ACC
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Te Kaporeihana Āwhina Hunga Whara

Financial Condition Report 2015

Accident Compensation Corporation

Cover note

Dear ACC Board

This *Financial Condition Report* (FCR) enables the Appointed Actuary to provide advice to the Board in relation to ACC's operations, financial condition and liabilities, and to discuss the implications of any material risks to ACC that have been identified in the report.

Section 278A of the Accident Compensation Act 2001 (AC Act) requires ACC to prepare an annual FCR in accordance with generally accepted practice within the insurance sector in New Zealand. ACC must provide the report to the Minister for ACC. The Minister for ACC must provide a copy of the report to the Minister of Finance and present the report to the House of Representatives within five days of receiving it.

This is ACC's sixth FCR that has been prepared to meet the AC Act's requirements. As for past FCRs, it has been prepared in line with general insurance industry practice taking into consideration the risks inherent in ACC's business model.

The term 'financial condition', in the case of an entity such as ACC that is a statutory monopoly with the right to raise levies, needs to be considered in a different light from that of a commercial operation, which is exposed to insolvency risk. For the purposes of this report we have considered 'financial condition' in relation to the Board's established funding policy and ACC's ability to achieve the goals of this.

A number of recommendations are made in the report. These are listed as part of the executive summary. We have assigned each to a member of ACC's Executive who will be responsible for responding to the recommendation. The Executive has seen this list and supports both the recommendations and the allocation.

Yours sincerely

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Executive summary

Purpose of this report

1. The purpose of this report is to provide advice on the Accident Compensation Corporation's (ACC's) operations, financial condition and liabilities, and to discuss the implications of any material risks to ACC that the report has identified.

2. Section 278A of the Accident Compensation Act 2001 (AC Act) requires that ACC prepare an annual *Financial Condition Report* in accordance with generally accepted practice within the insurance sector in New Zealand, and provide it to the Minister for ACC. This report has been prepared by Herwig Raubal BEC FNZSA FIAA, who is the Board's Appointed Actuary, and Nina Herries BSc (Hons) FNZSA FIA, Head of Actuarial Services. The report relates to the financial year ended 30 June 2015, but where additional information has become available since that date we have indicated its effects.

3. In preparing this report we have generally complied with the provisions of Professional Standard No. 31 – 'Non-Life Insurers – Financial Condition Report' issued by the New Zealand Society of Actuaries. Technically the standard does not cover ACC or this report, but we have chosen to use it to the extent that its requirements are applicable to ACC's circumstances. The primary areas of departure relate to solvency, as the standard is written with a private insurer in mind, rather than a statutory monopoly.

4. ACC's financial objective is to reach and maintain full funding of all its Accounts, with the exception of non-earners' injuries incurred before 1 July 2001, which are funded on a pay-as-you-go basis. Section 166A of the AC Act defines full funding for 'levied Accounts' (that is, the Motor Vehicle, Earners' and Work Accounts) as meeting the outstanding claims liability (OCL) in respect of claims by offsetting an adequate level of assets to fund the cost of those claims.

5. Full funding assumes that the funding to pay all current obligations comes from the current assets and future investment income earned on those assets. In that respect, ACC's financial condition is assessed based on eliminating the transference of financial responsibilities between generations.

6. ACC plays an important part in New Zealand society, with approximately one-third of New Zealanders making claims every year. ACC interacts with most New Zealanders as levy payers, clients or health professionals. As ACC is New Zealand's largest insurer it is important that the ACC Scheme's (the Scheme) financial condition be managed, monitored and reported on both appropriately and effectively. New Zealanders need to have confidence that the levies they pay will support their claim costs for many years into the future. It is also important that the financial condition be considered in the context of ACC's obligations under the AC Act, namely to provide appropriate treatment, rehabilitation and compensation to people injured through accident in New Zealand and to invest in cost-effective injury prevention activities.

Key conclusions

Overall, we are satisfied with ACC's financial condition. After building reserves since 1999, the funding ratios for all three levied Accounts were above target as at 30 June 2015. Investment performance has continued to be strong. Having reached a fully funded position, future levies will aim to maintain the funding position close to the target.

The organisation continues to invest in improvements to its operational approach and to risk management. In addition, its approach to injury prevention is continuing to evolve, with increasing investment coupled with a strong governance structure. There are signs of increasing claims experience emerging in recent times. Management continues to monitor these, and work is underway to better understand the underlying drivers of these trends and develop and implement appropriate responses.

At a more detailed level, the key conclusions of this report are:

1. Business and operations

   a. ACC is undertaking a major business Transformation Programme which aims to improve the efficiency and effectiveness in service delivery and increase public trust and confidence. The business case for the Delivery Phase of this multi-year programme was recently approved by the Board.

   b. Further work during 2014/15 has strengthened the investment discipline and governance framework for injury prevention. The number of initiatives under development has increased, as has the estimated return on investment from programmes in delivery.

   c. Initiatives to support dispute management and reduce the number of reviews of ACC decisions being lodged have led to reductions in both the number of reviews lodged and the number that proceed to formal hearings. The number of review decisions made against ACC still seems high and ACC is participating in a formal review commissioned by the Ministry of Business, Innovation and Employment at the Minister for ACC's request to consider the entire review process.

   d. Elective surgery still needs improvement, especially in aligning ACC's, the public's and the health sector's expectations of services provided and outcomes achievable. The multi-year Elective Services Pathway Programme is an important piece of work in addressing this, and could influence the implementation of similar initiatives in other areas of service procurement that aim to improve client outcomes.

2. Financial performance

   a. A $1.6 billion surplus was recorded for the year ended 30 June 2015, being $743 million over budget. This followed surpluses of $2.4 billion and $4.9 billion for the years ended 30 June 2014 and 2013 respectively.

   b. The underwriting result, a surplus of $0.4 billion, was $81 million behind budget. The underlying claim performance during the year was higher than the June 2014 valuation of the OCL projected, with higher-than-expected new claim volumes and longer durations for long-term claims.

   c. Investment returns were 0.49% above benchmark. Strong investment performance has been a consistent feature for many years.

   d. Expenses were 6% lower than budgeted due to deferred spending for injury prevention and the Transformation Programme.

   e. The OCL was $30.3 billion at 30 June 2015, an increase of $2.6 billion from June 2014. An expected increase of $1.3 billion and changes to the claims experience of $0.6 billion were partly offset by a $0.5 billion reduction due to revised mortality assumptions for seriously-injured clients. Changes to economic assumptions added $1.2 billion to the liability.

   f. Two-thirds of the $0.6 billion change in liability for claims experience were due to increases in weekly compensation and social rehabilitation.

3. Claims experience

   The Scheme's claims experience changes with New Zealand's demographic profile, for example shifts in the age profile of the working population affect the rehabilitation rates of weekly compensation claims. In addition the Scheme, although it has been in operation for decades, is still not fully mature. In other words, the profile of the claims liability is still developing. The valuation of the liability allows for these influences as much as possible, but they will drive changes in the claims experience, and it is difficult to predict the effects confidently. Within this context the following is noted:

   a. New claim numbers per head of population (frequencies) have continued to increase in 2014/15. The frequency for claims receiving entitlements in addition to medical treatment remains relatively low but has increased by about 10% since 2012/13, higher than the rate of increase in total claim frequency. This growth is projected to continue for a further two years. However, where it might ultimately settle is uncertain.

   b. Social rehabilitation non-capital costs for serious injuries have recently returned to more satisfactory levels. Capital costs increased markedly in the year to 30 June 2015, and have continued to rise since then.

c. Weekly compensation claims' frequency and cost have continued to rise in 2014/15. The general increase in duration for all active claims in 2014/15 has not yet been fully reflected in the latest valuation. If this experience continues, the impact on the OCL will likely be significant.

d. The elective surgery experience has been in line with valuation expectations, although superimposed inflation (the phenomenon where costs increase above normal inflation) has started to increase following two years of reductions.

e. The Treatment Injury Account continues to be a concern, with claims growth continuing at high levels. An investigation of the types of claim being made has led to injury prevention initiatives (in development) to address the incidence and severity of birth brain injuries, pressure injuries, wound infections and perioperative injuries. The growth in the Treatment Injury Account represents a significant financial risk to ACC.

f. A project is underway to investigate the increasing claims experience for long-term claims. This is an important piece of work, as these claims can have a significant impact on the liability.

4. Funding

a. Overall the funding position is strong across the Accounts when considered against their funding policies.

b. The Board, as a result of a new funding policy, consulted on and recommended substantial levy reductions for all three levied Accounts for the 2016/17 year in response to the stronger funding positions and the new funding policy. The Board's recommendations were adopted by the Government in early December 2015.

c. Net assets as at 30 June 2015 were $419 million, including liabilities for future reported work-related gradual process claims that were not included in the annual accounts. This was an overall increase of $1,532 million from 2013/14. While this is the first time that the Scheme has been in surplus, it is due to the levied Accounts being over-funded. If all the Accounts were at their target funding levels the Scheme would have an overall deficit due to the current approach to funding historic claims in the Non-Earners' and Treatment Injury Accounts.

5. Risk management

a. Progress has been made in developing the ACC's risk management framework. Further work is required, however, to embed risk management fully and consistently across the organisation. It is expected to take several years for the desired risk maturity to be reached.

Key risks

The following summarises the key risks affecting ACC's financial condition.

1. **Significant volatility in Scheme use** – in the past decade the rates of injury and recovery times have varied significantly, with several years of increases followed by several years of decreases. These changes in claims experience are strongly affected by macroeconomic conditions as demonstrated by recent increases in claim numbers following the recovery from the global financial crisis. Changes in Scheme management can also affect claims experience. For example, the recent improvements in access to counselling have seen much higher-than-expected numbers of sensitive claims being reported. Greater consistency over time in managing the Scheme would help to reduce the financial volatility and assist the public's expectations of Scheme coverage.

2. **Stakeholder incentives** – the Scheme generates a variety of incentives. New Zealand operates different systems for injury and illness, which provides an incentive for all parties involved in a decision to have the relevant condition assessed as arising from an accident. This is particularly relevant with the ageing workforce increasing the number of clients with health comorbidities that affect their rate of recovery from injury.

3. **High-impact court rulings** – ACC operates within a framework that is open to interpretation due to the combination of complex legislation and the complexities of clients' medical conditions. Decisions and interpretations may be challenged before the courts, and such challenges can result in expansions of the cover the Scheme provides. Current cases before the

courts demonstrate some common themes, primarily the determination of treatment injury cover and eligibility for long-term support and compensation. ACC needs to be proactively involved in legislation and policy setting as issues develop.

4. **Delivering quality outcomes alongside transformational change** – services provided through the Scheme are expected to produce quality outcomes for clients, both initially and in the longer term. ACC has recognised the need for a greater focus on outcomes and improving customer experience. The substantive programme to deliver this carries significant risk and opportunity. The organisation is establishing governance and risk management processes to address this.

5. **Economic conditions** – ACC's liabilities are long term and subject to health sector inflation. Finding assets to match these liabilities fully is a challenge. As a result, ACC is exposed to changes in economic conditions, particularly interest and inflation rates, but also other market variables such as equity prices. Levy rates are also affected by expected investment returns, so any deterioration in the long-term economic outlook carries risk for levy payers.

Key recommendations

We have made various recommendations in this report and they are detailed below. We consider that the Board and management should, to the extent possible, take action to support their resolution. We have noted the role responsible for each action.

Injury prevention

1. Develop a medium- to long-term target for the intended overall impact on injury reduction as a result of ACC's injury prevention activities. Ensure measurement of impact appropriately allows for broader benefits of injury prevention activities. [Responsibility: Chief Customer Officer]

This recommendation is discussed in more detail in 1.4.

Review cases and decisions

2. Undertake analysis into the root causes of reviews with a view to taking appropriate actions to sustainably reduce the number of reviews lodged. [Responsibility: Chief Operating Officer/Chief Customer Officer]

This recommendation is discussed in more detail in 1.4.

Claims experience

3. Adjust rehabilitation performance measures to take account of changes in case mix (such as age of client and complexity of injury) . [Responsibility: Chief Operating Officer/Chief Risk and Actuarial Officer]

This recommendation is discussed in more detail in 3.4.

4. Align reporting and management regimes in relation to claims performance with both operational and financial risks, in particular those identified by movements and trends in OCL. [Responsibility: Chief Operating Officer/Chief Risk and Actuarial Officer/Chief Financial Officer]

This recommendation is discussed in more detail in 3.9.

Claims management

5. Implement a formal regime, including establishment of baselines, for monitoring and measuring the effectiveness of changes to claims management in improving operational, financial and client outcomes. [Responsibility: Chief Operating Officer/Chief Risk and Actuarial Officer/Chief Financial Officer]

This recommendation is discussed in more detail in Section 6.

In addition to the above, some of the recommendations made in the 2014 report remain in progress. The open recommendations that will require action beyond 2016 are listed below. See Section 11 for more detail on the actions taken in response to last year's recommendations.

Claims experience

6. Investigate the increases in long-term claims experience to identify appropriate management response. [Owner: Chief Operating Officer/Chief Risk and Actuarial Officer]

   This is a reformulation of the remaining part of recommendation 3 in the 2014 report (see 11.3).

Boundaries of cover

7. Investigate reasons for high rates of decline of gradual process claims. Investigate reasons for low rates of claiming for gradual process conditions. [Responsibility: Chief Operating Officer/Chief Governance and Strategy Officer/Chief Clinical Advisor]

   This was recommendation 4 in the 2014 report (see 11.4).

8. Undertake work to improve the consistency and objectivity of decision-making to clarify the boundary between ACC coverage and that of the wider health sector. [Responsibility: Chief Governance and Strategy Officer]

   This was recommendation 5 in the 2014 report (see 11.4).

9. Engage with the Ministry of Health and the District Health Boards with a view to gaining access to detailed claim-level information in relation to services provided under the current bulk-billed arrangement for funding Public Health Acute Services. [Responsibility: Chief Governance and Strategy Officer/Chief Operating Officer]

   This was recommendation 8 in the 2014 report (see 11.6).

1. Business and operations

1.1 Nature of the business

1.1.1 ACC manages and delivers New Zealand's comprehensive, no-fault personal injury insurance scheme, which is available to all New Zealanders and visitors to New Zealand. The Scheme is managed in accordance with the Accident Compensation Act 2001 (the AC Act), which has the objective of *minimising both the overall incidence of injury in the community, and the impact of injury on the community (including economic, social, and personal costs).*

1.1.2 In accordance with these goals, ACC's primary functions, as stated in the AC Act, can be summarised as:

- injury prevention
- rehabilitation
- fair compensation
- alignment with the Code of ACC Claimants' Rights.

1.2 Governance

1.2.1 As a Crown Entity of the New Zealand Government, ACC's corporate governance structure is prescribed under the Crown Entities Act 2004. The Minister for ACC has the authority to appoint a Board responsible for financial management and operational direction.

1.2.2 The AC Act is the governing legislation for operational requirements. Each year the Minister and the Board agree the terms and performance targets of a Service Agreement. In achieving those targets ACC demonstrates that it has fulfilled its obligations under the Act.

1.2.3 Government oversight of ACC is shared by the Ministry of Business, Innovation and Employment (MBIE) and the Treasury's Commercial Operations group. MBIE administers the AC Act and is responsible for policy, and the Commercial Operations group is responsible for performance monitoring and managing board relationships and appointments.

1.2.4 The New Zealand public is the party insured by the Scheme. It funds and uses the Scheme and is the Scheme's ultimate stakeholder. Visitors to New Zealand are also covered for medical treatment and rehabilitation needed as a result of accidents while they are in the country.

1.3 Coverage

1.3.1 Coverage under the Scheme is outlined in the AC Act and accompanying regulations, which serve as the insurance agreement. Insured events are generally death, physical injury and (to a lesser degree) mental injury. The AC Act is written in a 'coverage exclusion' style of insurance agreement, where insured events are broadly described accompanied by a small number of exclusions. The general tenor of the legislation is best described as 'permissive'.

1.3.2 The AC Act is broadly written, which has the benefit of allowing considerable scope in the support services provided to clients. However, it also provides opportunities to extend the limits of cover and entitlements,

generally through court cases, and enables differing interpretations of cover and entitlements, which can, and do, lead to disputes and dissatisfaction.

1.3.3 The insurance cover provided is 'no fault'. With very few exceptions, this removes the right for an injured party to sue another party who may have contributed to the cause of the injury. It also means that the care and compensation an injured person receives are the same no matter how their injury was caused.

1.3.4 ACC provides financial support for medical treatment and rehabilitation services to clients covered by the Scheme. It also provides compensation support to wage earners during their recovery or to their dependants in case of death. Compensation for loss of potential earnings is provided to injured children who are still incapacitated when they turn 18, and in other specific circumstances. Accidents resulting in injuries span a considerable spectrum of severity, requiring vastly different levels of support. Appendix C (paragraph C.1) details the services provided.

1.3.5 Every year approximately one-third of New Zealanders suffer injuries that result in claims being lodged with ACC. Approximately 90% of these claims are minor, requiring medical treatment only, and the clients recover quickly. At the other end of the spectrum, a few hundred injuries each year result in extreme and permanent impairment to the individuals. These serious injury claims usually require social rehabilitation support in the form of home or nursing care at various levels throughout the individuals' lives.

1.3.6 Coverage when incapacity is not solely related to an accident can be unclear. For example, when a person suffers a shoulder injury it is often unclear how much damage is due to the accident and how much is due to the effects of ageing. This is important as entitlements provided under the AC Act are substantially greater than otherwise available. Concerns about the boundaries of cover and the interactions with health co-morbidities have been raised in previous *Financial Condition Report*s, and work to help address this in response to a recommendation last year is discussed in 11.4.

Changes in Scheme coverage

1.3.7 Scheme coverage changes over time, primarily as a result of two processes.

1.3.8 First, the Government or Parliament may change the Act and/or its regulations.

1.3.9 Second, court cases can provide alternative interpretations of the Act's scope. ACC's responsibility is to provide cover and entitlements only to the extent allowed by the Act. The courts' function is to clarify legal positions where there is uncertainty about cover or entitlements. Given the complexity of the legislation, the nature of entitlements available and the complex medical conditions of some clients, it is not surprising that there are a number of challenges to ACC decisions in the court system. While most cases are finalised in the District Court there are some where, as well as the clients' individual circumstances, the potential impacts of the issues involved on the Scheme, and levy payers, are such that it is necessary for them to be considered by the higher courts.

1.3.10 Table 1 summarises recent decisions of and cases before the High Court that have ongoing significance for the Scheme. The cases demonstrate some common themes, primarily the determination of treatment injury cover and eligibility for long-term support and compensation.

TABLE 1 – RECENT AND UPCOMING COURT CASES

Court case	Discussion
Algie and others v ACC Payments sought for unpaid care provided by friends and family. ACC's appeal to the Court of Appeal was heard on 2 February 2016 with the decision yet to be issued.	These were appeals brought by a number of clients who had received cover under either the Accident Compensation Act 1972 or the Accident Compensation Act 1982. They claimed for care received from friends and family for which no payments had been made. ACC's position was that it could only reimburse clients for actual expenses incurred. The High Court decided that ACC has the power to compensate clients for unpaid care that they receive as a result of their personal injuries. The Court did not order payment, but left it for ACC to determine each claim on its facts. ACC has obtained leave to appeal to the Court of Appeal, arguing that ACC has no power to compensate clients for unpaid care received. *Social rehabilitation care is the greatest component of ACC's liability. Although the outcome here would only affect cover under the 1972 or 1982 Acts, extending the coverage could present a significant increase in the liability for these claims. The situation here is compounded by the difficulty in assessing the level of unpaid care provided.*
Ritchie v ACC High Court judicial review proceedings were heard on 20 May 2015 in relation to ACC's power to refer clients for vocational independence assessments.	The client challenged ACC's referral for a vocational independence assessment. The appellant had had chronic pain following a hernia suffered in 2007. While studying, the client was lecturing and tutoring part-time at the University of Otago. Because of this, ACC believed she was likely to achieve vocational independence and referred her for assessment. This prompted her judicial review. The High Court has yet to issue its judgment. *In order to refer a client for a vocational independence assessment, the client must have completed rehabilitation and be likely to achieve vocational independence. This case challenges the basis on which ACC determines the latter and as such has implications for rehabilitation management.*
ACC v Hawke Claim for backdated weekly compensation for a period with no available earnings information. In May 2015 the Court of Appeal dismissed the appellant's appeal from a May 2014 High Court judgment.	The client had been injured in 1978 and received cover under the 1972 Act. She applied for backdated weekly compensation (for the period from 1985 to 1992) more than a decade later, in 2003. ACC declined the claim on the basis that earnings information was not available for the period concerned, applying the AC Act provision (section 53) that allows ACC to decline claims made outside 12 months if there is prejudice to ACC. The High Court supported this approach, and noted that the District Court (not the Appeal Authority) was the correct appellate jurisdiction to consider the correctness of the decision. The Court of Appeal confirmed this in May 2015, providing process clarity for clients and ACC.
J. v ACC A District Court decision in relation to entitlements payable where the personal injury is pregnancy. ACC's appeal to the High Court will be heard on 5 April 2016.	J had received ACC cover for treatment injury because ACC had accepted that, were it not for a failed sterilisation procedure, she would not have fallen pregnant. The District Court decided that entitlements payable in cases where pregnancy is the personal injury are not restricted to a period ending shortly after the birth of the child (as ACC had decided) but could extend to the costs of rearing that child. ACC has obtained leave to appeal to the High Court. *The issue here is not whether cover exists, but rather what cover and entitlements are to be provided in the event of a covered claim. This would apply in situations where a client has become pregnant due to treatment injury (in this case a failed sterilisation procedure), or as a result of sexual abuse. ACC's policy has been that entitlements are limited to the impacts of the pregnancy itself on the mother.*
Adlam v ACC Claim for treatment injury through the District Court. ACC has sought leave to appeal to the High Court.	The District Court was required to consider whether a neurological insult suffered by Master Adlam immediately prior to his birth, which later manifested as cerebral palsy, was caused by a "failure to provide treatment or to provide treatment in a timely manner". The Court accepted that the treatment given to the client had been reasonable, and that the medical practitioners working with the client had exercised appropriate clinical judgement. However, the Court found that, with the benefit of hindsight, earlier intervention (ie an earlier caesarean section) might have prevented the onset of hypoxia and the consequent cerebral palsy. The decision raises the issue of whether it is necessary to show that treatment has not met reasonable standards in order to establish a "failure to provide treatment". *At issue here is a decision that, irrespective of the clinical indicators at the time, if later medical evidence suggests that an injury might have been prevented by alternative treatment, failure to provide treatment could be established. The decision implies a widening of cover, especially for cases involving birth injury or failures to diagnose conditions.*

1.4 Obligations under the Act

1.4.1 The majority of this report focuses on aspects of ACC's financial performance and related risks. It is important that in delivering its financial results ACC meets the obligations set out in the AC Act. Objective measures are required to demonstrate that these obligations are being met.

1.4.2 A number of measures are regularly reported in the Statement of Intent (SOI) and Service Agreement, including new measures that were introduced to the Service Agreement from 2014. These included the return on investment (ROI) from injury prevention, elective surgery outcomes, and return to independence for clients not receiving weekly compensation.

1.4.3 In this report we do not repeat all of these measures, but we have included a selection that we believe provides a good summary of performance. In areas where measures are still under development, as described in 11.6.13, we have relied on data currently available to provide a view.

1.4.4 We first examine the governance and performance of injury prevention, then reviews of decisions. Once a claim is accepted, we are interested in ensuring that the costs of the injury are covered and that quality outcomes are achieved through the treatment and rehabilitation processes.

Injury prevention

1.4.5 Section 263 of the AC Act requires that ACC promote measures to reduce the incidence and severity of injury in New Zealand. These measures are to be undertaken and funded only if they are likely to result in a cost-effective reduction in actual or projected levy rates or Non-Earners' Account expenditure.

1.4.6 During 2014/15 the investment discipline and governance framework approach for injury prevention initiated last year has been further strengthened to provide a standardised framework under which programmes are developed, assessed, and monitored. This included introducing a new portfolio approach and extending the portfolio to include a 'Community' portfolio. The other six portfolios are Work, Falls, Road, Sport and Recreation, Violence (sexual and family) and Treatment Injury.

1.4.7 The key measure for injury prevention is ROI reported in the SOI, Service Agreement and *Annual Report*. Its measurement begins early in the development of a new programme, by assessing the programme's costs against its projected future benefits based on past experience. The programme's performance is then monitored against actual experience as it proceeds. This approach allows reductions in both injury incidence and injury severity to be included in the measure.

1.4.8 Under ACC's investment framework programmes have up to nine months to progress from the development stage to delivery. The expectation is that programmes that do not meet specific criteria (eg ROI, reach and other operational requirements) will be stopped.

1.4.9 Table 2 shows the cost-benefit return profile for injury prevention programmes in delivery by portfolio for the year to 30 June 2015. Costs for programmes still in the planning stages or undergoing limited release trials to test their effectiveness are not included until the programme is in delivery or has been stopped.

TABLE 2 – INJURY PREVENTION PROGRAMME COST-BENEFIT RETURN PROFILE FOR YEAR ENDING 30 JUNE 2015

Portfolio	Investment ($M)	Estimated return ($M)	ROI	Portfolio description
Work	4.3	3.6	$0.84	Covers joint injury prevention programmes with WorkSafe New Zealand targeting the farming and forestry sectors. Includes support for the Canterbury rebuild and the introduction of new health and safety legislation.
Falls	7.2	5.6	$0.78	Covers joint injury prevention initiatives with district health boards, including developing fracture liaison and strength and balance services, St John and Wellington Free Ambulance programmes to reduce falls in older populations and a Vitamin D supplement delivery programme.
Road	31.9	43.0	$1.35	Initiatives targeting a reduction in injuries to young drivers and motorcyclists.
Sport and Recreation	12.8	47.7	$3.73	Programmes focused on the major sporting codes of rugby, netball, football and rugby league, and on recreational activities such as cycling.
Violence (sexual and family)	17.0	N/A	N/A	Currently focused on promoting healthy relationships in secondary schools. ROI is not currently measured for this portfolio as the interim focus is on encouraging greater reporting, particularly incidents involving sexual violence (leading to an increase in claims). Longer-term behavioural changes expected from the continuation of these programmes should lead to lower incidence.
Treatment Injury	N/A	N/A	N/A	There is no ROI for this portfolio as there are no programmes in delivery as at 30 June. Future initiatives targeting reductions in pressure injuries, wound infections, hypoxic birth injuries and perioperative injury (through a surgical simulation programme) are under development, some of which will go into delivery during 2015/16.
Community	1.6	0.1	$0.07	Initiatives targeted at reducing injuries affecting communities (eg children). The ROI is low as the portfolio is new and many of the current programmes target benefits to society as a whole leading to injury reductions across all portfolios. For example the St John in schools programme educates children in first aid and injury prevention. If they share this knowledge with their families and wider communities, the resulting injury reductions will be Scheme-wide rather than specifically in the Community portfolio.
Total	**74.8**	**100.0**	**$1.34**	

1.4.10 For the year ending 30 June 2015 the projected aggregate ROI for programmes in delivery was $1.34 for every $1 invested. By the end of October 2015 performance had improved in both the Work and Falls portfolios, increasing their ROIs from the figures in Table 2 to $1.05 and $1.20 respectively, and the aggregate ROI to $1.48. As the Community portfolio was introduced during 2014/15, the ROI is currently very low, but it is expected to improve as new programmes are introduced. While the Treatment Injury portfolio currently has no programmes in delivery, a number of proposals are under development with some expected to go into delivery during 2015/16.

1.4.11 The overall ROI is targeted to reach $2 in 2018/19. The number of injury prevention programmes in development has increased significantly from 22 in 2013/14 to 56 as at 30 June 2015 and 110 by 30 October 2015. This is pleasing to see, particularly as these programmes also demonstrate a greater willingness to innovate. While this naturally carries some level of risk it is necessary if future ROI targets are to be achieved.

1.4.12 The strategy has brought a greater focus on partnering with organisations that are better able to deliver injury prevention initiatives. In addition, ACC and WorkSafe New Zealand have established a joint governance group to oversee investment from both agencies in workplace injury prevention.

1.4.13 In the 2014 *Financial Condition Report* we stated that a challenge for injury prevention was to extend programme reach sufficiently while ensuring that the expected claims' reduction would still offset programme costs. In response, programme reach is now included in performance assessment according to two categories:

- Indirect reach, which focuses on people's awareness of a particular programme
- Direct reach, which measures the number of people affected by the programme.

At 30 June 2015, the then-current injury prevention programmes recorded 1.3 million in indirect reach and 75,000 in direct reach. The targets for 2015/16 are two million indirect and 138,000 direct. They will be increased as the programme portfolio builds.

1.4.14 While acknowledging that injury prevention must achieve an ROI, we also recognise that a decrease in ACC's liability is not the sole measure of success; in some cases it may simply not be achievable in the short-term. An example of this is in claims resulting from sexual violence in an environment of underreporting. One of the goals in this area is to increase access to support for victims and encourage incident reporting without delay. The provision of immediate assistance is expected to reduce the level of long-term harm, but in the short term, the number of claims reported is expected to increase. For programmes such as these, short-term interim targets that allow for emerging performance trends (such as increased claim numbers) will be used to ensure that programmes can continue until longer-term, sustainable savings resulting from harm reduction can be realised.

1.4.15 When measuring the ROI through liability reductions, the treatment of accidental deaths is an anomaly. The cost to ACC of a fatal claim is relatively small and does not compare with the cost of a serious injury. To recognise the importance of reducing fatal claims, an additional measure that values the social cost of fatal claims is being developed. This measure, which recognises the importance of reducing fatal claims, will be included in ROI reporting during 2015/16.

1.4.16 The expected growth in injury prevention investment in the next four years (see 2.4) and the stepped increase in the ROI target to reach $2 by 2018/19 indicate a year-on-year reduction in injuries across the Scheme of 2% in 2015/16 to 3.5% in 2018/19. If this is achieved, it will have a cumulative impact of around 11%. While there are currently no formal targets for reducing the incidence and severity of injury, this is one of the Scheme's key obligations. We recommend that a medium- to long-term target for the intended overall impact on injury reduction as a result of ACC's injury prevention activities is developed. In doing this, we should ensure that the measurement of impact appropriately allows for broader benefits of injury prevention activities. Setting these targets will provide focus for prioritising injury prevention.

1.4.17 During 2014/15 ACC has increased its focus on improving its governance structure, exiting programmes not delivering ROIs and implementing the new operating model for injury prevention investment. It is important that this be continued and that programmes are monitored regularly for progress. We are satisfied with progress made to date in this area.

Review cases and decisions

1.4.18 A client who is dissatisfied with a decision made by ACC has the option of seeking a review of that decision. Where resolution cannot be achieved through other means, their case will be referred to Fairway Resolution Limited (FairWay), an independent body charged with assessing ACC decisions based on legislation and medical evidence. ACC funds the cost of this service and can also contribute to additional costs that the client incurs (eg for representation or obtaining medical reports) via the Injury Prevention, Rehabilitation, and Compensation (Review Costs and Appeals) Regulations 2002.

1.4.19 Table 3 shows the number of reviews lodged and the outcomes of reviews completed in the past four years. Note that figures for historical years may differ slightly from those reported previously as appeal processes continue.

TABLE 3 – REVIEW OUTCOMES

	Year ending 30 June			
	2012	2013	2014	2015
Number of reviews lodged	9,251	8,537	6,969	6,508
Number of reviews completed	9,137	9,123	6,851	6,703
Number withdrawn or settled	2,992	3,165	2,774	2,807
% withdrawn or settled	33%	35%	40%	42%
Number found in favour of clients	1,775	1,562	1,062	1,067
% found in favour of clients	19%	17%	16%	16%

1.4.20 In response to a recommendation from the 2013 *Financial Condition Report*, ACC identified three areas for improvement in review performance:

- Reduce the need for reviews in the first place by ensuring consistency and quality of clinical decisions
- Improve the initial management of reviews to increase the number that can be resolved through alternative means
- For cases that do proceed to formal hearings, reduce the number that are found against ACC.

1.4.21 In 2012/13 and 2013/14 ACC implemented a number of initiatives to support disputes management and reduce the number of reviews lodged. As a result the number of reviews lodged reduced from 8,537 in 2012/13 to 6,969 in 2013/14. While this is good progress, we have not seen further significant reductions in 2014/15 or during the first half of 2015/16.

1.4.22 The compulsory nature of the Scheme makes it particularly important that correct cover decisions are made. While in the context of 1.8 million claims registered each year the number of reviews lodged is low, only around 10% of clients have interaction with ACC for more complex cover or entitlement decisions beyond minor medical treatment. For these claims, a review rate of approximately 3.5% seems high. We recommend that further analysis into the root causes of reviews is undertaken with a view to taking appropriate actions to sustainably reduce the number of reviews lodged.

1.4.23 An early intervention programme of alternative dispute resolution methods was trialled from May to December 2014, with national implementation from December 2015. The result has been an increase in the percentage of reviews withdrawn or settled without having to go through formal review hearings, from 33% in 2011/12 to 42% in 2014/15.

1.4.24 Half of all reviews are for decisions in three areas: elective surgery; cover decisions on whether an injury has occurred; and entitlement suspension or withdrawal. Approximately one in three cases is related to a decision to fund elective surgery.

1.4.25 In 2014/15, of all the cases that proceeded to review hearings, one out of three decisions was ruled in favour of the client. We understand that cases like these are usually complex and require a sophisticated legal and clinical argument, which makes it difficult to set performance targets. However, having more than 1,000 cases found against ACC seems high, again given the complusory nature of the Scheme. More than one-third of these cases relate to elective surgery decisions.

1.4.26 In response to a recommendation in the 2014 *Financial Condition Report* (see 11.4.5), work is underway to ensure clinical decision-making consistency and quality. The Elective Services Pathway Programme (see 1.4.35) will also include processes to improve elective surgery funding decisions. These should help to reduce the number of reviews and decisions found against ACC in these areas.

Meet the costs of covered injuries

1.4.27 When ACC makes a decision on cover, the AC Act provides for entitlements such as weekly compensation and rehabilitation. Initial and minor medical treatment services are provided directly through primary health providers with little direct ACC intervention.

1.4.28 Measures of how well ACC meets the costs of covered injuries include the timeliness of decisions and payments that result from those decisions. Targets for these measures were met during the year ending 30 June 2015 with results being either the same as or improvements on the previous year.

1.4.29 One key area of concern in the past related to decisions to fund elective surgery. ACC receives just under 60,000 elective surgery requests a year. Table 4 shows statistics related to elective surgery requests since 2007. Cancelled surgery requests are those where the clients or health providers have withdrawn their applications before ACC has made decisions.

TABLE 4 – ELECTIVE SURGERY REQUESTS

Year ending 30 June	Number of applications	% approved	% declined	% cancelled	% awaiting decision
2007	48,677	87%	10%	4%	0%
2008	51,276	86%	10%	4%	0%
2009	56,872	72%	18%	11%	0%
2010	54,066	73%	21%	6%	0%
2011	56,243	69%	18%	13%	0%
2012	57,845	65%	18%	17%	0%
2013	58,700	68%	17%	15%	0%
2014	59,823	71%	15%	14%	0%
2015	59,442	73%	15%	10%	1%

1.4.30 ACC declines between 9,000 and 10,000 elective surgery requests every year. The rate of declined claims increased from 2007/08 to a peak of 21% in 2009/10, and since then it has been gradually declining, as has the percentage of applications cancelled.

1.4.31 This decrease in declined and cancelled applications is encouraging. However, there is still an implied misalignment of expectations between ACC, the public and the health sector regarding elective surgery requirements, and implied inconsistency in decision-making. This is an important focus of the Elective Services Pathway Programme discussed below.

1.4.32 In previous reports we have highlighted gradual process injuries as potentially being subject to low claiming rates and high decline rates. In response to a recommendation from the 2014 *Financial Condition Report* (see 11.4.1), work is underway to further understand the factors that affect claim lodgement and acceptance rates for gradual process claims, including those that ACC can directly influence and those that would require working with stakeholders or other agencies.

