Financial Condition Report 2014

Accident Compensation Corporation

Cover Note

Dear ACC Board

The purpose of the Financial Condition Report (FCR) is for the Appointed Actuary to provide advice to the Board in relation to ACC's operations, financial condition, liabilities and funding requirements and to discuss the implications of any known material risks that may affect the long-term financial health of the organisation.

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 the report.

This is ACC's fifth FCR that has been prepared in consideration of the AC Act's requirements. 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 has the statutory 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 the ability of ACC to achieve the goals of this funding policy.

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

Yours sincerely

Herwig Raubal BEC FNZSA FIAA
Chief Risk and Actuarial Officer
Appointed Actuary

Jonathan Nicholls BCA FNZSA FIAA
Head of Actuarial Services

Contents

Executive Summary

Purpose of this Report

1. The purpose of this report is to provide advice in relation to the Accident Compensation Corporation's (ACC's) operations, financial condition and liabilities, and to discuss the implications of any material risks to the Corporation that have been identified in the report.
2. Section 278A of the Accident Compensation Act 2001 (AC Act) requires that ACC prepare an annual Financial Condition Report 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 Jonathan Nicholls BCA FNZSA FIAA. The report is in respect of the financial year ended 30 June 2014.
3. In preparing this report we have generally complied with the provisions of Professional Standard No. 12 – "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. As prescribed in the AC Act, ACC's financial objective is to reach and maintain full funding of all Accounts whilst maintaining levy stability, with the exception of non-earners' injuries incurred prior to 1 July 2001 which are funded on a pay-as-you-go basis. As defined in section 6 of the AC Act,

   fully funded, in relation to claims, means that the amount of the outstanding claims liability in respect of the claims is offset by an adequate level of assets to fund the cost of those claims, having regard to—

   (a) uncertainty in forecasting; and

   (b) the objective of levy stability over time

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

Key Conclusions

ACC plays an important part in New Zealand society with approximately one-third of New Zealanders making a claim every year. ACC interacts with most New Zealanders as levy payers, clients and health professionals.

As ACC is New Zealand's largest insurer it is important that appropriate attention be given to the Scheme's financial condition. New Zealanders need to have confidence that the levies they pay will be able to support their claims 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.

The key conclusions of this report include:

1. Business and Operations
   a. A number of actions are being taken to increase customer satisfaction and trust and confidence in the Scheme through providing quality client outcomes and service experience. Results to date are encouraging, with a reduction in the number of reviews a highlight.

b. ACC has several products and incentive programmes targeting work injuries. Although Work Account experience has improved over time, analysis suggests that these incentive programmes are not having a material impact on claims experience. Management recognises that change is required, and is reviewing the product suite to ensure that products do contribute meaningfully to reducing injuries.

c. ACC has embarked upon a major transformational programme, Shaping Our Future, which aims to improve service delivery, particularly in relation to responsiveness, transparency and how easy the organisation is to deal with. This three-year programme is also intended to significantly upgrade information technology and digital capability.

2. Financial Performance

a. A $2.1b surplus was recorded for the year ended 30 June 2014. This followed a surplus of $4.9b and a deficit of $0.5b for the years ended 30 June 2013 and 2012 respectively.

b. The underwriting result was a surplus of $0.5b, being $0.8b behind budget. Underlying insurance performance over the year was broadly in line with valuation expectations, but with higher than expected new claims volumes.

c. Investment returns were 0.1% above benchmark. Strong investment performance has been a consistent feature for many years.

d. Management expenses were 11% higher than last year due to higher injury prevention and claims handling expenses. The former included programme costs which are expected to provide a commensurate return through reduced claims expenditure. The latter included increased costs in relation to privacy and an increase in claims management staffing levels.

e. The Outstanding Claims Liability was $27.7b at 30 June 2014. This was an increase of $0.5b. An expected increase of $1.0b and changes to claims experience and legislation of $0.6b were partly offset by a $1.0b reduction due to economic assumptions.

3. Claims Experience

a. The claims process is designed to process efficiently the very large number of low-complexity claims received every year. Whilst this does expose the Scheme to some risks of covering non-injury-related conditions and over servicing, these risks are offset by the administrative efficiencies gained through the approach.

b. Overall, claim frequencies for 2014 increased 3% from 2013, after several years of decreasing or flat experience.

c. The number of new weekly compensation claims has increased by 5%. Work done to date shows that the number of new claims tends to move with macroeconomic conditions, with the unemployment rate explaining approximately 75% of the variation over time. This work is continuing in order to identify other systematic factors that may be contributing to new claims growth. The key financial risk is a deterioration in the long-term rehabilitation rates (claims over three years). These were below valuation expectations over the past 12 months. Rehabilitation rates for periods up to three years have fallen from previous highs but are still at historically satisfactory levels, with the exception of the 70-day rate which has fallen substantially.

d. The number of new serious injury claims continues to reduce. Care packages have increased by 5.7% over the last year. A review of a sample of claims showed some instances of protocols not being followed. Initiatives to address this have been implemented.

e. Elective surgery experience has been satisfactory. Considerable work is underway in this area to examine the end-to-end treatment and rehabilitation pathway, the goal being to achieve the best outcomes for clients.

f. The Treatment Injury Account continues to be a concern, with claims growth still high. The causes are not fully understood, but contributing factors are likely to include an expansion of coverage and increased reporting. If the growth experienced in recent years continues then the lifetime costs of new claims will surpass the Motor Vehicle

Account by 2020 and the Work Account by 2023.This represents a significant financial risk. In our view steps need to be taken to address this, which we discuss in Section 3.7.

   g. It is important that management is able to respond swiftly to changes in claims experience, by understanding the drivers in a timely manner to enable business changes where required. This requires an analytical culture and the tools to be able to monitor and act systematically. Work on this is progressing.

4. Funding

   a. The net assets as at 30 June 2014 were -$1,114m, including liabilities for future reported work-related gradual process claims that were not included in the annual accounts. This was an overall increase of $1,787m from 2013. The result varies by Account. The Work and Earners' Accounts were comfortably within their funding bands whilst the Motor Vehicle Account had only a small net deficit. The Non-Earners' and Treatment Injury Accounts both had net deficits that were functions of their funding policies, which do not aim to fully fund the reported claims liability.

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

   c. The Board consulted on substantial levy reductions in respect of all three levied Accounts for the 2015/16 year in response to the stronger funding positions. The Board ultimately recommended the Motor Vehicle levy be set at $200 per vehicle and the Work and Earners' levies be set at $0.75 and $1.20 respectively.

   d. The Government's decision was to reduce the Motor Vehicle levy to $195 per vehicle and the average Work levy to $0.90. The Earners' levy was maintained at $1.26, unchanged from 2014/15. The Work and Earners' levies are above the cost of new-year claims and, as such, their funding positions are expected to increase from current levels, all other things being equal.

   e. We have investigated the funding impact of demographic changes due to ageing on the Non-Earners' Account. We expect that a 17% increase in the Non-Earners' Account appropriation will be required by 2061, in addition to the 32% increase in that time due to overall population growth. This estimate will be built into future requests for appropriations. Demographic changes also have wider implications such as for injury prevention and service delivery. Management has approved a long-term strategy with regards to ageing.

5. Risk Management

   a. ACC established a "three lines of defence" enterprise risk management framework in 2010.

   b. The key risks that have been identified include privacy, market factors impacting finances and the health and safety of staff, contractors and third parties (such as treatment providers).

   c. Considerable progress has been made in establishing the organisation's risk management framework. Further work is required, however, to embed risk management fully and consistently across the organisation.

Key Risks

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

1. **Significant volatility in the use of the Scheme** – in the past decade the rate of injury and recovery times have varied significantly, with several years of increases followed by several years of decreases. These changes in insurance experience are strongly impacted by macroeconomic conditions, as well as changes in the management of the Scheme. Greater consistency over time in the management of the Scheme would help reduce the financial volatility and assist the public's expectations of Scheme coverage.

   This risk is particularly noticeable through reviews of coverage decisions as discussed in Section 1.4 and the volatility of claims experience discussed in Section 3. These impact the projected funding position, discussed further in Section 9.

2. **Stakeholder incentives** – there is a variety of incentives that exist within the Scheme. New Zealand operates different systems for injury and sickness, which provides an incentive for conditions to be assessed as arising from an accident for all parties involved in the decision. These incentives do impact ACC's finances, on some occasions at the expense of quality outcomes.

   This risk is discussed in more detail in Section 9.8.

3. **High-impact court rulings** – ACC operates within a complex legislative framework that is open to different interpretations. Decisions and interpretations may be challenged before the courts. ACC needs to be proactively involved in legislation and policy setting and consider policy responses and/or legislative amendments as issues develop.

   This risk is discussed in more detail in paragraphs 1.3.8 to 1.3.11.

4. **Delivering quality outcomes** – services performed are expected to produce quality outcomes for clients, both initially and over the longer term. ACC has recognised the need for a greater focus on end-to-end client outcomes and improving the 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.

   This risk is discussed in more detail in Sections 1.4 and 1.5.

5. **Economic conditions** – ACC's liabilities are long term and subject to health sector inflation. Finding assets to match these liabilities 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.

   This risk is covered in a number of sections. Health sector inflation is discussed in Section 3.6, broader liability movements are discussed in Section 7, asset volatility is covered in Section 8, and the funding position (being the interaction of assets and liabilities) is the focus of Section 9.

Key Recommendations

We have made various recommendations throughout this report. These are detailed below. It is acknowledged that not all of these are within the Board's control. Nonetheless, we consider that the Board and management should, to the extent possible, undertake actions to support their resolution. We have noted the group responsible for each action.

