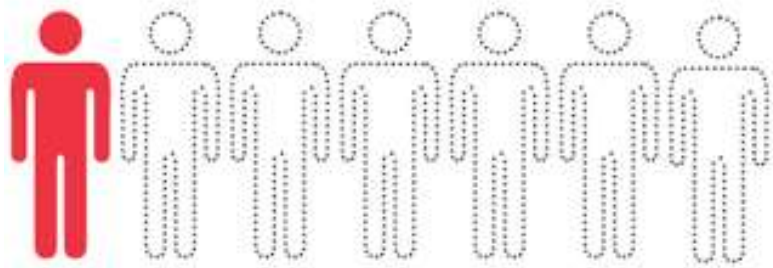
2.6 times more
likely to be off work
for 6 months due to
illness

New Zealand –Income Protection



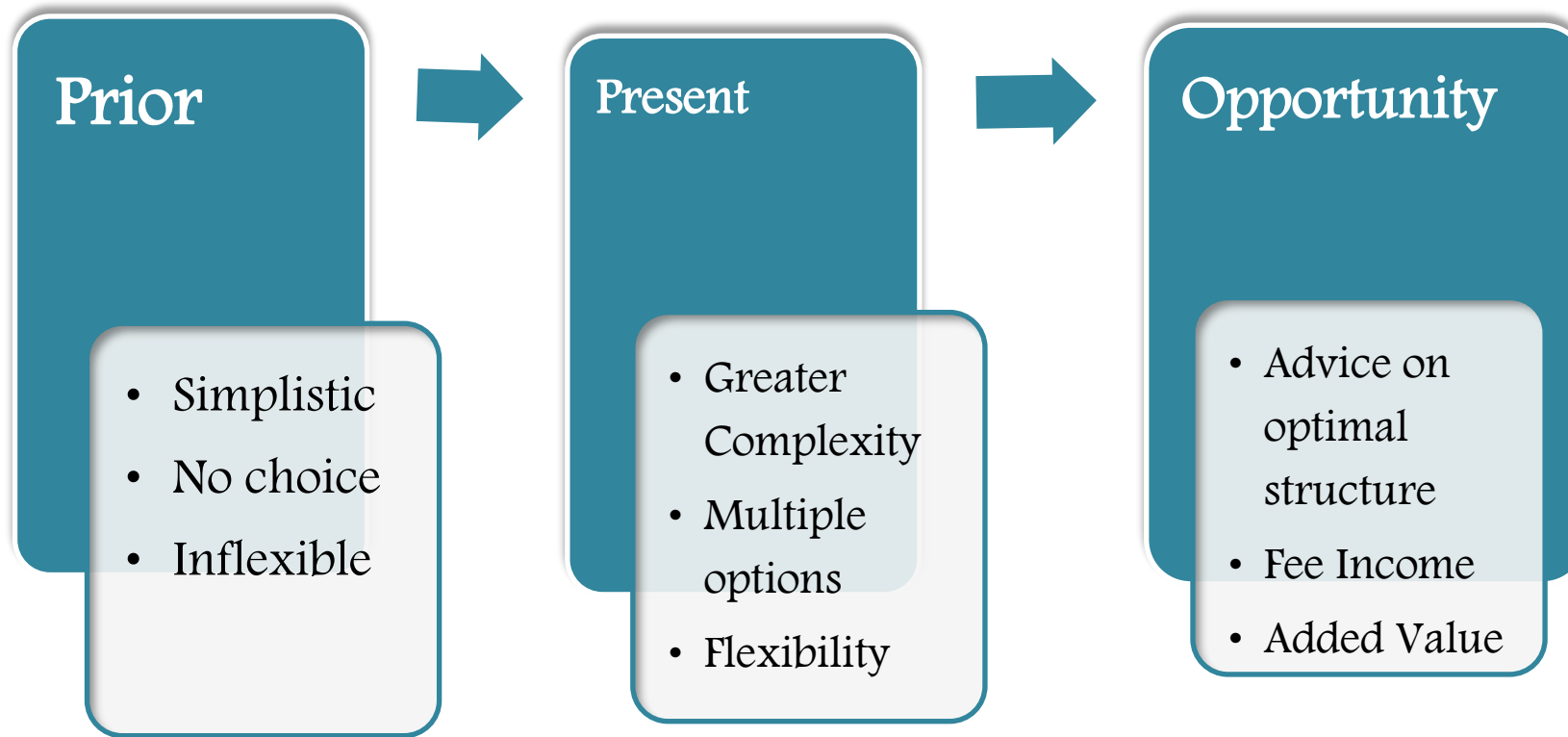
1 million households in NZ with income over \$20,000 per annum.