Ensure quality clinical outcomes

Treatment

1.4.33 ACC's Clinical Services Directorate was established on 1 July 2014 to improve the provision of clinical advice. Since then it has focused on developing treatment pathways for selected key clinical areas, improving the consistency of rehabilitation advice provided both internally and externally, and increasing engagement within the health sector.

1.4.34 It has also begun identifying measures of the quality of clinical advice and outcomes and we expect to be able to report on initial measures in the next report.

1.4.35 The multi-year Elective Services Pathway Programme was established to address the issues and opportunities identified in a review of elective services in 2013/14 and provide a new model of care for clients who require elective services.

1.4.36 The programme has three high-level goals:

- Improved client outcomes
- Improved client and provider experience
- Improved cost effectiveness.

Client outcomes and benefits will be assessed through clearly defined targets, measures and baseline performance.

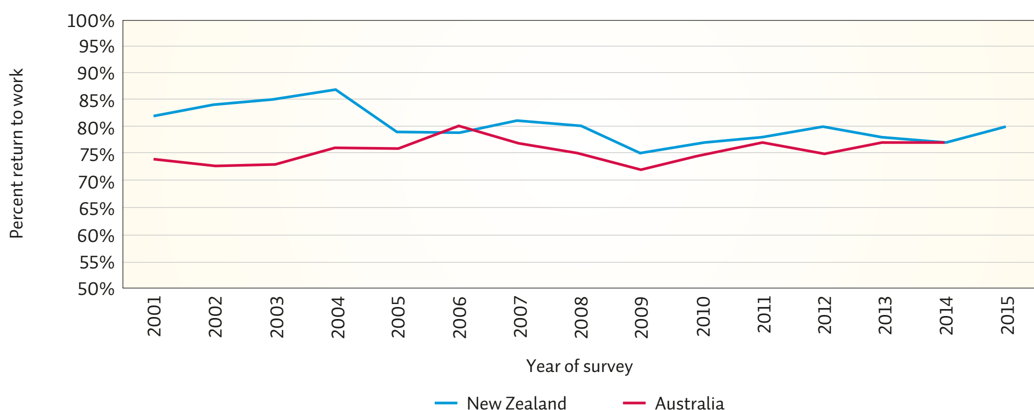
1.4.37 The programme is an important piece of work and could inform the implementation of similar initiatives in other areas of service procurement that aim to improve client outcomes.

Rehabilitation

1.4.38 Rehabilitation performance is a good proxy for quality outcomes. Rehabilitation for employed people is relatively easily measured by return-to-work rates, but there are some limitations with this measure; for example, capacity levels obtained through returns to work are not explicitly identified.

1.4.39 ACC benchmarks its performance against Australian workers' compensation schemes via the Return to Work Survey produced for Safe Work Australia. Graph 1 shows the current return-to-work rate compared with the Australian schemes' national trends since 2001.

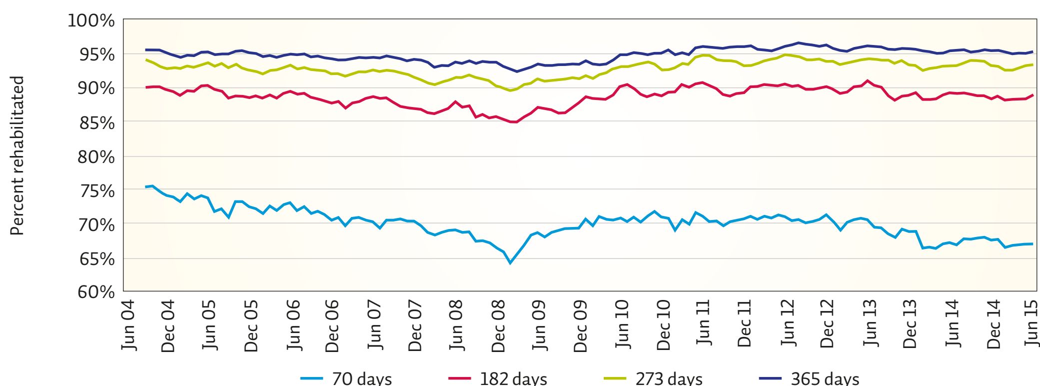
GRAPH 1 – CURRENT RETURN-TO-WORK RATES



1.4.40 New Zealand's return-to-work rate has been consistently higher than Australia's, although in 2014 the New Zealand rate fell to the same level as Australia's. Australian schemes are now only assessed every two years, with the most recent in 2014. The 2015 ACC result of 80% is 3% higher than the 2014 Australian average of 77%.

1.4.41 Graph 2 shows rehabilitation rates in the past 10 years. Each of the lines shows the proportion of people who were rehabilitated in the respective time period; so, for example, the bottom line shows the proportion of people rehabilitated within 70 days of receiving weekly compensation.

GRAPH 2 – REHABILITATION RATES



1.4.42 Rehabilitation rates fell consistently between June 2005 and December 2008, after which performance generally improved for the next 18 months then stabilised. Since June 2013 the 70-day rate has fallen substantially. The 182-, 273- and 365-day rates have also fallen, although they remain at historically high levels. Further discussion on rehabilitation rates, including rates beyond 365 days, can be found in 3.4.

1.4.43 The rehabilitation performance for non-earners is measured using the return-to-independence rate. The rates for 2013/14 and 2014/15 were both equal to the target of 86%.

1.4.44 Seriously injured clients generally require support for the rest of their lives. Measures of success here must centre on the independence levels they are able to achieve. These clients set self-directed independence goals every six months and goal achievement is measured on a four-point scale (not achieved, partially achieved, achieved, achieved beyond expectations). The figures in Table 5 show that goal achievement has trended steadily upward in the past four years, starting at 61% in 2011 and rising to 77% in 2014/15.

TABLE 5 – TRENDS IN CLIENT GOAL ACHIEVEMENT SINCE 2010/11

Clients with serious injuries managed by support coordinators	Year ending 30 June				
	2011	2012	2013	2014	2015
Achieved beyond expectations	5%	5%	4%	5%	6%
Achieved	56%	61%	65%	70%	71%
Partially achieved	27%	20%	20%	16%	14%
Not achieved	13%	13%	11%	9%	9%

1.4.45 The overall trend continues to be positive, although results are likely to be highly subjective.

1.4.46 Where possible, seriously injured clients are encouraged to achieve partial returns to the workforce. For this purpose participation is measured in terms of clients who are able to make any return to paid work, no matter how low the number of hours. Table 6 shows the trends in employment participation in the past five years for working-age seriously-injured clients. These have shown a generally improving trend since 2011.

TABLE 6 – TRENDS IN EMPLOYMENT PARTICIPATION FOR 18–59 YEAR-OLD CLIENTS WITH SERIOUS INJURIES

	Year ending 30 June				
Injury type	**2011**	**2012**	**2013**	**2014**	**2015**
Spinal cord injury	27.8%	26.6%	28.1%	29.0%	28.6%
Traumatic brain injury	15.2%	18.2%	17.9%	18.5%	19.4%
Other injury	30.2%	31.1%	35.1%	34.3%	36.9%
Total	**21.1%**	**22.5%**	**23.3%**	**23.6%**	**24.4%**

1.4.47 We recommended in the 2014 *Financial Condition Report* that ACC's employment participation measures include unpaid volunteer work. While this work does not reduce the weekly compensation paid to a client, it does achieve other benefits of paid employment – enabling the client to be part of the community and build up skills and confidence. In response to the recommendation, seriously-injured clients are now being actively supported into unpaid work (where paid employment outcomes have not been achieved) and the outcomes are being recorded to allow reporting on individual and cohort bases.

1.5 Shaping Our Future

1.5.1 Established in October 2013, Shaping Our Future is ACC's organisation-wide strategy to improve its customers' outcomes and experience. Through a multi-year business transformation programme (the Transformation Programme), it aims to make the organisation more efficient and effective and increase public trust and confidence.

1.5.2 The Transformation Programme has three phases:

- Diagnostics Phase (now complete)
- Design Phase (now complete)
- Delivery Phase.

1.5.3 The Diagnostics Phase involved comprehensive research to find out what customers wanted. It involved running surveys and workshops with more than 5,500 New Zealanders, including 1,400 ACC staff, from all over the country. The core feedback was that customers wanted ACC to be more responsive and transparent and easier to deal with.

1.5.4 In the Design Phase ACC reviewed the feedback and, through a combination of changes to people, processes, technology and information, developed a range of initiatives designed to deliver better customer outcomes and experience. This was completed in December 2015.

1.5.5 In the five-year Delivery Phase ACC will implement initiatives to make it faster, easier and simpler for all New Zealanders to deal with the organisation. The Board approved the Delivery Phase business case in November 2015.

1.5.6 The Transformation Programme involves significant expenditure, but is expected to have only a marginal financial impact over time, with financial benefits being similar to costs. The focus of the programme is to improve the client experience.

1.5.7 As is the case with any large, complex project being delivered in a lengthy timeframe, the Transformation Programme comes with a high level of risk. However, it has strong governance and risk management processes, and progress is regularly monitored by the Board.

1.6 Account structure

1.6.1 ACC is financially managed under five Accounts (see Appendix C), with each designed to align the source of funding with where the risk of injury risk occurs. While not technically the case, each Account can be thought of as a mutual insurer that is owned by those who fund the costs. Those providing the funding bear the risks and rewards of each Account's performance.

1.6.2 Levies for the Motor Vehicle, Earners' and Work Accounts (the levied Accounts) comprise three elements:

- The projected cost of claims in the current year
- A funding adjustment, designed to bring each of the Accounts to a fully funded position.
- Up until 1 April 2016, a residual amount set down in legislation specifically to fund accidents that occurred before 1999.

1.6.3 In practice, the funding adjustment and the residual amount act in a similar way. The recent passing of the Accident Compensation (Financial Responsibility and Transparency) Amendment Act enabled the Minister for ACC to remove the residual amount and this will cease to be collected from the beginning of the 2016/17 levy year (see 5.2). From this point the funding adjustment will incorporate any changes in the estimates of the remaining costs of residual claims.

1.6.4 The Non-Earners' and Treatment Injury Accounts are funded through Government appropriations and a portion of the Earners' Account levy for treatment injuries suffered by earners. More detail on this can be found in Section 5.

1.7 Products

The Work and Motor Vehicle Accounts provide various means of differentiating risk, as well as opportunities for levy payers to reduce their levies through different products and incentive programmes (see Appendix C for more information). Here we discuss the results of recent performance reviews and upcoming changes.

Work Account

Accredited Employers Programme

1.7.1 The AC Act states that the objectives of the Accredited Employers Programme (AEP) are to:

- promote injury prevention and rehabilitation
- reduce work-related personal injury claim costs and levies
- provide benchmarks against which the extent and management of work-related personal injuries can be measured.

1.7.2 A review of the AEP in 2014 compared the claims experience for Accredited Employers with those of comparable non-Accredited Employers; this showed that the overall payment experience was slightly better for Accredited Employers and more consistent over time.

1.7.3 We noted in the 2014 *Financial Condition Report* that measuring AEP performance was limited by the claims data available. This is still the case, but the issue of data requirements and AEP performance measurement is expected to be addressed by the actions discussed in 11.2. These will allow ACC to measure the AEP's effectiveness in meeting its objectives and benchmark its own performance.

Optional incentive programmes

1.7.4 The Health and Safety at Work Act 2015 will come into effect on 4 April 2016. It has implications for some of the optional workplace incentive programmes described in Appendix C, particularly the audit tools used for the

Workplace Safety Management Practices programme. Changes are needed to ensure that the programmes align with the new Act, but they are not expected to be made before 1 April 2016.

1.7.5 In particular there will be a requirement for any levy discounts offered for incentive programmes to be proportionate to the expected reduction in Scheme costs. An analysis in the 2014 *Financial Condition Report* showed that the current incentive programmes do not have a significant impact on the claims experience and this will need to be addressed in any future changes in product design.

1.7.6 As discussed in the 2014 *Financial Condition Report*, ACC is working with WorkSafe New Zealand and MBIE to introduce Safety Star Rating with an improved audit tool that better aligns with the new legislation. The Safety Star Rating pilot started in October 2015 and will run until June 2016, with 44 businesses signed up to trial on-site assessments and 100 businesses using an on-line assessment tool. The results will be reported to responsible ministers in mid- to late-2016.

Experience rating

1.7.7 MBIE evaluated the experience rating programme, in conjunction with ACC, in mid-2015. The main findings were that the programme is achieving its objective of making levies more equitable, but it appears to have had little impact in reducing workplace injuries and improving rehabilitation outcomes. The main reasons for this are believed to be a lack of awareness and understanding of the experience rating programme and the level of discounts and loadings available. These findings will inform any future changes to product design.

Motor Vehicle Account

1.7.8 On 1 July 2015 risk rating was introduced for light passenger vehicles, which make up 80% of the Motor Vehicle Account fleet. Vehicles are now allocated to one of four bands, based on how well they protect passengers and others involved in accidents. Vehicles are allocated to the bands primarily on the basis of research by Monash University, which has considered vehicle design and crash injury outcomes in Australia and New Zealand.

1.7.9 Enhancements were consulted on as part of the 2016/17 levy consultation. These centred on ensuring more consistent treatment across different vehicle model series and generations, and improving transparency and statistical credibility when allocating each vehicle to a band. Changes resulting from this process are expected to come into force on 1 July 2016.

2. Summary of financial results

2.1 Introduction

2.1.1 This section discusses ACC's financial performance in the most recent year, and compares it with that of previous years, and forecasts.

2.1.2 In considering financial results, it is important to put the term 'profit' into context. ACC is not a profit-making entity. Levies are collected, and invested, in order to meet claims and related expenses. In the fullness of time, all levy and investment income must be:

- returned to the public in the form of claim payments, or
- used in administering the Scheme, or
- invested in injury prevention activity that reduces costs to the Scheme.

So 'profit' or 'loss' refers to the movement of net assets upwards or downwards, but is not profit or loss as the terms would usually be understood. For this reason we have instead used the terms 'surplus' and 'deficit' throughout this report.

2.2 Overall results

2.2.1 The Statement of Financial Position is shown and discussed in 9.2. Table 7 shows the Statement of Comprehensive Income for the year ended 30 June 2015 and compares this with the budget as well as the results for the preceding two years.

TABLE 7 – STATEMENT OF COMPREHENSIVE INCOME FOR THE PAST THREE YEARS

($M)	2014/15 Actual			2014/15	2013/14	2012/13
	Cash flow	Liability	Total	Budget	Actual	Actual
Income						
Levies	4,315.1	0.0	4,315.1	4,242.6	4,731.4	4,715.7
Total income	**4,315.1**	**0.0**	**4,315.1**	**4,242.6**	**4,731.4**	**4,715.7**
Expenditure						
Claims incurred						
Medical costs	1,195.9	181.6	1,377.5	1,183.4	1,126.0	963.6
Elective surgery	311.1	44.4	355.5	316.7	303.4	336.3
Social rehabilitation	514.1	185.2	699.3	589.6	1,001.9	436.6
Compensation related	1,014.7	289.9	1,304.6	903.3	980.5	265.2
Other	183.6	(59.0)	124.6	195.4	125.7	(65.1)
Claims handling expenses	401.4	(50.9)	350.5	401.4	329.7	385.7
Total claims incurred	**3,620.8**	**591.2**	**4,212.0**	**3,589.8**	**3,867.2**	**2,322.4**
Change in claim assumptions						
Rehabilitation rates	0.0	13.8	13.8	0.0	22.8	45.3
Growth in long-term active claims experience	0.0	(11.4)	(11.4)	0.0	15.9	(73.5)
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	0.0
Superimposed inflation	0.0	9.4	9.4	0.0	(8.8)	(149.8)
Mortality assumptions	0.0	(539.8)	(539.8)	0.0	0.0	0.0
Legislative	0.0	0.0	0.0	0.0	117.9	0.0
Other	0.0	94.7	94.7	0.0	39.2	63.2
Change in risk margins	0.0	0.0	0.0	0.0	3.8	0.0
Total assumption changes	**0.0**	**(433.3)**	**(433.3)**	**0.0**	**190.9**	**(114.8)**
Administration expenses						
Net operating costs	52.4	0.0	52.4	68.1	47.5	47.2
Injury prevention costs	30.0	0.0	30.0	50.4	34.0	22.4
Levy collection costs	40.5	0.0	40.5	40.2	38.9	37.4
Total expenses	**122.9**	**0.0**	**122.9**	**158.7**	**120.3**	**107.1**
Total expenditure	**3,743.7**	**157.9**	**3,901.6**	**3,748.6**	**4,178.5**	**2,314.6**
Surplus/(deficit) from underwriting activities	**571.4**	**(157.9)**	**413.5**	**494.0**	**553.0**	**2,401.2**
Decrease/(increase) in unexpired risk liability (URL)	0.0	(265.1)	(265.1)	(27.1)	(159.5)	26.5
Economic						
Change in discount rate assumption	0.0	(3,225.3)	(3,225.3)	0.0	92.8	939.1
Change in inflation rate assumption	0.0	1,765.5	1,765.5	0.0	829.5	234.2
Investment expenses	(60.9)	0.0	(60.9)	(61.8)	(55.9)	(60.7)
Unwind of risk-free interest rate	0.0	(1,014.5)	(1,014.5)	(1,011.1)	(733.5)	(701.5)
Investment income	3,997.7	0.0	3,997.7	1,474.2	1,618.5	2,090.4
Total economic	**3,936.8**	**(2,474.3)**	**1,462.5**	**401.3**	**1,751.3**	**2,501.5**
Total surplus/(deficit)	**4,508.2**	**(2,897.3)**	**1,610.9**	**868.3**	**2,144.8**	**4,929.2**

2.2.2 The result for 2014/15 is separated into performance related to cash flows (consistent with the statements in the *Annual Report*) and the liability movement during the year. The latter allows us to examine overall financial performance on an 'incurred' basis, which is consistent with the Scheme's full funding requirements.

2.2.3 The actual result was a surplus of $1,611 million, $743 million above budget. As shown in Table 8, the main contributions were claims incurred and claim assumption changes, changes in discount and inflation rate assumptions and investment income.

TABLE 8 – CONTRIBUTION TO 2014/15 DIFFERENCE FROM BUDGET

($M)	Actual	Budget	Difference
Levy income	4,315.1	4,242.6	72.5
Expenditure			
Claims incurred	4,212.0	3,589.8	622.2
Claim assumption changes	(433.3)	0.0	(433.3)
Administration expenses	122.9	158.7	(35.8)
Total expenditure	**3,901.6**	**3,748.6**	**153.1**
Surplus from underwriting activities	**413.5**	**494.0**	**(80.6)**
Increase in URL	(265.1)	(27.1)	(238.0)
Economic			
Change in discount and inflation rate assumptions	(1,459.7)	0.0	(1,459.7)
Investment expenses	(60.9)	(61.8)	0.8
Unwind of risk-free interest rate	(1,014.5)	(1,011.1)	(3.4)
Investment income	3,997.7	1,474.2	2,523.5
Total economic	**1,462.5**	**401.3**	**1,061.2**
Total surplus	**1,610.9**	**868.3**	**742.6**

2.2.4 Claims incurred have increased significantly in the past two financial years, largely due to increases in the liability for weekly compensation. The two main factors contributing to this are the high volume of new claims and a reduction in the rate at which existing clients are rehabilitated back to work or independence (the discontinuance rate) for long-term claims. As discussed in 3.4, the number of long-term weekly compensation claims reduced from 2008/09 to 2012/13 leading to higher discontinuance rates, resulting in successive reductions in the outstanding claims liability (OCL) for weekly compensation. These reductions were due to a period of targeted work with clients who were seen as being able to return to independence quickly.

2.2.5 OCL assessments have assumed that the rehabilitation performance for long-term claims will ultimately return to historical norms as remaining clients would be those who were more seriously incapacitated. The actual experience for 2013/14 and 2014/15 has shown lower discontinuance rates, hence the increasing incurred costs.

2.2.6 The $433 million increase in the surplus from assumption changes was due to updated mortality assumptions (a decrease in the liability of $540 million), with offsets from other factors. The new mortality assumptions related to social rehabilitation for serious injuries and were based on a study showing that claimants with higher care needs than others have a worse mortality experience (see 7.3.11). The offset is mainly due to an increased allowance for incurred but not yet reported loss-of-potential-earnings payments for sensitive claims (see 3.4).

2.2.7 The $238 million decrease in the surplus from the URL was primarily due to the cessation of the Work Account residual levy (see 7.7). This is a timing issue.

2.2.8 The 'economic' total essentially represents the impact of the mismatch between assets and liabilities during the year. It is not possible to hold assets that are a perfect match for liabilities. Because of this, the asset and liability sides of the balance sheet move differently in response to changes in market conditions. This mismatch will always be a feature of the Scheme. For detail on the updated economic assumptions and investment income, see Sections 7 and 8, respectively. Section 8 also discusses ACC's approach to managing the mismatch risk.

2.3 Results by current and prior years

2.3.1 This section looks at the financial performance split between current and prior-year accidents.

2.3.2 The costs of claims incurred in the current year reflect the full estimated lifetime cost of new claims reported during the year. For prior years, this expenditure represents changes to the estimate of lifetime costs for claims that existed at the start of the year, other than due to assumption changes that are separately identified. This mainly reflects rehabilitation rates, but also the average size of claims. For example, a negative claims-incurred cost for prior years may mean that rehabilitation rates have been higher than allowed for in the previous OCL assessment, and/or that the average cost of the claims has fallen.

Current year results

2.3.3 Table 9 sets out the Statement of Comprehensive Income for the year ending 30 June 2015 for claims that occurred during the year, by Account.

TABLE 9 – STATEMENT OF COMPREHENSIVE INCOME FOR CURRENT-YEAR CLAIMS BY ACCOUNT

	2014/15						
($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2013/14 Total
Income							
Levies	454.2	989.5	1,283.3	638.3	245.7	3,610.9	3,567.8
Total income	**454.2**	**989.5**	**1,283.3**	**638.3**	**245.7**	**3,610.9**	**3,567.8**
Expenditure							
Claims incurred							
Medical costs	63.4	563.3	390.3	126.7	30.5	1,174.2	1,088.9
Elective surgery	34.8	92.8	207.1	55.0	40.0	429.7	412.1
Social rehabilitation	189.6	257.1	135.9	38.2	134.8	755.5	680.6
Compensation related	133.2	13.2	581.2	363.5	74.0	1,165.2	991.9
Other	31.1	29.9	31.0	44.3	13.8	150.1	157.2
Claims handling expenses	30.9	85.1	140.4	81.1	28.1	365.6	374.9
Total claims incurred	**483.0**	**1,041.3**	**1,485.8**	**708.7**	**321.3**	**4,040.2**	**3,705.6**
Change in claim assumptions							
Rehabilitation rates	(4.0)	2.6	(4.1)	(3.3)	3.5	(5.3)	5.8
Growth in long-term active claims experience	(0.2)	(1.1)	(1.5)	(0.6)	(0.1)	(3.5)	(2.8)
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Superimposed inflation	0.1	(0.5)	(0.2)	0.6	0.3	0.4	(0.4)
Mortality assumptions	(8.5)	(9.1)	(4.5)	(0.9)	(6.6)	(29.6)	0.0
Legislative	0.0	0.0	0.0	0.0	0.0	0.0	10.4
Other	0.8	11.0	2.8	2.7	0.0	17.3	0.3
Change in risk margins	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)
Total assumption changes	**(11.8)**	**2.9**	**(7.6)**	**(1.4)**	**(2.9)**	**(20.7)**	**12.8**
Administration expenses							
Net operating costs	5.8	4.7	6.1	24.3	1.2	42.1	38.0
Injury prevention costs	6.5	5.4	5.2	12.4	0.4	30.0	34.0
Levy collection costs	0.5	0.2	19.0	13.8	0.0	33.5	32.2
Total expenses	**12.9**	**10.3**	**30.3**	**50.6**	**1.6**	**105.6**	**104.2**
Total expenditure	**484.1**	**1,054.5**	**1,508.6**	**757.9**	**320.0**	**4,125.2**	**3,822.6**
Surplus/(deficit) from underwriting activities	**(29.9)**	**(65.0)**	**(225.3)**	**(119.6)**	**(74.4)**	**(514.2)**	**(254.8)**
Decrease/(increase) in URL	0.0	0.0	(256.1)	(210.6)	0.0	(466.6)	(201.5)
Economic							
Change in discount rate assumption	(42.5)	(39.4)	(61.3)	(31.0)	(34.4)	(208.5)	8.4
Change in inflation rate assumption	23.7	22.4	33.1	16.2	19.3	114.6	50.1
Investment expenses	(0.8)	(0.2)	(0.4)	(0.1)	(0.2)	(1.7)	(2.4)
Unwind of risk-free interest rate	(7.4)	(8.5)	(17.9)	(9.8)	(4.1)	(47.7)	(31.5)
Investment income	53.1	10.3	27.9	4.0	15.3	110.6	70.0
Total economic	**26.1**	**(15.3)**	**(18.6)**	**(20.8)**	**(4.1)**	**(32.6)**	**94.5**
Total surplus/(deficit)	**(3.8)**	**(80.3)**	**(500.0)**	**(350.9)**	**(78.5)**	**(1,013.5)**	**(361.8)**

2.3.4 Current-year claims produced an underwriting deficit of $514 million, being 14% of levies. This was higher than the 2013/14 deficit, which was 7% of levies. Some of this deficit was a result of different bases being used to calculate the year-end OCL and levies. While the levy rates are set assuming investment returns above risk-free rates and without including a risk margin on the cost of new claims, the OCL uses risk-free rates and risk margins. This naturally means that the year-end OCL is higher than the liability assumed for levy rates and produces a deficit in the current year that will be gradually released as the claims are paid off over time. This is largely a timing issue, the effect of which is 11% of levies. As such, there has been an adjusted underwriting loss of 3% of levies.

2.3.5 Overall, the experience has generally deteriorated from 2013/14, as claim volumes have risen.

2.3.6 Table 10 shows the underwriting result as a percentage of levy revenue for each Account for the past three financial years, and compares it with the expected deficit.

TABLE 10 – COMPARISON OF UNDERWRITING RESULT AS A PERCENTAGE OF LEVY REVENUE BY ACCOUNT

	Percentage of levy income			
Account	**2012/13**	**2013/14**	**2014/15**	**2014/15 Expected**
Motor Vehicle	(19.9%)	(9.5%)	(6.6%)	(20.4%)
Non-Earners'	3.0%	(1.1%)	(6.6%)	(4.4%)
Earners'	(12.7%)	(10.1%)	(17.6%)	(10.1%)
Work	(2.0%)	(1.9%)	(18.7%)	(14.6%)
Treatment Injury	1.5%	(25.8%)	(30.3%)	(11.3%)
Total	**(6.0%)**	**(7.1%)**	**(14.2%)**	**(10.7%)**

2.3.7 The underwriting deficit for the Treatment Injury Account, at 30% of levy revenue, is particularly high, indicating that the claims experience has been much higher than the 5% per annum growth assumed when levies were set. This continues to be an area of concern. A programme of initiatives, as discussed in 3.7 and 11.5, is underway to understand and improve the Treatment Injury claims experience.

2.3.8 The underwriting deficit for the Earners' Account has increased to 18% from 10% in 2013/14. The increase mainly reflects higher claim volumes than expected when levy rates were set. The Work Account result has deteriorated significantly because over 50% of the liability is for weekly compensation, which has seen higher-than-expected payments recently.

Prior year results

2.3.9 Table 11 sets out the Statement of Comprehensive Income for the year ending 30 June 2015 for prior-year claims, by Account.

TABLE 11 – STATEMENT OF COMPREHENSIVE INCOME FOR PRIOR-YEAR CLAIMS BY ACCOUNT

($M)	2014/15						
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2013/14 Total
Income							
Levies	632.5	(103.3)	(5.5)	178.6	1.9	704.2	1,163.6
Total income	**632.5**	**(103.3)**	**(5.5)**	**178.6**	**1.9**	**704.2**	**1,163.6**
Expenditure							
Claims incurred							
Medical costs	34.1	108.9	28.9	18.4	13.1	203.3	37.2
Elective surgery	(19.0)	(16.6)	(40.0)	11.5	(10.1)	(74.1)	(108.7)
Social rehabilitation	(135.0)	(24.7)	(43.3)	60.1	86.8	(56.1)	321.4
Compensation related	(32.1)	29.4	92.1	39.2	10.8	139.4	(11.5)
Other	(7.3)	7.4	5.0	(29.5)	(1.1)	(25.5)	(31.5)
Claims handling expenses	(6.7)	1.2	1.7	(7.1)	(4.3)	(15.1)	(45.2)
Total claims incurred	**(166.1)**	**105.7**	**44.5**	**92.5**	**95.3**	**171.8**	**161.6**
Change in claim assumptions							
Rehabilitation rates	14.5	14.1	(3.6)	(4.9)	(0.9)	19.2	17.1
Growth in long-term active claims experience	(1.0)	(2.4)	(2.1)	(1.9)	(0.5)	(7.9)	18.7
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Superimposed inflation	(4.9)	(0.2)	2.1	10.3	1.7	9.0	(8.4)
Mortality assumptions	(109.0)	(166.8)	(33.4)	(64.3)	(136.7)	(510.2)	0.0
Legislative	0.0	0.0	0.0	0.0	0.0	0.0	107.5
Other	6.8	88.6	(13.5)	(5.1)	0.5	77.3	38.9
Change in risk margins	0.0	0.0	0.0	0.0	0.0	0.0	4.3
Total assumption changes	**(93.6)**	**(66.7)**	**(50.5)**	**(66.0)**	**(135.8)**	**(412.6)**	**178.1**
Administration expenses							
Net operating costs	2.5	0.1	2.6	5.0	0.1	10.2	9.5
Injury prevention costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Levy collection costs	0.7	0.0	1.1	5.3	0.0	7.0	6.7
Total expenses	**3.2**	**0.1**	**3.7**	**10.3**	**0.1**	**17.3**	**16.1**
Total expenditure	**(256.6)**	**39.1**	**(2.4)**	**36.8**	**(40.4)**	**(223.5)**	**355.9**
Surplus/(deficit) from underwriting activities	**889.0**	**(142.3)**	**(3.1)**	**141.8**	**42.3**	**927.7**	**807.7**
Decrease/(increase) in URL	0.0	0.0	201.5	0.0	0.0	201.5	42.1
Economic							
Change in discount rate assumption	(878.4)	(701.1)	(514.9)	(463.8)	(458.5)	(3,016.7)	84.4
Change in inflation rate assumption	477.2	397.7	279.2	237.9	258.9	1,650.9	779.4
Investment expenses	(16.9)	(6.4)	(14.6)	(15.3)	(6.1)	(59.3)	(53.5)
Unwind of risk-free interest rate	(283.0)	(196.2)	(189.0)	(204.6)	(93.9)	(966.8)	(702.0)
Investment income	1,149.2	417.2	954.8	972.7	393.2	3,887.1	1,548.5
Total economic	**448.1**	**(88.9)**	**515.5**	**526.9**	**93.6**	**1,495.2**	**1,656.8**
Total surplus/(deficit)	**1,337.1**	**(231.2)**	**713.9**	**668.7**	**135.9**	**2,624.4**	**2,506.6**

2.3.10 The levy income for prior-year claims represents the funding adjustment included in levy rates. This is particularly significant for the Motor Vehicle Account. The Earners' and Non-Earners' Accounts' funding adjustments are negative as the solvency position is above target (see 9.2).

2.3.11 Similar to that in 2013/14, the experience for prior-year claims was higher than the expectations from the June 2015 valuation of the OCL, with an increase (ignoring the updated mortality assumptions) of approximately $270 million. This was mainly because of increases in medical and compensation payments, which are discussed further in 3.4 and 3.6. Table 11 also shows a $77.3 million increase in the liability due to changes in 'Other' claims assumptions. This is mainly due to the introduction of new contracts for sensitive claims, which are expected to increase the number of claims in the Non-Earners' Account accessing support, including for loss of potential earnings (see 3.4).

2.3.12 As noted previously, the updated mortality assumptions had a reasonable impact in 2014/15, increasing the surplus for prior-year claims by $510 million.

2.3.13 Updated discount rate and inflation rate assumptions decreased the prior-year surplus by $1,366 million. This is discussed in more detail in 7.3.

2.3.14 The investment return above the risk-free rate has increased significantly since last year, contributing $2,847 million to the surplus. Investment returns are discussed in 8.5.9.

2.4 Projections

2.4.1 Table 12 provides the projected Statement of Comprehensive Income by Account for 2015/16, using modelling and assumptions that match the 2016/17 levy consultation and 2015 Non-Earners' Account appropriation. For these projections the claims incurred figures have been adjusted to include the liability for future-reported gradual process claims due to past exposure that was not included in the historical statements earlier in this section.

TABLE 12 – PROJECTED 2015/16 STATEMENT OF COMPREHENSIVE INCOME

($M)	2015/16 Projected						
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15
Income							
Levies	599.9	970.9	1,319.7	789.2	278.2	3,957.9	4,315.1
Total income	**599.9**	**970.9**	**1,319.7**	**789.2**	**278.2**	**3,957.9**	**4,315.1**
Expenditure							
Claims incurred							
Medical costs	94.3	668.3	406.7	126.2	34.8	1,330.3	1,355.0
Elective surgery	38.2	97.0	231.9	61.2	57.9	486.2	396.1
Social rehabilitation	222.6	195.2	107.5	35.7	126.5	687.5	174.6
Compensation related	138.2	13.3	583.1	390.4	74.7	1,199.7	1,305.6
Other	27.5	15.5	27.3	53.8	11.9	135.9	183.4
Claims handling expenses	30.3	76.2	146.2	79.9	26.5	359.2	383.2
Total claims incurred	**551.1**	**1,065.5**	**1,502.6**	**710.5**	**332.3**	**4,198.9**	**3,797.9**
Administration expenses							
Net operating costs	3.4	1.8	2.5	8.3	1.0	16.9	52.4
Injury prevention costs	12.1	14.7	12.5	24.0	3.1	66.5	30.0
Levy collection costs	1.6	0.0	25.5	35.0	0.0	62.2	40.5
Total expenses	**17.2**	**16.4**	**40.6**	**67.3**	**4.1**	**145.6**	**122.9**
Total expenditure	**568.2**	**1,081.9**	**1,543.2**	**814.6**	**336.5**	**4,344.4**	**3,920.8**
Surplus/(deficit) from underwriting activities	**31.6**	**(111.0)**	**(223.5)**	**(25.4)**	**(58.3)**	**(386.5)**	**394.3**
Decrease/(increase) in URL	0.0	0.0	(72.2)	130.1	0.0	57.9	(265.1)
Economic							
Changes to discount and inflation rate assumptions	0.0	0.0	0.0	0.0	0.0	0.0	(1,519.5)
Investment expenses	(28.1)	(3.3)	(20.7)	(18.2)	(5.5)	(75.8)	(60.9)
Investment income (above risk free)	268.9	(47.9)	226.1	151.4	25.3	623.8	2,983.2
Total economic	**240.8**	**(51.2)**	**205.4**	**133.1**	**19.9**	**548.1**	**1,402.8**
Total surplus/(deficit)	**272.5**	**(162.2)**	**(90.3)**	**237.9**	**(38.4)**	**219.5**	**1,532.0**

2.4.2 The 2015/16 Earners' Account levy rate was set with the expectation of reducing the funding level towards its target. While the Work Account was above its funding target at the time, the Government decided not to reduce the levy rate to the extent recommended such that a further surplus is forecast.

2.4.3 The Non-Earners' and Treatment Injury Accounts are projected to produce deficits because, for both the Non-Earners' Account and the non-earners' portion of the Treatment Injury Account, the post-2001 fully funded component is over-funded (based on the Non-Earners' Account's funding policy). In effect then, funds are returned to the Government through an appropriation that is lower than the cost of claims incurred in 2015/16. The pay-as-you-go funding policy for pre-2001 claims means that incurred costs for these claims will continue to be funded through annual appropriations, rather than having the full amount held on ACC's balance sheet.

2.4.4 The increase in the projected total claims incurred is due to recent trends in the claims experience that are assumed will continue into the near future. Social rehabilitation claims incurred in 2014/15 appear significantly lower than usual because of the 2014/15 changes in mortality assumptions for seriously-injured clients. This resulted in a $540 million one-off decrease in the liability value that year (see 7.3.11).