Business and Operations

1. We recommend that consideration be given to encouraging case managers to consider unpaid volunteer work when measuring employment participation outcomes for seriously injured clients and including it in their participation key performance indicators. Unpaid volunteer work enables seriously injured clients to be a part of the community and build up skills and confidence. [Responsibility: Chief Operating Officer]

   This recommendation is discussed in more detail in paragraphs 1.4.37 to 1.4.44.

2. We recommend that ACC requires that Accredited Employers provide information on the duration of weekly compensation claims under their management to enable better and more consistent monitoring of Accredited Employer Programme performance. This could be used as a benchmark for ACC claims management performance. [Responsibility: Chief Customer Officer]

   This recommendation is discussed in more detail in paragraph 1.7.3.

Claims Experience

3. We recommend that the investigation into the deterioration in the 70-day and the longer duration (greater than three years) rehabilitation rates continues, to ensure that management can respond effectively. [Responsibility: Chief Operating Officer]

   This recommendation is discussed in more detail in Section 3.

   In addition to the above, a number of recommendations were made in the 2013 report that remain in progress. The open recommendations are listed below. Refer to Section 11 for more detail on the actions that have been taken in the wake of last year's recommendations.

Boundaries of Cover

4. Investigate reasons for high rates of decline of gradual process claims. Investigate reasons for low rates of claiming for gradual process conditions. [Responsibility: Chief Customer Officer]

   This was Recommendation 16 in the 2013 report (refer to paragraph 11.3.4).

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. [Responsibility: Chief Customer Officer]

   This is a reframing of Recommendation 20 in the 2013 report (refer to paragraph 11.3.8).

Treatment Injury

6. 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. [Responsibility: Chief Customer Officer, Chief Governance and Strategy Officer]

   This was Recommendation 8 in the 2013 report (refer to paragraph 11.5.1).

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

   This was Recommendation 9 in the 2013 report (refer to paragraph 11.5.2).

Ensuring Quality Client Outcomes

8. 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. [Responsibility: Chief Governance and Strategy Officer]

   This was Recommendation 1 in the 2013 report (refer to paragraph 11.6.1).

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

   This was Recommendation 13 in the 2013 report (refer to paragraph 11.6.11).

1. Business and Operations

1.1 Nature of the Business

1.1.1 The Accident Compensation Corporation (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 states that the overriding goals *are 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, the primary functions of ACC, as stated in the AC Act, can be summarised as:

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

1.2 Governance

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

1.2.2 The governing legislation of operational requirements is the AC Act. Each year the Minister and the Board agree the terms of a service contract that sets out performance targets, the achievement of which will demonstrate that ACC 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 Treasury's Commercial Operations Team (formerly the Crown Ownership Monitoring Unit). The responsibilities of the two agencies and the ACC Board are set out in a Memorandum of Understanding (MoU) between Treasury and MBIE, dated 21 February 2013.

1.2.4 Under the MoU, the Commercial Operations Team is the agency responsible for performance monitoring and managing Board relationships and appointments, while MBIE is responsible for policy. Treasury's Health Policy Team maintains its role of providing advice to the Minister of Finance on policy, service delivery issues, matters relevant to the annual Budget process and funding issues.

1.2.5 The MoU includes a requirement for a review six months after implementation, in consultation with ACC and the State Services Commission. The Minister of State Services and Minister of Finance have decided to delay the review until at least July 2015, to allow the new monitoring arrangements to become embedded.

1.2.6 Health providers assist in the administration of the Scheme by acting as the first point of contact when injury has occurred. Health and rehabilitation providers manage the use of Scheme funds through their professional recommendations for support services. They also play an important role in setting public expectations of Scheme coverage.

1.2.7 The New Zealand public is the party insured by the Scheme. It funds and uses the Scheme and is the Scheme's ultimate stakeholder.

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 mental injury (to a lesser degree). The AC Act is written in a "coverage exclusion" style of insurance agreement, whereby 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 providing support services to clients. It does, however, provide opportunities for the limits of cover to be extended, generally through court cases. It also affords scope for differing interpretations of cover, which can, and does, lead to disputes and dissatisfaction.

1.3.3 The insurance coverage provided is "no fault". With very few exceptions, the no-fault coverage 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 regardless of how their injury was caused.

1.3.4 The services provided following the occurrence of an insured event are financial support for medical treatment and rehabilitation services. In addition, compensation support is provided to wage earners during their recovery or to their dependants in case of death. Compensation for loss of potential earnings is provided to an injured child who is still incapacitated upon turning 18 and in other specific circumstances. Accidents resulting in injuries fall within a considerable spectrum of severity, requiring vastly different levels of support. Paragraph C.1 in Appendix C details the services provided.

1.3.5 Every year approximately one-third of New Zealanders experience injuries that result in claims being lodged with ACC. Approximately 90% of these claims are minor requiring medical treatment only, and recovery generally occurs within a short period of time. At the other end of the spectrum, a few hundred injuries occur each year resulting in extreme and permanent impairment to 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 Over $400m per annum is provided to the public health system to fund the cost of inpatient, outpatient and emergency department services that arise from claims covered by the Scheme. Currently, operational business units do not have access to detailed cost information, including information on types of injury and causal factors at the individual claim level. This means it is not possible to analyse the client pathway when it begins in the public health system. The lack of transparency also makes it unclear whether the level of funding provided is appropriate. The 2013 report recommended that management engage with the Ministry of Health and District Health Boards in relation to this issue. This remains outstanding and is discussed in Section 11.6.

1.3.7 Coverage when incapacity is not solely related to an accident can be unclear. This is important as entitlements provided under the AC Act are substantially greater than otherwise available. Concerns around boundary of cover and the interactions with health co-morbidities are discussed further in Section 9.8.

Changes in Scheme Coverage

1.3.8 Scheme coverage changes over time, primarily as a result of two processes. Court cases can provide changing views of the AC Act and its interpretation, and the Government or Parliament may change the Act and/or its regulations.

1.3.9 On 1 July 2014 an amendment to the regulations regarding hearing loss claims came into effect. The changes included increasing ACC's contributions to the cost of hearing loss treatment and increasing choice for clients. Changes are also being developed to meet the needs of children with injury-related hearing conditions.

1.3.10 Following a review of the support provided for sensitive claims, an integrated services contract came into effect from November 2014. Under this new contract, clients will have access to a package of services with reduced delays, and the co-payment for counselling provided under treatment regulations was removed.

1.3.11 Table 1 summarises three recent decisions of the High Court that have ongoing significance.

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. The High Court allowed the appeals on 7 March 2014.	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 payment had been made. ACC's position was it could only reimburse clients for actual expenses incurred. The court decided that ACC has the power to compensate clients for unpaid care that they received as a result of their personal injury. 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.
Robertson v ACC The High Court dismissed this claim for treatment injury cover for a delayed diagnosis of an inevitable condition on 14 April 2014.	The client claimed for a delay in diagnosis of IgA nephropathy. As it was accepted that this condition was an inevitable outcome of the client's end-stage renal failure, cover was sought for the period up to when the condition would otherwise have occurred. The High Court found that while earlier diagnosis and treatment would have slowed the onset of end-stage renal failure, the failure to provide this early intervention did not cause the condition and it was not a new injury. This decision is currently subject to an appeal to the Court of Appeal by the client.
ACC v Hawke Claim for backdated weekly compensation for a period with no available earnings information. The High Court allowed ACC's appeal on 22 May 2014.	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) over 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) which 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 this decision. This decision is subject to an appeal to the Court of Appeal by the client.

1.4 Obligations Under the Act

1.4.1 The majority of this report focuses on aspects of ACC's financial performance and risks thereto. It is important that in delivering financial results ACC meets its obligations under the AC Act.

1.4.2 To demonstrate the ability to meet the obligations as stated in paragraph 1.1.2, objective measures are required. These measures should be focused on the quality of clinical outcomes, return to work/

independence and service experience. Injury prevention programmes should demonstrate material and discernible impacts on New Zealand injury rates.

1.4.3 A comprehensive quality framework is under development to measure the quality and consistency of the end-to-end claims management process. This is expected to provide improved measures in the future. For the purpose of this report we have relied on data currently available.

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 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 A review of the 2012/13 Injury Prevention (IP) programmes was completed in June 2013. Only three of the 18 programmes assessed met the return on investment criterion. It was also observed that there was a general lack of programme monitoring, a reliance on individuals for institutional knowledge and a predominance of education interventions. In our last Financial Condition Report we recommended that the injury prevention programme be strengthened with a governance framework that ensures that the proposed strategic and investment approach delivers a return on this investment across an appropriately balanced portfolio.

1.4.7 Over the last year the approach to IP has been strengthened. Good progress has been made on the investment discipline and the governance framework. An IP Investment Committee has been established that is charged with ensuring a balanced portfolio of programme investments is established. Programmes are approved by the committee at commencement and at stage gates throughout their lives.

1.4.8 The Investment Committee has to date reviewed all but two programmes (out of 22). Of those reviewed, 13 have been found to meet the required criteria for continuing investment, five programmes have been cancelled and two are to be exited once existing commitments have been met.

1.4.9 IP investment can be split into three stages:

- Development – including research, pilots and trials and opportunity assessments, of which some have been undertaken over several years
- Delivery
- Exit – programmes that will be exited once existing commitments have been met.

1.4.10 At 30 June 2014 the portfolio of programmes had the cost-benefit return profile shown in Table 2. Costs include sums paid to date and future commitments. The return combines observed claims performance and the projected future benefit from the programme based on past experience.