Sickness Benefit is \$17,836 per annum



1 in 7 New Zealanders who earn their income through 'physical exertion' have Income Protection

ACC Journey



	ACC CoverPlus Extra & LLWC	ACC Cover Plus
Weekly Entitlements	Pays 100% gross of the amount agreed. Minimum benefit \$25,376 Maximum benefit \$99,242. FY 2017-2018	Pays up to 80% gross of previous year's earnings .
	Paid in full, even if business continues to generate income during time off work, or if claimant returns to work on a part-time basis. (unless LWCC selected)	Will be reduced if business continues to generate income during time off work, or if claimant returns to work on a part-time basis.
	Do not have to prove loss of earnings.	Must prove loss of earnings.
Levies	<i>Calculated using:</i> The agreed amount of benefit in ACC Contract The business activity LLWC option	<i>Calculated using:</i> Previous year's liable earnings For the self-employed: levy rates specific to individuals role within the business For shareholder-employees: the company activity.
Claims	Pre-agreed payment starts once claim has been accepted.	The level of lost earnings cover is determined after you have made a claim.
	Seven-day waiting period.	Seven-day waiting period.
Compensation for Fatal Claims	Weekly compensation is 100% of the agreed level of cover divided by 52. Paid for 5 years or until youngest child is 18 or 21 if in full time study	Weekly compensation is 80% of the claimant's earnings over the last 52 weeks divided by 52. Paid for 5 years or until youngest child is 18 or 21 if in full time study

Fatal Accident Entitlements

- Spouse may receive up to 60% of the Insured's weekly compensation entitlement
- Each child (or dependent) may receive 20% of the weekly compensation
- Total compensation will not exceed 100% of the insured's entitlement
- If there is more than two children the 40% is prorata across them
- A child (or dependent) must be under 18 or under 21 in full time study to qualify
- If there are no children, compensation is payable to the spouse for up to five years

ACC Minimum and Maximum – FY 2017-2018

Cover Type	Minimum Liabile Income	Maximum Liabile Income
Cover Plus	\$31,720	\$122,063
Cover Plus Extra	\$25,376	\$99,242
Employees		\$124,053
Newly Self Employed		60% x Labour Replacement index

The Target Market for ACC Cover Plus Extra

- Self Employed
 - Sole Traders
 - Contractors
- Business owners of a company that they work in but who are not being paid a salary with PAYE deductions
- Partnerships

Situations suited to ACC Cover Plus Extra

- Earnings fluctuate from year to year (e.g. farmers, real estate agents, contractors)
- Earning status changed (e.g. from part-time to full-time)
- Pre-existing health conditions, or hazardous occupation or pastime
- Personal income is not an accurate indication of the income they have generated
- The business may still generate income if claimant injured
- High income earners

ACC Options – John the Consultant

	ACC CoverPlus CoverPlus	ACC CoverPlus Extra Extra (Standard)	ACC CoverPlus Extra Extra (LLWC)*
Actual Earnings Earnings	\$80,000	\$80,000	\$80,000
Total Levy (incl. GST)	\$1,334	\$1,690.33	\$1,653.42
Level of Cover Cover		\$24,544	\$24,544
Total Levy (incl. GST)		\$569.62	\$558.29