2.4.5 Table 13 provides the projected Statement of Comprehensive Income for the total Scheme for 2015/16 to 2018/19. These projections use:

- the levy rates and assumptions for 2016/17 and beyond as provided in the 2016/17 levy consultation
- the assumptions and approved appropriation amounts from the 2015 Vote ACC for the Non-Earners' Account.

TABLE 13 – PROJECTED STATEMENT OF COMPREHENSIVE INCOME

($M)	2015/16 Projected	2016/17 Projected	2017/18 Projected	2018/19 Projected
Income				
Levies	3,957.9	3,856.0	4,118.7	4,378.2
Total income	**3,957.9**	**3,856.0**	**4,118.7**	**4,378.2**
Expenditure				
Claims incurred				
Medical costs	1,330.3	1,388.8	1,451.8	1,513.7
Elective surgery	486.2	516.3	560.9	605.3
Social rehabilitation	687.5	734.4	784.4	826.0
Compensation related	1,199.7	1,241.7	1,310.5	1,364.8
Other	135.9	139.0	145.0	157.7
Claims handling expenses	359.2	368.8	382.7	395.2
Total claims incurred	**4,198.9**	**4,389.0**	**4,635.3**	**4,862.6**
Administration expenses				
Net operating costs	16.9	18.2	19.6	20.6
Injury prevention costs	66.5	71.6	76.7	80.6
Levy collection costs	62.2	67.0	71.8	76.0
Total expenses	**145.6**	**156.9**	**168.1**	**177.2**
Total expenditure	**4,344.4**	**4,545.9**	**4,803.4**	**5,039.8**
Surplus/(deficit) from underwriting activities	**(386.5)**	**(689.9)**	**(684.7)**	**(661.6)**
Decrease/(increase) in URL	57.9	(40.7)	8.3	(14.9)
Economic				
Investment expenses	(75.8)	(74.7)	(77.6)	(80.5)
Investment income (above risk free)	623.8	543.8	611.0	628.9
Total economic	**548.1**	**469.1**	**533.5**	**548.4**
Total surplus/(deficit)	**219.5**	**(261.5)**	**(142.9)**	**(128.2)**

2.4.6 The major items of note from these projections are that, under these assumptions:

- levies will decrease in 2016/17 then increase gradually in line with inflation and population growth
- investment income above the risk-free rate will increase as equity risk premiums are forecast to rise

- claim costs will increase by about 5% per annum due to inflation, superimposed inflation, population growth and an allowance for future increases in claim frequency. This will be compounded by discount rates that are assumed to be low in the short term before increasing (see Graph 24 in Section 7). It will result in more investment income being required to offset claim growth
- expense increases will be largely driven by an increased investment in injury prevention activity and levy collection costs. Injury prevention activity is expected to deliver a return in the form of lower future claims costs, while the budgeted increase in levy collection costs is primarily from the Work Account. It reflects the work required to determine future product changes and align the current incentive products with the new health and safety legislation (see 1.7.4)
- the URL will rise as levy rates reduce (see 7.7)
- the Scheme will produce deficits to reduce the funding positions towards their targets. These deficits are expected to fall over time as the funding positions of the levied Accounts get closer to target and the levy rates are set closer to the costs of claims occurring during the year in line with the funding policy (see Section 9).

2.5 Conclusion

2.5.1 The financial performance during the year has been satisfactory, with a $1.66 billion surplus that largely reflects strong investment returns.

2.5.2 The performance for current-year claims has deteriorated, mainly due to volumes. The Treatment Injury Account, in particular, is a concern.

2.5.3 Prior-year claims generated a reasonable surplus, largely due to investment income and partially offset by updated discount and inflation rate assumptions. The experience for prior-year claims has been higher than expected, particularly for compensation-related and medical payments.

2.5.4 A number of factors pose a risk to the financial performance in the near future.

2.5.5 Economic conditions will always pose a serious risk to the Scheme, with potentially significant movements in the value of both assets and liabilities due to changes in market conditions, expected future investment returns, and inflation. Other broader macroeconomic factors can also affect the Scheme's performance.

2.5.6 A growth in claim costs above the current expectations is a current risk. The claims experience is discussed in more detail in the next section, but the experience has been worse than expected in a number of areas. In particular:

- weekly compensation payments have been increasing, reflecting higher new claim volumes and lower long-term discontinuance rates
- while the elective surgery experience has been in line with expectations, payments have been increasing and this is an area to watch
- treatment injury claims are concerning.

3. Claims experience

3.1 Introduction

3.1.1 As is the case with any insurance-related business, the claims experience makes a large contribution to the Scheme's financial performance. All aspects are important, including the number and type of new claims, the rate at which existing claims are rehabilitated, and the effectiveness and costs of the services required for that rehabilitation.

3.1.2 The effects of the claims experience on the financial performance can be seen in:

- the annual claims expenditure, discussed in Section 2
- the estimates of the OCL, outlined in Section 7
- the levy rates and Government appropriation required to fund new-year claims, described in Section 5
- the projections of future solvency, detailed in Section 9.

3.1.3 The Scheme's financial performance needs to be considered in the context of a significant deterioration in claims experience up to 2008, followed by a period of improvements. These improvements were the result of a number of factors, including:

- the economic downturn following the global financial crisis
- reductions in entitlements through legislation changes (primarily for hearing loss)
- improved operational management, with a greater focus on rehabilitation and early claim management.

However, incurred costs have increased since the 2013 economic recovery.

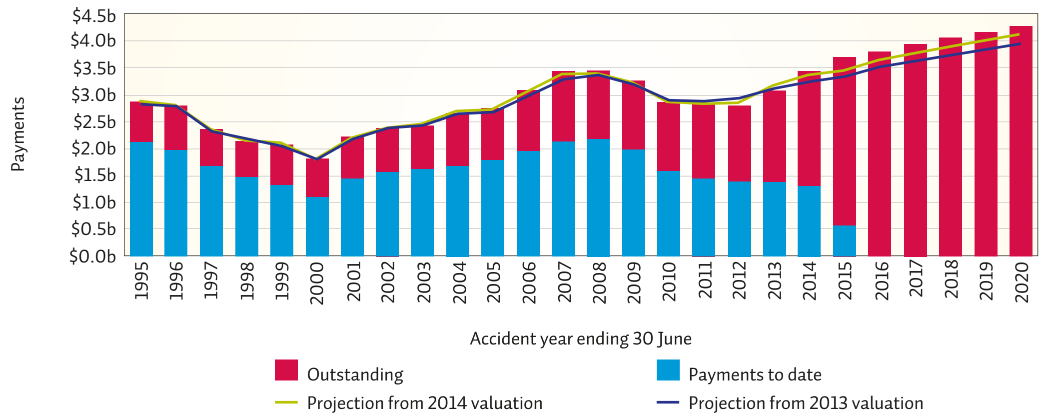
3.1.4 This section discusses the more material changes in the claims experience, the likely impacts on the OCL (and consequently solvency) should these trends continue, and what is being done to address them.

3.2 Overall results

3.2.1 The claims experience is driven by a wide range of factors that can vary by Account, type of benefit paid and claim duration.

3.2.2 Graph 3 compares the projected total cost of all claims by the year the accident occurred (accident year) for the current valuation with the projections from each of the past two valuations. These costs exclude bulk-billed health costs, claims handling expenses and risk margins and are expressed in 2014/15 dollar values.

GRAPH 3 – COST BY ACCIDENT YEAR



3.2.3 The 20-year history shows a somewhat cyclical pattern of claims experience. Costs increased significantly after a low point when cover for work claims was privatised (from 1 April 1999 to 30 June 2000), then reduced between 2007/08 and 2012/13. The projections for the incurred costs in the most recent accident years were higher than those for the previous three accident years, partly due to a greater level of uncertainty about the less developed claims experience, and also due to an increase in new claim volumes.

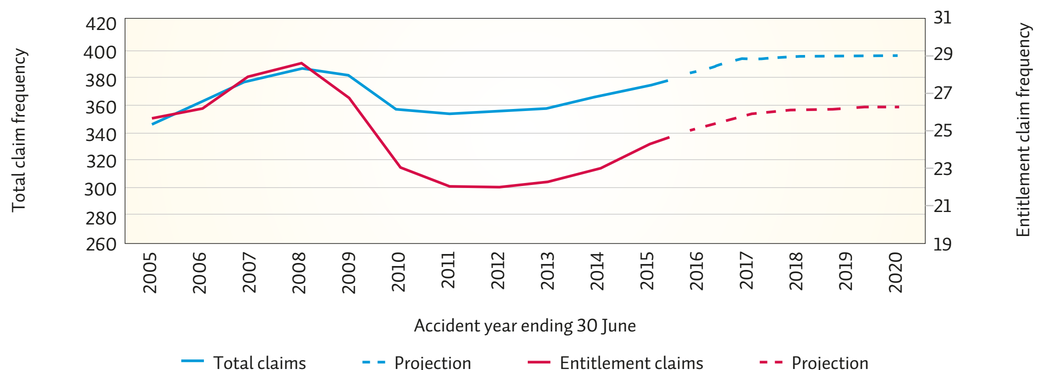
3.2.4 Because of this, the two most recent valuations include increases in the estimated incurred costs for the 2013/14 and 2014/15 accident years.

3.2.5 In general, claim costs should increase over time due to growth in population and general price inflation, as well as the Scheme not yet being fully mature. This growth is factored into projections of future costs. There is more concern when claim numbers increase above population growth or movements in claim payments are above inflation. Four key drivers affect how the claims experience moves compared with expectations:

- The number of new claims
- The average amount paid per claim
- Discontinuance rates
- Superimposed inflation.

3.2.6 Claim frequency measures the growth in claim numbers above (or below) the growth in population. Graph 4 shows historical and projected claim frequencies for the Scheme as a whole for all claims and for entitlement claims. Entitlement claims receive rehabilitation and/or compensation support in addition to medical treatment.

GRAPH 4 – CLAIM FREQUENCY: ESTIMATED ULTIMATE REPORTED CLAIMS PER 1,000 PEOPLE



3.2.7 Graph 4 clearly shows the higher claiming rates in the years leading up to 2007/08, which then reduced sharply. Claim frequencies started to increase in 2011/12 and have continued to increase since. The

entitlement claim frequency remains relatively low, but has increased since 2012/13 – by more than the total claim frequency increase. These are estimates of total incurred claim frequencies assumed in the latest levy setting and Non-Earners' appropriation calculations, using actual reported claim numbers up to 31 December 2014. Since then, reported claim numbers have increased further and this growth is projected to continue, but there is uncertainty about where it might ultimately settle.

3.2.8 Claim frequencies by Account are shown in Appendix A. Generally they show a similar pattern, but there are two notable exceptions:

- The Work Account claim frequencies have generally reduced, although there has been a slight increase in the past two years, particularly in entitlement claims. The reasons for the earlier reductions are not certain, but could include greater employer awareness, the tighter regulation of safety in the workplace and a changing industry mix.
- Claim rates in the Treatment Injury Account have steadily increased since cover was expanded in 2005, as discussed in 3.7.

3.2.9 This pattern of relatively long periods of poor performance followed by similar periods of improving performance is not unusual for the Scheme. The volatility is serial, rather than purely random, and is to some extent linked to the economic cycle. This causes some degree of levy instability and changes in public expectations.

3.2.10 The following sections outline the claims experience for the four largest payment types: social rehabilitation, weekly compensation, elective surgery and medical. For each payment type the experience is considered alongside its impact on the OCL. A reduction in the OCL means that the experience has been better than previously assumed.

3.2.11 Together, the four largest liability payment types make up 87% of the 30 June 2015 liability, with social rehabilitation and weekly compensation alone comprising nearly 70%. The four payment types also contribute 81% of the total annual expenditure.

3.3 Social rehabilitation

3.3.1 The majority (82%) of the social rehabilitation liability at 30 June 2015 comprised non-capital payments to seriously injured clients, so the discussion on social rehabilitation focuses on these payments. However, while the amount is low in the context of the OCL, capital payments to both seriously and non-seriously injured clients have recently increased markedly, so we discuss these briefly.

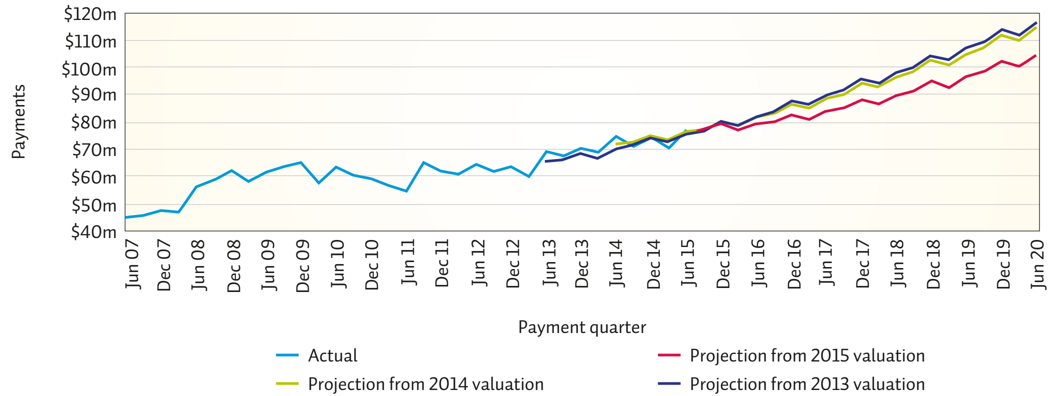
3.3.2 Social rehabilitation non-capital payments are categorised as care (attendant care, home help, child care and residential care) or non-care (active rehabilitation, training for independence, supported activities, assessments and travel).

Non-capital payments for serious injury

3.3.3 Graph 5 shows the:

- quarterly claim payments for non-capital social rehabilitation made to seriously injured clients between June 2007 and June 2015
- projected payments in the June 2015 and two previous June valuations.

GRAPH 5 – SOCIAL REHABILITATION – SERIOUS INJURY NON-CAPITAL PAYMENTS



3.3.4 Payments per quarter projected in the valuation increase with time due to inflation and an increasing number of serious injury claims. Owing to the nature of their injuries, the majority of seriously injured clients are expected to require support for their lifetimes. Each year, around 250 new serious injury claims are added, but few are expected to exit the pool. The June 2015 valuation projection is lower than those in the previous two valuations due to the methodology change for mortality assumptions (see 7.3.11). Adjusting for this, the projected payments are largely unchanged.

3.3.5 Quarterly payments were relatively flat from 2009/10 to 2012/13. However, in the past two years they have started increasing, with 2014/15 payments increasing by $12 million (4.5%) overall, in line with the expectations from the June 2013 and 2014 valuations.

3.3.6 This largely reflects increased spending on training for independence programmes, which are designed to enable clients to gain more independence and reduce the need for care. This increased investment should lead to reduced hours of care, but monitoring is required to ensure that this is indeed the case.

3.3.7 Growth in the number of clients requiring attendant care support, partly offset by a decline in average hours of care, has also contributed to the increase but at a much lower level.

Growth in care packages

3.3.8 Excluding economic factors, changes in care packages provided to seriously injured clients have the largest impact on the OCL. The June 2015 valuation assumes a growth in care packages of 5.7% above inflation per annum until 2020. Beyond that this figure reduces to between 2.3% and 3.3%.

3.3.9 Care packages have three sources of growth:

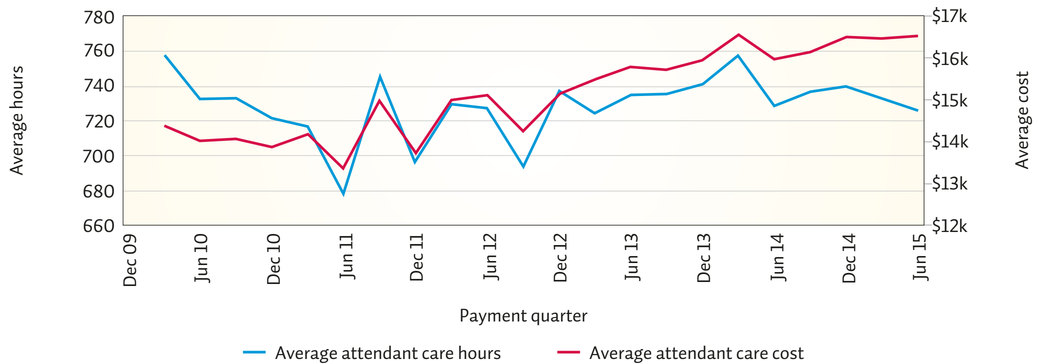
- Increases in average hours
- Increases in the rates paid to carers
- Claim transfers from family/private providers to contracted agency providers with higher hourly rates.

3.3.10 Attendant care hours are generally expected to increase gradually in line with clients' increasing needs as they age. However, the growth experienced pre-2015 was higher than could be explained by ageing alone. Investigations showed that procedures and benchmarks were not being adhered to in all cases and, as a result, ACC has taken steps in 2014/15 to ensure that case management decisions are consistent and in line with agreed procedures.

3.3.11 ACC has also renewed its focus on encouraging case managers to ensure that attendant care hours reduce once the service has been replaced with an appropriate alternative (eg a self-drive vehicle). These initiatives are expected to continue stabilising the average attendant care hours.

3.3.12 As Graph 6 shows, despite the average attendant care hours per claim stabilising, average care costs have increased in the past year. This is due to increases in the underlying care rates and transfers to contracted agency carers.

GRAPH 6 – AVERAGE ATTENDANT CARE HOURS AND COSTS



3.3.13 The valuation assumes that care rates will increase in the medium term by about 3.5% above the change in the Labour Cost Index. This level of superimposed inflation is assumed to continue until care rates have increased to 80% of average weekly earnings. At that point the superimposed inflation is assumed to be in line with the difference between changes in the Labour Cost Index and average weekly earnings (approximately 1%).

3.3.14 Historically increases in care rates above inflation have not been regular and a period of relatively low superimposed inflation can be followed by a one-off large increase. The superimposed inflation rate has been relatively low since a large increase of 12.8% in 2008/09, with growth in 2014/15 of 1%.

3.3.15 The Joint Working Group on Pay Equity Principles recently established by the Government is expected to report back with recommended pay equity principles by March 2016. Any legislative changes that result from this are expected to bring forward some of the assumed future increases in care rates. While this is essentially a timing issue, it will increase the OCL.

3.3.16 Contracted agency carers have higher hourly payment rates than non-contracted family/private carers. Since 2010/11 there has been an ongoing shift from family carers to contracted agency carers. Transfers to agency care during 2014/15 contributed 0.3% to the overall 1.3% growth in care package payments. Long term, it is expected that this contribution will increase to between 0.4% and 0.8%.

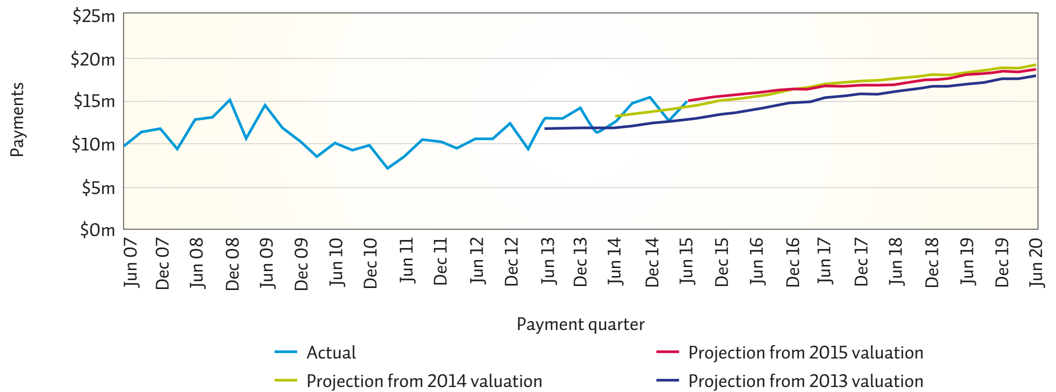
3.3.17 In summary, care payments for seriously injured clients have recently returned to more satisfactory levels. The focus on increasing independence through providing other services needs continued monitoring. While these payments represent risks to the OCL, performance is currently satisfactory.

Capital payments for serious injury

3.3.18 Social rehabilitation capital payments comprise payments for consumables, equipment, artificial limbs, housing modifications and motor vehicle purchases and modifications.

3.3.19 Quarterly capital payments to seriously injured clients have increased by $7 million (12.6%) overall since June 2011, as shown in Graph 7.

GRAPH 7 – SOCIAL REHABILITATION – SERIOUS INJURY CAPITAL PAYMENTS



3.3.20 The main contributors to this increase have been equipment (10.1% growth) and motor vehicle purchases and modifications (30.7% growth).

3.3.21 The growth in payments for equipment has been driven equally by increases in the number of claims paid and the average cost, the latter largely due to increases in contract equipment rates. The growth in payments for motor vehicle purchases and modifications is largely the result of a higher-than-expected number of motor vehicle modifications and purchases, for replacement vehicles. Average costs have declined slightly.

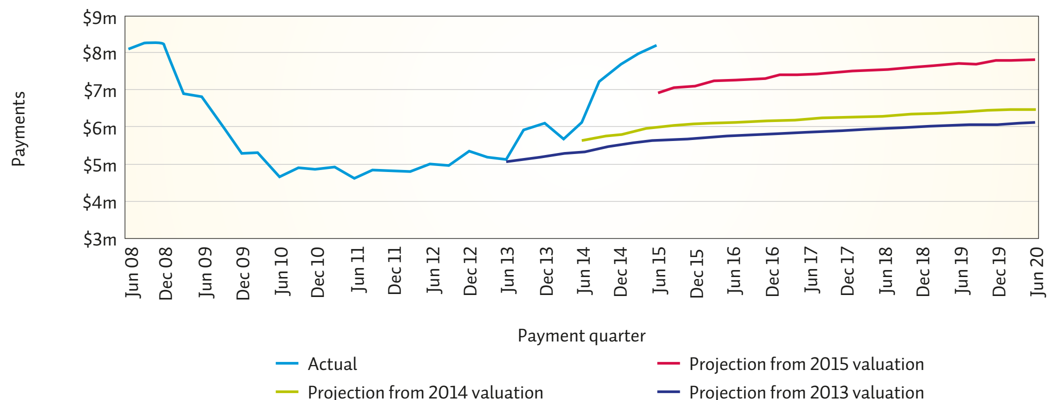
3.3.22 The $55 million increase in the liability for these payments in the June 2014 valuation was maintained in the 2015 valuation. Controls on the rates paid for equipment and the support provided to clients need to be monitored continually for their effectiveness; this is a risk that remains on watch.

Capital payments for non-serious injury

3.3.23 Capital payments for non-serious injury claims have increased significantly in the past two years. In response, the last two valuations of the OCL have increased the liability for this payment type by $49 million (18%).

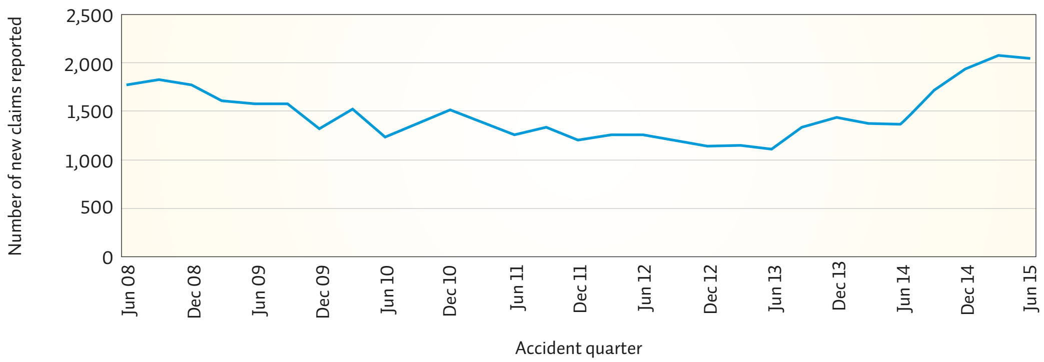
3.3.24 Graph 8 shows the quarterly social rehabilitation capital payments for non-serious injury from June 2007 to June 2015 and the projected payments in the June 2015 and two previous June valuations.

GRAPH 8 – NON-SERIOUS INJURY CAPITAL PAYMENTS



3.3.25 The payment experience since June 2015 has continued to increase, with actual payments exceeding the valuation expectation by 33% in the September 2015 quarter. This is mainly due to higher-than-expected claim numbers. As shown in Graph 9, the number of new claims per quarter has increased significantly in the past two years; it now exceeds the June 2008 level.

GRAPH 9 – NEW NON-SERIOUS INJURY CAPITAL CLAIMS



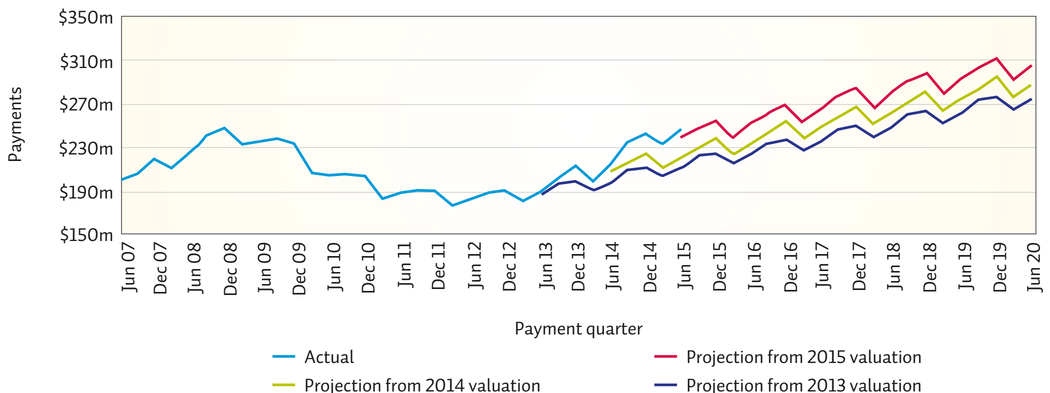
3.3.26 Following the June 2015 valuation, the liability for this payment type was increased by $24 million at December 2015. Should this level of increase continue, a further liability increase of about $50 million will be needed at 30 June 2016. An investigation into these increases is underway.

3.4 Non-fatal weekly compensation

3.4.1 Non-fatal weekly compensation claim payments have increased above expectations in each of the past two years, with substantial growth in new claims and increases in payments for long-term claims. In total, this experience has resulted in a $352 million increase in the liability, of which $287 million has happened in the past year.

3.4.2 Graph 10 shows the quarterly claim payments from June 2007 to June 2015 and the projected payments in the June 2015 and two previous June valuations.

GRAPH 10 – NON-FATAL WEEKLY COMPENSATION CLAIM PAYMENTS



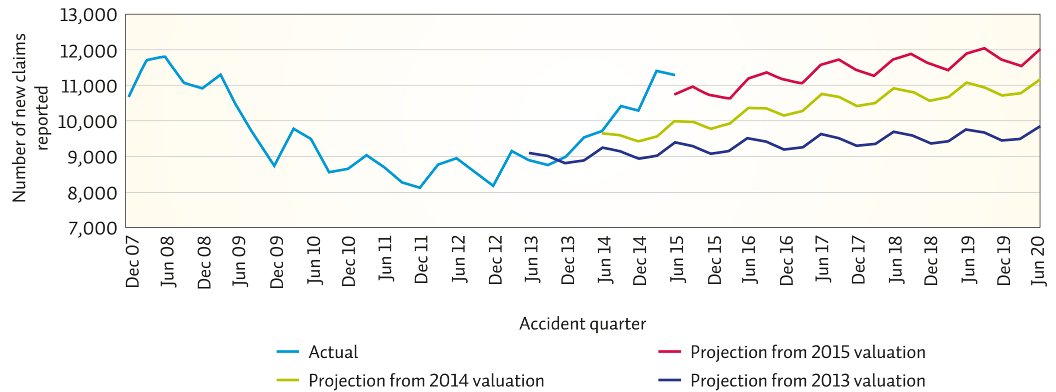
3.4.3 In response to the increase in payments since June 2013, projected claim payments have increased in the past few years' valuations. Should this continue, there may be further increases to the OCL required.

3.4.4 The two key drivers of weekly compensation claim payments are the number of new claims and the rehabilitation rates of continuing claims (discontinuance rates).

New claim numbers

3.4.5 Graph 11 shows the number of new weekly compensation claims reported and projections from the June 2015 and two previous June valuations.

GRAPH 11 – NUMBER OF NEW WEEKLY COMPENSATION CLAIMS BY ACCIDENT QUARTER



3.4.6 After increasing significantly between 2000/01 and 2007/08, the number of new claims began to fall and remained at a lower level (around 8,500 claims per quarter on average) until March 2013. This decrease was largely driven by the downturn in the economy following the global financial crisis.

3.4.7 Between June 2013 and June 2015, the number of new claims increased to more than 11,000 per quarter. The rate of growth accelerated, with the Earners' and Work Accounts both recording increases of around 15% in 2014/15. This is well above the 3% growth in the employed population in the same period.

3.4.8 New Zealand's experience is consistent with that in other jurisdictions where research[1] has shown that the claim frequency of work-related claims, after allowing for changes in the employed population, has tended to decline in recessions and increase during times of economic recovery. Nonetheless, the recent experience is high.

3.4.9 Almost all industries had a role in the Work Account's increase in new weekly compensation claims. In particular, manufacturing and construction (the two largest industries in terms of claim volumes), are highly correlated and continue to have higher claim growth rates than other industries.

3.4.10 Analysis by region shows that Canterbury has the highest claim frequency rate in the construction industry. However, while there is a clear correlation, the cause is harder to prove; we hypothesise that it is being driven by the Canterbury earthquake rebuild and a potential skills shortage, leading to an increase in less experienced workers with a higher risk of injury. Other jurisdictions have also seen claim frequencies in high-risk industries fall more sharply than those in other industries and rebound strongly after a recession.

3.4.11 The reason for the growth in new claims in the Earners' Account is harder to pinpoint. It is likely to be related to the economic recovery with more workers having more income to spend on leisure activities and more confidence in their ability to keep their jobs after being off work for injury-related treatment and rehabilitation.

3.4.12 Recent forecasts indicate that the growth in new weekly compensation claims may slow in the short term.

Loss of Potential Earnings

3.4.13 Weekly compensation is available to clients with long-term injuries who were injured before they turned 18 or while they were students, and who cannot enter the workforce because of their injuries. These claims are generally in the Non-Earners' or Treatment Injury Accounts, and the clients receive the compensation in the form of Loss of Potential Earnings (LOPE) once they reach 18.

3.4.14 Since March 2014, the number of LOPE claims has increased, mainly due to an increase in new sensitive claims.

1 *Mustard CA and Petch J. 'The Canadian recession and the compensation of work-related injury and illness'*, Issue Briefing *(Canada: Institute for Work & Health, February 2012).*

3.4.15 Cover decisions for sensitive claims can be time-consuming, particularly as the claims are often made some time after the original injuries. Recognising this (and in response to a review of the support provided for sensitive claims), an integrated services contract came into effect in November 2014. Claimants are now immediately offered a limited number of counselling services, regardless of whether their claims have been accepted. This is encouraging clients who have previously not claimed to come to ACC for help. Many also qualify for LOPE; in July 2014 ACC identified 117 new sensitive claimants who were not currently receiving LOPE but could be entitled.

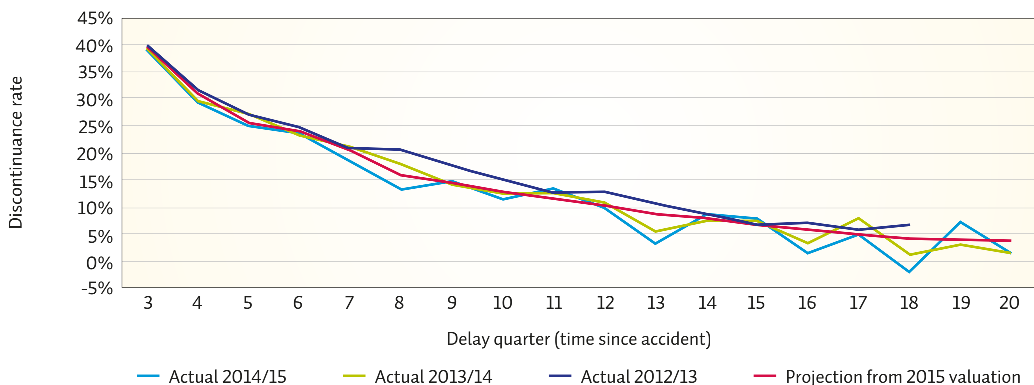
3.4.16 The backlog of previously unreported claims is expected to continue in the next year as more claims are transitioned to the new contract. In the long term the number of new sensitive claims is likely to increase given that the new provisions encourage early reporting. These claims have an estimated average lifetime cost of $0.5 million, which has led to a one-off $62 million increase in the OCL.

Discontinuance rates – less than five years duration

3.4.17 The discontinuance rate for weekly compensation claims at a specific injury duration (ie the time since accident date) is conceptually similar to the rehabilitation rate, but with certain technical differences in the way it is calculated.

3.4.18 Graph 12 shows historical discontinuance rates for weekly compensation claims with durations less than five years, compared with the assumptions used for the June 2015 valuation projections.

GRAPH 12 – WEEKLY COMPENSATION DISCONTINUANCE RATES FOR INJURY DURATIONS LESS THAN FIVE YEARS



3.4.19 Discontinuance rates have deteriorated in the past two years. The June 2015 valuation projects the rate returning to a level either at the 2013/14 figure or close to the mid-point of those in 2012/13 and 2013/14. However, the actual rate has generally deteriorated in 2014/15, in part owing to an increase in reactivations, of which a majority related to one-off backdated payments (see 3.4.37). This remains on watch.

Recent trends in early rehabilitation rates

3.4.20 In response to a recommendation in the 2014 *Financial Condition Report*, trends in early rehabilitation rates have been investigated in the past year. The analyses have mainly focused on the 70-day weekly compensation duration, as this has experienced the largest decline, from 70% to 67% over the past two years. See Graph 2 in 1.4 for recent trends for other durations.

3.4.21 While the impact on the claims liability at this duration is not significant, any deterioration can be an early warning of increases in long-term claims, which have a larger impact on the liability. Therefore it is important to understand what is contributing to the deterioration.

3.4.22 The analyses have identified three likely contributors:

- A changing case mix over time
- A potential delay in key providers' time to service
- An increase in claim reactivations.

Changing case mix

3.4.23 One of the effects of the ageing workforce is a continuing rise in the number of injuries to workers aged 50 and over. The proportion of weekly compensation clients in this age group has increased from 14% to 30% in the past two decades. This affects overall rehabilitation timeframes, as older clients generally need more time to recover from injuries.

3.4.24 Older clients' rehabilitation rates can also differ significantly by injury site. Of note is the increasing proportion of shoulder injuries among clients aged 50 and over, which typically require longer recovery times than do injuries to other body sites.

3.4.25 To better judge rehabilitation performance, we recommend that adjustments to measures are made for changes in case mix. The predictive tool for estimating claim durations described in 6.2 may provide a means to do this.

Key providers time to service

3.4.26 Since 2011/12 the number of clients taking at least four weeks to access their first specialist visit has increased by 28%. Similarly for high-tech imaging services: there is some evidence of an increase in the proportion of clients taking longer to have their first service.

3.4.27 The timeliness of key services is a critical part of the client rehabilitation pathway. This is an area that requires ongoing monitoring.