TABLE 2 – INJURY PREVENTION PROGRAMME COST-BENEFIT RETURN PROFILE

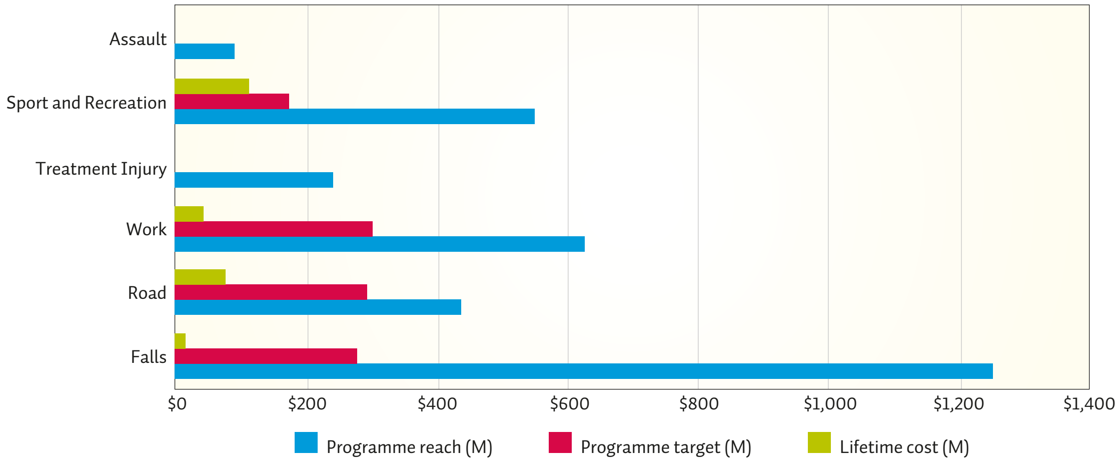
($M)	Development	Delivery	Exit
Investment in programmes in progress	23.9	44.7	28.0
Retrospective and next 10 year book value return		64.2	2.7

1.4.11 The Return on Investment (RoI) for programmes in delivery is $1.44 for every $1 invested, which is satisfactory. Allowing for programmes in development reduces the overall RoI to $0.93. It is important that programmes in development produce sufficient returns to improve the portfolio's performance. It is to be expected that some programmes will not be successful and will therefore need to be exited at some stage; successful programmes need to have sufficient impact such that the overall portfolio contributes to injury reductions commensurate with spend.

1.4.12 One of the focus areas identified is claims resulting from sexual violence. The current IP programme for this area aims to reduce incidence and also reduce levels of under reporting. The current approach to RoI assessment does not easily cater for this situation and ideally would be based on reducing incidence rather than claims reported.

1.4.13 Graph 1 shows the estimated lifetime costs of the six key areas of injury, the size of the lifetime costs specifically targeted by IP programmes, and the reach into the target areas that those programmes have.

GRAPH 1 – INJURY PREVENTION PROGRAMMES FOR SIX KEY AREAS OF INJURY



1.4.14 The graph demonstrates that IP activity is focussed on a small proportion of the liability. For example, the lifetime cost for falls is estimated to be $1.2b per annum. The IP programmes in this area specifically target older adults (aged 65 and over) which represent $275m of this cost. Currently these programmes are in pilot phase and as such the programme reach is small. This pattern is largely repeated in the other five areas. The challenge for IP is to extend programme reach sufficiently while ensuring the claims reductions offset programme costs.

1.4.15 IP is currently in a transition phase, developing new programmes that have the potential to improve the reach and address the liability, as well as exiting programmes that are not delivering. We expect performance to improve significantly in the next 12 months.

1.4.16 In response to recommendations from the Royal Commission on the Pike River Coal Mine Tragedy and the Independent Taskforce on Workplace Health and Safety, a new Crown Agency was established in December 2013. The agency, WorkSafe New Zealand (WorkSafe), has broad regulatory, enforcement and education roles with the aim of improving workplace health and safety in New Zealand.

1.4.17 It is expected that WorkSafe will help deliver workplace injury prevention programmes and motivate employers to prevent injuries by improving their health and safety practices. It is important that ACC works with WorkSafe to achieve the Government's target of a 25% reduction in serious injuries and fatalities in the workplace by 2020.

Review Cases

1.4.18 A client, if dissatisfied with a decision made by ACC, may refer their case to Fairway Resolution Limited (Fairway), an independent body charged with reviewing such complaints. The cost of this service is funded by ACC, although in many cases clients engage solicitors at their own cost to help them to present their cases.

1.4.19 A number of initiatives have been implemented over the last two years to support the management of disputes and reduce the number of reviews that are lodged. These include:

- an increased focus on face-to-face conversations with and outbound calls to clients to explain decisions on their claims
- explaining adverse decisions through conversations with clients before written decisions are issued
- encouraging alternative methods of dispute resolution, such as facilitated mediation
- increasing the administrative review timeframe from 10 to 20 working days to help resolve less complex cases before transferring the matters to Fairway
- developing a policy to assist with the settlement of disputes with a low financial value.

1.4.20 Table 3 shows the outcomes of reviews over the last three years.

TABLE 3 – REVIEW OUTCOMES

	2011/12	2012/13	2013/14
Number of reviews	9,080	9,070	6,057
Number found against ACC	1,780	1,570	939
% found against ACC	19.6%	17.3%	15.5%

1.4.21 The number of reviews and the proportion found against ACC both reduced in 2013/14. The percentage found against ACC is now comparable to that for private insurers. The Insurance and Savings Ombudsman reported that 14% of the 300 complaints investigated in 2013/14 were found against the insurers.

1.4.22 Whilst this is encouraging, as a statutory monopoly it is important that ACC continues with the current programme of work to improve dispute resolution. Furthermore, despite the reduction in the number of reviews over the last year, the number is still at a level many times higher than that of the whole private sector. A step change is required. The work on ensuring consistency and quality of clinical decisions discussed in paragraph 1.4.27 is an important initiative.

Meet the Costs of Covered Injuries

1.4.23 Once cover is decided, legislation provides for entitlements such as weekly compensation and rehabilitation to be established automatically. A key area of focus is the decision to provide elective surgery. ACC receives just under 60,000 elective surgery requests a year. While around 80% are accepted, approximately 10,000 New Zealanders are denied elective surgery requests every year. At the least this implies a misalignment of expectations between ACC, the public and the health sector.

1.4.24 Table 4 shows statistics related to elective surgery requests since 2006.

TABLE 4 – ELECTIVE SURGERY REQUESTS

	Number of Applications	% Approved	% Declined	% Cancelled	% Awaiting Decision
2006/07	45,854	87%	9%	4%	0%
2007/08	51,726	87%	10%	3%	0%
2008/09	56,872	72%	16%	11%	0%
2009/10	54,066	73%	21%	6%	0%
2010/11	56,243	69%	18%	13%	0%
2011/12	57,846	65%	18%	17%	0%
2012/13	58,701	68%	17%	15%	0%
2013/14	59,834	71%	15%	13%	1%

1.4.25 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. Management has identified that collecting additional information regarding the reasons for surgery-declines will help further reduce the number of declined claims by allowing:

- the monitoring and provision of feedback on rates of decline by provider
- an analysis of declines by surgery type to identify opportunities to work with the New Zealand Orthopaedic Association sub-specialty groups to develop guidelines and consideration factors to assist surgeons when recommending surgery.

1.4.26 The other key point in Table 4 is the proportion of applications that are cancelled following approval. Investigation has identified that a large number of the cancellations are due to minor process issues. However, cancellations initiated by clients remain an open question in respect of which there is no data collection. Action is planned for enhanced purchase order management that will provide a number of benefits including improved visibility of claims activity.

Ensure Quality Clinical Outcomes

1.4.27 A number of actions have been initiated with regards to the quality of outcomes in the past year:

- The development of a comprehensive quality framework for the measurement of the end-to-end claims management process.
- The establishment of the Clinical Services Directorate (CSD).
- The elective services review.

1.4.28 The CSD was established on 1 July 2014 to improve the provision of quality clinical advice. The initial focus is 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.

1.4.29 Elective services comprises three main contracts: elective surgery, clinical services and high-tech imaging (HTI). A review of elective services commenced in late 2013 with the aim being to understand how ACC can achieve better outcomes for people following injury. The review identified six key areas for management consideration that need to be addressed to ensure the future success and sustainability of elective services for clients: outcomes, communication, business processes, workforce capability and capacity, funding and integrated service delivery.

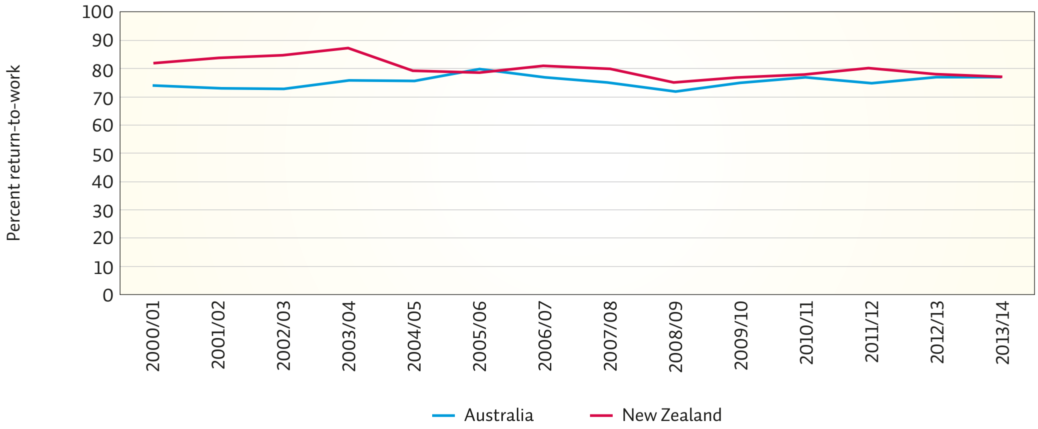
1.4.30 Driving successful clinical outcomes will involve working in partnership with the broader health sector, including providers. Options to purchase collaboratively with the health sector are under consideration.