Case Study – ACC

Fosters Building Limited

- Liz Foster and Scott Foster are the shareholders of the company Fosters Building Limited
- Scott is the Builder, Liz is the Office Manager, both are age 40. They have 2 children aged 11 and 9.
- Total Earned Income of the Company is reflected in a Profit of \$200,000 for the year ended 31 March 2016
- This is shown in the Financial Statements as Shareholders Salary of \$100,000 to Scott and \$100,000 to Liz
- We could attribute their earnings based on their physical exertion as \$150,000 to Scott and \$50,000 to Liz but in reality if Scott was unable to work the business would fold
- They are both currently on ACC Cover Plus under the company classification code of House Construction

Current ACC Structure

	Scott	Liz
Current Classification Unit	41110 (House Construction)	41110 (House Construction)
ACC Cover Plus (Level of cover 80% of \$100,000)	\$80,000 gross	\$80,000 gross
Current Levy	\$4,301	\$4,301
Change CU for Liz		78540 (Office Admin Duties)
		\$1,817

Tips on Classification Codes

- Manufacturing – not elsewhere classified
 - ACC default when client not set up properly
 - Highest ACC levy rate
 - Levy reductions are likely if you can get them set up on the right code
- ACC will backdate up to 3 years of over payment of levies if client has been set up on wrong code

Change to Cover Plus Extra

	Scott	Liz
Current Classification Unit	41110 (House Construction)	78540 (Office Admin Duties)
ACC Cover Plus Extra – max level	\$97,650 gross	\$97,650 gross
Levy	\$5,432.34	\$2,268.11
ACC Cover Plus Extra – min level	\$24,544	\$24,544
Levy	\$1,434.28	\$638.96

Claim Impact after Restructure

New Structure	Scott	Liz
Current Classification Unit	41110 (House Construction)	78540 (Office Admin)
ACC CoverPlus Extra	\$24,544	\$24,544
New Levy	\$1,434.28	\$638.96
Scott has an injury claim		
ACC Benefit	\$24,544 gross	
Shortfall in Income (\$150000	\$125,456 gross	

Impact on Fatal Accident Entitlement

	ACC Cover Level	Weekly Entitlement	ACC Cover Level	Weekly Entitlement
	\$80,000		\$24,544	
Spouse		\$923		\$283.20
Child – 11		\$307.69		\$94.40
Child– 9		\$307.69		\$94.40
Total		\$1538 per week		\$472 per week

Payable for up to 10 years for oldest child and 12 years for youngest child

Case Study Exercise

Task 1 - Calculate Gary's ACC Entitlement for Cover Plus

Task 2 - Loss of Income Entitlement for Fatal Claims

Task 3 – CU/BIC Classification

ACC and Income Protection



42% of disablement
caused by illness



2.6 times more
likely to be off work
for 6 months due to
illness

- If disablement results in a loss of income that creates financial risk for a person they need protection for illness and injury
- ACC Cover Plus Extra creates the opportunity to help clients structure their risk management against loss of income to minimize duplication of cost while maximizing their protection

The Objectives



**Optimise
Protection**



**Reduce
Complexity**



**Increase
Certainty**



**Minimise
Cost**

Calculating Insurable Income

- Many business owners will receive financial benefits from the business which are not included in their personal taxable income but which can be included in the assessment of their earnings for Income Protection
- Examples of ‘Allowable Add-backs’
 - Payments to spouse
 - Portion of home office expenses/rent
 - Interest on portion of personal mortgage
 - Management fees charged to the business by owner
 - Depreciation

Validating Insurable Income

Year ending:	31 Mar _____	31 Mar _____
A - Profit / Loss		
Income/Gross Profit	\$ _____	\$ _____
Less Total Expenses	\$ _____	\$ _____
Total A - Profit / (Loss)	\$ _____	\$ _____
B - Income -Add backs <i>(Complete relevant fields)</i>		
Salary/Wages (from the business)	\$ _____	\$ _____
Home office/Rent	\$ _____	\$ _____
Home office expenses (portion of phone, internet etc)	\$ _____	\$ _____
Management Fees	\$ _____	\$ _____
Professional Fees	\$ _____	\$ _____
Depreciation	\$ _____	\$ _____
Interest	\$ _____	\$ _____
Total B	\$ _____	\$ _____