Claim reactivations

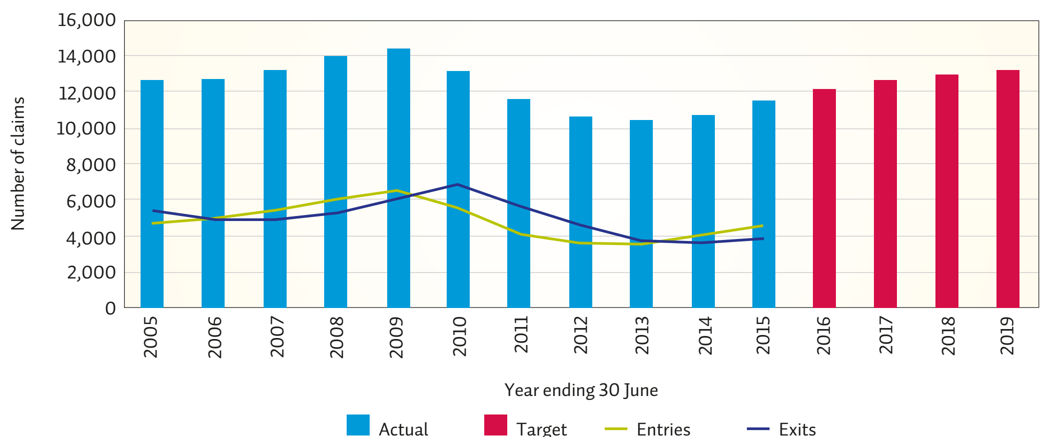
3.4.28 In the past 18 months the number of claim reactivations has increased, affecting rehabilitation rates at all injury durations. Reactivated claims can behave differently to claims paid continuously since the accident happened, particularly if the reactivations are due to deteriorations in injury. Reactivations that resulted in longer-term claims exceeding 70 days of paid weekly compensation reduced the 70-day rehabilitation rate by 4%. Results from the 'long-term claims investigation project' (see 3.8) may provide further insight into the drivers for this.

Long-term weekly compensation pool

3.4.29 The long-term weekly compensation pool refers to claims that have received more than 365 days of cumulative weekly compensation. These claims tend to be more complex than those with shorter durations and therefore require more focused management.

3.4.30 Graph 13 shows the numbers of long-term claims and claims entering and exiting the pool. Also shown are the targets for the number of claims in the long-term pool for the next four years.

GRAPH 13 – LONG-TERM WEEKLY COMPENSATION CLAIMS



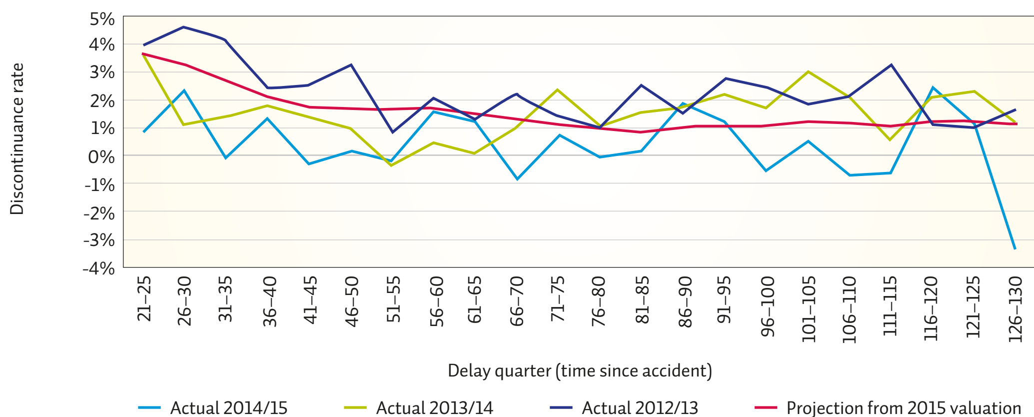
3.4.31 Since 2013/14 the number of entries to the pool has exceeded the number of exits. As the exit trend follows that for entries with a lag of about a year, we expect an increase in the number of exits in the short term unless long-term discontinuance rates deteriorate further.

3.4.32 About 70% of the claims in the long-term pool have received weekly compensation payments for two and a half years or more, including 20% that are serious injury claims. Some of these claims will require lifelong support. We expect the number of long-term claims to gradually grow over time as the Scheme matures and the number of serious injury claims in the pool increases. This is allowed for in the OCL and levy assumptions.

Long-term discontinuance rates

3.4.33 The discontinuance rate has been volatile for injuries with durations of more than five years due to their increasingly small claim volumes.

GRAPH 14 – WEEKLY COMPENSATION DISCONTINUANCE RATES FOR INJURY DURATIONS OVER FIVE YEARS



3.4.34 As can be seen in Graph 12 and Graph 14, the June 2015 valuation assumptions are higher than the actual experience for most durations. Should these assumptions be reduced, the impact on the OCL will be significant. As indicated in Table 27 (see 7.6), a 1% drop in long-term (more than five years) discontinuance rates alone, all else being equal, would increase the OCL by $768 million. The discontinuance rate experience for 2014/15 was, on average, 1.2% below the valuation assumption.

3.4.35 During 2014/15 some durations have had negative discontinuance rates. This reflects an increase in late-reported new claims and reactivations, and a decrease in claims exiting the Scheme, which means the number of active claims is higher than it was in the previous period. The significantly negative rate for injury durations of more than 31 years (126-130 quarters since the accidents) is due to a small number of new surgery-related claims.

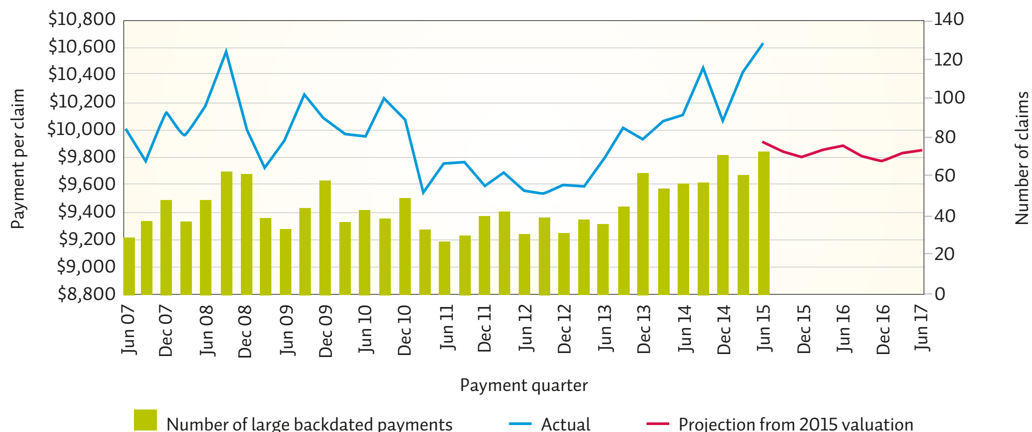
3.4.36 The decreases in discontinuance rates, combined with the growth in the number of claims entering the long-term pool, represent a significant risk. Understanding the long-term claims' profile will help in determining the appropriate management response.

Large backdated payments

3.4.37 Reviews of, and court judgements on, ACC claim decisions often result in clients receiving backdated lump sum payments for weekly compensation, sometimes with interest. Between 2010/11 and 2012/13 the number of backdated claims and the average amount paid per claim were relatively low, but since then the number of large backdated payments has doubled, with the average amount increasing by about 30%.

3.4.38 Graph 15 compares the actual average weekly compensation amount paid for long-term claims (with accident date five or more years ago) with the projection from the June 2015 valuation. Also shown is the number of claims in this pool receiving 'large' backdated payments of $50,000 or more.

GRAPH 15 – WEEKLY COMPENSATION COST PER CLAIM FOR CLAIMS WITH ACCIDENT DATE FIVE OR MORE YEARS AGO



3.4.39 The increase has driven up the average cost per claim in the long-term weekly compensation pool. This appears to be due to a backlog of appeals being cleared. Experience is expected to return to levels consistent with previous experience.

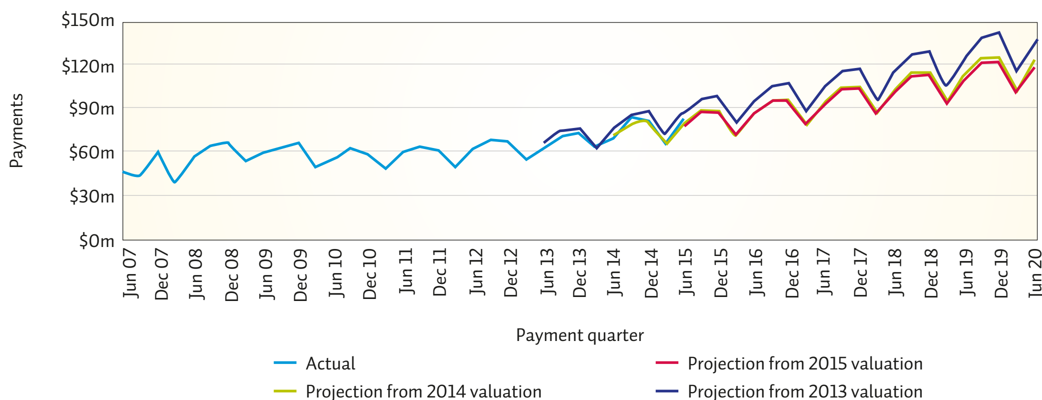
3.4.40 In summary, the number and amounts of weekly compensation claims have been increasing recently. This poses a significant risk for long-term claims, particularly if the recent deterioration in discontinuance rates continues. In response to claims experience at longer durations, management has established a project to investigate drivers of emerging trends. This is an important piece of work. Depending on the results of this project further action may be required.

3.5 Elective surgery

3.5.1 Elective surgery is an important entry point to the Scheme as claims often require other services and/or payments, such as weekly compensation, social rehabilitation and other medical services. Experience has been generally in line with expectations for the past two years.

3.5.2 Graph 16 shows actual quarterly claim payments from June 2007 to June 2015 and the projected payments in the June 2015 and two previous June valuations.

GRAPH 16 – ELECTIVE SURGERY CLAIM PAYMENTS



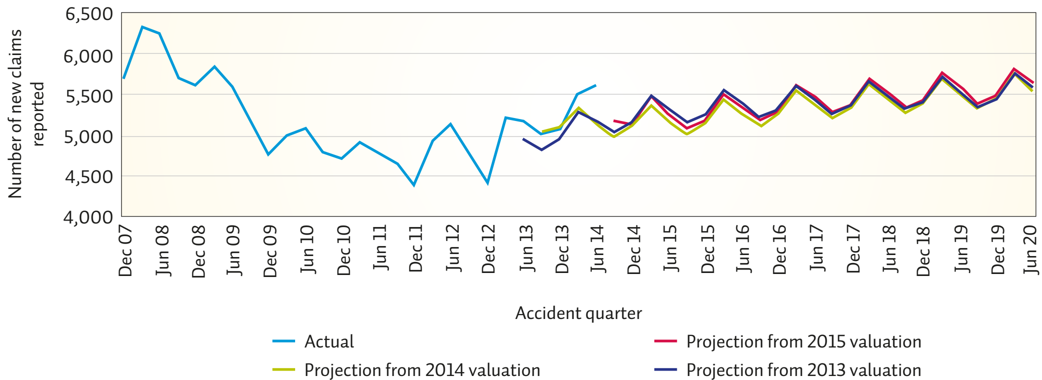
3.5.3 Although payments have been continually increasing, current experience is broadly in line with the valuation expectations. These were reduced in 2014 and maintained in 2015, primarily due to superimposed inflation being lower than expected (see 3.5.10).

Claim numbers

3.5.4 Unlike other payment types, elective surgery is of itself a one-off event. The timing of an elective surgery procedure can vary from soon after the accident date to many years later, often because further surgery is required.

3.5.5 Graph 17 shows the number of new claims receiving elective surgery within one year of accident from December 2007 to June 2014, and the projected claims in the June 2015 and two previous June valuations.

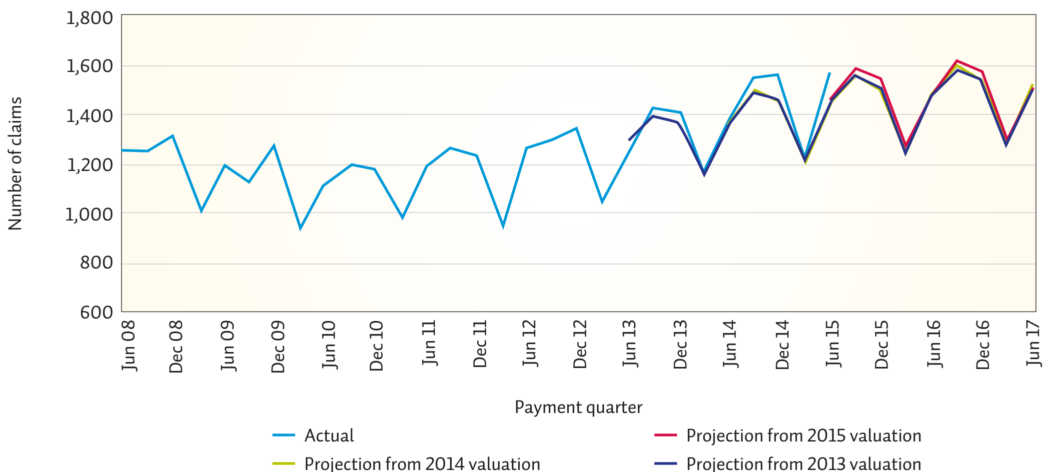
GRAPH 17 – NEW ELECTIVE SURGERY CLAIMS REPORTED WITHIN ONE YEAR OF ACCIDENT



3.5.6 The number of new claims receiving elective surgery within a year of the accidents decreased by approximately 1,000 per quarter during the 2009 calendar year. It remained relatively stable until June 2013, then an upward trend emerged. (Note that since June 2015 this has begun to revert back to valuation assumptions.)

3.5.7 Graph 18 shows another emerging pattern: the number of claims receiving elective surgery more than five years after the accidents has continued to trend upwards.

GRAPH 18 – ELECTIVE SURGERY CLAIMS MORE THAN FIVE YEARS SINCE ACCIDENT



3.5.8 Claims with longer durations like these tend to be more expensive than others, as delays can make surgery complicated and older clients are more likely to have co-morbidities. Up to half of the surgeries performed more than five years following the accidents are repeats to replace deteriorating implants. These increases in elective surgery for longer-duration claims and repeat surgeries are expected to continue as the surgery portfolio matures.

3.5.9 A 1% increase in claims at these longer durations is expected to increase the OCL by $635 million. This risk needs to be monitored carefully. The long-term claims investigation project will be considering the issue.

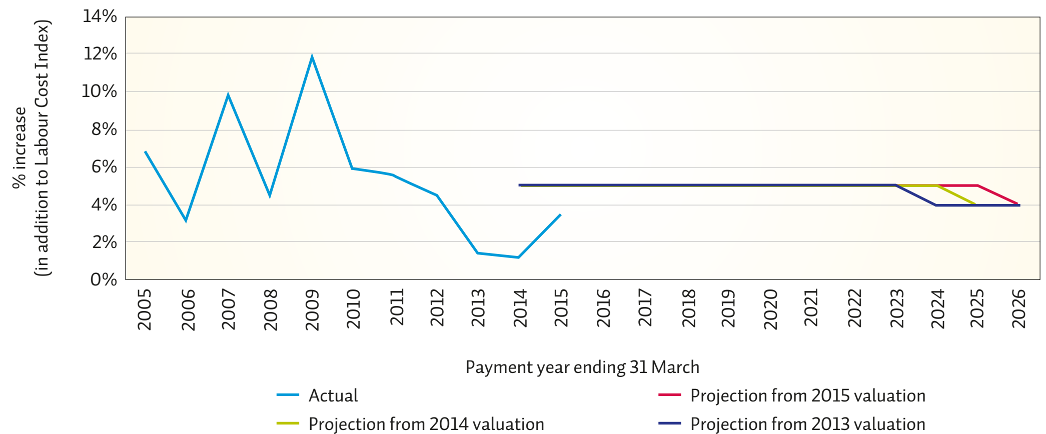
Cost per claim and superimposed inflation

3.5.10 Superimposed inflation is not unusual in the health sector and is widely recognised around the world. It has a significant effect on ACC's payments for elective surgery.

3.5.11 The average cost per elective surgery claim experienced superimposed inflation of more than 5% per annum for several years before 2011/12. Between 2012/13 and 2013/14 superimposed inflation was relatively low but in the past year it has started to increase again.

3.5.12 Graph 19 shows the historical superimposed inflation levels and the assumed levels in the June 2015 and two previous June valuations.

GRAPH 19 – ELECTIVE SURGERY SUPERIMPOSED INFLATION



3.5.13 Superimposed inflation has generally been driven by increases in underlying surgical rates and a general shift towards more complex, and therefore more expensive, surgeries. In 2014/15 superimposed inflation increased from 1.2% to 3.5% per annum. While this is below the valuation assumption of 5% per annum, long-term trends show that periods of low superimposed inflation are often followed by strong increases. A 1% increase in superimposed inflation for elective surgery is expected to increase the OCL by $631 million.

3.5.14 In summary, the recent elective surgery experience has been good, with low superimposed inflation partially offset by higher volumes of long-term claims. However, with superimposed inflation starting to rise, this is an area requiring active monitoring.

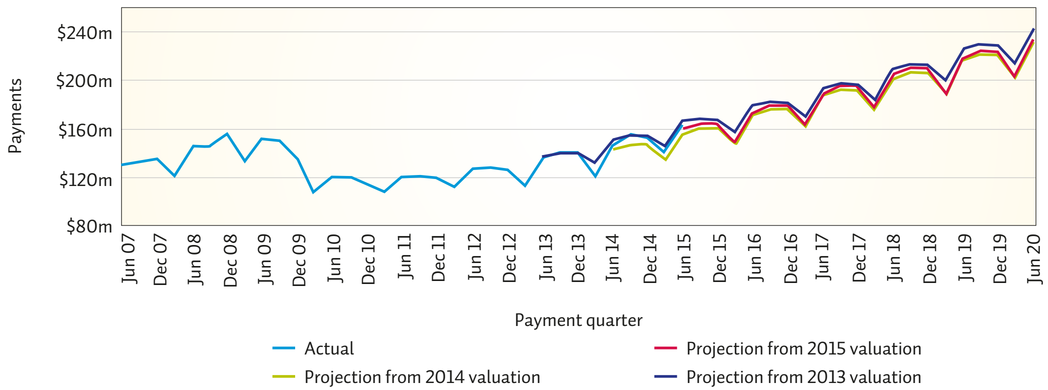
3.6 Medical payments

3.6.1 Medical payments are made to primary care providers in four categories:

- General practitioners (GPs)
- Radiology
- Physiotherapy
- Other Medical, which includes specialist consultations, acupuncture, dental treatment and counselling.

3.6.2 Graph 20 shows quarterly medical payments from June 2007 to June 2015 and the projected payments in the June 2015 and two previous June valuations.

GRAPH 20 – MEDICAL CLAIM PAYMENTS



3.6.3 Medical payments had a period of relative stability at a reduced rate from June 2010 to June 2012, but have increased in the past three years. In 2014/15 the payments have exceeded the level projected by the June 2014 valuation – largely owing to increases in Other Medical payments – which has led to a $68 million increase in the liability.

3.6.4 The increase in Other Medical payments is partly explained by the new Integrated Services for Sensitive Claims contract, which came into effect in November 2014. Under this contract clients have access to higher service levels with reduced delays, as well as no co-payment.

3.6.5 The 2014 valuation allowed for the new contract with an increase of $47 million in Other Medical. The additional liability increase in the valuation at December 2015 was around $127 million. However, while it is too early to draw a firm conclusion, recent experience suggests this may not be enough given the numbers of clients accessing the new services.

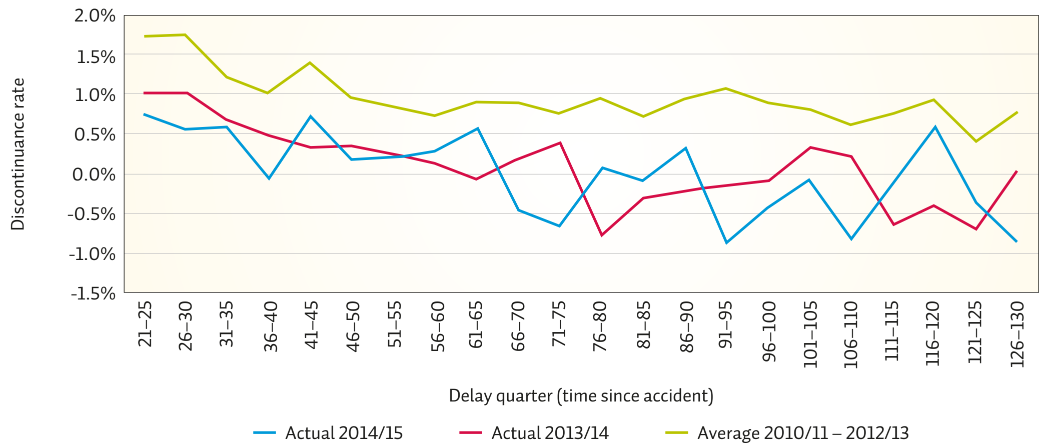
3.6.6 A formal review of the new sensitive claims service and the long-term implications began in February and is due to be completed in May 2016.

Claim numbers

3.6.7 Most claims receive some form of medical treatment or service, so the number of new medical claims is very similar to the total number of new claims. As shown in Graph 4 and discussed in 3.2.7, claim frequencies have increased in the past three years after several years of decreasing or flat experience. The recent valuations have responded to the increase by strengthening claims volume assumptions, particularly for Other Medical services. However, while the overall growth in medical claim volumes seen to date has been allowed for in the June 2015 valuation, the experience needs to be monitored.

3.6.8 Graph 21 shows the discontinuance rates for claims that are still receiving medical services five or more years after accident.

GRAPH 21 – DISCONTINUANCE RATES FOR LONG-TERM MEDICAL CLAIMS



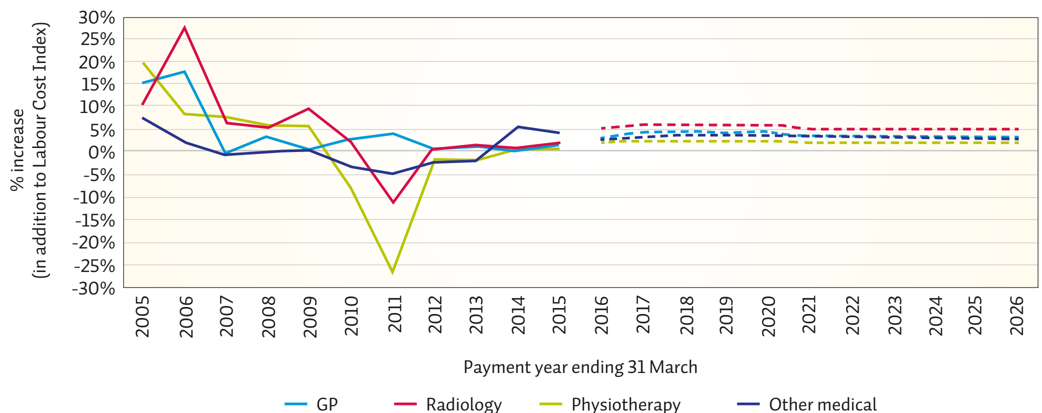
3.6.9 Rates were lower in 2013/14 and 2014/15 than in the previous three years. They included some negative discontinuance rates, reflecting new and reopened claims exceeding the number of exiting claims. This was particularly noticeable with claims receiving the following services:

- Specialists – the increase in the number of older elective surgery claims (see 3.5.7) requiring pre-surgery specialist consultations has likely contributed to the deteriorating discontinuance results
- GPs – this is consistent with the trend in weekly compensation (see 3.4).

Cost per claim and superimposed inflation

3.6.10 As with elective surgery, medical payments experience superimposed inflation. Graph 22 shows the historical levels of superimposed inflation for GP, Radiology, Physiotherapy and Other Medical treatments and the assumed future levels in the June 2015 valuation.

GRAPH 22 – MEDICAL PAYMENTS' SUPERIMPOSED INFLATION



3.6.11 In the past 10 years all medical payment types have experienced considerable volatility in superimposed inflation. In the years to 2007/08 it was high for all medical services, but since then it has been virtually nil owing to factors such as the economic downturn, the re-introduction of co-payments, and contract changes. The exception is Other Medical where superimposed inflation has increased significantly in the past two years.

3.6.12 Although the actual superimposed inflation rates for most medical services are below valuation assumptions, they appear to have started trending upwards. We therefore consider the valuation assumptions to be appropriate for the time being.

3.6.13 Superimposed inflation on the average cost per claim includes not only changes to the average cost of services, but, particularly for medical treatment, a component related to the number of services or treatments accessed per claim. The large reduction in superimposed inflation for physiotherapy between 2009 and 2011 was mostly a result of a decrease in the number of physiotherapy treatments per claim after the re-introduction of co-payments.

3.6.14 With the removal of co-payments for sensitive claim clients accessing counselling, the number of services accessed, and therefore the average cost per claim, may prove higher than the valuation currently assumes. This in turn may lead to an increase in the superimposed inflation for Other Medical. It is difficult to quantify this effect accurately in advance, but if the existing co-payment is currently inhibiting people making these claims, claims will naturally increase when it is removed. Although this would lead to an increase in future claim payments above current expectations, it would be a natural result of better service provision to this group of vulnerable clients.

3.6.15 In summary, the medical experience has been broadly in line with overall increases in new claim volumes. Changes in sensitive claims' services have led to higher-than-expected increases in counselling, with further increases possible. Medical services provided for long-term claims have increased, driven by trends in weekly compensation and elective surgery. Superimposed inflation in medical payments continues to be an important driver of liability and requires monitoring.

3.7 Treatment Injury Account

3.7.1 The Treatment Injury Account covers injuries that happen as a result of medical treatment by registered health professionals. The 2014 *Financial Condition Report* stated that costs in the Account had increased significantly since 2008/09, and this increase has continued in the past year.

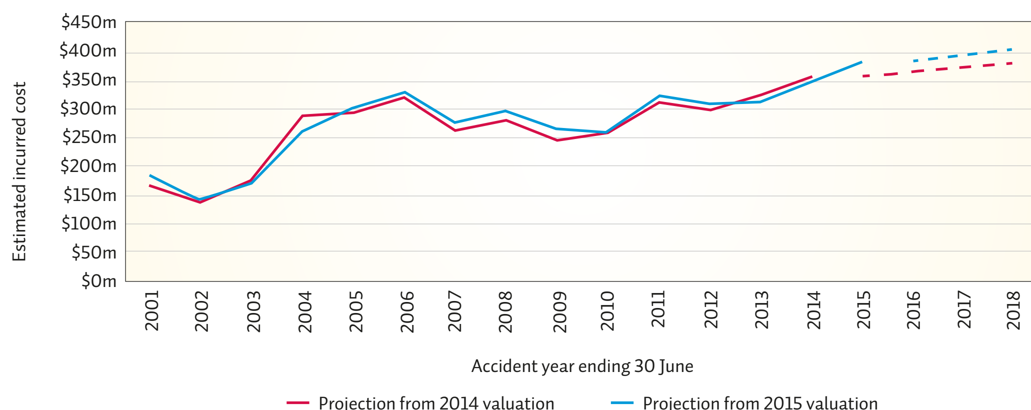
3.7.2 Claim frequency makes a significant contribution to this growth, as shown in Graph 35 in Appendix A. While other Accounts' claim frequencies generally fell between 2008/09 and 2011/12, the Treatment Injury Account's frequency has increased fairly consistently. Between 2008/09 and 2013/14 it increased by 38%, with an additional 18% increase between 2013/14 and 2014/15.

3.7.3 While the causes of the increasing claim frequency are not yet fully understood, we believe there is likely a history of providers under-claiming for treatment injury.

3.7.4 The other factor is the cost per claim. Around 30% of treatment injury claims require support other than medical treatment – a higher proportion than in any other Account. Around 60% of the Treatment Injury liability consists of costs associated with social rehabilitation for serious injury, and a significant proportion of the remainder relates to medical and elective surgery. This means that superimposed inflation is higher in the Treatment Injury Account than in other Accounts.

3.7.5 Graph 23 compares the projections from the 2014 and 2015 valuations of the Treatment Injury Account's incurred costs by accident year. The incurred cost combines amounts paid to date with an estimate of future payments for all claims incurred in an accident year. This includes all claims reported to date and an estimate of claims that have occurred but are yet to be reported.

GRAPH 23 – TREATMENT INJURY ACCOUNT INCURRED COSTS



3.7.6 In 2014/15 payments have continued to rise ahead of expectations and the valuation projection for future accident years has been increased accordingly. The key financial risk is growth continuing at the rate seen from 2008/09 to 2013/14, with the 2014/15 result indicating this is still a realistic possibility.

3.7.7 As a result, four injury prevention initiatives are being developed in agreement with the Ministry of Health (MOH) and the Health Quality and Safety Commission (HQSC), with the aim of reducing:

- the incidence and severity of neonatal encephalopathy (birth brain injuries), pressure injuries and wound infections
- perioperative injuries through the national roll-out of a surgical simulation training programme currently run by the Auckland School of Medicine.

3.7.8 Other initiatives underway to address the increasing trends are discussed in 11.5. A sector-wide response is required to ensure that these initiatives are successful. It is likely to take some time to achieve significant reductions in experience. This is important work and should be a continued focus for injury prevention.

3.8 Claims experience since 30 June 2015

3.8.1 In the first quarter of 2015/16 the increase in claims experience seen during 2014/15 has continued. It is more pronounced in the number of claims, but the average cost per claim has also risen.

3.8.2 While the high influx of new claims continues to be a challenge operationally, financially the biggest risk is in the long-term trends. This is particularly true for weekly compensation, but the use – and therefore the costs – of social rehabilitation capital for non-seriously injured clients has also increased significantly.

3.8.3 It is important that management understands the drivers of these increases and can respond swiftly. A cross-functional project team has been formed specifically to investigate the drivers for long-term claims in order to understand if this is a short-term trend or a longer-term shift, and to determine appropriate management response. Particular focus in the first stages of the investigation are claims receiving elective surgery 10 years or more since accident date as this is seen as a gateway into other services such as weekly compensation and medical treatment. This long-term claims investigation project is an important piece of work.

3.9 Conclusion

3.9.1 Experience during 2014/15 was generally higher than expected by the valuation, with a particular concern being the deterioration in discontinuance rates for long-term claims. An investigation is underway into this pool and the key drivers of the increases.

3.9.2 Social rehabilitation care for clients with serious injuries is a large component of the OCL. Performance is currently satisfactory. However, the experience in capital payments, particularly for non-serious injuries, has deteriorated and is under investigation.

3.9.3 Superimposed inflation is a risk in relation to payments for elective surgery, medical care and serious injury care. The recent experience has been at or below expectations, but levels appear to be increasing.

3.9.4 It is encouraging to see initiatives aimed at reducing the growth in the Treatment Injury Account. However, real reductions are not expected in the short term.

3.9.5 There will be significant risks to the OCL and Scheme solvency if growth continues at the levels seen in the past two years. It is important that management continues to work to understand its key drivers. Partnering with government and other agencies in injury prevention and claim management initiatives will help here. Work has already begun in relation to injury prevention, treatment injury and elective services.

3.9.6 We recommend that changes are made to align reporting and management regimes in relation to claims performance with both operational and financial risks, in particular those identified by movements and trends in the OCL.

4. Expenses

4.1 Overall expenses

4.1.1 In this section expenses are separated into five categories: claims handling, injury prevention, operating and levy collection (two categories collectively referred to here as 'administration expenses'), and investment.

4.1.2 Table 14 shows the expenditure for 2014/15 and compares this with the budget as well as the previous two years.

TABLE 14 – TOTAL EXPENSES

	2014/15 Actual								
($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15 Budget	2013/14 Actual	2012/13 Actual
Claims handling expenses	40.9	93.1	146.4	99.8	21.2	401.4	402.4	376.2	330.7
Injury prevention expenses	6.5	5.4	5.2	12.5	0.4	30.0	50.4	34.0	22.4
Administration expenses									
Net operating costs	8.3	4.8	8.8	29.3	1.2	52.4	68.1	47.5	47.2
Levy collection costs	1.2	0.2	20.0	19.0	0.0	40.5	40.2	38.9	37.4
	9.5	**4.9**	**28.8**	**48.4**	**1.2**	**92.8**	**108.3**	**86.3**	**84.7**
Investment expenses	17.7	6.5	15.0	15.4	6.3	60.9	61.8	55.9	60.7
Total expenses	**74.7**	**110.0**	**195.4**	**176.0**	**29.2**	**585.2**	**622.9**	**552.4**	**498.5**

4.1.3 The overall expenditure in 2014/15 was 6% lower than budgeted but 6% higher than in 2013/14, mainly due to increases in net operating costs and claims handling expenses. These were up from 2013/14 by 10% and 7% respectively, but were partially offset by a 12% decrease in injury prevention expenses, which were 40% below budget. The budgeted increase from 2013/14 was driven by expected increases in injury prevention and operating expenses for the Transformation Programme. Movements in the individual expense categories are discussed in more detail below.

4.2 Claims handling expenses

4.2.1 Table 15 compares claims handling expenses with claim payments.

TABLE 15 – CLAIMS HANDLING EXPENSES

($M)	2014/15 Actual Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15 Budget	2013/14 Actual	2012/13 Actual
Claims handling expenses	40.9	93.1	146.4	99.8	21.2	401.4	402.4	376.2	330.7
Claim payments	435.8	901.5	1,080.1	670.5	131.5	3,219.4	3,094.0	2,959.0	2,639.2
Claims handling expenses/claim payments	9.4%	10.3%	13.6%	14.9%	16.1%	12.5%	13.0%	12.7%	12.5%

4.2.2 Claims handling expenses, which comprise two-thirds of total expenses, increased by $25.2 million (7%), in line with the budgeted increase. The ratio of claims handling expenses to claim payments was in line with the ratios in the previous two financial years.

4.2.3 The budgeted increase in claims handling expenses reflected expected increases in staff costs to meet the needs of increasing claim volumes.

4.2.4 Over 60% of the claims handling expenses were allocated to the Earners' and Work Accounts. These Accounts tend to have higher claims handling expense ratios than the other Accounts due to the high proportion of weekly compensation claims. The Treatment Injury Account also has a high claims handling expense ratio due to the complex cover decision process required.

4.3 Injury prevention expenses

4.3.1 Table 16 compares injury prevention expenses with levy income.

TABLE 16 – INJURY PREVENTION EXPENSES

($M)	2014/15 Actual Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15 Budget	2013/14 Actual	2012/13 Actual
Injury prevention expenses	6.5	5.4	5.2	12.5	0.4	30.0	50.4	34.0	22.4
Levy income	1,086.6	886.1	1,277.0	816.3	247.5	4,313.4	4,242.6	4,731.4	4,715.7
Injury prevention expenses/levy income	0.60%	0.61%	0.41%	1.53%	0.17%	0.70%	1.19%	0.72%	0.47%

4.3.2 Injury prevention expenses decreased by $4 million (about 12%) from 2013/14, and were significantly less than the $16.4 million budgeted increase. The under-budget spend was due to operational issues causing delays in developing programmes for increased injury prevention investment, including:

- the restructuring of the Executive and subsequent restructure of the Customer group.
- the implementation of the new injury prevention strategy and establishment of the Injury Prevention Design and Delivery Committee.

4.3.3 At 0.7% of levy income, the current spend is low. However, investment is expected to rise as ACC increases its capabilities, with a projected doubling in 2015/16 rising to $80.6 million by 2018/19 (see Table 13). This additional spend is expected to produce a commensurate ROI as claim costs reduce in the long term.

4.3.4 The Work Account has the highest ratio of injury prevention expenses to levy income of 1.53%, mainly due to the large number of well-established workplace injury prevention programmes and the cost of administering the optional incentive programmes for levy discounts.

4.3.5 The ratio of injury prevention expenses to levy income for the Treatment Injury Account is still low relative to the other Accounts. While it has increased since 2013/14, the growth in treatment injury claim costs remains a concern and still requires management attention. We discuss this in 3.7 and 11.5.

4.3.6 It is important that investment in injury prevention increases appropriately and that outcomes are monitored. The governance structure (see 1.4) should ensure that this happens and performance will be monitored through future *Financial Condition Reports*.