Rehabilitation

1.4.31 Rehabilitation performance is a good proxy for quality outcomes. Rehabilitation for employed people is relatively easily measured by return-to-work rates.

1.4.32 ACC benchmarks performance against Australian workers' compensation schemes through the annual Return to Work Survey produced for Safe Work Australia. Graph 2 shows the current return-to-work rate compared with those of Australian schemes. The current return-to-work rate is a measure of the current work status of a sample of injured workers who received compensation for 10 or more days and who registered their claims seven to nine months prior to the survey.

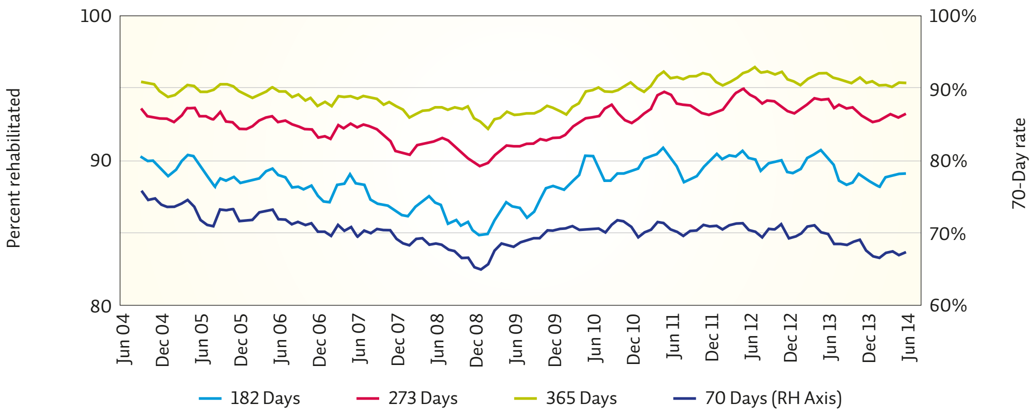
GRAPH 2 – CURRENT RETURN-TO-WORK RATES



1.4.33 The return-to-work rate has been consistently higher than Australia's, although in 2013/14 the New Zealand rate fell to the same level as Australia's.

1.4.34 Graph 3 shows rehabilitation rates over the past 10 years. Each of the lines shows the proportion of people who were rehabilitated within the respective time period (so, for example, the bottom line shows the proportion of people rehabilitated within 70 days of going on weekly compensation). The 70-day rate is presented against the scale on the right-hand axis.

GRAPH 3 – REHABILITATION RATES



1.4.35 Rehabilitation rates fell consistently during the period from June 2005 to December 2008, following which performance generally improved for the next 18 months and 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 Section 3.3.

1.4.36 Since 1 July 2013 ACC has collected more detailed information on return-to-work outcomes for clients. In the year ended 30 June 2014, 92% of clients ceasing weekly compensation returned to full or part-time work. Of these, the vast majority (94%) returned to the same jobs with the same employers. Over time, this should become a valuable measure of outcomes.

1.4.37 Seriously injured clients will generally require support for the rest of their lives. Measures of success here must centre on the levels of independence that clients are able to achieve.

1.4.38 Seriously injured clients set self-directed independence goals every six months. 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 2010/11 and rising to 75% in 2013/14.

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

	Year Ending 30 June			
Clients with Serious Injuries Managed by Support Coordinators	2010/11	2011/12	2012/13	2013/14
Achieved beyond expectations	5%	5%	4%	5%
Achieved	56%	61%	65%	70%
Partially achieved	27%	20%	20%	16%
Not achieved	13%	13%	11%	9%

1.4.39 The overall trend continues to be positive. A further analysis of each of the “achieved”, “partially achieved” and “not achieved” is required to identify any barriers or opportunities from a case management perspective and to fully understand performance across this measure.

1.4.40 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 work, no matter how low the number of hours.

1.4.41 Table 6 shows trends in employment participation in the past four years which have generally increased.

TABLE 6 - TRENDS IN EMPLOYMENT PARTICIPATION SINCE 2010/11 FOR 18–59 YEAR-OLD CLIENTS WITH SERIOUS INJURIES

	Year Ending 30 June			
Injury Type	2010/11	2011/12	2012/13	2013/14
Spinal cord injury	27.8%	26.6%	28.1%	29.0%
Traumatic brain injury	15.2%	18.2%	17.9%	18.5%
Other injury	30.2%	31.1%	35.1%	34.3%
Total	21.1%	22.5%	23.3%	23.6%

1.4.42 Employment participation does not include unpaid volunteer work. While unpaid volunteer work does not reduce the weekly compensation paid to a client, it does achieve other benefits of paid employment – enabling the client to be a part of the community, and building up skills and confidence. International evidence suggests that this does have an indirect financial impact through reducing attendant care needs. Furthermore, unpaid volunteer work could in some cases be an initial step towards paid employment.

1.4.43 Given the potential benefits, we recommend that consideration be given to encouraging case managers to consider unpaid volunteer work when measuring employment participation outcomes for seriously injured clients, and including it in the KPI for employment participation.

1.4.44 We note that unpaid volunteer work is included in the metrics for other jurisdictions such as the Transport Accident Commission in Victoria, Australia so inclusion would enable comparisons with these jurisdictions to assess the quality of the outcomes achieved.

1.5 Shaping Our Future

1.5.1 The Shaping Our Future (SOF) programme was established at the end of October 2013 to improve existing service delivery, particularly in relation to responsiveness, transparency and the ease of dealing with ACC.

1.5.2 Following six months of customer research and diagnostics, and consultation with the Minister for ACC and other key government stakeholders, approval to proceed with the SOF programme was received from the Board in July 2014 and a paper was submitted to Cabinet for noting on 28 July 2014.

1.5.3 The programme consists of five major work streams and is expected to take three years to complete. The five work streams are customer experience, channel and operating structure, organisational design, capabilities and culture, and technology.

1.5.4 The first step in organisational design was to review responsibilities at the executive level, and a new Executive team structure came into effect on 1 September 2014 with a focus on customer needs and expectations by raising the customer perspective to the executive level. In particular the two new roles within the Executive of Chief Customer Officer and Chief Operating Officer have clear responsibilities for delivering customer-centric outcomes.

1.5.5 The SOF programme is an organisation-wide programme of change. Such a substantial programme carries significant risk and opportunity. The organisation is establishing governance and risk management processes to address this.

1.6 Account Structure

1.6.1 ACC is financially managed under five Accounts (see Appendix C), each designed to align levy collection to the risk exposure to injury. Whilst not technically the case, each Account can be thought of as a mutual insurer that is in effect owned by those who pay the levies. It is these levy payers who bear the risks and rewards of each Account's performance.

1.6.2 The Motor Vehicle, Earners' and Work Accounts are collectively referred to as "the levied Accounts". Levies for these Accounts comprise three elements:

- The expected cost of claims in the current year.
- A funding adjustment, designed to bring each of the Accounts to a fully funded position.
- A residual amount set down in legislation specifically to fund accidents that occurred prior to 1999.

1.6.3 In practice, the funding adjustment and the residual amount act in a similar manner. In this report these are referred to as the "funding adjustment" unless stated otherwise.

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

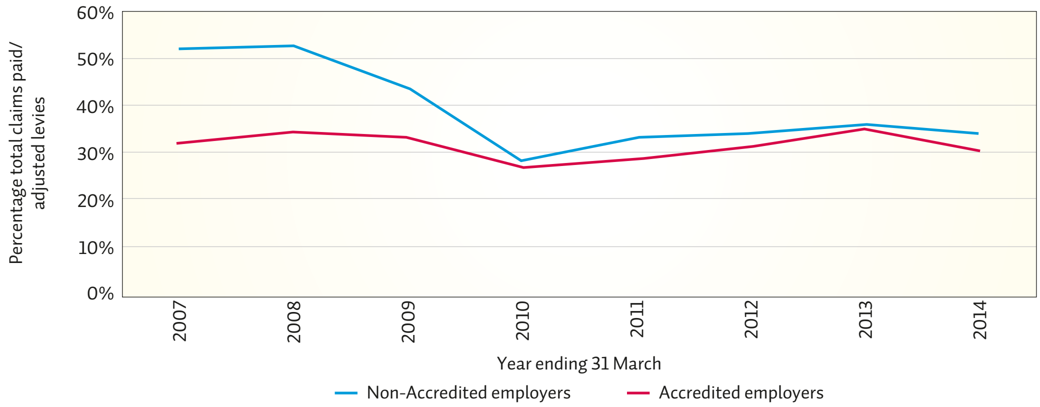
The Work and Motor Vehicle Accounts provide various means of differentiating risk and opportunities for levy payers to reduce the levies they pay through different products and incentive programmes. These are described in Appendix C. Here we discuss the results of recent reviews of performance and upcoming changes.

Work Account

Accredited Employer Programme

1.7.1 A recent review of the Accredited Employer Programme (AEP) compared the experience of Accredited Employers with comparable non-Accredited Employers. This showed that the overall claims payment experience is slightly better for Accredited Employers. Comparisons at a lower level showed that experience varied widely between industries, although it is important to note that there is difficulty in performing a true 'like with like' comparison due to the size and unique nature of some employers. Graph 4 shows a comparison of the two groups, normalised for relative industry profiles.

GRAPH 4 – AEP CLAIMS EXPERIENCE



1.7.2 The Accredited Employer claims experience has been relatively stable over time, while the non-Accredited Employer experience has been more volatile and subject to trends acting on the Scheme. In more recent years the gap has narrowed, reflecting the Scheme-wide reduction in claims costs. Consistency is desirable, so the Accredited Employers' experience in this regard is commendable.