Case Study Exercise – Task 1

Calculate the gross income
you could potentially justify for
Gary for Income Protection

ACC and Income Protection

New Structure	Scott	Liz
Current Classification Unit	41110 (House Construction)	78540 (Office Admin)
ACC CoverPlus Extra	\$24,544	\$24,544
New Levy	\$1,434.28	\$638.96
Income Protection		
Occupation Class	3 (Builder)	2 (Clerical)
Sum Insured (Agreed Value)	\$82,500 (\$150,000 @ 55%)	\$31,250 (\$50,000 @ 62.5%)
Annual Premium		
4 Week Wait	\$3,910	\$1,885
13 Week Wait	\$1,813	\$842

Claim Entitlements- ACC & IP

	ACC Type	ACC Entitlement	Income Protection Sum Assured	Gross Income on claim	Net Income
Scenario 1 Accident	Cover Plus	\$80,000	\$0	\$80,000	\$62,680
Scenario 2 Accident	Cover Plus Extra	\$24,544	\$82,500 AV		\$82,500
Scenario 3 Accident	Cover Plus Extra	\$24,544	\$112,500 LOE	\$118,636	\$88,567
Scenario 4 Illness	Cover Plus Extra	\$24,544	\$0	\$17,836 (if qualify for W&I sickness)	\$15,694