4.4 Administration expenses

4.4.1 Table 17 compares administration expenses with levy income.

TABLE 17 – ADMINISTRATION EXPENSES

	2014/15 Actual								
($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15 Budget	2013/14 Actual	2012/13 Actual
Administration expenses									
Net operating costs	8.3	4.8	8.8	29.3	1.2	52.4	68.1	47.5	47.2
Levy collection costs	1.2	0.2	20.0	19.0	0.0	40.5	40.2	38.9	37.4
	9.5	**4.9**	**28.8**	**48.4**	**1.2**	**92.8**	**108.3**	**86.3**	**84.7**
Levy income	1,086.6	886.1	1,277.0	816.3	247.5	4,313.4	4,242.6	4,731.4	4,715.7
Administration expenses/levy income	0.87%	0.56%	2.26%	5.93%	0.50%	2.15%	2.55%	1.82%	1.80%

4.4.2 2014/15's ratio of administration expenses to levy income (2.15%), was 18% higher than in 2013/14, but 16% below budget. It was affected by the Scheme reaching full funding in 2014/15, as levy income was reduced accordingly.

4.4.3 The total administration expenses increased by $6.5 million (about 8%) from 2013/14, significantly less than the $22 million budgeted increase. This under-budget spend was mainly due to a delay in the expected timing of expenses associated with the Transformation Programme.

4.4.4 The Work Account had the highest ratio of administration expenses to levy income (5.93%), mainly due to the higher operating costs associated with supporting employer levy payers. The Non-Earners' and Motor Vehicle Accounts' administration expense ratios were comparatively low due to low levy collection costs.

4.4.5 The Treatment Injury Account's administration expense ratio was higher than in 2013/14, but was still low relative to the other Accounts' due to the negligible levy collection costs. The net operating cost increase reflected an increased allocation of Clinical Services Directorate resources to focus on treatment injury prevention.

4.5 Investment expenses

4.5.1 Table 18 compares investment expenses with funds under management, including all costs associated with external parties managing investment funds.

TABLE 18 – INVESTMENT EXPENSES

($M)	2014/15 Actual								
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014/15 Budget	2013/14 Actual	2012/13 Actual
Investment expenses	17.0	6.3	17.0	14.7	6.0	60.9	61.8	55.9	60.7
Average assets	9,038.9	2,801.5	7,470.6	7,268.2	2,904.5	29,483.8	28,672.2	25,541.1	21,891.8
Investment expenses/average assets	0.19%	0.22%	0.23%	0.20%	0.21%	0.21%	0.22%	0.22%	0.28%

4.5.2 Investment expenses increased by 9% ($5 million) from 2013/14. The ratio of investment expenses to funds under management, at 0.21%, is similar to that in 2013/14 and is considered competitive against industry peers.

4.6 Conclusion

4.6.1 ACC's expenses, excluding investment expenses, were 13.6% of levy income in 2014/15. However, it is difficult to compare its performance with those of its peers because ACC is much larger than other insurers. While it should be expected to have certain economies of scale, it also:

- deals with by far the most complex types of claim
- takes a much more proactive role in rehabilitation
- spends money on matters such as injury prevention
- incurs significant expenses due to its relationship with the Crown.

In this context, a 14% ratio of expenses to levy income appears to be satisfactory. As expected, this expense ratio was higher than in 2013/14 due to a reduction in collected levies.

4.6.2 The actual expense ratio was lower than the budgeted ratio for 2014/15, mainly due to under-budget spending for the Transformation Programme and delays in injury prevention activity. While it is expected to increase in the coming year, both programmes are expected to deliver ROIs over time – the injury prevention programme by reducing claim incidence and severity, and the Transformation Programme through productivity gains in the medium term.

5. Pricing

5.1 Process for setting levy rates

5.1.1 ACC is required to consult the public on proposed levy rates for the levied Accounts. For this purpose, the Earners' Account levy includes the amount required to fund earners' contributions to the Treatment Injury Account.

5.1.2 After this consultation the Board considers the feedback received before making levy recommendations to the Minister for ACC.

5.1.3 The Board is required to have a policy on fully funding the levied Accounts when making its levy recommendations. This policy was reviewed and changed during 2015, and from 2016, following the enactment of the Accident Compensation (Financial Responsibility and Transparency) Amendment Act, a Government funding policy will apply.

5.2 Funding policy review

5.2.1 In the past few years ACC and the Government have been working to increase the transparency of the levy-setting process. This has included the Government giving clear guidance (through a funding policy) on how it wants to balance the need to collect levies that meet the lifetime cost of claims in a particular year with the objective of maintaining a reasonable level of solvency and levy stability.

5.2.2 In September 2015 the Accident Compensation (Financial Responsibility and Transparency) Amendment Act 2015 was enacted, with the aim of strengthening ACC's financial responsibility and improving the transparency of the levy-setting process.

5.2.3 Under the amendment the Government is responsible for setting the funding policy to use when setting levies. The new legislation requires the policy to be consistent with the principles of financial responsibility that are now part of the AC Act. These principles require that:

- the levies for each Account meet the lifetime cost of claims in relation to injuries that occur in a particular year
- if an Account has a deficit or surplus, it be corrected by setting levies at an appropriate rate for the subsequent year or years
- large changes in levies be avoided.

5.2.4 The main changes in the levy-setting process under the new legislation are that:

- The Government sets the funding policy target, horizon and transitions
- following the Cabinet decision on the final levy rates, ACC must publish projections of the funding and levy rate paths for each Account that result from these levy rates and the funding policy.

5.2.5 We expect the changes to improve the alignment of levies consulted on by ACC and those subsequently enacted by the Government. However, section 300 of the AC Act requires the Minister for ACC to consider the public interest including the interests of taxpayers and levy payers as well as clients and potential claimants. This may still lead to the Government setting final levy rates that are different from those that ACC consults on and recommends.

5.3 Funding policy – levied Accounts

5.3.1 ACC applied a new funding policy to the 2016/17 levy consultation that aligned with the Government's proposed funding policy for 2017/18 onwards. Under the new funding policy:

- Accounts will aim to hold assets between 100% and 110% of liabilities, with a midpoint target of 105%
- levies will be based on new-year costs with an adjustment to return or collect any surplus or deficit in the Accounts in the following ten years
- the annual average levy increase for any Account must not exceed 15%.

5.3.2 An important point is that the 100% minimum funding level is set with reference to the OCL reported in the financial accounts, so includes a risk margin (see 7.4).

5.3.3 One of the purposes of the funding policy is to manage the impacts on levy rates of the volatility inherent in the Scheme's financial position. The policy is an improvement in this regard, as it recognises the need for levies to be set with a sufficiently long time horizon.

5.4 Funding policy – Non-Earners' Account

5.4.1 Cabinet has determined that the Non-Earners' Account will be funded as follows:

- *Pre-1 July 2001 claims* – pay-as-you-go.
- *Post-1 July 2001 claims* – fully funded (excluding risk margin).

5.4.2 The fully funded portion is treated as a single value estimate to be met each year and any surplus or deficit is funded in a three-year period. This can lead to reasonable volatility in the Government's appropriation, although historically the main driver of volatility has been changes in the new-year claim estimates.

5.4.3 The decision not to fund the risk margin naturally results in a reported deficit to the extent of that risk margin and leads to a fully funded target of 88% of the liability reported in the annual accounts.

5.4.4 The pre-2001 claims currently represent a $3.2 billion liability. We expect this to remain stable for the next 10 years because annual claim payments are similar to the unwinding of the discount rate. These claims will take many decades to run off; until then the Non-Earners' Account will record a deficit for these claims.

5.5 Funding policy – Treatment Injury Account

5.5.1 The Treatment Injury Account is not directly funded; instead it receives funds raised through the Earners' Account levy and the Non-Earners' Account appropriation, with the proportion set according to the projected costs of treatment injury claims for earners and non-earners. Its funding policy reflects those of the Earners' and Non-Earners' Accounts. Unfunded pre-2001 claims for non-earners represent a liability of roughly $1 billion.

5.6 Cessation of residual levies

5.6.1 Until the 2016/17 levy year, the Earners', Work and Motor Vehicle levies each consisted of two parts:

- a current portion
- a residual portion.

5.6.2 The purpose of the residual levy was to fund the ongoing costs of claims that occurred before 1 July 1999 when the Scheme was funded on a pay-as-you-go basis. Until 2009 the remaining cost of these claims was assessed as generally increasing each year, which meant that a greater burden with respect to these claims

was being put on levy payers over time. To guard against this, in 2009 the Government fixed the total amount to be collected via residual levies. Since then, with the general improvement in experience, the estimate of the pre-1999 claim costs has decreased and it is now substantially lower than the amount fixed in 2009. The amount of the residual levy that will have been collected as at 1 April 2016 has been assessed as being sufficient to fund the remaining costs of pre-1999 claims.

5.6.3 In determining each Account's full funding requirements, the current and residual portions were combined, with the effect that the residual levy acted as a funding adjustment. However, while it had no effect on the total levy rate paid in the Motor Vehicle and Earners' Accounts (the current portion was reduced accordingly), the split between the two in the Work Account meant that:

- the residual levy was charged to all employers, including those in the AEP
- the remaining funding adjustment was not charged to AEP employers
- any discounts and loadings were only applied to the current portion of the work levy.

5.6.4 The Government has decided to cease the residual levy from 1 April 2016 for the Work and Earners' Accounts and from 1 July 2016 for the Motor Vehicle Account. This will avoid any future levy inequity between AEP and non-AEP employers, and make clearer the link between the levy and the underlying costs of new work claims for all businesses.

5.6.5 Removing the residual levy means that the total work levy is now collected from only non-AEP employers, resulting in the work levy increasing by an average of $0.03. Overall, despite the reduction in the average levy rate, 21% of businesses will pay a higher levy due to the redistributional effects of ceasing the residual levy.

5.7 Levy rates for 2016/17

5.7.1 The recommended 2016/17 levy rates were determined using the following assumptions:

- The claims experience continuing in line with trends as at 31 March 2015
- Estimates of future investment returns given current and expected future market conditions.
- Risk-free interest rates developing as implied by the New Zealand Government bond yield curve at 31 March 2015.

5.7.2 On this basis the Board recommended – and Cabinet approved – the following levy rates for 2016/17 (all GST exclusive):

- Earners' Account – $1.21 per $100 of liable earnings (down from $1.26)
- Work Account – $0.80 per $100 of liable earnings (down from $0.90)
- Motor Vehicle Account – $130 per vehicle (down from $194).

5.7.3 The rates for the Work and Motor Vehicle Accounts differ according to industry and vehicle type respectively, based on historical claims experience. The Earners' and Work Account rates apply up to a maximum salary level, which is consistent with the Scheme's maximum weekly compensation amount payable.

5.7.4 Table 19 compares the components of the 2016/17 levies with those for the 2015/16 levy year. The 2015/16 components are shown both on the original basis used to set the levy rates in 2014 and on the current basis used for the 2016/17 levies.

TABLE 19 – 2016/17 RECOMMENDED LEVIES

	Motor Vehicle Account (per vehicle)			Earners' Account (per $100 of liable earnings)			Work Account (per $100 of liable earnings)		
	2015/16			2015/16			2015/16		
	Original	Current	2016/17	Original	Current	2016/17	Original	Current	2016/17
Cost of new claims	$120.02	$128.55	$132.88	$0.97	$1.01	$1.04	$0.57	$0.63	$0.64
Expenses (incl. claims handling expenses)	$19.52	$16.48	$17.07	$0.27	$0.29	$0.29	$0.17	$0.21	$0.20
Incentive programme funding	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.06	$0.06	$0.07
Funding adjustment	$54.71	$49.22	-$19.69	$0.02	-$0.04	-$0.12	$0.10	$0.00	-$0.11
Average current year levy	**$194.25**	**$194.25**	**$130.26**	**$1.26**	**$1.26**	**$1.21**	**$0.90**	**$0.90**	**$0.80**

5.7.5 The current estimates of claim costs for 2015/16 have increased for all Accounts reflecting higher volumes. The cost of new claims in 2016/17 is projected to increase from the current 2015/16 estimates in all Accounts, in line with superimposed inflation for medical and rehabilitation costs. Unlike the other two Accounts, the motor vehicle levy is expressed as a rate per vehicle which means the projected cost of new claims also increases in line with standard inflation. In addition, allowance has been made for a further projected increase in claim volumes in the Earners' Account, of approximately 2% above population growth.

5.7.6 As discussed in 9.2, the Earners' and Work Accounts have exceeded their solvency targets, so ACC recommended that their levy rates be reduced. The Motor Vehicle Account has reached its solvency target, so the 2016/17 levy rate has been reduced from that previously required. The negative funding adjustment reflects the impact of expected investment returns on the risk margin.

5.7.7 Table 20 shows the levy rates for four years up to and including those that will apply in 2016/17.

TABLE 20 – RECENT-YEAR LEVY RATES

	Motor Vehicle Account (per vehicle)	Earners' Account (per $100 of liable earnings)	Work Account (per $100 of liable earnings)
2013/14	$333.77	$1.48	$1.15
2014/15	$329.93	$1.26	$0.95
2015/16	$194.25	$1.26	$0.90
2016/17	$130.26	$1.21	$0.80

5.7.8 We are satisfied that the recommended levy rates are adequate to meet the cost of the coming year's claims and are consistent with the funding policy.

5.8 Non-Earners' Account

5.8.1 The Non-Earners' Account is funded by the Government through annual appropriations. These include the non-earners' contribution to the Treatment Injury Account.

5.8.2 Table 21 shows the appropriation for 2015/16 compared with those in the two previous years.

TABLE 21 – NON-EARNERS' ACCOUNT APPROPRIATION

Appropriation ($000)	2013/14	2014/15	2015/16 Recommended	2015/16 Approved
Cost of new claims	1,015,245	1,027,772	1,137,926	1,137,926
Expenses (incl. claims handling expenses)	87,409	90,784	103,999	103,999
Funding adjustment	-104,089	-272,951	-87,823	-267,489
Pay-as-you-go	114,059	114,897	116,740	116,740
Total	**1,112,623**	**960,501**	**1,270,842**	**1,091,177**

5.8.3 Cabinet did not approve the recommended appropriation, setting it $180 million lower. This is inconsistent with the Cabinet-approved funding policy and it implies, all else being equal, that higher appropriations will be required in future years. Given that the Account is above its funding target, the decision implies a faster return towards the target, at which point an increase will be necessary (on the forecast basis) to avoid the Account falling into deficit.

5.8.4 The funding adjustment can lead to some year-to-year volatility in the Government's appropriation due to the requirement to reach the funding target within three years. This volatility is likely to increase in dollar terms as the post-1 July 2001 liability grows.

6. Claims management

6.1 Introduction

6.1.1 The claims management process aims to deliver high-quality outcomes for injured people by rehabilitating them back to work and/or independent living where possible at an efficient cost to the New Zealand economy. When full rehabilitation is not an option, ACC aims to provide ongoing support to allow clients to gain as much independence as possible.

6.1.2 Appendix C describes the claims management process for different client types. This section concentrates on recent and planned future changes in the claims management approach.

6.2 Recent changes to claims management

Claims management by Third Party Administrators

6.2.1 ACC has been trialling a partnership with Third Party Administrators (TPAs) since 1 July 2013. Under the trial TPAs are contracted to provide non-work injury claim services to selected Accredited Employers.

6.2.2 Forty-two employers are now participating in the trial, with 7,500 claims so far having been transferred to TPAs for management. The results to date show that recovery times measured by weekly compensation days paid, have been, on average, 3.75 days shorter than claims managed by ACC.

6.2.3 Surveys of participating employers have also shown improved results, with 81% of businesses reporting that dealing with ACC through TPAs has been easy, compared with 45% of all businesses reporting that dealing with ACC has been easy.

6.2.4 In contrast, surveys of employees involved in the trial have reported 67% client satisfaction with TPAs compared with 74% with ACC. TPAs are aware that ACC will be monitoring this closely and working with them on ways to improve this performance.

6.2.5 The service has now been approved for national roll-out, so from November 2015 it will be available to all Accredited Employers who have meaningful relationships with TPAs. Interest is high, so it is expected that most Accredited Employers who meet the requirements will choose to participate.

6.2.6 This expansion of claims management outside ACC increases the need to ensure that TPAs' performance is measured as meeting the AC Act requirements and achieving appropriate outcomes for clients, particularly given the lower satisfaction levels that clients reported in the trial.

Strategic procurement of health and rehabilitation services

6.2.7 In the past two years changes have been made to the procurement of health and rehabilitation services in a number of key areas. These have included:

- a change in purchasing for vocational rehabilitation services from fee-for-service to contracted packages of care, including initial needs assessments
- the introduction of a limited vendor model for home and community support services
- the establishment of a new traumatic brain injury residential rehabilitation service, focusing on early transitions from acute services to specialist rehabilitation

- the launch of a new national child and adolescent rehabilitation service for children with complex injuries who require inpatient rehabilitation and supported transitions to their communities
- the introduction in November 2014 of a new Integrated Services for Sensitive Claims contract for people affected by sexual abuse or sexual assault
- the development of a joint Spinal Cord Impairment Action Plan with MOH.

6.2.8 All the above services are now well embedded with a strong partnership approach between ACC and the suppliers.

Client Service Optimisation

6.2.9 The Client Service Optimisation project has introduced a predictive tool that estimates the likely durations of clients' recovery. This enables ACC staff to ensure proactive management and introduce interventions where a client's recovery is not progressing as expected.

6.2.10 The tool has significant potential applications. It needs to be regularly monitored and recalibrated to ensure it remains fit for purpose.

Enabling Independence

6.2.11 Clients who are non earners at the time of their injuries tend to need different support from clients whose focus is on getting back to work. The 'Enabling Independence' initiative, trialled in Christchurch in early 2014 and now operating nationally, is designed to improve the client experience by centralising, within regional hubs, the management of clients who are not in the workforce.

6.2.12 The regional hubs:

- aim to deliver a nationally consistent service
- work collaboratively with community groups and district health boards to simplify the process and help clients receive coordinated services and access to the support they need to return to independence.

6.2.13 The initial results of the Christchurch trial indicated that client satisfaction had increased and social rehabilitation needs had reduced. ACC is now developing more robust measures of this approach's effectiveness.

Other changes to claims management implemented during 2015

6.2.14 A trial in the Wellington Short Term Claims Centre (STCC) assesses whether claims are likely to require weekly compensation for less than 35 days with no further rehabilitation support. These claims, around 20% of cases, are classified as 'pay and monitor' and closed. The remaining claims receive standard STCC management. This is helping the STCC to cope with the ongoing challenge of claim growth by focusing staff resources where the risks are higher.

6.2.15 It is important that ACC fully measures the effects of this trial before proceeding with operational roll-out. In particular clients who would return to pre-injury health sooner with some additional support need to be identified quickly.

6.2.16 A centralised Long Term Service Claims Unit has been established in Tauranga to manage up to 1,400 long-term clients who have been rehabilitated as far as possible and have stable needs. The last claims were transferred to the unit in September 2015. As well as ensuring that clients receive the consistent support they need, the service frees frontline staff from day-to-day administrative work, which should allow them to focus on other clients' treatment and rehabilitation. A post-implementation review of this initiative in October 2015 highlighted the successful transition from the previous model and positive feedback from staff and clients.

6.3 Conclusion

6.3.1 The claims management process aims to process efficiently the vast number of low-complexity claims that ACC receives every year. While it does expose the Scheme to some risks of covering non-injury-related conditions and over-servicing, they are offset by the administrative efficiencies of the approach.

6.3.2 In response to increasing claim volumes and pressure on rehabilitation rates, ACC management is directing claims management resources to where it believes they have the greatest impact.

6.3.3 We recommend implementation of a formal regime for monitoring these and future changes and measuring their effectiveness in improving operational, financial and client outcomes. In particular it is important that baselines for measurement be established.

7. Liability valuation

7.1 Summary of approach

7.1.1 ACC undertakes a valuation of its OCL every six months. The valuations comply with:

- the New Zealand Equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts (NZ IFRS 4 (PBE)), issued by the New Zealand Institute of Chartered Accountants
- Professional Standard No. 30 – Valuations of General Insurance Claims, issued by the New Zealand Society of Actuaries.

7.1.2 The calculation of the OCL is outsourced to independent actuary PwC. Its report, *Accident Compensation Corporation – Valuation of Outstanding Claims Liabilities* as at 30 June 2015, dated 27 August 2015, was prepared by Paul Rhodes FNZSA FIA, Michael Playford FNZSA FIAA and Darryl Frank FIAA.

7.1.3 The OCL is calculated by forecasting the future cash flows associated with accidents that occurred before the valuation date. These cash flows are then discounted back to the valuation date using a 'risk-free' interest rate. Allowances for claims handling expenses and risk margins are also included.

7.1.4 The calculation of projected cash flows is undertaken separately by payment type. Table 22 shows the main payment types and their respective valuation methodologies (which are explained in detail in the next paragraph).

TABLE 22 – PAYMENT TYPES

Payment type	Description	Methodology
Non-fatal weekly compensation	Income replacement.	Payment per active claim
Vocational rehabilitation	Rehabilitation services provided in order to assist clients to return to work.	Payment per active claim
Social rehabilitation – serious injury	Non-vocational rehabilitation provided to clients with serious injuries.	Individual projection
Social rehabilitation – non-serious injury	Non-vocational rehabilitation services provided to clients whose injuries are not serious.	Payment decay
Medical	Medical services, including GPs, physiotherapy, imaging services and other medical services.	Payment per active claim
Elective surgery	Surgical procedures.	Payment per active claim
Fatal weekly compensation	Income support provided to surviving dependants of fatally injured clients.	Payment per active claim
Independence allowance	Compensation for long-term impairment.	Payment decay (modified)

7.1.5 The methodologies are:

- *payment per active claim* – the number of future active claims is projected based on the number of starting claims and an assumed discontinuance rate. The future average claim size by duration is determined based on the starting average size and assumed inflation. The average size and number of claims are multiplied at each future point in order to calculate the projected cash flows
- *payment decay* – future cash flows are projected based on the starting level of payments and an assumed reduction rate over time

- *individual projection* – future cash flows are projected based on the individual characteristics of each claim, such as the client's age and the severity of their injury.

7.2 Results

7.2.1 Table 23 shows the results of the liability valuation as at 30 June 2015: the current OCL, the OCL as at 30 June 2014, and the main changes in liability.

TABLE 23 – LIABILITY VALUATION AT 30 JUNE 2015

($M)	Liability at 30 June 2014	Expected increase	Changes due to economic assumptions	Changes due to experience and modelling changes	Liability at 30 June 2015
Medical costs	2,095.1	184.6	102.3	68.4	2,450.4
Elective surgery	2,705.7	216.4	133.3	-10.0	3,045.4
Social rehabilitation	12,399.1	591.9	637.6	-430.7	13,198.0
Compensation related	6,772.6	252.4	232.7	381.5	7,639.3
Other	1,891.1	6.7	54.5	76.9	2,029.0
Claims handling expenses	1,832.8	27.8	73.1	32.8	1,966.5
Total liability	**27,696.4**	**1,279.8**	**1,233.5**	**118.9**	**30,328.6**

7.2.2 The OCL as at 30 June 2015 was $30,329 million – an increase of $2,632 million from the previous year compared with the expected increase of $1,280 million. The expected increase reflects that the Scheme has yet to mature and we expect the rate of new claims to exceed that of claims exiting. The OCL is also expected to grow with underlying population growth and inflation.

7.2.3 The OCL increased by $604 million due to higher than expected claims experience and modelling changes made to reflect this. As described in Sections 2 and 3, the biggest drivers of this increase were weekly compensation and medical payments, with social rehabilitation capital payments also increasing. These were partially offset by a $540 million reduction as a result of changes to the serious injury mortality assumptions.

7.2.4 Changes due to economic assumptions increased the OCL by $1,234 million. These changes reflected:

- a decrease in discount rates, resulting in an increase of $3,225 million
- a decrease in inflation rates, resulting in a reduction of $1,766 million
- lower actual inflation than assumed, resulting in a decrease of $226 million.

7.3 Key assumptions

7.3.1 The assumptions used in establishing the OCL are required to be 'best estimate' (ie not contain any deliberate bias towards conservatism or optimism). The liability produced from these assumptions is considered to be a 'central estimate'.

7.3.2 The key assumptions used in determining the OCL comprise two broad groups:

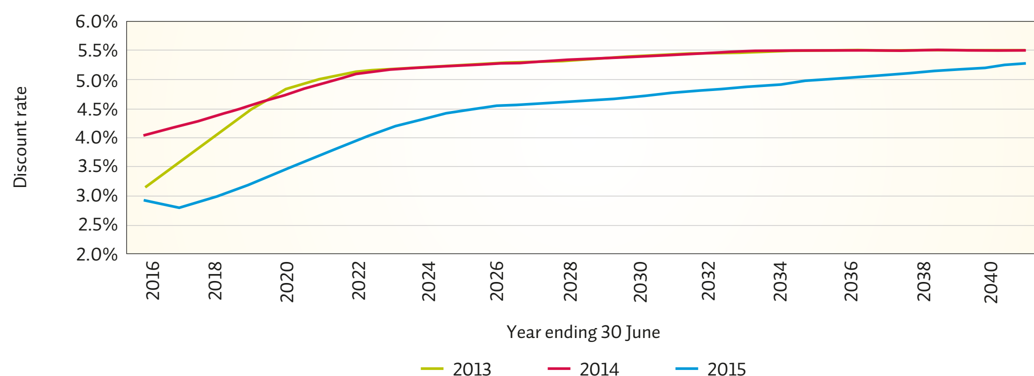
- *Economic assumptions* – these apply to all payment types, being discount and underlying inflation rates.
- *Claims experience assumptions* – these underlie estimates of future cash flows, primarily rehabilitation rates, superimposed inflation and claims handling expenses. They are set separately by Account.

Economic assumptions

7.3.3 NZ IFRS 4 (PBE) requires discount rates to be 'risk free'. For this purpose the Treasury prescribes the risk-free rates used in financial accounting for all Crown entities. Short-term discount rates reflect the yields of New Zealand Government bonds. Long-term discount rates, which cannot be observed from New Zealand Government bond yields, are based on long-term historical norms. The Treasury approach applies a smoothing methodology to transition between the last observed short-term rate and the assumed long-term rate.

7.3.4 Graph 24 shows the discount rates used in the liability valuation as at 30 June 2015, together with the rates used in the two previous valuations.

GRAPH 24 – DISCOUNT RATES – APPLICATION OF THE YIELD CURVE TO LIABILITY



7.3.5 In the past year short- and medium-term rates have reduced significantly, while the assumed long-term rate prescribed by the Treasury has remained unchanged. The movement contributed $3,225 million to the OCL, offset by a $1,766 million decrease in the liability resulting from a fall in the projected inflation rates.

7.3.6 The inflation indices are allocated according to payment types to reflect the different economic drivers of cost. Table 24 the inflation type are used for each payment type.

TABLE 24 – APPLICATION OF INFLATION ASSUMPTIONS

Inflation type	Payment type used
Average weekly earnings	Starting level of non-fatal weekly compensation for new claims, as the payment made is based on income at the date of accident.
Labour Cost Index	Non-fatal weekly compensation for growth in payments once on claim, as legislation indexes payments to the Labour Cost Index. Fatal weekly compensation, medical, elective surgery, vocational rehabilitation and social rehabilitation.
Consumer Price Index (CPI)	Independence allowance, lump sum and funeral grants/benefits.

7.3.7 The Treasury specifies the assumptions for future CPI rates based on inflation bonds. The assumptions for future average weekly earnings rates and the Labour Cost Index have been set relative to the CPI assumptions, based on historical differences between the relevant indices. Table 25 shows the assumptions used in the 30 June 2015 liability valuation.

TABLE 25 – INFLATION ASSUMPTIONS FOR YEAR ENDED 30 JUNE

Year ending 30 June	Average weekly earnings	CPI	Labour Cost Index
2016	2.63%	0.08%	1.83%
2017–2027	2.63%	1.63%	1.83%
2028	2.67%	1.63%	1.87%
2029	2.72%	1.67%	1.92%
2030	2.77%	1.72%	1.97%
2031	2.81%	1.77%	2.01%
2032	2.86%	1.81%	2.06%
2033	2.91%	1.86%	2.11%
2034	2.96%	1.91%	2.16%
2035	3.00%	1.96%	2.20%
2036	3.05%	2.00%	2.25%
2037	3.10%	2.05%	2.30%
2038	3.15%	2.10%	2.35%
2039	3.19%	2.15%	2.39%
2040	3.24%	2.19%	2.44%
2041	3.29%	2.24%	2.49%
2042	3.34%	2.29%	2.54%
2043	3.38%	2.34%	2.58%
2044	3.43%	2.38%	2.63%
2045	3.48%	2.43%	2.68%
2046	3.50%	2.48%	2.70%
2047+	3.50%	2.50%	2.70%

7.3.8 Inflation rates have fallen significantly since 2014, with the short-term inflation rate reducing from 2.10% to 1.63%. As a result, the smoothing period to the long-term rate has increased by 12 years.

Claims experience assumptions

7.3.9 Claims experience assumptions are reviewed annually in light of actual experience.

7.3.10 Short-term assumptions are set to follow recent experience quite closely before transitioning to long-term levels. Long-term assumptions are changed infrequently and reflect historical averages because the rates tend to be volatile, often due to small amounts of data. Changes to long-term assumptions can have large impacts, so should only be made when future long-term expectations have genuinely changed.

7.3.11 The main change to the assumptions for the 30 June 2015 valuation was a change to the methodology for setting mortality assumptions for serious injury. This decreased the liability by $540 million, and was driven by a new study of ACC's and the Australian Transport Accident Commission's experience.

7.3.12 We are satisfied that the assumptions adopted are appropriate for the purpose.

7.4 Risk margins

7.4.1 As already noted, applying the above assumptions produces a 'central estimate' of the OCL. By 'central estimate' we mean that it is intended to have an equal likelihood of being overstated or understated. NZ IFRS 4 (PBE) requires insurers to add a risk margin to the OCL to increase the likelihood that the final OCL will be ultimately sufficient to meet the claims to which it relates. NZ IFRS 4 (PBE) does not specify the risk margin level, but industry practice is to add a margin to increase the liability to the 75% 'sufficiency' level, which means that the reported OCL should be sufficient to meet claim payments 75% of the time. ACC follows this industry norm.

7.4.2 Table 26 shows the risk margins added to the central estimate to meet the 75% sufficiency requirement. These were last changed in 2014 and are reviewed every two or three years or when changes in experience indicate a change may be necessary.

TABLE 26 – RISK MARGINS

Account	2012/13	2013/14	2014/15
Motor Vehicle	13.4%	13.8%	13.8%
Non-Earners'	13.8%	13.8%	13.8%
Earners'	11.2%	11.6%	11.6%
Work	12.1%	11.6%	11.6%
Treatment Injury	14.7%	13.8%	13.8%
Total risk margin	**12.9%**	**12.9%**	**12.9%**

7.5 Claims handling expenses

7.5.1 The OCL must include an allowance for future claims handling expenses, based on the assumed costs per expense driver for each expense type, based on budgeted expenses. The expenses are split into rehabilitation, entitlement, medical treatment, serious injury and hearing loss, and by Account, using an activity-based apportionment model.

7.5.2 The $32.8 million increase in the claims handling expenses liability (which reflects experience and modelling changes) relates to the Enabling Independence initiative (see 6.2.11), which aims to help non-earners return to independence after their injuries.

7.5.3 The liability excludes significant one-off costs for the Transformation Programme included in the 2015/16 budget, as the assumption is for present value cost neutrality due to the future expected savings.

7.6 Sensitivity analysis

7.6.1 Given that many of ACC's claims are very long term, assessments of the OCL are highly sensitive to long-term assumptions. Table 27 shows the liability's sensitivity to changes in several key assumptions, including the major claim risks.

TABLE 27 – SENSITIVITY ANALYSIS OF OCL

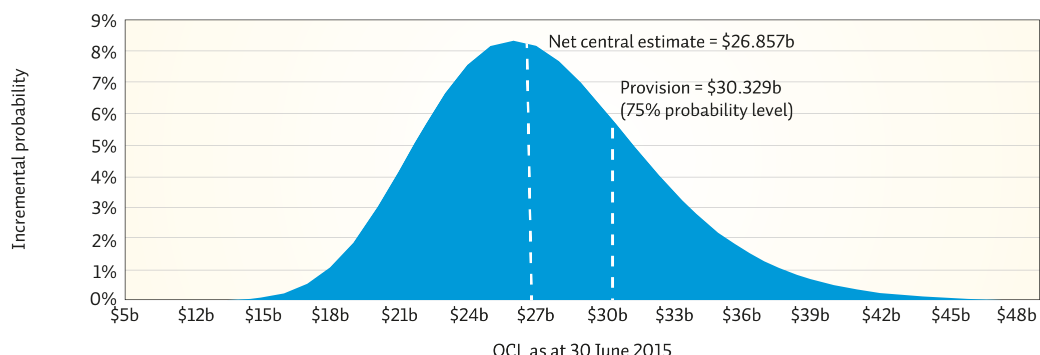
Key assumption	Scenario	Impact on liability ($M)
	Liability as at 30 June 2015	**30,328**
Claims experience		
Growth in care packages – social rehabilitation for serious injury	Increase of 1% after 2 years	2,517
	Decrease of 1% after 2 years	-1,860
Superimposed inflation – elective surgery	Increase of 1%	631
	Decrease of 1%	-471
Superimposed inflation – medical and social rehabilitation for non-serious injury	Increase of 1%	587
	Decrease of 1%	-446
Long-term continuance rates for non-fatal weekly compensation	Increase of 1% per annum	768
	Decrease of 1% per annum	-641
Long-term continuance rates for elective surgery	Increase of 1% per annum	635
	Decrease of 1% per annum	-465
Mortality rates for social rehabilitation for serious injury	Increase of 10%	-360
	Decrease of 10%	393
Medium- to long-term payments per active claim for non-fatal weekly compensation	Reduced by 10%	-699
Long-term payments per active claim for elective surgery	Reduced by 10%	-267
Economic assumptions		
Discount rates	Increase of 1%	-3,930
	Decrease of 1%	5,212
Inflation rates	Increase of 1%	5,370
	Decrease of 1%	-4,106
Long-term gap between discount rates and inflation rates	Increase of 0.5%	-173
	Decrease of 0.5%	462
Discounted mean term	+1 year	-902
	-1 year	930

7.6.2 All long-term assumptions can have significant impacts on the OCL, particularly the economic assumptions. As discussed in Section 3, the current claims experience indicates that the long-term continuance rates for weekly compensation are most at risk. Growth in care packages for seriously injured clients, and superimposed inflation and long-term continuance rates for elective surgery, are currently in line with expectations, but remain on watch.

7.6.3 From the levy payers' perspective, these sensitivities can be considered in the context of levy rates. The underlying annual claim costs are approximately $3.7 billion, so a $1 billion change in the OCL, assuming that the effect is spread over 10 years, translates to roughly a 3% change in levy rates. Of course the actual impacts on levies depend on other factors and will not necessarily be distributed evenly across the Accounts.

7.6.4 Graph 25 shows the distribution of potential estimates of the OCL, excluding the risk margin. It illustrates the wide variability in ACC's financial performance, with the estimates generally ranging between $17 billion and $40 billion.

GRAPH 25 – ESTIMATED DISTRIBUTION OF OCL AT 30 JUNE 2015



7.7 Unexpired risk liability

7.7.1 NZ IFRS 4 (PBE) requires ACC to perform a Liability Adequacy Test (LAT). This reveals whether the provision for unearned levies in the balance sheet is enough to meet the claims and associated expenses that are expected to arise in the timeframe covered by the levies.

7.7.2 If the LAT shows a deficit, ACC is required to establish a URL.

7.7.3 The LAT is performed for every Account except the Non-Earners' Account (for which levies are paid monthly, so the Account has no unearned levy liability). Table 28 sets out the LAT results.

TABLE 28 – LIABILITY ADEQUACY TEST

	2014/15				
($000)	Motor Vehicle Account	Earners' Account	Work Account	Total	2013/14
Present value of claim costs	127,346	1,077,704	495,803	1,700,854	1,568,490
Plus: Allowance for expenses	4,350	27,495	52,664	84,508	75,330
Plus: Risk margin	17,574	125,014	57,513	200,101	185,617
Less: Unearned levy liability	(231,962)	(974,150)	(395,399)	(1,601,511)	(1,935,677)
Plus: Adjustment for surplus	82,692	0	0	82,692	307,788
URL	**0**	**256,063**	**210,581**	**466,644**	**201,549**

7.7.4 The total URL at 30 June 2015 was $466.6 million, which was $265 million higher than the provision at 30 June 2014. The surplus in the Motor Vehicle Account cannot be offset against the deficits in the Earners' and Work Accounts.