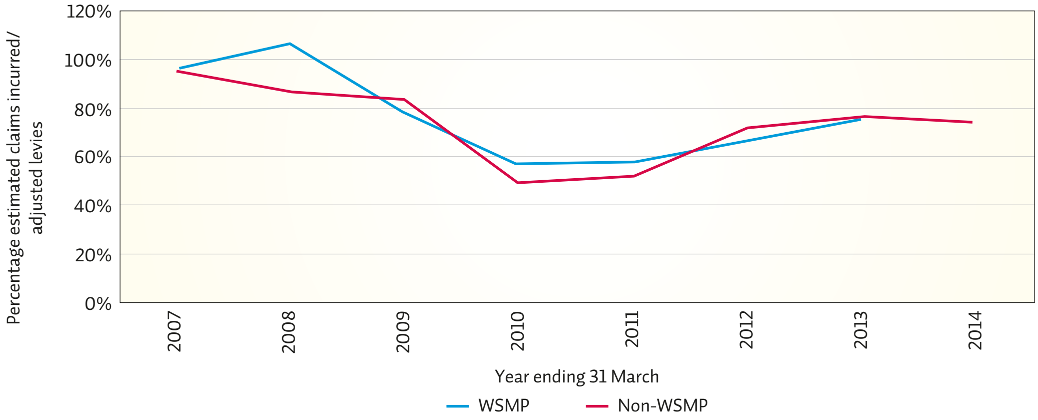
1.7.3 An analysis of the AEP claims experience is limited by the claims data available. ACC does not currently collect the data needed to determine the duration of Accredited Employers' weekly compensation claims, something that is used as a key measure of claims managed directly by ACC. We recommend that ACC requires that Accredited Employers provide this information to enable better and more consistent monitoring of AEP performance. This could be used as a benchmark for measuring ACC's claims management performance.

Incentive Programmes

1.7.4 The Workplace Safety Management Practices programme (WSMP) is available to all employers and there are currently 3,300 enrolled employers, representing around 30% of those deemed to be of sufficient size to meet the requirements.

1.7.5 A recent review of the claims experience showed that WSMP is not delivering significant claim reductions. This is shown in Graph 5.

GRAPH 5 – WSMP CLAIMS EXPERIENCE



1.7.6 Among WSMP participants, those receiving a 20% discount have a paid claims ratio approximately 5% better than those receiving a 10% or 15% discount. It is not clear whether this is a result of the impact of the tertiary level requirements or the fact that businesses with better safety practices tend to join the programme at the tertiary level.

1.7.7 In response management is developing a new product (Safety Star Rating). This will entail a more rigorous process to support participants to improve their health and safety performance as well as a stricter set of audit standards. Once this is established, other products may be phased out. The new product is being developed in conjunction with WorkSafe and MBIE.

1.7.8 The Workplace Safety Discounts programme (WSD) is targeted at businesses (including self-employed) with 10 or fewer employees. There are currently 3,000 enrolled businesses and self-employed people, which is a low level of penetration.

1.7.9 A recent review of WSD showed again that the impact on claims experience was not significant.

Experience Rating

1.7.10 A formal evaluation of the experience rating programme is currently underway and is set to be completed by February 2015. This evaluation is being led by MBIE, in consultation with ACC.

Motor Vehicle Account

1.7.11 The levy consultation for 2015/16 proposed the introduction, from 1 July 2015, of risk rating for light passenger vehicles, which make up 80% of the Motor Vehicle Account fleet. Vehicles will be allocated to one of four bands, based on how well the vehicles protect passengers and others involved in accidents. The allocation of vehicles to the bands is based on research undertaken by Monash University, which has considered vehicle design and crash injury outcomes across Australia and New Zealand.

1.8 Core Applications

1.8.1 This section briefly discusses major IT applications. Some applications are targeted for decommissioning as part of the technology work stream of the SOF programme. These are EOS, MFP, IPS2 and Pathway.

1.8.2 EOS is the claims management system. It supports all aspects of claims management from lodgement through to rehabilitation, including workflow, task management and data capture and storage. EOS is a packaged, off-the-shelf application developed by Dublin-based software company FINEOS. There are some stability issues from time to time, but the system generally meets performance requirements. The application change profile is high, with regular releases for business improvement being required. The technical risk is considered low given the system's up-to-date hardware platform, vendor-supported component versions, and on-site support.

1.8.3 The financial application is Oracle eBusiness Suite (eBS). eBS is a packaged, off-the-shelf solution supported by Wellington-based Red Rock. The solution is stable and meets performance expectations. The application change profile is currently low but is expected to increase in 2015 to address identified user issues with certain functions. The technical risk is low as the application infrastructure underwent significant enhancements during 2012/13.

1.8.4 Health invoice management is supported by the Medical Fees Payment (MFP) system. MFP is a bespoke application developed and supported by Wellington-based Solnet. The MFP system itself is stable and meets performance requirements. A project to stabilise the platform and bring all technology components in line with the technology roadmap went live earlier in 2014, so the technical risk of the application is now considered low.

1.8.5 Levy calculation and billing are supported by the Integrated Premium System 2 (IPS2), a bespoke application developed and supported by Wellington-based Solnet. IPS2 is stable and performs to business expectations. The change profile is currently medium, and enhancements are typically deployed without incident. The technical risk is considered to be low.

1.8.6 Pathway manages payments made to clients. It is a bespoke application developed and supported by Wellington-based Unisys. Pathway is stable and meets business needs. Its change profile is relatively low and changes due to taxation and legislation have proceeded without incident.

1.8.7 Virtual Claimant Folder (VCF) provides the repository for all claim-related documents. VCF is a mix of a packaged, off-the-shelf solution, customisation and bespoke development. Support is provided by a combination of Solnet and FINEOS vendor arrangements. The solution is mostly stable but does have some performance issues from time to time. A project is currently underway to move VCF to the later versions of the content management product it uses.

1.8.8 Digital services for various customer segments like health providers (for claim form submissions and submissions of invoices/schedules) are delivered by IBM Portal software and supported by Wellington-based Solnet using an on-site support model. The system is stable and meets business performance expectations. The change profile is medium, and the platform itself supports the frequent delivery of new services. The technical risk with hardware is considered low, however the software versions require updating to keep up with emerging requirements, including those that come out of the SOF programme.

1.8.9 Significant changes have been made to several core systems in the past 12 months, with infrastructure changes to MFP and an eBS version upgrade. These changes have addressed stability and performance issues with these systems. Minor stability issues remain which are being actively addressed.

1.8.10 During 2014 ACC undertook a large programme of work to modernise and stabilise the IT environment, including servers, desktop operating systems, email and user productivity tools (Microsoft Windows and Office). There were a number of underlying issues encountered during this programme and, while this did not result in any high risk, customer-impacting events such as missed payments, additional work was required to clear processing backlogs. A post-project assurance review identified some key lessons that will be taken into account for future projects including: ensuring sufficient governance around interactions between projects; ensuring a good understanding of the change and release management processes to understand their impacts on the business; and the need to improve the tools for monitoring changes in the performance of IT platforms and determining movements from normal service.

1.8.11 In summary, all of the core applications are able to support the short- to medium-term business needs. The status of some of the legacy operating systems and the risks these pose to the organisation's ability to deliver future service requirements have been identified as a core work stream within the SOF programme.

2. Summary of Financial Results

2.1 Introduction

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

2.1.2 In considering financial results, it is important to put the term "profit" into context. ACC is not a profit-making entity. It collects and invests levies in order to meet claims and related expenses. In the fullness of time, every cent of levy and investment income received must be returned to the public in the form of claim payments, used in the administration of the Scheme, or invested in injury prevention activity. "Profit", then, refers to the movement towards or away from full funding; for this reason we have used the terms "surplus" and "deficit" throughout this report, rather than "profit" and "loss".

2.2 Overall Results

2.2.1 Table 7 shows the Statement of Comprehensive Income for the year ended 30 June 2014 and compares this with budget as well as the results for the preceding two years.

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

	2014 Actual			2014	2013	2012
($M)	Cash Flow	Liability	Total	Budget	Actual	Actual
Income						
Levies	4,731.4	0.0	4,731.4	4,615.5	4,715.7	4,866.7
Total income	**4,731.4**	**0.0**	**4,731.4**	**4,615.5**	**4,715.7**	**4,866.7**
Expenditure						
Claims incurred						
Medical costs	1,113.9	12.1	1,126.0	1,089.2	963.6	908.0
Elective surgery	282.3	21.1	303.4	272.0	336.3	316.9
Social rehabilitation	454.9	547.0	1,001.9	380.3	436.6	(276.5)
Compensation related	897.1	83.4	980.5	820.7	265.2	208.7
Other	210.8	(85.1)	125.7	193.0	(65.1)	(42.5)
Claims handling expenses	376.2	(46.4)	329.7	345.6	385.7	315.3
Total incurred claims	**3,335.2**	**532.0**	**3,867.2**	**3,100.9**	**2,322.4**	**1,429.9**
Change in claim assumptions						
Rehabilitation rates	0.0	22.8	22.8	0.0	45.3	(225.0)
Growth in long-term active claims experience	0.0	15.9	15.9	0.0	(73.5)	(27.5)
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	62.3
Superimposed inflation	0.0	(8.8)	(8.8)	0.0	(149.8)	6.2
Legislative	0.0	117.9	117.9	0.0	0.0	(72.7)
Other	0.0	39.2	39.2	0.0	63.2	(6.7)
Change in risk margins	0.0	3.8	3.8	0.0	0.0	0.0
Total assumption changes	**0.0**	**190.9**	**190.9**	**0.0**	**(114.8)**	**(263.4)**
Administration expenses						
Net operating costs	47.5	0.0	47.5	54.3	47.2	60.9
Injury prevention costs	34.0	0.0	34.0	40.0	22.4	23.0
Levy collection costs	38.9	0.0	38.9	38.7	37.4	41.3
Total expenses	**120.3**	**0.0**	**120.3**	**133.0**	**107.1**	**125.2**
Total expenditure	**3,455.5**	**722.9**	**4,178.5**	**3,233.9**	**2,314.6**	**1,291.7**
Surplus/(deficit) from underwriting activities	**1,275.9**	**(722.9)**	**553.0**	**1,381.6**	**2,401.2**	**3,575.1**
Decrease/(increase) in unexpired risk liability	0.0	(159.5)	(159.5)	(11.4)	26.5	(68.6)
Economic						
Change in discount rate assumption	0.0	92.8	92.8	0.0	939.1	(5,084.8)
Change in inflation rate assumption	0.0	829.5	829.5	0.0	234.2	209.3
Investment expenses	(55.9)	0.0	(55.9)	(63.9)	(60.7)	(54.0)
Unwind of risk-free interest rate	0.0	(733.5)	(733.5)	(733.3)	(701.5)	(762.3)
Investment income	1,618.5	0.0	1,618.5	1,274.2	2,090.4	1,711.5
Total economic	**1,562.6**	**188.8**	**1,751.3**	**477.1**	**2,501.5**	**(3,980.2)**
Total surplus/(deficit)	**2,838.4**	**(693.6)**	**2,144.8**	**1,847.2**	**4,929.2**	**(473.8)**