NB: Based on Total Disablement scenario

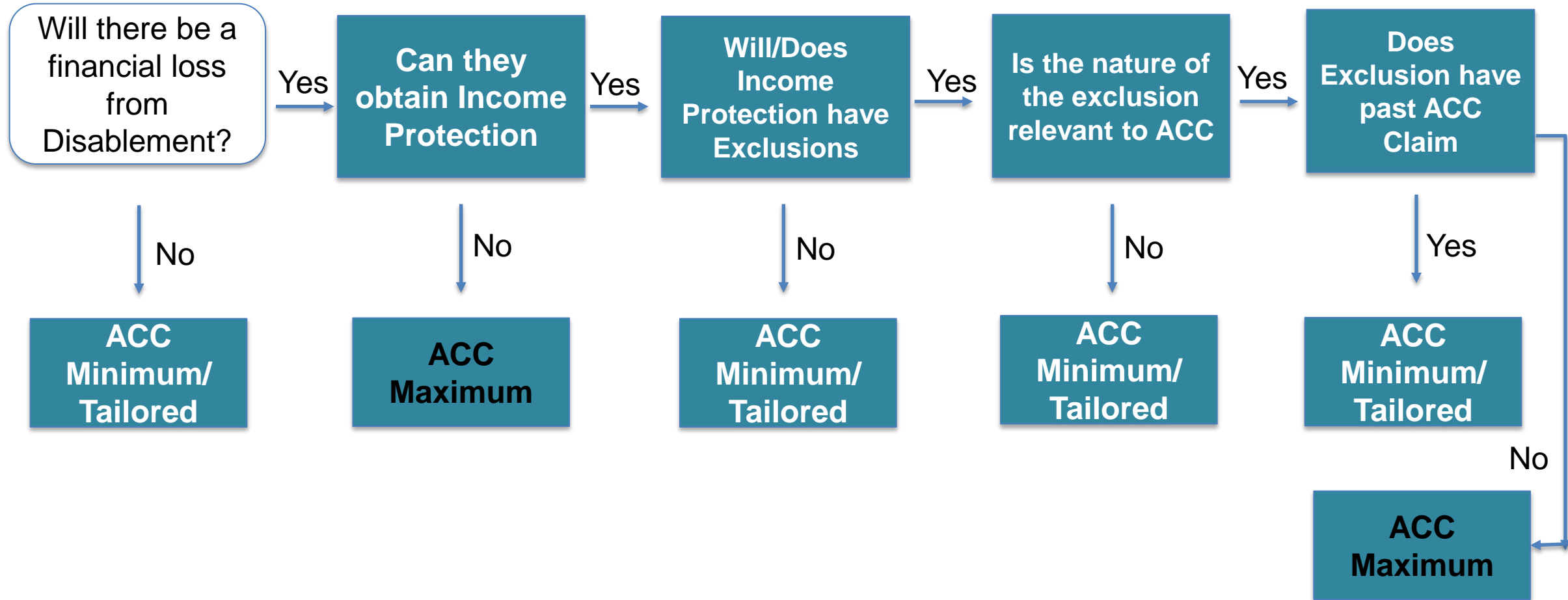
Income Protection Type

- Agree with clients their priorities at claim time
 - Certainty and simplicity versus less certainty and potentially more complexity
 - Potential of higher benefit versus known amount
 - Document/record the clients preference
- Understand the potential impact of multiple claims over the duration of the policy on the income that can be proved for a future claim
- Understand the current business practices re financials – are the books up to date to ensure validating a loss will be efficient

The Risk of Exclusions

New Structure	Scott	Liz
Current Classification Unit	41110 (House Construction)	78540 (Office Admin)
ACC CoverPlus Extra (Level of cover reduced to statutory minimum)	\$24,544	\$24,544
New Levy	\$1434.28	\$638.96
Income Protection (with a back exclusion)		
Occupation Class	3 (Builder)	2 (Clerical)
Sum Insured (Agreed Value)	\$82,500 (\$150,000 @ 55%)	\$31,250 (\$50,000 @ 62.5%)
Scott has a Back Injury Claim		
ACC Benefit Paid	\$24,544 (less tax)	
Shortfall in income	\$125,456 (\$150,000 less \$21,216)	