7.7.5 At 30 June 2014 the LAT revealed a net surplus of $106 million (the adjustment for surplus less the URL). At 30 June 2015 it showed a net deficit of $384 million, being the surplus in the Motor Vehicle Account less the total URL.

7.7.6 The total $490 million reduction in net surplus was primarily driven by the removal of the residual levy income for the Work Account from 1 April 2016. Accounting standards require an adjustment to the URL in the year in which the residual levy is removed.

7.7.7 Table 29 compares the 2014/15 LAT with the projections for the next four financial years, assuming the levy rate paths included in the 2016/17 levy consultation.

TABLE 29 – PROJECTED UNEXPIRED RISK LIABILITY

($000)	2014/15	2015/16	2016/17	2017/18	2018/19
Present value of claim costs	1,700,854	1,806,349	1,891,397	1,971,303	2,052,791
Plus: Allowance for expenses	84,508	94,530	98,449	105,077	108,540
Plus: Risk margin	200,101	212,435	222,389	231,751	241,304
Less: Unearned levy liability	(1,601,511)	(1,717,532)	(1,762,825)	(1,867,038)	(1,946,609)
Plus: Adjustment for surplus	82,692	12,921	0	0	0
URL	**466,644**	**408,703**	**449,409**	**441,092**	**456,026**

7.7.8 ACC sets levy rates using investment return rates above risk-free rates and excluding a risk margin, whereas the URL in the balance sheet assumes a risk-free rate and includes a risk margin. Unless levies are set sufficiently above the cost of new-year claims, a URL will be required in order to fund the implied deficit.

7.7.9 The levied Accounts are all projected to be at or above the funding target from 2016/17 onwards, so future levies are projected to be set at levels close to or below the cost of new-year claims. A URL will continue to be required at about the current level unless the funding positions change significantly.

7.7.10 The treatment of the URL is an accounting requirement, and does not reflect the economic substance of the Scheme's funding position. The stronger the balance sheet the greater the likely URL required, which is somewhat counterintuitive. This should be borne in mind when considering the Scheme's financial accounts.

8. Investments

8.1 Policy

8.1.1 ACC has developed its investment management approach over a number of years. As it is a long-term investor, the fundamental driver of investment decisions is a consideration of the long-term risk/reward trade-offs. 'Risk' is considered in relation to both the net asset position and levy stability.

8.2 Management

8.2.1 Investment management is governed by the Investment Committee, a sub-committee of the Board. The Committee:

- sets risk tolerances
- approves asset allocation benchmarks and major transactions in unlisted markets
- reviews investment performance and compliance
- provides delegations to the investment team more generally, which are subject to specified restrictions (such as on investments types) and limits (such as on maximum and minimum permitted exposures).

8.2.2 The Committee reviews the strategic asset allocation benchmarks annually based on recommendations from management.

8.2.3 The investment team can act with discretion on matters delegated by the Investment Committee. These include the discretion to vary the asset allocation from the benchmark weights within tolerances set by the Committee with movements outside these tolerances requiring Committee approval.

8.2.4 The investment portfolios are all actively managed. Almost all of the New Zealand investments, and most of investments in Australia, are managed internally. Since April 2011 a portion of ACC's investment in global equities has been managed internally, but most investments outside Australasia are managed by external fund management companies.

8.2.5 The governance of the investment function is robust, particularly in the separation of duties between the investment managers and the compliance and reporting functions.

8.2.6 Although ACC has not adopted a formal statement of investment philosophy, the investment team's documentation articulates this philosophy and they have used it as the basis for dialogue with the Investment Committee. The philosophy emphasises the need to:

- understand the causes and characteristics of market inefficiency
- recognise that, because markets are adaptive, particular forms of market inefficiencies will tend to change through time.

8.3 Liability profile

8.3.1 Most ACC claims are short term and do not pose any significant investment issues.

8.3.2 A small number of claims are for very long-term injuries, for example, a serious birth injury can result in ACC supporting the client for their entire lifetime. The liability profile for these serious injuries involves a very long duration, with payments being subject to both general price inflation and superimposed inflation.

8.3.3 Weekly compensation claims tend to have medium durations (around five years) and are subject to wage-related inflation. Elective surgery claims are long term and subject to high superimposed inflation levels.

8.3.4 Overall, the liabilities have a long average duration (more than 15 years across the Scheme as a whole) and are subject to both general price inflation and superimposed inflation.

8.4 Investment risks

8.4.1 Investment risk is considered in the context of assets and liabilities. The main economic and financial scenarios that could affect net assets, and consequently, levy rates, are:

- a significant decline in real interest rates
- a significant deterioration in the inflation outlook
- a significant decline in equity markets
- widespread credit defaults.

8.4.2 While it is not possible to eliminate these risks, the investment policy aims to keep each at a manageable level while striking an appropriate balance between reducing the risks and enhancing returns.

8.4.3 The risks arising from a significant decline in real interest rates can be reduced by holding long-dated New Zealand bonds. However, there is limited scope to reduce these risks because the liabilities have a significantly longer average duration than the available domestic bonds. For this reason an interest rate derivative asset allocation overlay is used to further protect investments from declines in long-term real interest rates.

8.4.4 While all of the claim liabilities are sensitive to inflation, a significant proportion of the investment assets are not protected from inflation. These include the interest rate derivative asset allocation overlay and most of the bonds held. Indeed, the market value of these nominal assets tends to fall if inflation expectations rise.

8.4.5 While ACC is the largest investor in New Zealand's inflation-linked bond market, its large size relative to the available supply means that most fixed interest investments are held in instruments not linked to inflation. So-called 'real assets', such as equities and property, may provide some protection for long horizons, but history suggests that their returns may be adversely affected by rising inflation in the immediate term.

8.4.6 As the Scheme continues to mature, more serious-injury claims are being added and these extend the average duration of the claim obligations. This tends to increase ACC's exposure to the risk of a decline in bond yields or a deterioration in the inflation outlook.

8.4.7 The risks arising from investments in equity markets and credit are expected to be matched by higher expected investment returns (and therefore lower expected future levy rates). The investment team strikes an appropriate trade-off between risk and return through the asset allocation process.

8.4.8 Movements in exchange rates alter investments' market values. When assessing their impacts on the overall asset and liability risk, the investment team takes into account the relationship between currency movements and other market movements. For example, the New Zealand dollar tends to fall when equity

markets decline, but having some foreign currency exposure in the portfolio helps to offset the risk of that decline.

8.4.9 Given that the investments have a high proportion of liquid cash and bonds and a fairly steady payment profile, ACC has no issues with meeting its liquidity needs.

8.4.10 ACC has considered various other investment risks that are potentially 'extreme' because they:

- are generally unlikely to arise
- would have a material impact if they were to arise
- would arise with little warning
- can be mitigated to some extent before the event takes place.

Such risks include the potential for a natural disaster in New Zealand, insolvency by ACC's financial custodian and an Australasian banking crisis. Through this broader focus on investment risk, ACC has determined where further action is warranted; for example, it is developing more formal mechanisms for monitoring and evaluating the ongoing creditworthiness of the Australasian banking system and custodians.

8.5 Asset allocation

8.5.1 The Investment Committee reviews and updates the strategic asset allocation benchmarks annually.

8.5.2 As noted, it is not possible to find assets that precisely match the claims liabilities, which are sensitive to actuarial assumptions and claims experience as well as long-term interest rates and inflation projections. Instead, asset allocation decisions are made on the understanding that there will always be a significant amount of mismatch risk on the balance sheet.

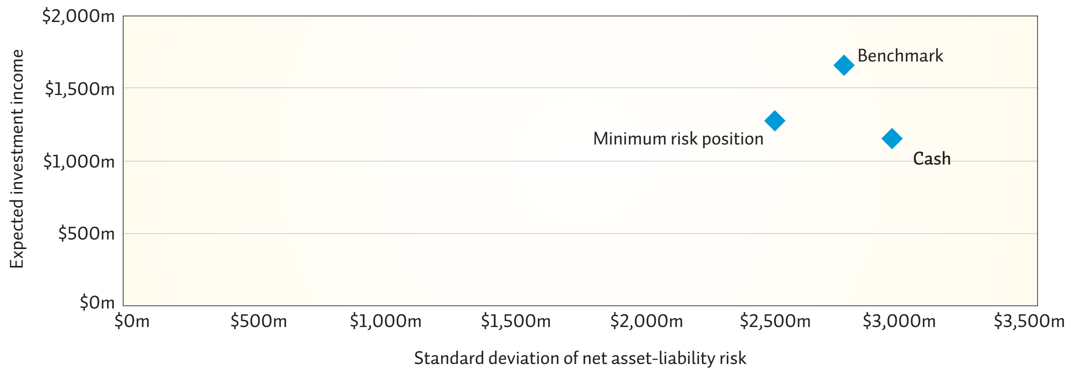
8.5.3 Given this, the investment team analyses the asset-liability risk after first assessing what asset allocation would constitute a 'minimum risk portfolio'. This portfolio holds the combination of assets that most closely match the claims liabilities. By holding this portfolio, the total Scheme risk (comprising the mismatch between assets and liabilities) is minimised although not eliminated.

8.5.4 The minimum risk portfolio is typically dominated by Government bonds, but tends to include relatively small allocations to equity and other asset classes. Given the nature of ACC's liabilities it has, by definition, lower risk than would holding all assets as cash. Cash is generally a poor match for ACC's long-term claims liabilities.

8.5.5 From this minimum risk portfolio, the investment team considers other possible asset allocations that trade off higher net asset risk for higher expected returns. Deciding how much additional risk to seek is a judgment that aims to balance ACC's tolerance for risk with the benefits of higher expected returns and ultimately lower levies. Through this process an optimal asset allocation is determined.

8.5.6 Graph 26 shows estimated risk and return across all Accounts. 'Risk' is expressed as the one standard deviation of expected annual outcomes in 2014/15. The minimum risk portfolio is estimated to return $1.27 billion, with a net asset liability risk of $2.5 billion. The portfolio benchmarks adopted increase the expected annual returns to $1.65 billion, but raise the total risk to $2.75 billion.

GRAPH 26 – TOTAL RESERVE ACCOUNT – RISK VS RETURN



8.5.7 Asset allocations are set for the five Accounts that reflect their differing liability profiles and funding positions.

8.5.8 Table 30 sets out the strategic asset allocations for each Account as at 30 June 2015 and the total strategic asset allocation as at 30 June 2014. These represent the benchmark holdings; the actual allocations may differ at any time (within limits prescribed by the Investment Committee) depending on the investment team's professional judgement.

TABLE 30 – STRATEGIC ASSET ALLOCATION BY ACCOUNT AND TOTAL ACTUAL

	Strategic asset allocation June 2015							
Asset class	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	Actual asset allocation 2015	Strategic asset allocation 2014
NZ cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	6.2%	2.0%
NZ long bonds	44.0%	37.5%	46.0%	48.0%	36.5%	44.1%	38.3%	42.4%
NZ index linked bonds	20.0%	19.0%	12.5%	11.0%	19.0%	15.7%	19.6%	16.3%
Global bonds (hedged)	1.5%	3.0%	7.0%	7.0%	3.0%	4.5%	3.0%	4.3%
NZ property and infrastructure	3.0%	3.5%	3.5%	3.5%	3.5%	3.3%	3.7%	3.4%
NZ equities	9.0%	12.0%	7.5%	8.5%	12.0%	9.1%	9.4%	9.8%
Australian equities (hedged)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.3%	4.0%
Global equities (hedged)	2.5%	3.0%	3.5%	2.0%	4.0%	2.8%	See 8.5.11	3.0%
Global equities (unhedged)	14.0%	16.0%	14.0%	14.0%	16.0%	14.5%	15.6%	14.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Interest rate derivative asset allocation overlay	11.0%	10.0%	2.0%	2.0%	11.0%	6.4%	5.9%	7.2%
Total equity weight (treating NZ property and infrastructure as 'half equities')	**31.0%**	**36.8%**	**30.8%**	**30.3%**	**37.8%**	**32.0%**	**31.1%**	**33.3%**

8.5.9 The strategic asset allocation percentages for the individual Accounts remained unchanged between 30 June 2014 and 30 June 2015. The changes in the total allocation reflect changes in the relative size of the Accounts during the 12 months.

8.5.10 Changes were made to the strategic asset allocation effective at the end of October 2015. The two main changes were:

- a movement from NZ long bonds (now 38.9%) to NZ index-linked bonds (now 20.4%), reflecting the actual allocation at 30 June 2015
- a shift from unhedged global equities (now 9.6%) to hedged global equities (now 6.9%).

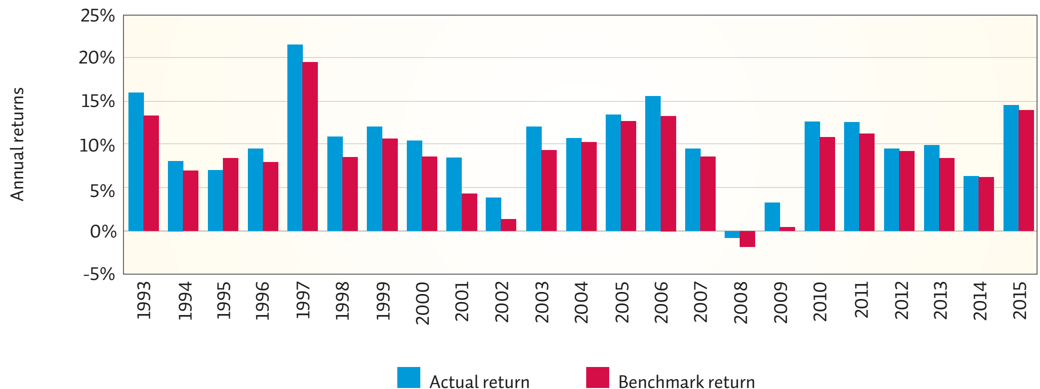
8.5.11 There is a structural difference between the way the currency exposure is expressed in the benchmark, and how the currency exposure is actually managed. This makes it difficult to compare actual allocations with benchmarks for global equities (hedged) in Table 30. All of the deviations between actual and strategic allocations are within the tolerance ranges specified by the Investment Committee.

8.5.12 In recent years, as part of the transition to full funding, levies have been set to grow the total investment assets at a faster rate than the corresponding liabilities. Now that ACC is fully funded, the total investment assets are projected to grow more in line with the liability growth rate. ACC expects this to be similar to the Treasury's projections for the growth rate of New Zealand's economy as a whole (nominal Gross Domestic Product).

8.6 Investment returns

8.6.1 Graph 27 compares investment performance with benchmark returns in the past 23 years. The benchmarks represent the returns that would have been achieved had investments been held in benchmark indices and allocated between markets according to the benchmark weightings set (in advance) by the Investment Committee of the Board. Actual returns have been higher than benchmark in all years since 1995.

GRAPH 27 – COMPARISON WITH BENCHMARK RETURNS



8.6.2 Investment returns vary by Account due to their different allocations, as shown in Table 30. Overall Scheme investment returns net of investment expense and taxes were 0.49% above benchmark in 2014/15.

8.7 Conclusion

8.7.1 ACC's investment approach recognises that it is not possible to find assets that closely match the claims liabilities; as a result there will always be a significant mismatch risk on the balance sheet. Within this constraint, the investment philosophy requires detailed assessments of the marginal rewards available for any marginal risk assumed. In the long term we expect this approach to provide the best outcomes for levy payers; historically it has significantly reduced the levies that would otherwise have been payable.

8.7.2 Overall, we are satisfied that the investment policy is appropriate to the liabilities within the constraints discussed.

9. Solvency

9.1 Definition of solvency

9.1.1 As ACC is a statutory monopoly with the right to raise levies, the concept of 'solvency' in its case needs to be considered in a different light from that of a commercial insurer that faces insolvency risk. For the purposes of this report, solvency is considered in the context of the various Accounts' funding policies, described in Section 5.

9.2 Funding ratios

9.2.1 Table 31 summarises the balance sheet of each Account at 30 June 2015 and from there derives the funding ratios. These figures are different from those shown in the 2015 *Annual Report* because:

- the *Annual Report* lists 'derivative financial instruments' in assets and liabilities; Table 31 records the net derivative position as an asset
- the Work Account liabilities have been adjusted to include a liability for future-reported gradual process claims due to past exposure (see 9.2.5).

TABLE 31 – CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($M)	2014/15 Motor Vehicle Account	2014/15 Non-Earners' Account	2014/15 Earners' Account	2014/15 Work Account	2014/15 Treatment Injury Account	2014/15 Total	2013/14
Assets							
Cash and cash equivalents	53	38	107	111	-7	303	466
Receivables	149	64	151	698	34	1,096	546
Accrued levy revenue	56	0	1,202	457	0	1,716	2,466
Net investment assets	9,927	3,064	8,209	7,997	3,172	32,370	27,597
Net intangible and other assets	13	20	34	32	6	104	111
Property, plant, and equipment	4	6	9	9	2	31	33
Total assets [A]	**10,203**	**3,192**	**9,713**	**9,304**	**3,207**	**35,854**	**31,220**
Less liabilities							
Payables, accrued liabilities, and provisions [B]	447	144	403	484	120	1,598	1,381
Unearned levy liability [C]	232	0	1,096	395	0	1,723	2,050
URL [D]	0	0	256	211	0	467	202
OCL [E]	8,230	6,247	6,043	6,919	3,975	31,413	28,702
Total liabilities	**8,908**	**6,391**	**7,798**	**8,008**	**4,095**	**35,200**	**32,334**
Net assets	**1,295**	**-3,199**	**1,915**	**1,296**	**-888**	**419**	**-1,114**
Funding ratio ([A] – [B] – [C] – [D])/[E]	**115.7%**	**48.8%**	**131.7%**	**118.7%**	**77.7%**	**101.3%**	**96.1%**

9.2.2 The Scheme is now above 100% solvency, with all three levied Accounts well above the target of 105%. If the levied Accounts were at target we would expect the solvency of the total Scheme to be below 100% due to the funding policies of the Non-Earners' Account and the non-earners' portion of the Treatment Injury Account.

9.2.3 Table 32 shows the funding ratios of each Account for the past three years. In addition, the funding ratios of the fully funded portion of the Non-Earners' Account and the earners' portion and non-earners' fully funded portion of the Treatment Injury Account are shown to allow comparisons with those two Accounts' funding policies.

TABLE 32 – FUNDING RATIOS IN PAST THREE YEARS

	As at 30 June		
	2013	**2014**	**2015**
Motor Vehicle Account	87%	100%	116%
Non-Earners' Account	47%	49%	49%
Fully funded portion	107%	105%	98%
Earners' Account	126%	132%	132%
Work Account	113%	117%	119%
Treatment Injury Account	67%	73%	78%
Earners' portion	119%	109%	116%
Non-Earners' fully funded portion	84%	97%	99%
Total	**90%**	**96%**	**101%**

9.2.4 The levied Accounts' funding positions have increased in the past two years, largely due to high investment returns. With the new funding policy they are now well above target, so levies have been reduced. The fully funded portion of the Non-Earners' Account has fallen but is still above the 88% target, and higher-than-expected investment returns mean that the fully funded portion of the Treatment Injury Account has also increased despite an increase in claims.

9.2.5 The Work Account's funding ratio is lower in Table 32 than that implied by the balance sheet in the *Annual Report* because gradual process claims are reported on a 'claims made' basis in the balance sheet and on a full incurred basis here. Levies collected include allowances for these claims, whether they are reported or not. The additional liability was $1,085 million as at 30 June 2015.

9.2.6 The Non-Earners' and Treatment Injury Accounts' total solvency positions appear low. This is consistent with the Accounts' funding policies.

9.2.7 The Treatment Injury Account's total funding ratio is driven primarily by the non-earners' portion, which makes up 71% of the total liability. In the coming years the Account's funding ratio will increase relatively rapidly as the post-2001 claims, which are fully funded, will make up a larger proportion of the Account's total claims. However, the Account is expected to stay below 100% funding in accordance with its funding policy.

9.3 Projections

9.3.1 ACC's dynamic financial analysis tool, the DRM, generates simulations of possible financial outcomes for all Accounts except the Treatment Injury Account. Each possible outcome is measured according to the funding ratio's projected path.

9.3.2 The advantage of the DRM is that it can model variability in both the assets and the liabilities under a given economic scenario. This variability is modelled by allowing for:

- variations in the earned rates of investment return

- economic assumptions relating to discount rates and inflation
- changes in the claims experience affecting the number of claims, continuance rates, average payments and superimposed inflation
- changes in the claims experience affecting the surplus (or deficit).

9.4 Projections – levied Accounts

9.4.1 This section presents projections of the levied Accounts' funding positions according to the pricing basis used for the 2016/17 levies.

9.4.2 Table 33 sets out the future levy rates assumed in the projections. The 2015/16 and 2016/17 rates are as set by Cabinet. The rates for 2017/18 and beyond are as recommended by the Board in the 2016/17 levy consultation.

TABLE 33 – ASSUMED LEVY RATES

	Levy year				
Account	2015/16 (actual)	2016/17 (actual)	2017/18	2018/19	2019/20
Motor Vehicle	$194.25	$130.26	$134.64	$139.23	$143.81
Earners'	$1.26	$1.21	$1.24	$1.26	$1.27
Work	$0.90	$0.80	$0.81	$0.83	$0.83

9.4.3 Table 34 summarises the corresponding projected funding positions, with the funding path following the agreed funding policy.

TABLE 34 – PROJECTED FUNDING POSITIONS FOR THE LEVIED ACCOUNTS

	As at	Projected funding position as at 30 June					
Account	31 March 2015 (actual)	2016	2017	2018	2019	2020	Target
Motor Vehicle	102%	105%	105%	105%	105%	106%	105%
Earners'	125%	123%	121%	120%	118%	117%	105%
Work	113%	115%	115%	114%	114%	114%	105%

9.4.4 The funding policy aims to reach the target solvency level in the following 10 years. In each successive year any remaining surplus or deficit is set to be recovered in the subsequent 10 years, with the result that the target is approached in gradually smaller increments. This avoids large levy changes once the target is reached.

9.4.5 Table 35 compares the levied Accounts' funding positions at 31 March 2015 (when levies were calculated) with those at 30 June 2015.

TABLE 35 – COMPARISON OF FUNDING POSITIONS AT 31 MARCH 2015 AND 30 JUNE 2015

Account	31 March 2015	30 June 2015
Motor Vehicle	102%	116%
Earners'	125%	132%
Work	113%	119%

9.4.6 The significant increases are due to both higher-than-expected investment returns and lower discount rates. All else being equal, this implies that levies can be further reduced in future. However, funding ratios are highly volatile, and this was a primary consideration in setting the funding policy's 10-year horizon.

9.4.7 This topic is illustrated below, where we model the distribution of the Earners' Account's funding ratios and examine the results. We have used the Earners' Account as an example as it has the largest annual incurred claim costs of the three levied Accounts.

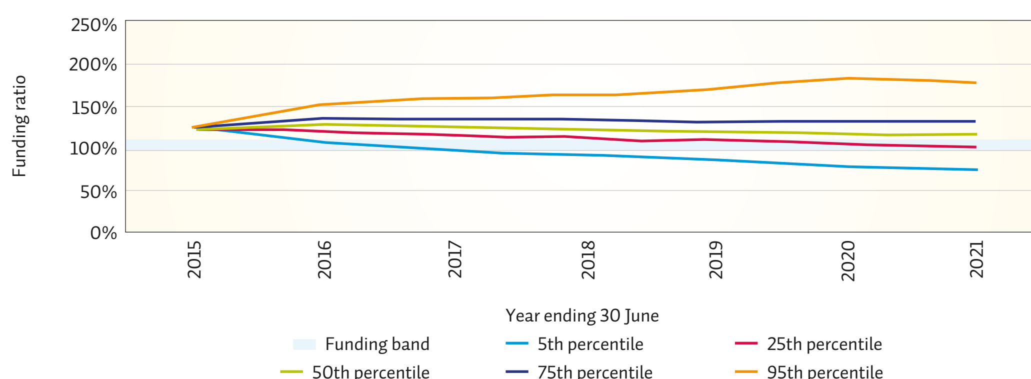
Earners' Account

9.4.8 Graph 28 shows the distribution of 500 possible scenarios and the resulting projected funding ratios for the Earners' Account. The scenarios allow underlying assumptions such as discount rates and claims experience to change in each future year. The modelling is based on the assumptions used in the levy consultation, and the assumed extent of change reflects past volatility.

9.4.9 In this graph:

- the funding band (the grey area) refers to a 100-110% band
- the 50th percentile (the green line) refers to the median of the 500 sets of funding paths
- the 5th, 25th, 75th and 95th percentiles show the range of projected funding paths.

GRAPH 28 – DISTRIBUTION OF PROJECTED FUNDING RATIOS – EARNERS' ACCOUNT



9.4.10 Table 35 shows the probabilities of the Earners' Account funding ratios staying above, below or within the funding band, given the funding position as at 31 March 2015.

TABLE 36 – EARNERS' ACCOUNT PROJECTED FUNDING RATIO PROBABILITIES

	As at 30 June					
	2016	2017	2018	2019	2020	2021
Above maximum of 110%	92%	83%	79%	73%	68%	63%
Below minimum of 100%	2%	6%	9%	15%	19%	24%
Staying within the band	6%	10%	12%	11%	13%	13%

9.4.11 Graph 28 and Table 36 show that, for the Earners' Account:

- there is a relatively low risk of the funding ratio falling below 100%, particularly in the short term. This is unsurprising given the current high funding position
- despite this, there is a 24% chance of the ratio falling below 100% by 2020/21
- there is a one in four chance of the ratio rising on the current levy path
- the funding band is a small target relative to the volatility level
- the gap between the 5th and 95th percentiles widens as the uncertainty increases and the projections get further away from the present. This is also reflected in the simulated levy paths shown in Graph 29.

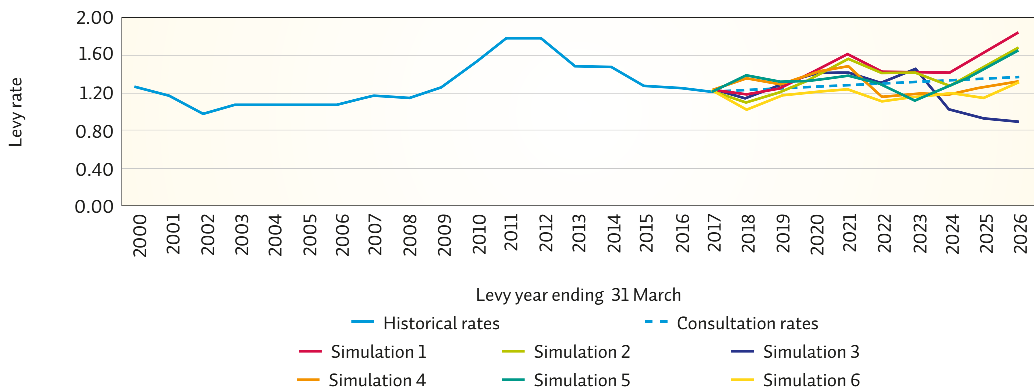
9.4.12 The distribution of projected funding ratios is similar for the Work Account, while the Motor Vehicle Account has a wide volatility spread about the target due to the longer duration of claims in this Account.

9.5 Levy rate sensitivity

9.5.1 As well as projecting a distribution of funding outcomes based on a given levy rate path, we have modelled possible future levy paths for the Earners' Account. Using the 2016/17 rates as set, we have generated future levy rates by allowing assumptions to change in each out-year and then recalculating the levy at those points by applying the funding policy. We have used the same economic and claim experience assumptions as in 9.4.

9.5.2 Graph 29 shows the consultation levy path as well as six simulated paths. This gives an indication of the amount of volatility that can arise when the economic and claims experience differ from that assumed in consultation.

GRAPH 29 – EARNERS' ACCOUNT LEVY RATE VOLATILITY



9.5.3 This shows that, for the Earners' Account:

- scenarios are well centred on the consultation levy path.
- despite the 10-year horizon there is a reasonable level of volatility. A shorter horizon would exacerbate this.

9.6 Non-Earners' Account projections

9.6.1 The Non-Earners' Account is funded in two portions: the pay-as-you-go portion for pre-2001 claims and the fully-funded portion for post-2001 claims, excluding risk margins. This means that the funding target for post-2001 claims is for assets to be 88% of the OCL including risk margin.

9.6.2 For the overall Non-Earners' Account, the pre-2001 liability is projected to remain relatively stable for the projection period. This means that the Account's funding ratio as a whole is projected to remain below 50% until 2019/20, and after that to grow and reach slightly below 60% by 2023/24.

9.6.3 Table 37 summarises the projected funding positions for the Account's fully-funded portion based on the pricing assumptions at 31 December 2014, including the projected position of 94% at 30 June 2015 (compared to the actual position of 98% shown in Table 32).

TABLE 37 – PROJECTED FUNDING POSITIONS FOR THE NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION)

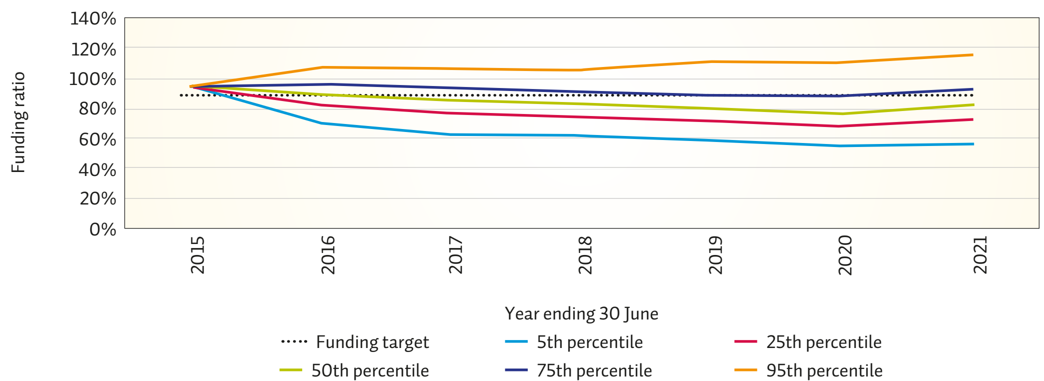
	Projected funding position as at 30 June						
	2015	2016	2017	2018	2019	2020	Target
Non-Earners' Account fully funded portion	94%	89%	86%	84%	83%	80%	88%

9.6.4 The funding ratio is projected to fall below the 88% target due to the approved appropriation being lower than requested (see 5.8). The implication is that higher appropriations will be required in future years, all other things being equal.

9.6.5 For the following projections, appropriations have been assumed to continue at the levels approved by Cabinet. Cabinet has yet to consider the appropriation for 2020/21, so it is assumed to be at the level indicated by the funding policy.

9.6.6 Graph 30 shows the distribution of 500 possible scenarios and resulting projected funding ratios for the Account's fully funded portion.

GRAPH 30 – DISTRIBUTION OF PROJECTED FUNDING RATIOS – NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION)



9.6.7 Table 38 shows the probability of the fully funded portion's funding ratio falling below the 88% funding target, using the approved appropriation path. It also shows the probability of the funding ratio falling below 100% of the OCL including risk margin.

TABLE 38 – FUNDING RATIO PROBABILITIES FOR NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION)

	As at 30 June					
	2016	2017	2018	2019	2020	2021
Below 100%	88%	90%	90%	90%	92%	88%
Below 88%	46%	61%	68%	75%	77%	66%

9.6.8 Graph 30 and Table 38 show that for the fully funded portion of the Non-Earners' Account:

- the risk of the funding ratio falling below 88% is relatively high in 2015/16 at 46%, rising to 77% in 2019/20. This is due to the lower approved appropriations
- the funding ratio increases again in 2020/21 when the appropriation amount is assumed to be at the recommended level
- there is a one in four chance of the funding ratio remaining at or above the funding target under the current appropriation path.

9.7 Reinsurance

9.7.1 Given the large number of claims and the size of the balance sheet, even very long-term claims are not large enough to affect the Scheme's net assets to a material degree. This means that ACC has no need to acquire reinsurance for individual claim risks.

9.7.2 From time to time the Board reconsiders the need for reinsurance against a large number of claims arising from a catastrophic event (primarily earthquakes, but also tsunamis and volcanic eruptions). Based on simulations provided by GNS Science and the experience from the February 2011 Christchurch earthquake, the Board has concluded that the amounts involved do not warrant the purchase of catastrophe reinsurance, particularly noting ACC's ability to post-fund these costs and the high cost of securing reinsurance cover.

9.7.3 In our opinion there is no requirement for reinsurance against either individual risks or catastrophic events, as the expected costs are not significant in terms of the total balance sheet. We also consider it unlikely that ACC could acquire reinsurance at a commercially acceptable price. We therefore agree with the Board's decision not to acquire reinsurance. However, the models for such risks are updated periodically and we believe the Board should review the need for reinsurance within the next one or two years.

9.8 Conclusion

9.8.1 The Scheme is currently in a strong solvency position. The wide range of projected funding ratios indicates the inherent risk in the Scheme's financial management with the immediate risk being that the funding ratios grow faster than currently projected, necessitating significant levy reductions and resulting in levy instability. The new funding policy for the levied Accounts, with its longer funding horizon, is a key tool in managing this risk. Nonetheless, large changes in levies from time to time are possible.

9.8.2 The levy rates recommended for 2016/17 and the 2015 Non-Earners' Account appropriations are sufficient to meet the solvency requirements specified in the funding policies, even though the Non-Earners' appropriation is lower than required by the funding policy.

10. Risk management

10.1 Framework

10.1.1 ACC's enterprise risk management framework, adopted in 2010, is based on the 'three lines of defence' model. Roles and responsibilities under this model are:

- *first line* – staff and management have primary responsibility for identifying and managing risks within their business groups and ensuring that risk management is fully integrated in everyday activities
- *second line* – the Risk and Compliance Office supports first line in performing their role. Its risk management monitoring extends to specialist functions such as health and safety, privacy, business continuity and data security
- *third line* – the Assurance Services function provides the third line of defence through providing independent assurance to the Board and senior management of the effectiveness of risk management, controls and governance processes.

10.1.2 Financial risks are managed through regular monitoring of and reports on the OCL valuation, annual levy rate calculations, asset and liability modelling and regular Scheme monitoring reports on changes in the claims experience. These are part of the day-to-day functions of the finance, actuarial and investment teams.

10.2 Performance of the risk system

10.2.1 The Assurance Services team audited of the risk system in June 2014, and assessed ACC's risk maturity as having an average score of 2.56 out of 5 in 8 categories.

10.2.2 As a result, and to increase ACC's risk maturity, the Executive Risk and Compliance Committee approved a newly developed Risk Management Strategy in December 2014. The strategy comprises four components, described in Table 39.

TABLE 39 – COMPONENTS OF RISK MANAGEMENT STRATEGY

Component	Steps required
Implement a risk operating model	Define and introduce clear risk roles and responsibilities within the first line of defence. Increase the number of full-time risk practitioners within the first line of defence.
Implement an integrated risk management solution	Source and implement a governance, risk and compliance tool to support risk management practices.
Improve legislative compliance monitoring and reporting	Identify all relevant Acts and obligations for ACC. Design and implement a risk-based approach to performing quarterly compliance reviews. Produce quarterly compliance review findings.
Establish risk appetite	Describe risk thresholds and tolerances. Develop primary and secondary risk indicators. Produce risk appetite profiles.

10.2.3 Assurance Services reviewed the risk management strategy and progress against its audit recommendations. It found that:

- the risk management strategy was appropriately driving improvements and provided additional recommendations to enhance outcomes
- progress was generally on track, but it considered that some delivery target dates were ambitious, and recommended extensions.

10.2.4 A full reassessment of the risk maturity is scheduled for the beginning of 2016/17.

10.3 ACC's organisational risks

10.3.1 The Executive Risk and Compliance Committee reviews organisational risks quarterly and informs the Board which then assesses the appropriateness of the management actions. The Board Risk Assurance and Audit Committee, on behalf of the Board, assesses the framework and the mechanisms by which the risk information is produced.