2.2.2 The result for 2014 is separated into performance related to cash flows (consistent with the statements in the Annual Report) and the liability movement occurring during the year. The latter allows overall financial performance to be examined on an "incurred" basis, which is consistent with the full funding requirements of the Scheme. Investment income has been separated into the assumed interest earnings on the Outstanding Claims Liability (OCL) and the remainder, which is essentially the mismatching surplus or deficit.

2.2.3 The actual result was a surplus of $2,145m, $298m above budget. The main contributions to the result were:

- claims incurred were $766m over budget
- changes to the discount and inflation rate assumptions increased the surplus by $912m. This is discussed further in Section 7
- investment income was $344m higher than budget. Investment performance is discussed further in Section 8.

2.2.4 Claims incurred have increased significantly since 2012. This is largely due to a reduction in the number of long-term clients being returned to independence. In previous years rehabilitation rates for long-term claims were historically high as ACC worked intensively with these clients to return them to independence. These higher than usual rehabilitation rates have resulted in OCL reductions which have in turn reduced the recorded amount of claims incurred. OCL assessments have assumed that performance will ultimately return to historical norms as remaining clients would be those that were more seriously incapacitated. This has indeed been the case this year.

2.2.5 The cost of claims incurred in 2012 also benefited from a lower rate of increase in serious injury care hours than had been assumed. This has since returned to historically more normal levels.

2.2.6 The claims incurred budget for the year ended 30 June 2014 assumed a further actuarial release of $500m would be achieved. This did not eventuate, and was the main driver of the over budget result. The other major factor was increased volumes of new claims.

2.3 Results by Current and Prior Years

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

2.3.2 Claims incurred in the current year reflect the full estimated lifetime cost of new claims reported during the year. For prior years, claims incurred represent changes to the estimate of lifetime costs in respect of claims that were in existence at the start of the year, other than by assumption changes that are separately identified. This mainly reflects rehabilitation rates, but also the average size of claims. So a negative claims-incurred cost for prior years will mean that rehabilitation rates have been higher than allowed for in the previous OCL assessment, and/or that the average size of the claims has fallen.

Current Year

2.3.3 Table 8 sets out the Statement of Comprehensive Income for the year ending 30 June 2014 in respect of claims that occurred during the year, by Account.

TABLE 8 – STATEMENT OF COMPREHENSIVE INCOME FOR CURRENT-YEAR CLAIMS BY ACCOUNT

($M)	2014 Actual Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2013 Actual Total
Income							
Levies	453.3	954.9	1,240.2	673.9	245.5	3,567.8	3,357.3
Total income	**453.3**	**954.9**	**1,240.2**	**673.9**	**245.5**	**3,567.8**	**3,357.3**
Expenditure							
Claims incurred							
Medical costs	61.5	530.0	355.6	116.3	25.5	1,088.9	1,040.0
Elective surgery	33.8	85.3	179.6	46.8	66.6	412.1	411.1
Social rehabilitation	198.7	200.8	101.7	44.6	134.9	680.6	659.6
Compensation related	121.0	11.9	482.0	322.5	54.5	991.9	939.2
Other	32.0	47.1	29.1	37.0	12.1	157.2	151.9
Claims handling expenses	31.9	88.9	149.8	76.8	27.5	374.9	317.4
Total incurred claims	**478.9**	**963.9**	**1,297.8**	**643.9**	**321.1**	**3,705.6**	**3,519.1**
Change in claim assumptions							
Rehabilitation rates	1.3	(10.5)	32.3	(6.6)	(10.6)	5.8	(42.8)
Growth in long-term active claims experience	0.0	(0.3)	(1.5)	(1.2)	0.2	(2.8)	(4.5)
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Superimposed inflation	(0.2)	(0.3)	0.2	(0.0)	0.0	(0.4)	(7.8)
Legislative	0.0	2.6	1.5	6.3	0.0	10.4	0.0
Other	0.0	0.2	0.1	0.0	0.0	0.3	2.3
Change in risk margins	1.4	0.0	3.7	(3.4)	(2.2)	(0.5)	0.0
Total assumption changes	**2.5**	**(8.3)**	**36.2**	**(4.9)**	**(12.7)**	**12.8**	**(52.8)**
Administration expenses							
Net operating costs	4.8	3.9	6.3	22.6	0.3	38.0	38.0
Injury prevention costs	9.7	5.5	6.7	12.0	0.1	34.0	22.4
Levy collection costs	0.5	0.1	18.5	13.0	0.0	32.2	31.1
Total expenses	**15.0**	**9.6**	**31.5**	**47.7**	**0.4**	**104.2**	**91.5**
Total expenditure	**496.3**	**965.2**	**1,365.5**	**686.7**	**308.8**	**3,822.6**	**3,557.8**
Surplus/(deficit) from underwriting activities	**(43.0)**	**(10.3)**	**(125.4)**	**(12.7)**	**(63.4)**	**(254.8)**	**(200.5)**
Decrease/(increase) in unexpired risk liability	0.0	0.0	(159.5)	0.0	0.0	(159.5)	26.5
Economic							
Change in discount rate assumption	1.3	1.2	3.2	1.9	0.9	8.4	47.3
Change in inflation rate assumption	11.2	8.8	13.8	7.6	8.6	50.1	15.1
Investment expenses	(0.8)	(0.2)	(0.7)	(0.4)	(0.3)	(2.4)	(3.5)
Unwind of risk-free interest rate	(5.2)	(5.3)	(11.0)	(6.2)	(3.8)	(31.5)	(28.4)
Investment income	21.8	6.0	20.7	12.2	9.3	70.0	120.2
Total economic	**28.2**	**10.5**	**26.0**	**15.0**	**14.7**	**94.5**	**150.8**
Total surplus/(deficit)	**(14.8)**	**0.3**	**(258.8)**	**2.3**	**(48.7)**	**(319.7)**	**(23.1)**

2.3.4 The 2014 current year claims produced an underwriting deficit of $255m for the year, being 7% of levies. This was slightly higher than the 2013 deficit, which was 6% of levies. Most of this deficit was a result of the year-end OCL adopting risk-free rates and risk margins, which are not allowed for in the levies. This naturally produced a deficit in the current year which will be gradually released as the claims run off over time. As such this is largely a timing issue.

2.3.5 Overall, the experience with respect to current year claims has been broadly in line with pricing expectations. This, however, masks a deteriorating trend, with performance slightly better than expected in the early part of the year before volumes started to increase towards the latter half. Claims experience is discussed further in Section 3.

2.3.6 The underwriting deficit for the Treatment Injury Account, at 26% of levy revenue, is particularly high, indicating that claims experience has been worse than assumed when levies were set. This is an area of concern. Treatment Injury claims experience is discussed in more detail in Section 3.7.

2.3.7 The low underwriting deficits in the Non-Earners' and Work Accounts indicate that claims experience has been positive relative to the levy basis.

2.3.8 Nearly half of the overall deficit of $320m for current-year claims comes from an increase in the unexpired risk liability for the Earners' Account. This accounting adjustment, which is not reflective of the economic substance of the levy rates, is discussed in Section 7.7.

Prior Year

2.3.9 Table 9 sets out the Statement of Comprehensive Income for the year ending 30 June 2014 in respect of prior-year claims, by Account.