Decision Tree – ACC and Income Protection



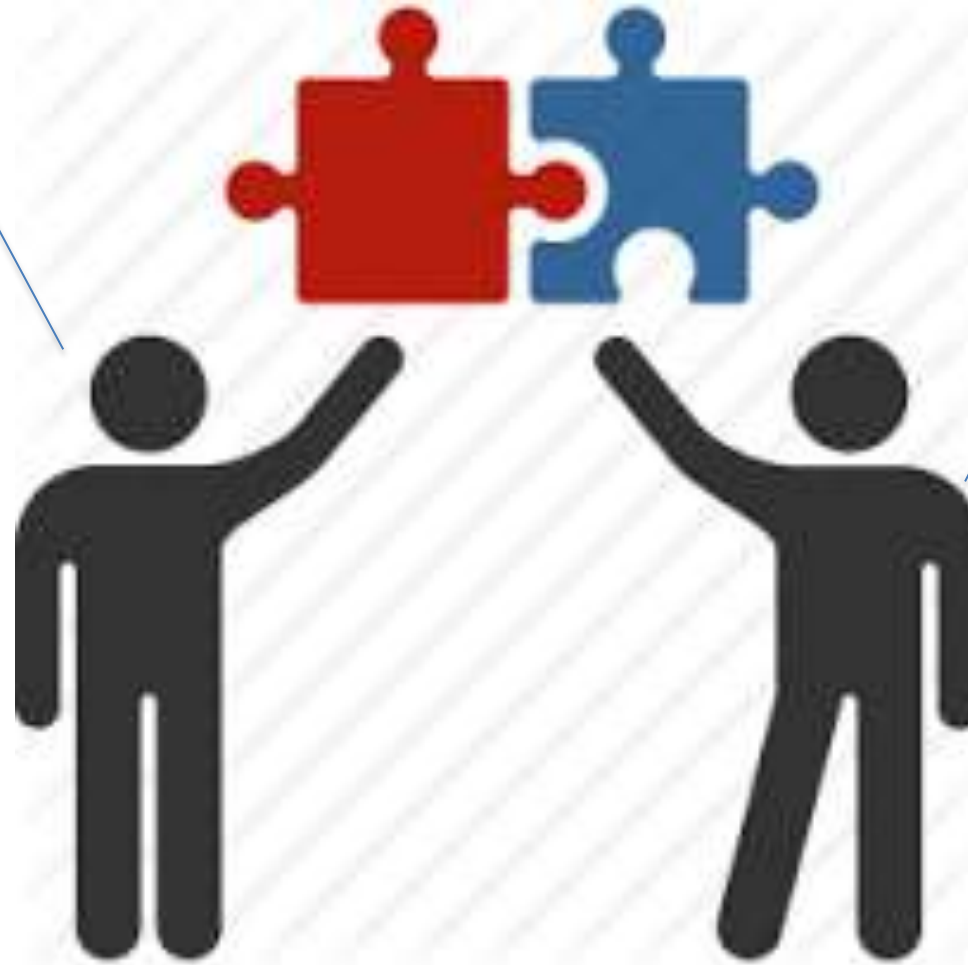
Case Study Exercise –Task 4

Calculate the income shortfall on an ACC claim for a high earner

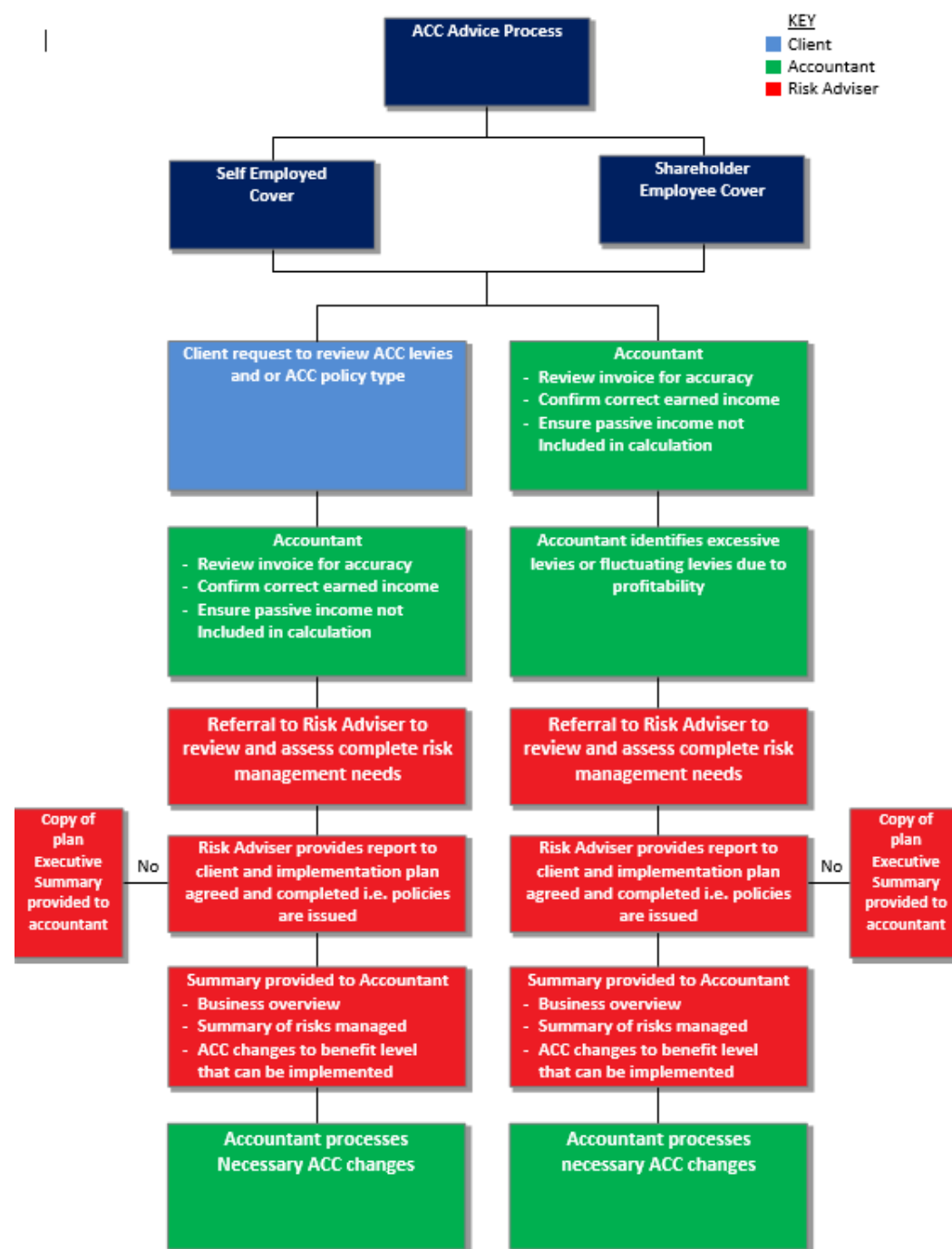
What are the key areas of advice you would consider?