10.3.2 Table 40 describes seven high-level risk priorities that contribute to ACC's organisational risk profile, and management's responses.

TABLE 40 – RISK PRIORITIES IN ORGANISATION RISK PROFILE

Profile	Risk	Management response
1. Operational performance	Risk that achieving operational objectives alongside transformational change affects the ability to maintain performance, improve customer satisfaction and contain privacy breaches.	Business plans are aligned to strategic intentions and performance is monitored monthly against organisational measures. Initiatives are underway to increase organisational change maturity. A refreshed privacy strategy is being developed in conjunction with the Transformation Programme's privacy-by-design practices to manage privacy breaches sustainably.
2. Change management	Risk that the size and scope of transformational change and demands on staff affect the ability to deliver and absorb sustainable change.	The Board has approved ACC's Target Operating Model and the Transformation Programme business case. The Talent Group's 'Functional Leadership of Change' proposal is intended to enhance the organisational change maturity through clear accountability and business ownership. Procurement of a transformation partner.
3. Our people	Risk that inadequate understanding and management of staff needs and preparedness for the Health and Safety Reform Bill affect third parties, staff and the ability to transform.	The three-year programme approved by the Board to develop the health, safety and wellbeing of employees and third parties is progressing. The Talent Group's three-year strategy includes leadership development, personal resilience training and attracting the right talent as and when needed.
4. Financial performance	Risk that new claim volumes, long-term claims experience and court decisions affect our financial performance.	We are undertaking investigations to understand the drivers of experience for: • long-term-claims • social rehabilitation capital payments made to non-seriously injured clients. A formal review of the new sensitive claims service and the long-term implications began in February and is due to be completed in May 2016.
5. Strategic alignment	Risk that inadequate coordination and alignment of ACC's operational and strategic activities affects the ability to achieve strategic objectives.	The Governance and Strategy Group is developing an enduring ACC strategy system. People consideration is being integrated into business planning processes to ensure alignment with the Talent Strategy.
6. Stakeholder relationships	Risk that dependence on stakeholders and the effectiveness of the way relationships are managed affect customer experience and outcomes.	The Health Procurement area is developing a supplier management framework that will provide an ACC-wide framework for interaction with suppliers. The Elective Services Pathway Programme (1.4.35) is developing stronger links between costs and health outcomes.
7. Quality of decision making	Risk that our data quality, tools, capability and culture affect our ability to consistently make informed decisions.	The effectiveness of the Operational Policy Committee is being reviewed. Integrity Services is leading work to deploy a data analytics proof of value. The Risk and Compliance Office is leading the development of ACC's organisational risk appetite. The Enterprise Business Rules project is progressing to increase consistency of decision making.

10.4 Conclusion

10.4.1 ACC has made progress in developing and implementing a risk management strategy that supports a principles-based approach to making fully informed risk based decisions.

10.4.2 The risk 'infrastructure' (risk practitioners, frameworks and tools) is expected to be in place by the end of 2015/16. It is likely to take a further two years for a risk culture (seen in people's attitudes and behaviours) and refinements to risk practices to demonstrate that the organisation's risk maturity has reached the desired state.

11. Progress against recommendations from 2014 report

11.1 Introduction

11.1.1 This section details ACC's progress on the recommendations from the 2014 *Financial Condition Report*. The recommendations have been grouped into five broad themes:

- Business and operations
- Claims experience
- Boundaries of cover
- Treatment injury
- Ensuring quality client outcomes.

11.1.2 Owing to the Scheme's long-term nature, many of these recommendations will require more than a year to resolve. We indicate here where a recommendation has been continued into the following year.

11.1.3 In summary, of the nine recommendations in the 2014 report, four are expected to be closed over the coming year, once specified actions have been agreed, one is on hold and four are still in progress and have been included in this report's recommendations.

11.2 Business and operations

Recommendation 1:

11.2.1 Encourage case managers to consider unpaid volunteer work when measuring employment participation outcomes for seriously-injured clients. [Owner: Chief Operating Officer]

Management comment:

11.2.2 The concept of including unpaid volunteer work in ACC's Employment Participation key performance indicator (KPI) was one of the ways identified to encourage case managers to increase unpaid work in rehabilitation plans for seriously injured clients unable to return to paid employment.

11.2.3 Since then, serious injury case owners have been directed to actively support clients into unpaid work (where they have not returned to paid work) and are recording the outcomes, which can then be reported on individual and cohort bases. Evidence in the next year of a reduction in care requirements or improvements in goal achievement as a result of clients doing volunteer work may result in the Employment Participation KPI changing to include unpaid employment.

11.2.4 We anticipate that some initial results on unpaid employment participation will be available for reporting in the next year, and this will eventually allow a comparison with other schemes.

This recommendation is ongoing with actions planned that will likely mean it is closed in the coming year.

Recommendation 2:

11.2.5 That ACC requires Accredited Employers to provide information on the duration of weekly compensation claims under their management. [Owner: Chief Customer Officer]

Management comment:

11.2.6 This recommendation aims to enable better and more consistent monitoring of the AEP's performance. Weekly compensation duration is used as a key measure of rehabilitation outcomes for claims that ACC manages directly, and would make a useful comparison for AEP claims management performance.

11.2.7 In June 2015 Assurance Services reviewed the effectiveness of ACC's internal processes for monitoring Accredited Employers against the requirements of the AC Act and the Framework for the Accredited Employers Programme. According to the review, "ACC is currently unable to measure the extent of how the AEP product contributes to the achievement of the product's objectives and benefits per the AC Act".

11.2.8 Specifically, the review identified that "a lack of quality data is a key contributing factor to the current performance measurement". As a result, Assurance Services will track the following agreed actions proposed to resolve this issue:

- Define and develop a monitoring framework and measures to enable progress of the AEP at a strategic level to be measured, reviewed and tracked. This will also extend to the nature and extent of data required, sources of data and data quality processes.
- Review Accredited Employers' data requirements and deliver a solution that will be fit for purpose for both ACC and Accredited Employers.

11.2.9 These actions will directly answer the recommendation and can be tracked through the response to the audit report. *Financial Condition Reports* will continue to include AEP claims management performance where possible.

This recommendation is ongoing with actions planned that will likely mean it is closed in the coming year.

11.3 Claims experience

Recommendation 3:

11.3.1 Investigate the deterioration in the 70-day and longer duration (greater than three years) rehabilitation rates to identify appropriate management response. [Owner: Chief Operating Officer]

Management comment:

11.3.2 The investigation into the 70-day rehabilitation rate has been completed and the findings were shared with the Board in September. The results of this investigation are discussed in 3.4.

11.3.3 There is still a risk with significant decreases in the long-term rehabilitation rates and increases in long-term claims experience generally. A long-term claims investigation project is underway (see 3.8) to identify the drivers and understand the trends. Further actions may be identified depending on the results of this project.

Part of this recommendation is still in progress and it has been reworded and held open for the following year.

11.4 Boundaries of cover

Recommendation 4:

11.4.1 Investigate reasons for high rates of decline of gradual process claims. Investigate reasons for low rates of claiming for gradual process conditions. [Owner: Chief Operating Officer/Chief Governance and Strategy Officer/Chief Clinical Advisor]

Management comment:

11.4.2 ACC has made operational improvements within the constraints of the current legislation, and the Clinical Services Directorate has identified improvements that can be made in managing and improving the understanding of clinicians in this area.

11.4.3 Work is underway to further understand the factors that affect claim lodgement and acceptance rates for gradual process claims, including those that ACC can directly influence and those that would require working with stakeholders or other agencies.

11.4.4 While decline rates have reduced somewhat, they still appear high and this recommendation will remain open until actions have been identified and completed to address this issue.

This recommendation is still in progress and has been held open for the following year.

Recommendation 5:

11.4.5 Undertake work to improve the consistency and objectivity of decision-making to clarify the boundary between ACC coverage and that of the wider health sector. [Owner: Chief Governance and Strategy Officer]

Management comment:

11.4.6 In August 2014 the Board agreed to progress work in developing a shared responsibility framework for funding and delivering services for people with mixed-cause conditions. Management is now exploring all options, both operational and legislative, for enabling shared responsibility for funding and managing mixed-cause conditions, with the conclusions due in June 2016.

11.4.7 The Clinical Services Directorate continues to support improvements in the quality of clinical advice provided for claim decisions. Together the work of the cross-organisational Clinical Governance Committee, the recently approved Clinical Quality Strategy and the Clinical Advice Standards aim to ensure consistent, objective and evidence-based clinical decision-making.

11.4.8 This recommendation will be closed once the options on shared responsibility for funding and managing mixed-cause conditions have been considered and the relevant actions have been completed.

This recommendation is still in progress and has been held open for the following year.

11.5 Treatment injury

Recommendation 6:

11.5.1 Develop a package of initiatives to help reduce treatment injuries, including increased investment in injury prevention, clarifying coverage of the Scheme, and comparisons between providers to encourage improvements. [Owner: Chief Customer Officer/Chief Governance and Strategy Officer]

Management comment:

11.5.2 **Increased investment in injury prevention** – four injury prevention initiatives are being developed following agreement with MOH and HQSC to reduce:

- the incidence and severity of neonatal encephalopathy (birth brain injuries), pressure injuries and wound infections
- perioperative injury through the national roll-out of a surgical simulation training programme currently run by the Auckland School of Medicine.

11.5.3 The Treatment Injury Prevention Programme includes a stream dedicated to investigation and evaluation of potential areas for further investment.

11.5.4 **Comparison between providers to encourage improvements** – a programme to report treatment injury information to district health boards and private hospitals and to work towards publishing these reports will include wider external consultation with MOH, HQSC and the Health and Disability Commissioner (HDC). It will also provide the opportunity to coordinate ACC's information with data from other sources. It means the delivery is likely to be later than originally planned; project scope and timelines are currently being reviewed.

11.5.5 We expect that in providing treatment injury information coordinated with data from other sources (eg HQSC, HDC, MOH), and publishing it to give it salience, there will be opportunities to work with government agencies and providers to improve the quality and safety of health care, under the umbrella of the updated New Zealand Health Strategy. This will result in a coordinated programme of actions aimed at reducing the incidence and severity of treatment injury, with ACC supporting some of these actions through injury prevention investment. This recognises that treatment injury is part of a wider issue in the health sector.

11.5.6 **Clarifying coverage of the Scheme** – currently this is not a priority for the Minister for ACC. The Accident Compensation (Financial Responsibility and Transparency) Amendment Act does not provide for changes to the coverage of current treatment injury provisions.

11.5.7 These actions will directly answer this recommendation, so it can be closed once they have been completed.

This recommendation is ongoing with actions planned that will likely mean it is closed in the coming year.

Recommendation 7:

11.5.8 With respect to treatment injury, investigate alternatives for levying providers ahead of recommending a suitable course of action. [Owner: Chief Governance and Strategy Officer]

Management comment:

11.5.9 Progress has been made in investigating options to improve financial incentives for treatment providers. This work will continue internally, while our engagement with external health stakeholders will, for now, focus on the wider strategy in response to recommendation 6.

This recommendation will be revisited once the actions for recommendation 6 have been completed.

11.6 Ensuring quality client outcomes

Recommendation 8:

11.6.1 Engage with the Ministry of Health and the District Health Boards with a view to gaining access to detailed claim-level information in relation to services provided under the current bulk-billed arrangement. [Owner: Chief Governance and Strategy Officer/Chief Operating Officer]

Management comment:

11.6.2 Statistics New Zealand's Integrated Data Infrastructure (IDI) was updated at the end of 2015 to include all ACC claims and expanded health data, including National Minimum Dataset (NMDS) hospital events linked

at an anonymised individual record level. Analytics users can access the IDI at Statistics New Zealand's premises. We are arranging access from ACC and expect this to be available during 2016.

11.6.3 While this is expected to enable summary analyses that could help with decisions in areas such as rehabilitation and injury prevention, it will not provide an individual client pathway for monitoring client outcomes and will have limited use in understanding the appropriateness of the funding provided under the current bulk-billed arrangement.

11.6.4 If the wider use of this detailed claim-level information were allowed, there would be considerable benefits. Using detailed, actual information would provide a trusted base from which to work and allow the identification of potential joint MOH/district health board and ACC initiatives and customer-focused decisions. This includes decisions on potential investments that could assist in reducing the number of injuries, providing better service in the event of an injury and assisting MOH by reducing pressures on the public health system.

11.6.5 MOH has indicated that it will support ACC having bulk-billed data for internal use subject to an Approved Information Sharing Agreement. Work is underway to determine the exact information needed and the appropriate legal mechanisms for obtaining it. This will be followed by discussions with MOH on progressing this action point.

This recommendation is still in progress and has been held open for the following year.

Recommendation 9:

11.6.6 Develop a set of objective measures that can be used to monitor ACC's adherence to its obligations. These will most sensibly focus on client satisfaction with their medical treatment, quality of clinical outcomes, return to work/independence and service experience. [Responsibility: Chief Customer Officer]

Management comment:

11.6.7 The SOI and Service Agreement include measures of the timeliness of decisions and payments to clients, returns to work and client satisfaction. New measures have been introduced to the Service Agreement since 2014 (when this recommendation was made), including an ROI for injury prevention, elective surgery outcomes and return to independence for clients not receiving weekly compensation.

11.6.8 The following measures are contained in the Service Agreement, and where indicated, are also included in the SOI. Obligations under the Act are summarised into the four broad areas listed in 1.1.2.

11.6.9 Injury prevention:

- ROI in injury prevention programmes (SOI)
- Total number of registered claims
- Number of new entitlement claims per 1,000 population.

11.6.10 Rehabilitation:

- Cover decision timeliness (SOI)
- Return to work within 10 weeks, nine months, durable return to work rate (SOI)
- Return to independence for those not in the workforce, number of long-term clients returned to independence in the past 12 months (SOI)
- Elective surgery outcomes are measured through two measures: average time taken to make surgery decisions; and proportion of clients who go ahead with surgery who are successfully rehabilitated 12 months after being approved for surgery
- Growth in average care hours packages for seriously injured clients; proportion of clients with care hours significantly above or below benchmark.

11.6.11 Fair compensation:

- Average time to commence weekly compensation payments (SOI)
- Percentage of ACC reviews upheld (SOI)
- Average time to resolution for claims with reviews (SOI).

11.6.12 Alignment with the Code of ACC Claimants' Rights:

- Customer satisfaction – clients and levy payers (SOI)
- Public trust and confidence (SOI)
- Number of privacy breaches (rolling three-month average) (SOI).

11.6.13 The Elective Services Pathway Programme includes a specific stream to develop outcome measures for the services provided, and the Clinical Services Directorate is continuing to develop measures of the quality of clinical advice provided.

11.6.14 While not all measures are yet in place, establishing them is included in current programmes of work and this recommendation can be closed once these have been completed.

This recommendation is ongoing with actions planned that will likely mean it is closed in the coming year.

APPENDIX A

Claim frequencies by Account

A.1 Claim frequency measures the growth in claim numbers above (or below) the growth in population. The claim frequencies shown in this section are estimates of total incurred claim frequencies assumed in the latest levy setting and Non-Earners' appropriation calculations, using actual reported claim numbers up to 31 December 2014. Since then, reported claim numbers have increased further, as discussed in Section 3.

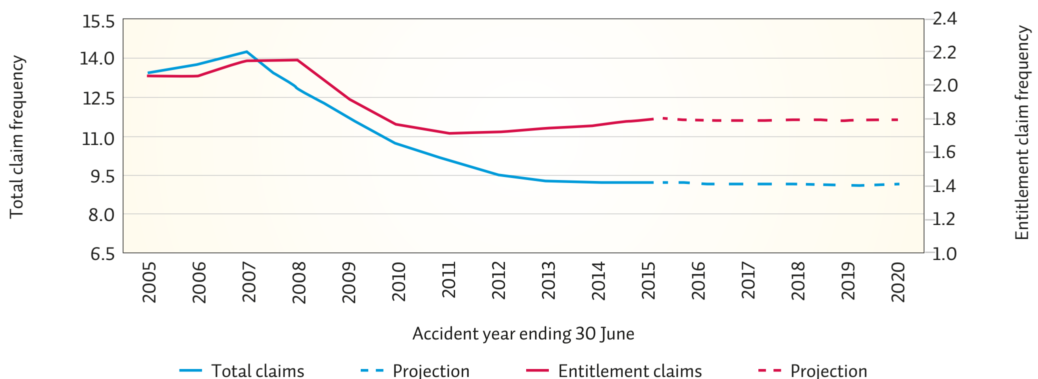
Motor Vehicle Account

A.2 The Motor Vehicle Account covers injuries where moving motor vehicles are involved, including injuries to pedestrians and bicyclists hit by motor vehicles while on public roads (with a few exceptions). The Motor Vehicle Account is funded by levies paid by motor vehicle owners and petrol users. The levy payers are both individuals and commercial employers.

A.3 Each year just under one motor vehicle-related injury per 100 vehicles results in an ACC claim, and over 80% of all motor vehicle claims are medical only. Claim frequencies have decreased since 2006/07 – a not surprising development in that in that injury rates should generally be expected to decrease gradually along with safety improvements in vehicle and road design.

A.4 Graph 31 shows the annual claim frequency rates for the Account. Entitlement claims receive rehabilitation and/or compensation support in addition to medical treatment. Over half of the costs for new-year motor vehicle claims are long-term costs such as for weekly compensation, home help and other services provided to people with long-term serious injuries.

GRAPH 31 – MOTOR VEHICLE ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 MOTOR VEHICLES



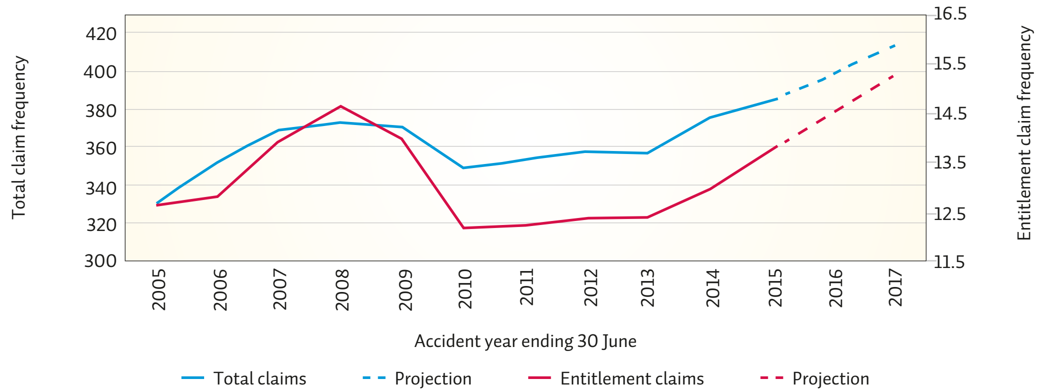
Non-Earners' Account

A.5 The Non-Earners' Account is funded through Government appropriations (Vote ACC) from general taxation to cover personal injuries to non-earners. The Account covers a wide range of injuries, including but not limited to those that happen in the home, during sport, in/on the water and in public/commercial environments (eg schools and parks). However, it excludes injuries covered by the Motor Vehicle and Treatment Injury Accounts.

A.6 On average 35-38% of non-earners have injuries that result in ACC claims each year, and more than 95% of claims in the Non-Earners' Account are medical only.

A.7 There has been a sizeable increase in claim frequencies in the past two years. Graph 32 shows annual claim frequency rates for the Account. The additional support provided for non-earners' entitlement claims is mostly home care and assistance.

GRAPH 32 – NON-EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 NON-EARNERS

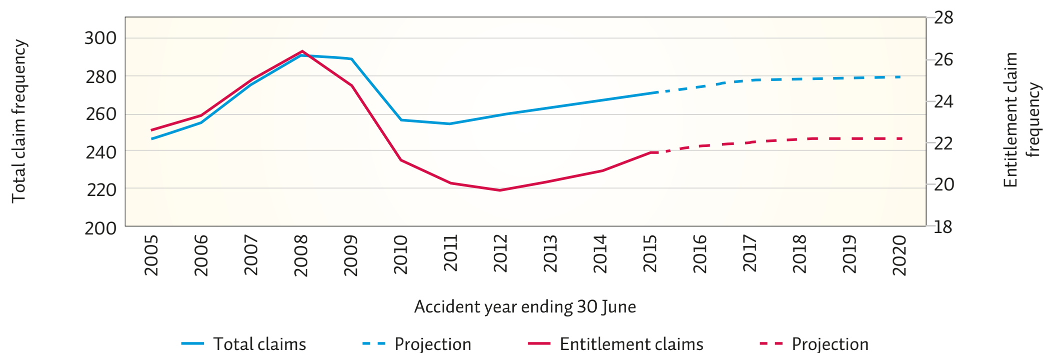


Earners' Account

A.8 The Earners' Account is funded by levies paid by earners to cover non-work-related personal injuries happening on or after 1 July 1992. The Account also covers a wide range of injuries, including but not limited to those that happen in the home, during sport, in/on the water and in public/commercial environments. It excludes injuries covered by the Motor Vehicle and Treatment Injury Accounts.

A.9 On average just over 25% of earners have non-work-related injuries that result in ACC claims per year; more than 90% of these claims are medical only. The recent experience is showing an increase in the claim rate, consistent with the overall claims experience discussed in Section 3. Around 40% of the cost of new-year claims in the Account is for weekly compensation, and around 60% of the Scheme's total weekly compensation costs come from the Account. Graph 33 shows annual claim frequency rates for the Account.

GRAPH 33 – EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 EARNERS

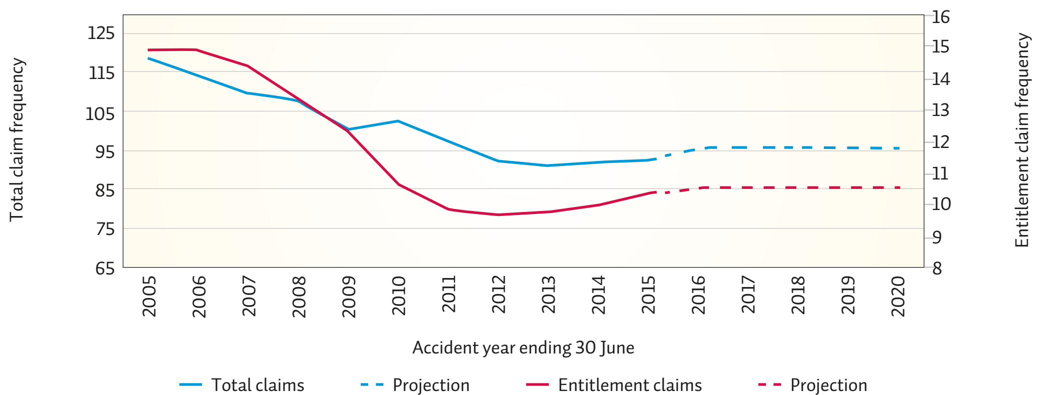


Work Account

A.10 The Work Account is funded by levies paid by employers and the self-employed to cover people who have work-related personal injuries on or after 1 July 1974, and non-work injuries between 1 July 1974 and 30 June 1992.

A.11 On average close to 10% of employed people[2] have work-related injuries that result in ACC claims each year; close to 90% of these claims are medical only. Since 2002/03 the number of work-related claims has trended downwards, until an increase in the past two years (which is consistent with the rest of the Scheme). Around 50% of the cost of new-year claims is for weekly compensation. Graph 34 shows the annual claim frequency rates for the Account.

GRAPH 34 – WORK ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 EMPLOYED PEOPLE



Treatment Injury Account

A.12 The Treatment Injury Account covers injuries that:

- happen to people when they are receiving medical treatment, and
- are not normal complications or risks arising from the treatment.

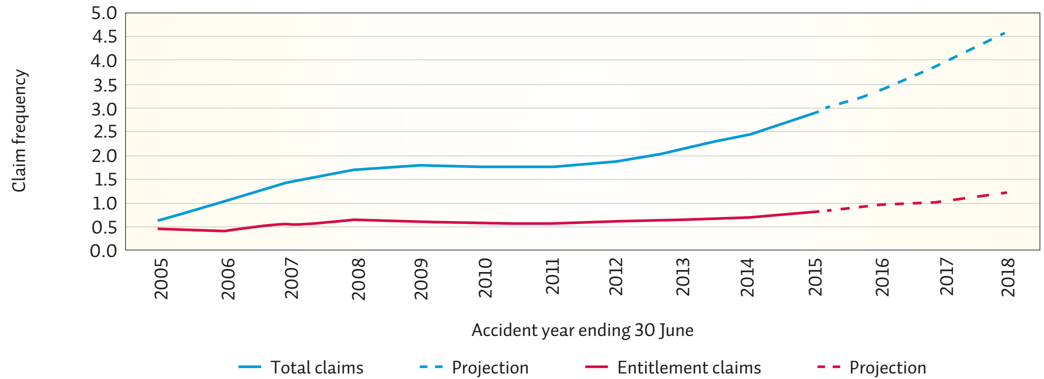
Treatment injuries to earners are funded by levies paid by earners, and treatment injuries to non-earners are funded by Government appropriation. Health care professionals do not directly pay levies.

A.13 Before 2005 the Account was called the Medical Misadventure Account and mostly covered the more serious treatment injuries happening in the health care system. On 1 July 2005 the Account was renamed the Treatment Injury Account and it became no longer necessary to prove that an injury was both rare and severe or caused by medical error for a claim to be accepted.

A.14 Since the treatment injury legislation was introduced in 2005, the number of treatment injury claims has increased considerably (see 3.7). In the 2014/15 almost 0.3% of the population has had a treatment injury resulting in an ACC claim. Approximately 70% of these claims have been medical only, although this proportion has been increasing recently. Graph 35 shows the annual claim frequency rates for this Account.

2 *This analysis excludes the AEP, in which larger employers are allowed to self-insure, unless otherwise stated.*

GRAPH 35 – TREATMENT INJURY ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



A.15 Most earners' treatment injuries result only in follow-up medical treatment. These claims have very short durations and the clients have usually recovered by the time the OCL is valued. This means that the claims included in the liability are mainly those that receive weekly compensation or recovery support.

A.16 For the non-earners' portion of the Treatment Injury Account, serious injury claims drive most of the cost associated with its OCL and future levies. Each year more of these claims are added to the OCL. The most costly of these claims are for birth-related treatment injuries, with injuries at birth making up 35-50% of the liability for treatment injury claims for serious injuries. These claims may require advanced nursing care for decades into the future. In addition, upon reaching the age of 18, a child experiencing a serious injury becomes eligible for loss of potential earnings compensation.

A.17 Table 41 provides an estimate of the proportion of total treatment injury nominal costs related to injuries to non-earners. The proportion of weekly compensation attributable to non-earners is lower in more recent accident years, as there is often a lengthy delay before loss of potential earnings compensation becomes payable.

TABLE 41 – NON-EARNERS' PROPORTION OF TREATMENT INJURY NOMINAL COSTS

	Pre-2001	2001-2014	2014/15+
Claims handling expenses	70%	57%	52%
Death benefits	37%	14%	18%
Elective surgery	53%	50%	50%
Lump sum/independence allowance	54%	51%	46%
GPs	35%	40%	52%
Radiology	50%	47%	48%
Physiotherapy	52%	37%	43%
Other medical	60%	46%	53%
Social rehabilitation non-serious injury – capital	48%	56%	64%
Social rehabilitation non-serious injury – care	47%	60%	67%
Social rehabilitation serious injury – capital	96%	93%	95%
Social rehabilitation serious injury – care	98%	94%	94%
Vocational rehabilitation	63%	1%	0%
Weekly compensation – non-fatal	55%	34%	21%
Overall	**92%**	**81%**	**70%**

APPENDIX B

Cumulative revenue statement to 30 June 2015

B.1 This appendix shows for the Scheme and for each Account:

- the surplus/deficit in each financial year separately by coverage year. The surplus/deficit is derived from the cash flows in the accident year (ie the aggregate levy collected [excluding the residual portion], claim payments, expenses and investment returns), and the movement in the OCL, including risk margin, and the URL.
- the cumulative revenue statements, which show the aggregate levy collected (excluding the residual portion) for that accident year (including any positive or negative funding adjustment); cumulative claim payments and expenses to 30 June 2015; the future estimate of the claims liability including risk margin and claims handling expenses; and cumulative investment returns to date, to give the estimated surplus or deficit for each accident year.

B.2 The surplus or deficit can be considered as a transfer to or from the total Account for that accident year. It includes any planned funding adjustment in the actual levies/appropriations that were set but is effectively a revised hindsight funding adjustment. A surplus means an increase in the overall Account's net assets and a deficit means a reduction. A deficit may indicate a conscious decision to return funds during that year if the Account was, at the time, considered over-funded.

Total Scheme

B.3 The Scheme's financial position generally deteriorated until 30 June 2009 due to increasing Scheme use. From 30 June 2009 to 30 June 2013 the position improved significantly due to an increased focus on Scheme sustainability and improved claims management. Increases in the volume of new claims in the past two years have eroded the financial position. The decision to cease collecting the residual levy from 1 April 2016 led to an increase in the URL and a decrease in the levy income for the year ending 30 June 2015.

TABLE 42 – TOTAL SCHEME POSITION BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	2,658,666							
Investment income	(4,976)							
Claims paid (incl all expenses)	(1,357,101)							
Movement in OCL	(2,108,272)							
Movement in URL	(584,436)							
Surplus/(deficit) at 30/06/2008	**(1,396,119)**	**0**						
Levy income	0	3,153,098						
Investment income	22,720	19,023						
Claims paid (incl all expenses)	(684,712)	(1,446,174)						
Movement in OCL	239,655	(2,554,714)						
Movement in URL	584,436	(565,064)						
Surplus/(deficit) at 30/06/2009	**(1,234,020)**	**(1,393,831)**	**0**					
Levy income	0	0	3,534,203					
Investment income	61,144	137,240	120,676					
Claims paid (incl all expenses)	(204,437)	(591,896)	(1,349,029)					
Movement in OCL	370,137	855,780	(2,326,871)					
Movement in URL	0	565,064	(105,287)					
Surplus/(deficit) at 30/06/2010	**(1,007,176)**	**(427,643)**	**(126,308)**	**0**				
Levy income	0	0	0	3,967,999				
Investment income	49,783	139,516	229,292	149,380				
Claims paid (incl all expenses)	(109,530)	(161,777)	(467,024)	(1,338,108)				
Movement in OCL	220,125	366,955	829,595	(2,237,434)				
Movement in URL	0	0	105,287	0				
Surplus/(deficit) at 30/06/2011	**(846,798)**	**(82,948)**	**570,842**	**541,836**	**0**			
Levy income	0	0	0	0	4,103,601			
Investment income	33,469	98,767	172,249	222,604	116,510			
Claims paid (incl all expenses)	(82,203)	(96,945)	(140,655)	(481,922)	(1,379,494)			
Movement in OCL	(49,999)	(10,907)	73,568	570,479	(2,350,689)			
Movement in URL	0	0	0	0	(68,592)			
Surplus/(deficit) at 30/06/2012	**(945,531)**	**(92,033)**	**676,005**	**852,998**	**421,337**	**0**		
Levy income	0	0	0	0	0	3,936,425		
Investment income	33,386	119,670	195,082	228,328	237,696	118,222		
Claims paid (incl all expenses)	(62,414)	(70,745)	(83,905)	(138,278)	(506,320)	(1,436,237)		
Movement in OCL	171,018	186,687	206,120	330,382	814,421	(2,226,550)		
Movement in URL	0	0	0	0	68,592	(42,077)		
Surplus/(deficit) at 30/06/2013	**(803,540)**	**143,579**	**993,302**	**1,273,429**	**1,035,725**	**349,784**	**0**	
Levy income	0	0	0	0	0	0	3,967,932	
Investment income	19,967	80,842	137,568	160,254	155,053	143,548	67,950	
Claims paid (incl all expenses)	(60,588)	(62,888)	(71,780)	(94,645)	(154,386)	(577,080)	(1,569,418)	
Movement in OCL	86,324	73,933	130,121	140,487	273,450	598,387	(2,331,232)	
Movement in URL	0	0	0	0	0	42,077	(201,549)	
Surplus/(deficit) at 30/06/2014	**(757,837)**	**235,466**	**1,189,212**	**1,479,524**	**1,309,842**	**556,715**	**(66,316)**	**0**
Levy income	0	0	0	0	0	0	0	3,632,869
Investment income	41,465	190,902	323,680	376,111	359,665	300,988	289,496	108,964
Claims paid (incl all expenses)	(57,036)	(58,828)	(61,266)	(76,763)	(98,452)	(182,430)	(680,476)	(1,670,059)
Movement in OCL	(40,599)	(37,501)	(20,435)	(1,907)	59,101	178,045	512,085	(2,680,401)
Movement in URL	0	0	0	0	0	0	201,549	(466,644)
Surplus/(deficit) at 30/06/2015	**(814,007)**	**330,038**	**1,431,191**	**1,776,965**	**1,630,155**	**853,319**	**256,338**	**(1,075,272)**

B.4 The Scheme's financial condition has improved since 2007/08. However there was a large deficit in the 2014/15 accident year due to the removal of the residual levy, increases in the number and cost of claims and lower levies. The total Scheme now has positive net assets for the first time.

TABLE 43 – TOTAL SCHEME CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		2,658,666	3,153,098	3,534,203	3,967,999	4,103,601	3,936,425	3,967,932	3,632,869	
Investment income		256,959	785,961	1,178,547	1,136,677	868,924	562,758	357,446	108,964	
Cumulative claims paid (incl CHE)		(2,513,618)	(2,385,830)	(2,079,890)	(2,028,648)	(2,034,030)	(2,104,259)	(2,145,690)	(1,564,417)	
OCL		(1,111,611)	(1,119,767)	(1,107,901)	(1,197,993)	(1,203,717)	(1,450,118)	(1,819,146)	(2,680,401)	
Claims incurred		**(3,625,228)**	**(3,505,597)**	**(3,187,791)**	**(3,226,641)**	**(3,237,747)**	**(3,554,376)**	**(3,964,836)**	**(4,244,818)**	
Expenses		(104,403)	(103,423)	(93,769)	(101,070)	(104,623)	(91,488)	(104,205)	(572,286)	
Surplus/ (deficit)		**(814,007)**	**330,038**	**1,431,191**	**1,776,965**	**1,630,155**	**853,319**	**256,338**	**(1,075,272)**	
Assets	15,751,425	297,604	1,449,806	2,539,092	2,974,958	2,833,873	2,303,437	2,075,484	1,605,129	31,830,807
Liabilities	18,637,910	1,111,611	1,119,767	1,107,901	1,197,993	1,203,717	1,450,118	1,819,146	2,680,401	30,328,565
Net assets	**(2,886,485)**	**(814,007)**	**330,038**	**1,431,191**	**1,776,965**	**1,630,155**	**853,319**	**256,338**	**(1,075,272)**	**1,502,242**

Motor Vehicle Account

B.5 The Motor Vehicle Account recorded a deficit for accident years until 2010/11; since then it has recorded a surplus each year. The main reason for this is an improvement in the levy-setting model – particularly an allowance for full superimposed inflation on medical and social rehabilitation payments, which make up a large proportion of motor vehicle claim costs. This means that levy rates are sufficient to cover claims incurred.