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

($M)	2014 Actual Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2013 Actual Total
Income							
Levies	611.2	(47.6)	166.0	355.3	78.7	1,163.6	1,358.4
Total income	**611.2**	**(47.6)**	**166.0**	**355.3**	**78.7**	**1,163.6**	**1,358.4**
Expenditure							
Claims incurred							
Medical costs	26.2	44.8	(24.1)	(22.6)	12.9	37.2	(76.5)
Elective surgery	(18.6)	(21.3)	(27.3)	(27.3)	(14.2)	(108.7)	(74.7)
Social rehabilitation	78.1	56.7	(29.2)	162.0	53.7	321.4	(223.0)
Compensation related	(6.4)	(0.4)	24.4	(44.0)	14.9	(11.5)	(673.9)
Other	2.4	(5.6)	(13.2)	(16.8)	1.7	(31.5)	(217.0)
Claims handling expenses	(7.5)	(10.0)	(13.7)	(9.1)	(4.8)	(45.2)	68.3
Total incurred claims	**74.3**	**64.2**	**(83.2)**	**42.2**	**64.2**	**161.6**	**(1,196.7)**
Change in claim assumptions							
Rehabilitation rates	4.0	3.8	2.4	5.0	1.9	17.1	88.1
Growth in long-term active claims experience	1.9	8.6	4.6	2.8	0.7	18.7	(69.0)
Change in growth assumptions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Superimposed inflation	(6.0)	(3.4)	3.0	(0.1)	(1.9)	(8.4)	(142.0)
Legislative	0.0	29.5	11.9	66.1	0.0	107.5	0.0
Other	6.5	19.7	6.4	4.7	1.6	38.9	60.8
Change in risk margins	25.7	0.0	20.1	(16.0)	(25.4)	4.3	0.0
Total assumption changes	**32.0**	**58.2**	**48.4**	**62.5**	**(23.1)**	**178.1**	**(62.1)**
Administration expenses							
Net operating costs	2.1	0.1	2.7	4.7	0.0	9.5	9.2
Injury prevention costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Levy collection costs	0.6	0.0	1.0	5.0	0.0	6.7	6.4
Total expenses	**2.7**	**0.1**	**3.7**	**9.6**	**0.0**	**16.1**	**15.6**
Total expenditure	**109.0**	**122.4**	**(31.0)**	**114.3**	**41.1**	**355.9**	**(1,243.2)**
Surplus/(deficit) from underwriting activities	**502.2**	**(170.0)**	**197.0**	**240.9**	**37.6**	**807.7**	**2,601.6**
Decrease/(increase) in unexpired risk liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic							
Change in discount rate assumption	23.5	14.3	16.9	21.2	8.5	84.4	891.8
Change in inflation rate assumption	234.2	178.7	128.0	123.4	115.2	779.4	219.2
Investment expenses	(15.2)	(6.2)	(13.7)	(13.4)	(5.0)	(53.5)	(57.3)
Unwind of risk-free interest rate	(202.5)	(138.7)	(127.8)	(143.6)	(89.4)	(702.0)	(673.2)
Investment income	418.1	172.4	415.1	393.8	149.1	1,548.5	1,970.2
Total economic	**458.1**	**220.5**	**418.5**	**381.3**	**178.4**	**1,656.8**	**2,350.7**
Total surplus/(deficit)	**960.3**	**50.5**	**615.5**	**622.3**	**215.9**	**2,464.5**	**4,952.3**

2.3.10 The levy income in respect of prior year claims represents the funding adjustment. This is particularly significant for the Motor Vehicle Account. The Non-Earners' Account funding adjustment is slightly negative as the fully funded portion is above target, as discussed in Sections 9.5 and 9.6.

2.3.11 The cost of claims incurred has increased significantly from the previous year. The 2013 result included a sizeable actuarial release, to which the largest contributor was the reduced number of long-term weekly compensation claims. The most recent year's experience has been broadly in line with valuation expectations, with a small actuarial strain emerging. Long-term rehabilitation rates, which have a large impact on prior year claims, are discussed further in Section 3.3.

2.3.12 The change in inflation assumptions has made a sizeable contribution to the overall prior year surplus. This is discussed in more detail in Section 7.2.

2.3.13 The investment return above the risk-free rate has reduced from last year, but is still a significant contributor to the surplus. Investment returns are discussed in more detail in Section 8.6.

2.4 Conclusion

2.4.1 The financial performance over the year has been satisfactory, with a $2.1b surplus arising largely as a result of strong investment returns and a change in assumed inflation rates.

2.4.2 The performance for current year claims has been largely in line with expectations, although volumes have increased during the course of the year. This increase in volumes is being investigated.

2.4.3 Prior year claims generated a reasonable surplus due to a range of factors including funding adjustments, investment income and changes in inflation rate assumptions. Prior year claims experience has been broadly in line with expectations, after several years of large actuarial releases. Claims experience is discussed in more detail in Section 3.

3. Claims Experience

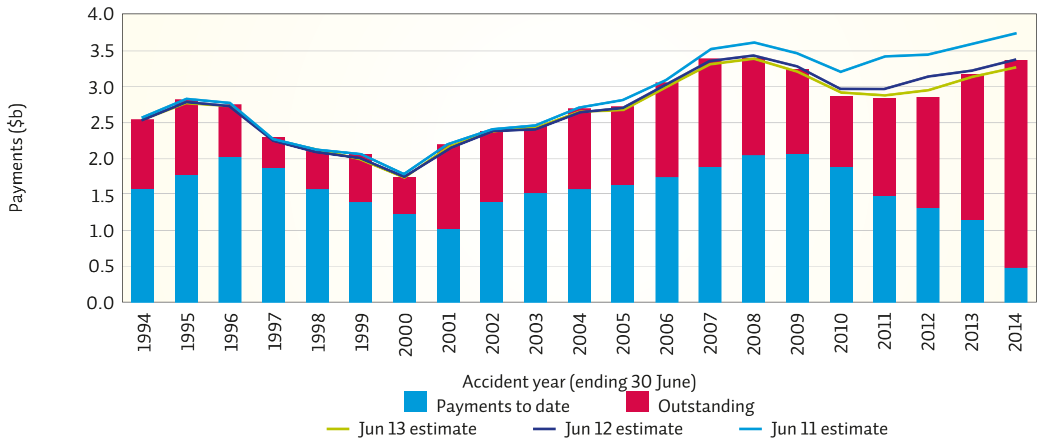
3.1 Overall Results

3.1.1 Claims performance is driven by a wide range of factors that can themselves vary by Account, type of benefit paid and claim duration.

3.1.2 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 range of factors, including the economic downturn following the global financial crisis (GFC) and improved operational management placing a greater focus on rehabilitation and the early management of claims. However, incurred costs have increased in the more recent years.

3.1.3 Graph 6 compares the projected total cost of all claims in current dollars, by accident year, for the current valuation with the estimates for each of the past three valuations, excluding bulk-billed health costs, claims handling expenses and risk margins.

GRAPH 6 – COST BY ACCIDENT YEAR



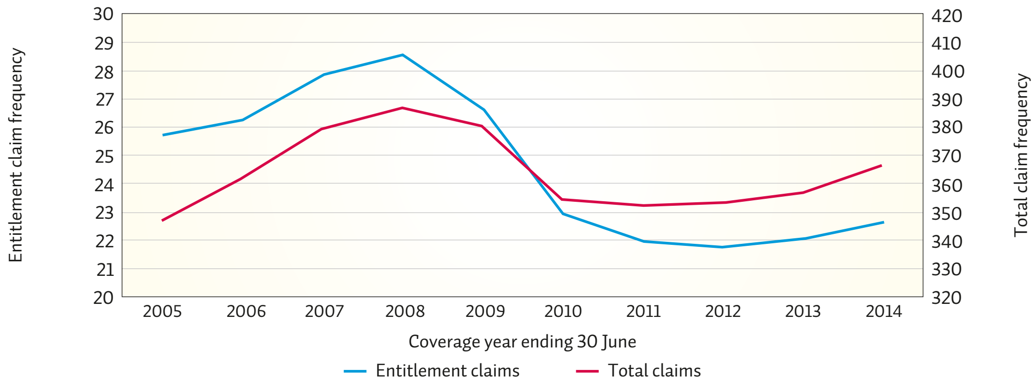
3.1.4 Following a period of significantly increasing costs, the experience since 2008 has been generally favourable until more recent years. The projections for the incurred costs for the 2013 and 2014 accident years are higher than the previous three accident years, partly due to increasing new claims volumes and partly due to a greater level of uncertainty for the less developed claims experience. There were OCL releases for each of the 2011 to 2013 years, as shown by the decreasing valuation estimates from June 2011. However, the most recent valuation resulted in a marginal actuarial strain with estimated higher incurred costs for the most recent accident years.

3.1.5 There are four key drivers that affect how the insurance experience moves compared with expectations. These drivers are:

- the number of new claims
- the average amount paid per claim
- the rate at which existing clients are rehabilitated to work/independence
- increases in costs in excess of inflation (superimposed inflation).

3.1.6 Graph 7 shows claim frequencies for the Scheme as a whole. Entitlement claims receive rehabilitation and/or compensation support in addition to medical treatment.

GRAPH 7 – CLAIM FREQUENCY: ESTIMATED ULTIMATE REPORTED CLAIMS PER 1,000 PEOPLE



3.1.7 This clearly shows the higher rates of claiming that occurred in the years leading up to 2008, which then reduced sharply. Claim frequencies started to increase in 2013 and have continued to increase in 2014. Entitlement claim frequency remains historically low.

3.1.8 Claim frequencies by Account are shown in Appendix A. Generally they show the same pattern, but there are two notable exceptions:

- The Work Account has had generally improving claim frequencies, although there has been a slight increase in the last year. The reasons for this are not certain, but can be postulated as greater employer awareness, the tighter regulation of safety in the workplace and a changing industry mix.
- The Treatment Injury Account, where claim rates have steadily increased following the expansion of cover in 2005, as is discussed in Section 3.7.

3.1.9 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 in nature, rather than purely random, and is to some extent linked to the economic cycle. This causes levy instability and changes in public expectations.