ACC Collaboration

- ACC Administration
- ACC Structure
- Tax Advice
- Financial Validation for claims



- Risk Analysis
- Risk Solutions Advice
- Insurance Implementation
- Claims Management



In House Service Line

- ACC Administration
 - invoicing
 - annual review
 - obtain financial evidence to support claims
- Structure
 - classification
 - benefit type
 - benefit level

- Risk Management Advice
 - consultation
 - analysis
 - risk management strategy
- Implementation
 - product solutions
 - implementation management
 - claims management
- Review

The Outcomes of Collaboration



**Optimise
Protection**



**Reduce
Complexity**



**Increase
Certainty**



**Minimise
Cost**

Conclusion



Gary Electrical Case Study

<https://www.levycalculators.acc.co.nz/cpx.jsp>

<https://www.levycalculators.acc.co.nz/cp.jsp>

e-learning modules

19 e-learning modules
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Complete in your own time
Or <https://learningpad.triplejump.com/>
Or www.ifa.org.nz/events/other

Topics covered...



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Triplejump e-module #1: The Principles of Risk Management Planning

Event Type:	Other
When:	31 Aug - 31 Aug 2020
Time:	Anytime
Venue:	Online e-module
Location:	Online e-module
Provider:	Triplejump
Contact:	info@triplejump.co.nz
Practitioner Member Fee:	\$92.00
Associate Member Fee:	\$92.00
Affiliate Member Fee:	\$92.00
Non-Member Fee:	\$92.00
CPD Credits:	1 CPD hour
Description:	
Type:	Online
Level:	Foundation
Industry Knowledge:	Insurance planning and risk management
Presenter:	Online content developed for Triplejump by Cecilia Farrow CLU

Risk – an inherent part of everyday life and business operations. Risk management can sometimes be complicated, and being able to analyse and discuss risk with confidence is essential for every successful business.

Real life examples are just one of the learning tools demonstrated in this interactive e-module, designed with

How to Choose a Financial Adviser

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e-learning modules – topics covered



#	E-learning Module	Learning Area	Competency Level
1	The Principles of Risk Management Planning	Insurance and Risk Management	Foundation
2	The Lifecycle of an Individual	General Principles of Financial Planning	Foundation
3	The Law & Advice - New Zealand	General Principles of Financial Planning	Foundation
4	The Insurance Industry	Insurance and Risk Management	Foundation
5	Insurance Principles	Insurance and Risk Management	Foundation
6	Insurance Policy Contract Overview	Insurance and Risk Management	Foundation
7	Insurance Products: Common Features	Insurance and Risk Management	Foundation
8	Core Insurance Products	Insurance and Risk Management	Foundation
9	Customised Insurance Products - New Zealand	Insurance and Risk Management	Developed
10	An Introduction to Estate Planning - New Zealand	Asset Planning	Foundation
11	Underwriting in the Insurance Industry	Insurance and Risk Management	Foundation
12	3 Dimensions to Customer Engagement	General Principles of Financial Planning	Foundation
13	Advice and Sales - Generating New Business	General Principles of Financial Planning	Foundation
14	Business Structures and Legislation - New Zealand	General Principles of Financial Planning	Developed
15	An Introduction to Financial Statements	General Principles of Financial Planning	Developed
16	Operational Diagrams for Business	Practice Management	Developed
17	Key Person Consultation for Business Risk	Insurance and Risk Management	Developed
18	Business Ownership	Insurance and Risk Management	Developed
19	An Introduction to the Farming Sector	Insurance and Risk Management	Developed