TABLE 44 – MOTOR VEHICLE ACCOUNT BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	290,756							
Investment income	(201)							
Claims paid (incl all expenses)	(131,590)							
Movement in OCL	(342,898)							
Movement in URL	(38,833)							
Surplus/(deficit) at 30/06/2008	**(222,766)**	**0**						
Levy income	0	346,307						
Investment income	2,866	1,978						
Claims paid (incl all expenses)	(62,615)	(126,759)						
Movement in OCL	(59,509)	(427,815)						
Movement in URL	38,833	(70,120)						
Surplus/(deficit) at 30/06/2009	**(303,191)**	**(276,408)**	**0**					
Levy income	0	0	383,552					
Investment income	11,505	21,829	10,558					
Claims paid (incl all expenses)	(29,977)	(53,310)	(123,677)					
Movement in OCL	36,906	27,478	(445,395)					
Movement in URL	0	70,120	(105,287)					
Surplus/(deficit) at 30/06/2010	**(284,756)**	**(210,290)**	**(280,250)**	**0**				
Levy income	0	0	0	590,727				
Investment income	9,028	22,823	24,990	30,253				
Claims paid (incl all expenses)	(19,614)	(21,445)	(42,872)	(115,316)				
Movement in OCL	63,802	88,730	94,678	(407,033)				
Movement in URL	0	0	105,287	0				
Surplus/(deficit) at 30/06/2011	**(231,539)**	**(120,183)**	**(98,167)**	**98,630**	**0**			
Levy income	0	0	0	0	742,192			
Investment income	5,388	16,017	21,123	42,340	27,581			
Claims paid (incl all expenses)	(16,862)	(15,846)	(21,115)	(41,191)	(110,227)			
Movement in OCL	(30,688)	2,741	(8,619)	38,401	(436,938)			
Movement in URL	0	0	0	0	0			
Surplus/(deficit) at 30/06/2012	**(273,701)**	**(117,271)**	**(106,779)**	**138,181**	**222,608**	**0**		
Levy income	0	0	0	0	0	783,348		
Investment income	5,138	18,145	23,974	48,700	62,564	33,543		
Claims paid (incl all expenses)	(12,211)	(11,799)	(14,417)	(16,861)	(38,553)	(102,448)		
Movement in OCL	42,527	50,368	31,926	69,347	96,311	(394,815)		
Movement in URL	0	0	0	0	0	0		
Surplus/(deficit) at 30/06/2013	**(238,247)**	**(60,556)**	**(65,295)**	**239,366**	**342,930**	**319,628**	**0**	
Levy income	0	0	0	0	0	0	816,255	
Investment income	2,741	11,575	15,368	32,023	40,580	41,759	21,043	
Claims paid (incl all expenses)	(12,298)	(11,931)	(14,442)	(15,056)	(21,033)	(43,690)	(118,237)	
Movement in OCL	20,302	6,974	19,747	43,393	48,785	71,038	(389,890)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(deficit) at 30/06/2014	**(227,502)**	**(53,938)**	**(44,622)**	**299,727**	**411,262**	**388,735**	**329,171**	**0**
Levy income	0	0	0	0	0	0	0	827,524
Investment income	5,404	28,325	37,791	80,931	102,442	103,396	101,978	52,366
Claims paid (incl all expenses)	(10,736)	(10,543)	(12,925)	(12,281)	(15,148)	(21,013)	(53,362)	(116,454)
Movement in OCL	(6,801)	(8,036)	9,428	14,435	31,287	51,906	45,328	(410,737)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(deficit) at 30/06/2015	**(239,635)**	**(44,191)**	**(10,328)**	**382,812**	**529,844**	**523,024**	**423,115**	**352,698**

B.6 The Motor Vehicle Account produced deficits for the accident years until 2009/10. Since then its financial position has gradually improved, primarily due to higher levies. The Account reached surplus for the first time at 30 June 2015.

TABLE 45 – MOTOR VEHICLE ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		290,756	346,307	383,552	590,727	742,192	783,348	816,255	827,524	
Investment income		41,869	120,693	133,804	234,247	233,168	178,699	123,021	52,366	
Cumulative claims paid (incl CHE)		(278,705)	(234,947)	(214,116)	(182,992)	(174,306)	(157,990)	(156,585)	(103,578)	
OCL		(276,359)	(259,559)	(298,235)	(241,458)	(260,556)	(271,871)	(344,562)	(410,737)	
Claims incurred		**(555,064)**	**(494,506)**	**(512,351)**	**(424,449)**	**(434,862)**	**(429,861)**	**(501,147)**	**(514,315)**	
Expenses		(17,196)	(16,685)	(15,333)	(17,713)	(10,654)	(9,161)	(15,014)	(12,877)	
Surplus/ (deficit)		**(239,635)**	**(44,191)**	**(10,328)**	**382,812**	**529,844**	**523,024**	**423,115**	**352,698**	
Assets	5,243,695	36,724	215,368	287,907	624,269	790,399	794,895	767,678	763,435	9,524,370
Liabilities	5,866,427	276,359	259,559	298,235	241,458	260,556	271,871	344,562	410,737	8,229,764
Net assets	**(622,732)**	**(239,635)**	**(44,191)**	**(10,328)**	**382,812**	**529,844**	**523,024**	**423,115**	**352,698**	**1,294,606**

Non-Earners' Account

B.7 The Non-Earners' Account's position generally deteriorated until 2008/09, then steadily improved. While the size of the deficit increased in 2014/15, the funding ratio remained at 49%.

TABLE 46 – NON-EARNERS' ACCOUNT BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	684,868							
Investment income	(3,107)							
Claims paid (incl all expenses)	(465,802)							
Movement in OCL	(359,964)							
Movement in URL	0							
Surplus/(deficit) at 30/06/2008	**(144,005)**	**0**						
Levy income	0	877,127						
Investment income	7,606	8,762						
Claims paid (incl all expenses)	(117,863)	(515,337)						
Movement in OCL	113,676	(396,086)						
Movement in URL	0	0						
Surplus/(deficit) at 30/06/2009	**(140,587)**	**(25,534)**	**0**					
Levy income	0	0	946,204					
Investment income	12,072	40,543	28,037					
Claims paid (incl all expenses)	(21,910)	(104,690)	(506,105)					
Movement in OCL	38,038	137,701	(365,268)					
Movement in URL	0	0	0					
Surplus/(deficit) at 30/06/2010	**(112,386)**	**48,020**	**102,868**	**0**				
Levy income	0	0	0	881,277				
Investment income	11,180	36,552	52,210	22,152				
Claims paid (incl all expenses)	(10,780)	(21,227)	(91,263)	(522,746)				
Movement in OCL	32,548	27,486	151,998	(362,444)				
Movement in URL	0	0	0	0				
Surplus/(deficit) at 30/06/2011	**(79,439)**	**90,831**	**215,814**	**18,239**	**0**			
Levy income	0	0	0	0	841,684			
Investment income	7,221	24,624	32,766	25,670	11,511			
Claims paid (incl all expenses)	(7,738)	(13,361)	(19,726)	(104,500)	(547,144)			
Movement in OCL	(13,159)	(14,789)	(2,163)	105,499	(393,350)			
Movement in URL	0	0	0	0	0			
Surplus/(deficit) at 30/06/2012	**(93,115)**	**87,306**	**226,691**	**44,908**	**(87,299)**	**0**		
Levy income	0	0	0	0	0	843,798		
Investment income	10,134	35,930	47,811	31,805	27,319	14,961		
Claims paid (incl all expenses)	(6,669)	(10,717)	(12,295)	(23,660)	(113,865)	(574,036)		
Movement in OCL	20,822	16,133	31,149	22,318	154,576	(384,208)		
Movement in URL	0	0	0	0	0	0		
Surplus/(deficit) at 30/06/2013	**(68,827)**	**128,651**	**293,356**	**75,372**	**(19,269)**	**(99,486)**	**0**	
Levy income	0	0	0	0	0	0	803,201	
Investment income	6,375	23,468	31,365	20,099	13,717	14,603	6,220	
Claims paid (incl all expenses)	(6,296)	(9,139)	(9,988)	(14,252)	(25,601)	(129,333)	(615,733)	
Movement in OCL	14,889	(201)	16,301	19,912	34,447	100,465	(410,360)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(deficit) at 30/06/2014	**(53,859)**	**142,779**	**331,034**	**101,131**	**3,295**	**(113,750)**	**(216,671)**	**0**
Levy income	0	0	0	0	0	0	0	777,970
Investment income	15,102	57,664	77,562	48,653	31,314	24,439	18,703	10,137
Claims paid (incl all expenses)	(5,816)	(9,045)	(8,036)	(10,691)	(15,552)	(28,040)	(148,654)	(648,585)
Movement in OCL	(17,099)	945	(5,634)	(2,710)	(11,428)	13,088	90,482	(491,685)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(deficit) at 30/06/2015	**(61,672)**	**192,344**	**394,926**	**136,383**	**7,629**	**(104,263)**	**(256,141)**	**(352,164)**

B.8 Accident years until 2007/08, then steady surpluses. The deficits since 2012/13 have happened because funds have been returned due to the Account being over-funded according to its funding policy, which differs from those of other Accounts (see 5.4).

TABLE 47 – NON-EARNERS' ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		684,868	877,127	946,204	881,277	841,684	843,798	803,201	777,970	
Investment income		66,584	227,543	269,751	148,379	83,861	54,003	24,923	10,137	
Cumulative claims paid (incl CHE)		(631,505)	(670,437)	(637,499)	(667,785)	(695,539)	(725,276)	(754,790)	(638,303)	
OCL		(170,249)	(228,810)	(173,617)	(217,425)	(215,755)	(270,655)	(319,879)	(491,685)	
Claims incurred		**(801,754)**	**(899,248)**	**(811,115)**	**(885,210)**	**(911,293)**	**(995,931)**	**(1,074,668)**	**(1,129,988)**	
Expenses		(11,370)	(13,079)	(9,914)	(8,064)	(6,622)	(6,133)	(9,596)	(10,283)	
Surplus/ (deficit)		**(61,672)**	**192,344**	**394,926**	**136,383**	**7,629**	**(104,263)**	**(256,141)**	**(352,164)**	
Assets	1,002,786	108,577	421,154	568,543	353,808	223,384	166,392	63,738	139,522	3,047,903
Liabilities	4,158,926	170,249	228,810	173,617	217,425	215,755	270,655	319,879	491,685	6,247,000
Net assets	**(3,156,140)**	**(61,672)**	**192,344**	**394,926**	**136,383**	**7,629**	**(104,263)**	**(256,141)**	**(352,164)**	**(3,199,097)**

Earners' Account

B.9 The Earners' Account financial position deteriorated in all accident years until 2008/09, then produced surpluses (excluding the URL impact) until 2014/15. The deficit for the 2014/15 accident year was due to the levy decrease in 2014/15.

TABLE 48 – EARNERS' ACCOUNT BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	990,261							
Investment income	200							
Claims paid (incl all expenses)	(511,577)							
Movement in OCL	(808,316)							
Movement in URL	(311,915)							
Surplus/(deficit) at 30/06/2008	**(641,346)**	**0**						
Levy income	0	1,105,674						
Investment income	5,576	4,537						
Claims paid (incl all expenses)	(319,364)	(555,330)						
Movement in OCL	139,169	(1,018,712)						
Movement in URL	311,915	(284,697)						
Surplus/(deficit) at 30/06/2009	**(504,051)**	**(748,529)**	**0**					
Levy income	0	0	1,338,050					
Investment income	14,338	31,883	50,022					
Claims paid (incl all expenses)	(82,560)	(274,405)	(474,115)					
Movement in OCL	194,305	468,554	(841,632)					
Movement in URL	0	284,697	0					
Surplus/(deficit) at 30/06/2010	**(377,969)**	**(237,800)**	**72,324**	**0**				
Levy income	0	0	0	1,509,239				
Investment income	8,194	30,073	87,055	56,670				
Claims paid (incl all expenses)	(41,791)	(67,015)	(213,481)	(458,306)				
Movement in OCL	78,017	148,891	353,328	(799,251)				
Movement in URL	0	0	0	0				
Surplus/(deficit) at 30/06/2011	**(333,549)**	**(125,850)**	**299,226**	**308,351**	**0**			
Levy income	0	0	0	0	1,487,337			
Investment income	4,437	23,681	69,904	92,389	46,463			
Claims paid (incl all expenses)	(30,277)	(37,045)	(58,430)	(210,747)	(467,746)			
Movement in OCL	23,908	13,655	49,943	273,836	(795,659)			
Movement in URL	0	0	0	0	(11,534)			
Surplus/(deficit) at 30/06/2012	**(335,481)**	**(125,559)**	**360,644**	**463,829**	**258,861**	**0**		
Levy income	0	0	0	0	0	1,313,075		
Investment income	2,319	22,135	69,634	85,623	83,876	34,418		
Claims paid (incl all expenses)	(22,755)	(26,606)	(32,936)	(54,037)	(235,396)	(506,481)		
Movement in OCL	57,266	67,461	89,278	149,729	310,052	(772,441)		
Movement in URL	0	0	0	0	11,534	(42,077)		
Surplus/(deficit) at 30/06/2013	**(298,651)**	**(62,570)**	**486,619**	**645,144**	**428,927**	**26,495**	**0**	
Levy income	0	0	0	0	0	0	1,380,252	
Investment income	404	15,868	53,016	64,718	56,886	44,156	20,135	
Claims paid (incl all expenses)	(21,442)	(22,241)	(24,542)	(31,306)	(61,993)	(268,305)	(553,249)	
Movement in OCL	15,288	34,313	73,977	52,685	115,324	241,657	(831,337)	
Movement in URL	0	0	0	0	0	42,077	(201,549)	
Surplus/(deficit) at 30/06/2014	**(304,401)**	**(34,630)**	**589,070**	**731,241**	**539,143**	**86,079**	**(185,748)**	**0**
Levy income	0	0	0	0	0	0	0	1,249,466
Investment income	(2,012)	33,256	117,852	143,874	123,063	79,651	81,220	27,437
Claims paid (incl all expenses)	(21,070)	(20,682)	(21,174)	(24,361)	(36,188)	(79,924)	(316,186)	(595,948)
Movement in OCL	(537)	1,180	(20,104)	15,958	34,089	72,093	260,043	(981,934)
Movement in URL	0	0	0	0	0	0	201,549	(256,063)
Surplus/(deficit) at 30/06/2015	**(328,020)**	**(20,876)**	**665,644**	**866,712**	**660,107**	**157,899**	**40,879**	**(557,043)**

B.10 The Account's overall financial position is a surplus of $1,915 million.

TABLE 49 – EARNERS' ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		990,261	1,105,674	1,338,050	1,509,239	1,487,337	1,313,075	1,380,252	1,249,466	
Investment income		33,455	161,433	447,482	443,272	310,288	158,225	101,355	27,437	
Cumulative claims paid (incl CHE)		(1,020,517)	(973,912)	(796,415)	(748,826)	(772,970)	(826,729)	(837,920)	(565,609)	
OCL		(300,899)	(284,659)	(295,210)	(307,042)	(336,194)	(458,691)	(571,294)	(981,934)	
Claims incurred		**(1,321,417)**	**(1,258,571)**	**(1,091,625)**	**(1,055,868)**	**(1,109,164)**	**(1,285,421)**	**(1,409,214)**	**(1,547,543)**	
Expenses		(30,320)	(29,412)	(28,263)	(29,932)	(28,353)	(27,981)	(31,515)	(286,402)	
Surplus/ (deficit)		**(328,020)**	**(20,876)**	**665,644**	**866,712**	**660,107**	**157,899**	**40,879**	**(557,043)**	
Assets	2,936,380	(27,121)	263,783	960,854	1,173,754	996,302	616,590	612,173	424,892	7,957,606
Liabilities	2,506,821	300,899	284,659	295,210	307,042	336,194	458,691	571,294	981,934	6,042,746
Net assets	**429,558**	**(328,020)**	**(20,876)**	**665,644**	**866,712**	**660,107**	**157,899**	**40,879**	**(557,043)**	**1,914,860**

Work Account

B.11 The Work Account has produced more stable results than the rest of the Accounts, with consistent decreases in claim frequency. However, in the past two years there have been small increases.

B.12 The legislation introduced in 2015 that ceased the residual levy collection from 1 April 2016 caused a URL that, along with higher-than-projected claims experience, produced a deficit in the 2014/15 accident year.

TABLE 50 – WORK ACCOUNT BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	584,128							
Investment income	(145)							
Claims paid (incl all expenses)	(231,061)							
Movement in OCL	(444,715)							
Movement in URL	(233,688)							
Surplus/(deficit) at 30/06/2008	**(325,482)**	**0**						
Levy income	0	538,957						
Investment income	5,412	1,658						
Claims paid (incl all expenses)	(166,778)	(231,493)						
Movement in OCL	87,007	(493,072)						
Movement in URL	233,688	(210,247)						
Surplus/(deficit) at 30/06/2009	**(166,153)**	**(394,197)**	**0**					
Levy income	0	0	607,363					
Investment income	15,448	12,550	18,069					
Claims paid (incl all expenses)	(57,912)	(143,808)	(227,004)					
Movement in OCL	90,162	202,342	(431,174)					
Movement in URL	0	210,247	0					
Surplus/(deficit) at 30/06/2010	**(118,454)**	**(112,866)**	**(32,746)**	**0**				
Levy income	0	0	0	702,234				
Investment income	13,465	15,588	34,479	23,833				
Claims paid (incl all expenses)	(28,626)	(43,687)	(106,629)	(225,130)				
Movement in OCL	34,763	72,816	179,808	(425,945)				
Movement in URL	0	0	0	0				
Surplus/(deficit) at 30/06/2011	**(98,852)**	**(68,149)**	**74,912**	**74,992**	**0**			
Levy income	0	0	0	0	731,683			
Investment income	12,040	13,371	30,112	43,316	21,343			
Claims paid (incl all expenses)	(19,163)	(23,337)	(30,531)	(107,094)	(233,738)			
Movement in OCL	(4,464)	10,343	39,072	140,330	(429,570)			
Movement in URL	0	0	0	0	(57,057)			
Surplus/(deficit) at 30/06/2012	**(110,440)**	**(67,773)**	**113,566**	**151,544**	**32,662**	**0**		
Levy income	0	0	0	0	0	644,463		
Investment income	9,535	10,495	25,302	33,604	35,069	18,348		
Claims paid (incl all expenses)	(14,767)	(16,700)	(17,889)	(32,503)	(103,007)	(232,105)		
Movement in OCL	32,430	34,518	40,539	66,015	177,342	(393,825)		
Movement in URL	0	0	0	0	57,057	0		
Surplus/(deficit) at 30/06/2013	**(83,242)**	**(39,460)**	**161,517**	**218,661**	**199,124**	**36,880**	**0**	
Levy income	0	0	0	0	0	0	669,385	
Investment income	6,469	7,133	18,377	24,104	24,530	21,054	11,622	
Claims paid (incl all expenses)	(13,844)	(14,352)	(15,144)	(22,127)	(33,227)	(115,146)	(257,431)	
Movement in OCL	26,170	12,908	3,569	34,030	64,985	141,331	(419,655)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(deficit) at 30/06/2014	**(64,446)**	**(33,771)**	**168,319**	**254,668**	**255,411**	**84,119**	**3,920**	**0**
Levy income	0	0	0	0	0	0	0	552,964
Investment income	14,063	15,590	43,092	56,188	56,439	41,336	46,226	3,960
Claims paid (incl all expenses)	(12,926)	(13,867)	(12,741)	(19,536)	(20,516)	(39,862)	(138,860)	(281,706)
Movement in OCL	(19)	(11,753)	(552)	(21,223)	11,627	25,369	101,661	(483,126)
Movement in URL	0	0	0	0	0	0	0	(210,581)
Surplus/(deficit) at 30/06/2015	**(63,328)**	**(43,800)**	**198,118**	**270,097**	**302,961**	**110,961**	**12,948**	**(418,489)**

B.13 Table 51 is based on the annual accounts, so includes gradual process claims on a 'claims made' basis rather than claims incurred. This means the Account shows as having a surplus of $2,380 million rather than that implied by the funding ratios in 9.2. The additional liability for 'incurred but not yet reported' gradual process claims was $1,085 million at 30 June 2015, giving a surplus of $1,593 million as shown in Table 31.

TABLE 51 – WORK ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		584,128	538,957	607,363	702,234	731,683	644,463	669,385	552,964	
Investment income		76,287	76,384	169,431	181,046	137,382	80,737	57,848	3,960	
Cumulative claims paid (incl CHE)		(500,614)	(444,087)	(370,865)	(362,547)	(331,897)	(339,622)	(348,635)	(231,154)	
OCL		(178,666)	(171,899)	(168,738)	(206,793)	(175,616)	(227,125)	(317,994)	(483,126)	
Claims incurred		**(679,280)**	**(615,986)**	**(539,603)**	**(569,341)**	**(507,513)**	**(566,747)**	**(666,629)**	**(714,280)**	
Expenses		(44,463)	(43,156)	(39,073)	(43,842)	(58,590)	(47,492)	(47,656)	(261,133)	
Surplus/ (deficit)		**(63,328)**	**(43,800)**	**198,118**	**270,097**	**302,961**	**110,961**	**12,948**	**(418,489)**	
Assets	5,914,999	115,338	128,098	366,856	476,891	478,577	338,087	330,942	64,637	8,214,425
Liabilities	3,904,360	178,666	171,899	168,738	206,793	175,616	227,125	317,994	483,126	5,834,317
Net assets	**2,010,639**	**(63,328)**	**(43,800)**	**198,118**	**270,097**	**302,961**	**110,961**	**12,948**	**(418,489)**	**2,380,108**

Treatment Injury Account

B.14 The Treatment Injury Account's performance deteriorated sharply between 2006/07 and 2007/08 owing to the impacts of the expanded coverage introduced in 2005. The performance improved in the following six years, but the Account recorded a deficit in the 2014/15 accident year due to a decrease in levy income and greater-than-expected increases in the number and cost of claims.

TABLE 52 – TREATMENT INJURY ACCOUNT BY ACCIDENT YEAR

	Accident year to 30 June							
($000)	2008	2009	2010	2011	2012	2013	2014	2015
Surplus/(deficit) at 30/06/2007	**0**							
Levy income	108,653							
Investment income	(1,723)							
Claims paid (incl all expenses)	(17,071)							
Movement in OCL	(152,379)							
Movement in URL	0							
Surplus/(deficit) at 30/06/2008	**(62,520)**	**0**						
Levy income	0	285,033						
Investment income	1,260	2,088						
Claims paid (incl all expenses)	(18,091)	(17,254)						
Movement in OCL	(40,689)	(219,029)						
Movement in URL	0	0						
Surplus/(deficit) at 30/06/2009	**(120,039)**	**50,838**	**0**					
Levy income	0	0	259,034					
Investment income	7,781	30,434	13,991					
Claims paid (incl all expenses)	(12,079)	(15,683)	(18,128)					
Movement in OCL	10,726	19,705	(243,401)					
Movement in URL	0	0	0					
Surplus/(deficit) at 30/06/2010	**(113,611)**	**85,293**	**11,495**	**0**				
Levy income	0	0	0	284,522				
Investment income	7,915	34,481	30,558	16,472				
Claims paid (incl all expenses)	(8,718)	(8,403)	(12,779)	(16,610)				
Movement in OCL	10,994	29,032	49,783	(242,761)				
Movement in URL	0	0	0	0				
Surplus/(deficit) at 30/06/2011	**(103,420)**	**140,403**	**79,057**	**41,623**	**0**			
Levy income	0	0	0	0	300,705			
Investment income	4,382	21,074	18,344	18,889	9,612			
Claims paid (incl all expenses)	(8,162)	(7,356)	(10,852)	(18,390)	(20,640)			
Movement in OCL	(25,596)	(22,856)	(4,666)	12,413	(295,172)			
Movement in URL	0	0	0	0	0			
Surplus/(deficit) at 30/06/2012	**(132,795)**	**131,264**	**81,883**	**54,535**	**(5,495)**	**0**		
Levy income	0	0	0	0	0	351,741		
Investment income	6,261	32,966	28,361	28,596	28,868	16,952		
Claims paid (incl all expenses)	(6,012)	(4,923)	(6,368)	(11,217)	(15,500)	(21,167)		
Movement in OCL	17,973	18,207	13,229	22,973	76,140	(281,261)		
Movement in URL	0	0	0	0	0	0		
Surplus/(deficit) at 30/06/2013	**(114,573)**	**177,514**	**117,106**	**94,886**	**84,013**	**66,266**	**0**	
Levy income	0	0	0	0	0	0	298,839	
Investment income	3,978	22,798	19,441	19,309	19,340	21,976	8,930	
Claims paid (incl all expenses)	(6,708)	(5,226)	(7,664)	(11,905)	(12,532)	(20,605)	(24,768)	
Movement in OCL	9,675	19,938	16,527	(9,533)	9,909	43,896	(279,988)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(deficit) at 30/06/2014	**(107,628)**	**215,025**	**145,410**	**92,757**	**100,730**	**111,532**	**3,012**	**0**
Levy income	0	0	0	0	0	0	0	224,945
Investment income	8,909	56,067	47,384	46,466	46,406	52,166	41,369	15,064
Claims paid (incl all expenses)	(6,489)	(4,692)	(6,391)	(9,894)	(11,048)	(13,591)	(23,415)	(27,366)
Movement in OCL	(16,143)	(19,837)	(3,573)	(8,367)	(6,474)	15,590	14,571	(312,919)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(deficit) at 30/06/2015	**(121,352)**	**246,562**	**182,831**	**120,961**	**129,614**	**165,697**	**35,537**	**(100,275)**

B.15 The Account produced deficits in the accident years until 2007/08, after which its financial position gradually improved, primarily due to higher levies. Its overall deficit is $888 million.

TABLE 53 – TREATMENT INJURY ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident year to 30 June									
($000)	Pre 2008	2008	2009	2010	2011	2012	2013	2014	2015	Total
Levy income		108,653	285,033	259,034	284,522	300,705	351,741	298,839	224,945	
Investment income		38,763	199,907	158,079	129,732	104,226	91,094	50,299	15,064	
Cumulative claims paid (incl CHE)		(82,277)	(62,446)	(60,996)	(66,498)	(59,317)	(54,641)	(47,760)	(25,774)	
OCL		(185,438)	(174,840)	(172,101)	(225,276)	(215,597)	(221,775)	(265,417)	(312,919)	
Claims incurred		**(267,715)**	**(237,286)**	**(233,097)**	**(291,774)**	**(274,914)**	**(276,416)**	**(313,177)**	**(338,692)**	
Expenses		(1,054)	(1,092)	(1,185)	(1,519)	(403)	(722)	(423)	(1,592)	
Surplus/ (deficit)		**(121,352)**	**246,562**	**182,831**	**120,961**	**129,614**	**165,697**	**35,537**	**(100,275)**	
Assets	653,565	64,086	421,402	354,932	346,237	345,211	387,472	300,955	212,643	3,086,504
Liabilities	2,201,376	185,438	174,840	172,101	225,276	215,597	221,775	265,417	312,919	3,974,739
Net assets	**(1,547,811)**	**(121,352)**	**246,562**	**182,831**	**120,961**	**129,614**	**165,697**	**35,537**	**(100,275)**	**(888,235)**

APPENDIX C

Coverage

Schedule of services

C.1 Table 54 provides a summary of the main services the Scheme provides for covered personal injuries.

TABLE 54 – SCHEDULE OF SERVICES

Medical			
Public health acute services	Accidental injury costs arising from acute inpatient care, emergency department, outpatient, complex burns, pharmaceuticals, and laboratories.		
GPs	Payments to GPs and accident and medical clinics.		
Radiology	Payments for radiology services – low-tech (eg X-ray) and high-tech (eg MRI).		
Physiotherapy	Payments to physiotherapists.		
Ambulance	Emergency transportation to a medical facility, by road and/or air.		
Elective surgery	Mainly orthopaedic-related surgery.		
Other medical	All medical costs except those categorised above. These include counselling for claims requiring support beyond that for physical injuries.		
Compensation			
Weekly compensation – non-fatal	Loss of earnings, and loss of potential earnings for minors.		
Death benefits	Funeral grants and support for spouse and/or dependants.		
Rehabilitation			
Lump sum	Additional support to compensate for permanent impairment due to injury, including work-related gradual process claims arising from prolonged exposure to an element, eg asbestos.		
Vocational	Programmes to support clients in their return to independence.		
Social rehabilitation	Serious injury	Capital	Mainly housing and motor vehicle modifications for those with serious injuries.
		Non-capital	Care costs (such as attendant care and assessments) and other costs related to serious injury.
	Non-serious injury	Capital	Mainly equipment, orthotics for splints, medical consumables and residential modification costs for those with non-serious injuries. Included here is the provision of ongoing aids and appliances for hearing loss suffered through traumatic event or prolonged work exposure to loud noise.
		Non-capital	Provision of care, assessments and other support-related social rehabilitation for those with non-serious injuries.

Account structure

C.2 ACC is financially managed under five Accounts, each designed to align the source of funding with where the risk of injury occurs. Table 55 summarises the coverage and levy mechanism of each of the Accounts.

TABLE 55 – ACCOUNT DESCRIPTION

Account	Environment where exposure to injury occurs	Levy collection
Motor Vehicle	Involving a motor vehicle on public roads.	Vehicle licensing charge plus levy on petrol (not diesel).
Work	At work or work related.	Charged to employers as a percentage of payroll and the self-employed as a percentage of taxable earnings.
Treatment Injury	When receiving medical treatment in the health care system.	Levy paid from the Non-Earners' and Earners' Accounts.
Non-Earners'	All other locations and activities.	Government appropriation.
Earners'		Percentage of salary collected as part of PAYE tax.

C.3 Given changes in the Scheme structure over time, the Accounts are not in all cases as neatly defined as described in Table 55. In particular, the Work Account includes all injuries to earners, whether at work or otherwise, that happened before 1 July 1992.

Products

Work Account

C.4 The Work Account provides a small range of products that allow varying degrees of risk-sharing by employers.

Employers

C.5 Most employers are insured through WorkPlace Cover, which provides full insurance cover for accidents in the workplace.

C.6 Large employers may choose to enter the AEP. This allows them to self-insure some of their risks in return for significantly lower levies. In effect, ACC subcontracts to these employers the management of their employees' work-related claims in return for the opportunity to reduce the cost of insurance.

C.7 The AEP's goal is to improve workplace safety and rehabilitation performance by providing employers with appropriate financial incentives. Entry is subject to the employers demonstrating satisfactory workplace safety standards, claims management abilities and financial backing to carry the self-insurance risk. Approximately 20% of the exposure to work-related injuries is self-insured to some extent by Accredited Employers.

C.8 The AEP involves a level of credit risk to the Work Account in that, should an employer fail, the claim costs revert to the Work Account. ACC mitigates this risk by undertaking annual credit risk assessments and imposing Stop Loss and High Cost Claims Cover requirements. To date there have been only two participant failures (Feltex and Mainzeal), which cost the Account a total of approximately $2.1 million. Given that the total annual levies of the Work Account are now about $750 million, these failures represent a cost of roughly 0.3% of one year's levies.

C.9 Solid Energy exited the AEP in April 2015 and moved to voluntary administration in August 2015. In recent years the company has participated in the Partnership Discount Plan, with no ongoing liability beyond claim management period. While it is continuing to manage claims that are still within existing management periods, there are no claims currently active from the years it participated in the full-liability Full Self-Cover Plan – so we believe there will be no credit risk as a result.

Self-employed

C.10 Most self-employed people are insured under CoverPlus, which covers work and non-work injuries so includes the risks that would otherwise arise in the Earners' Account.

C.11 CoverPlus Extra provides agreed-value weekly compensation cover for self-employed and non-PAYE shareholder employees, enabling those who have volatile incomes from year to year some certainty in their cover.

Incentive programmes

C.12 ACC offers two incentive programmes to encourage safety in the workplace. Both offer levy discounts in return for businesses meeting certain health and safety standards.

C.13 The Workplace Safety Management Practices programme is available to all employers. It offers three levels of accreditation: primary, secondary and tertiary, which provide levy discounts of 10%, 15% and 20% respectively. As inclusion in the programme depends on the employer meeting a safety audit, it tends to attract only larger employers.

C.14 The Workplace Safety Discounts programme is targeted at businesses (including self-employed) with 10 or fewer employees. It provides a 10% levy discount to participants, who are required to complete a training course and undergo an audit.

Experience rating

C.15 Experience rating was introduced on 1 April 2011 as a system for modifying an employer's Work Account levy based on its claims history. Both injury and return-to-work rates are considered in assessing the modification. Currently levies for large employers can be increased by up to 75% and decreased by up to 50%.

C.16 A no-claims discount scheme applies for small employers (levies less than $10,000 per annum) and self-employed, with levy modifications of -10%, 0% and 10%.

C.17 Participation in experience rating is mandatory, although not all businesses have the length of experience to meet the eligibility requirements. ACC is actively working with employers that have loadings greater than 15% to help improve their safety practices.

Motor Vehicle Account

C.18 A fleet safety incentive programme for the Motor Vehicle Account, modelled on the Workplace Safety Management Practices programme, was launched on 2 December 2013. Known as 'Fleet Saver', it was designed to improve the safety performance of commercial vehicle fleets. In July 2014 Fleet Saver was extended to businesses renting out heavy goods service vehicles. As at 9 November 2015 the programme had 71 members, representing 5.7% of the heavy vehicle fleet.

Claims management process

Front-end claims management

C.19 ACC claims are lodged directly by GPs and certain other treatment providers such as physiotherapists and chiropractors. Only specified health practitioners can certify that clients are unfit for work.

C.20 The AC Act provides a low threshold to meet the criteria for cover. However, the great majority of claims require only one or two treatments. ACC's only involvement in these claims is to make payments for the medical services provided.

C.21 The management approach to these high-volume claims is characterised by easy entry and quick recovery and is highly efficient from an administrative viewpoint. However, it does expose the Scheme to risks

that claims paid are not injury related and some may be over serviced. These risks are mitigated by claim escalation processes and trigger points that allow for claims to be managed as they are identified as being complex or potentially long term, or as treatments go beyond identified benchmarks given the particular injuries.

Claim screening

C.22 All claims that continue beyond the initial treatment phase are screened for long-term risk and/or complexity. ACC has established standard screening processes to determine:

- the risks of extended durations, based on psychosocial screening that helps to identify other factors in clients' lives that may impede their recovery, rehabilitation and return to independence
- the potential for clients to recover at work, if temporary adjustments to the work environment are possible.

C.23 Claims determined to be complex and/or at significant risk of being long term are assigned case managers. For those not assigned case managers, clients are able to access support should they deem, and ACC agree, that it is necessary. In this case the claims are transferred to short-term claim centres.

Low-complexity claims

C.24 Claims are managed in the short-term claim centres if full recovery is expected within 10 weeks and complexity indicators are low. The primary aim is to ensure a rapid return to work or independence. Management focuses on medical treatment, early intervention, vocational support, rehabilitation progress against injury benchmarks, and monitoring of any developing psychosocial issues.

High-complexity claims

C.25 Typically claims are case managed if it is expected that the clients will need support for extended durations (usually 10 weeks or more), or will need a range of support services.

C.26 For case-managed claims, the focus is on ensuring recovery within an optimum period given the specific injuries. Case managers prepare rehabilitation plans based on medical advice and established best practice, seek employer support for return to full or partial duties once the clients are ready, and organise vocational rehabilitation. Where required, case managers can arrange for clients to access advice on alternative employment opportunities.

C.27 Long-term claims are managed within certain legislative parameters:

- *Rehabilitation* – needs assessments must consider only needs that are a consequence of the original covered injuries.
- *Incapacity* – legislation allows for expert medical opinion as to whether a client continues to be incapacitated, and if so, whether this is still due to the covered injury.
- *Vocational independence assessment* – once a client has received rehabilitation support, as agreed in a formal rehabilitation plan, the legislation makes provision for an assessment of vocational independence. The assessment considers whether the client has the capacity for full-time employment in work to which they are suited by experience or training. If they do, their entitlement to weekly compensation can end three months after this decision has been made.

Long-term weekly compensation claims

C.28 If a client receives weekly compensation for 52 weeks, a specialist case manager assesses their rehabilitation prospects. Once someone has been out of work for a long time it can be harder to reintegrate them into work for a number of reasons. The relationship with the original employer is likely to have been

lost and there is a risk that they will develop psychological and other conditions that can have damaging long-term health impacts.

C.29 Owing to the impacts on the liability of extended-duration weekly compensation, this pool of clients is a continuing focus.

Seriously injured clients – lifelong disability

C.30 ACC currently has approximately 5,700 clients with serious injuries. In many of these cases lifelong support will be required, and all of these claims are managed by specialised case owners.

C.31 The primary goal of claims management for these seriously injured clients is to, as far as possible, help the clients to achieve independence goals within the allowances of their injuries (in some cases partial employment options are achievable), and to ensure that the appropriate levels of support are available.

C.32 ACC also provides support to clients whose injuries are not severe enough to be profiled as serious injury claims. Long-term care is provided to some of these individuals – traumatic brain injury is one area where claims often require similar services and support from ACC.

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ACC7318 March 2016 Print ISSN: 2230–2042 Online ISSN: 2230–2050