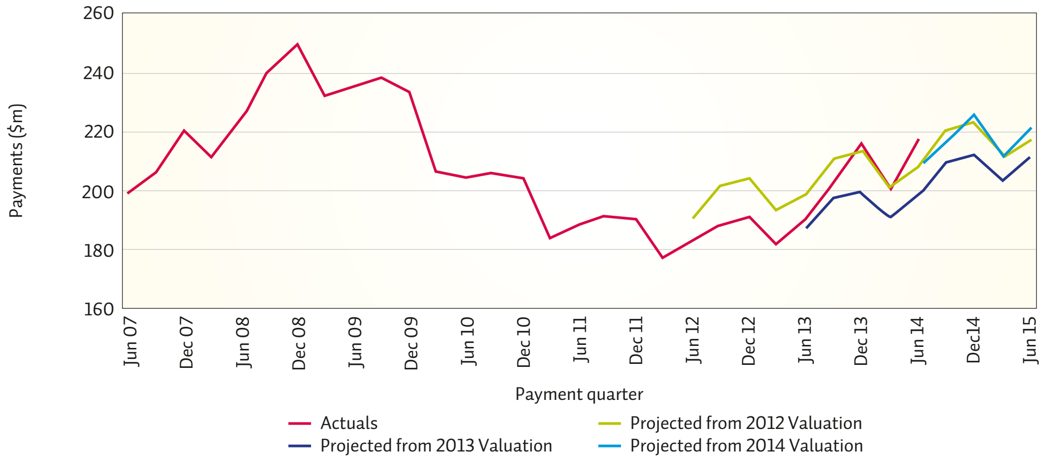
3.1.10 The following sections outline the insurance experience for the four largest payment types. For each payment type the experience is considered and related to its impact on the OCL. A reduction in the OCL merely means that the experience has been better than that previously assumed. The determination of the OCL is discussed in Section 7.

3.2 Non-fatal Weekly Compensation

3.2.1 The payments for non-fatal weekly compensation decreased between 2011 and 2013 with a total reduction in liability of $1,665m. However, in the past year the liability has increased by $65m in response to recent growth in new claim numbers.

3.2.2 Graph 8 shows quarterly claim payments from June 2007 to June 2014 and the expected payments from the June 2014 valuation and the two previous June valuations.

GRAPH 8 – NON-FATAL WEEKLY COMPENSATION CLAIM PAYMENTS



3.2.3 Claim payments increased up to December 2008, followed by decreases until June 2011. Between June 2011 and June 2013 payments were fairly stable. However, the past year has seen a sizeable increase in payments, exceeding the level of increase expected by the valuation.

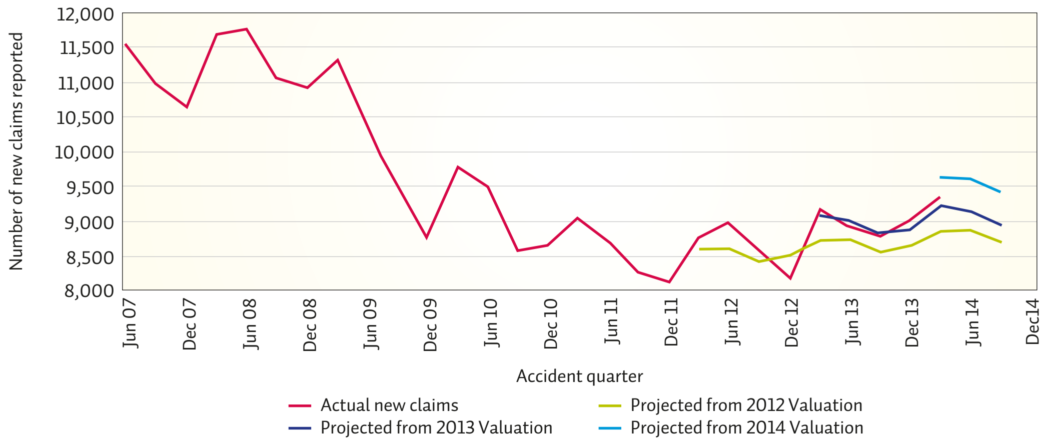
3.2.4 Projected claim payments from the June 2011 to 2013 valuations reduced, in line with actual experience. However, the June 2014 valuation has been adjusted upwards in response to the recent increase in new claims volumes.

3.2.5 There are a number of influences on claim payments such as wage inflation and growth in the number of workers. However, the two key drivers of claim payments are the number of new claims and the rehabilitation rates of continuing claims.

Claim Numbers

3.2.6 Graph 9 shows the number of new weekly compensation claims reported by accident quarter and the projections from the current and last two valuations.

GRAPH 9 – NUMBER OF NEW WEEKLY COMPENSATION CLAIMS BY ACCIDENT QUARTER



3.2.7 The number of new claims reported each quarter was relatively stable up to March 2009, averaging more than 11,000. Between March 2009 and December 2012 this decreased to around 8,500 and stabilised. This decrease was largely driven by a focus on helping clients to stay at work following injury, and the downturn in the economy.

3.2.8 Graph 9 shows claims reported in the first quarter following accident. However, over the last couple of years there has been a significant increase in the number of new claims that are reported later than the quarter of accident. This trend is being investigated to see whether a management response is warranted.

3.2.9 The economic environment has a considerable impact on claims experience. In a downturn, the following impacts are seen, all of which lead to lower numbers of weekly compensation claims reported:

- Lower numbers employed.
- Fewer new employees (who are generally more at risk of injury) are hired.
- Workers who have received minor injuries are less inclined to report them due to job security concerns.

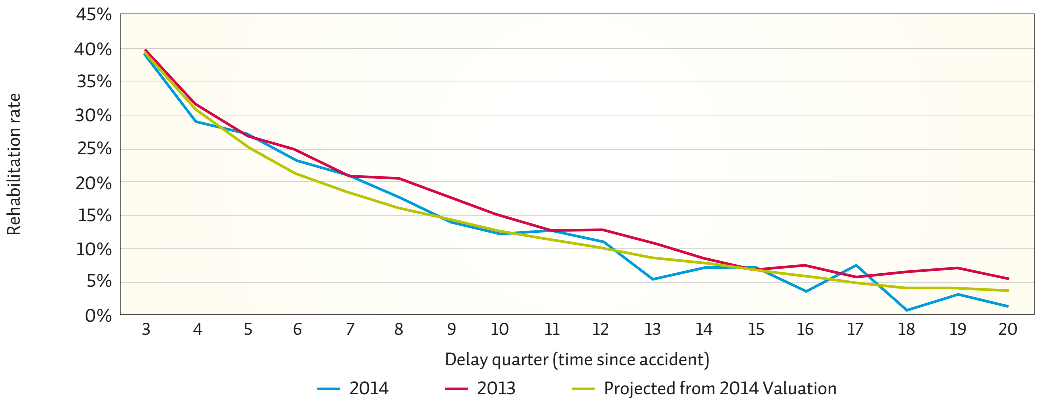
3.2.10 All these factors reverse in an economic recovery, which has been seen in the last year. Since December 2012 the number of new claims has increased, averaging around 9,000 per quarter. This increase appears to be systemic across Accounts and injury causes.

3.2.11 While the impact of growth in new weekly compensation claim volumes will be partially offset by increased levy revenue from higher levels of employment, there is a risk that this growth will lead to a commensurate increase in the usage of other services and ultimately higher long-term claims volumes. Managing this risk requires an increased focus on appropriate and timely rehabilitation.

Rehabilitation Rates

3.2.12 Graph 10 compares rehabilitation rates for the three years following accident for claims paid weekly compensation during 2013 and 2014 with the assumptions included in the 2014 valuation. The first nine months are excluded, as the rehabilitation rates at these early durations are distorted by the delays in claim reporting patterns. Rehabilitation rates in the early periods are best considered in the context of the 70- to 365-day rates, which are discussed in paragraph 1.4.35.

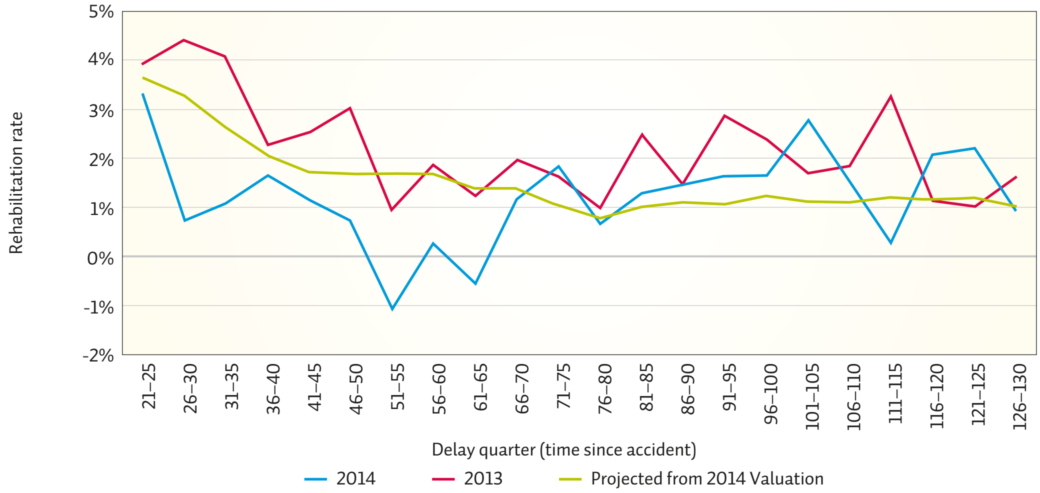
GRAPH 10 – WEEKLY COMPENSATION REHABILITATION RATES FOR THE FIRST THREE YEARS FOLLOWING ACCIDENT



3.2.13 For delay quarters in the first three years, rehabilitation rates for 2014 have reduced when compared to 2013 but are broadly in line with the valuation assumptions. However, for delay quarters from quarter 13 the recent experience has been consistently below the valuation assumptions.

3.2.14 Graph 11 shows the rehabilitation rates for claims that are still receiving weekly compensation more than four years after accident.

GRAPH 11 – WEEKLY COMPENSATION REHABILITATION RATES FOR DURATIONS FOUR YEARS AND OVER



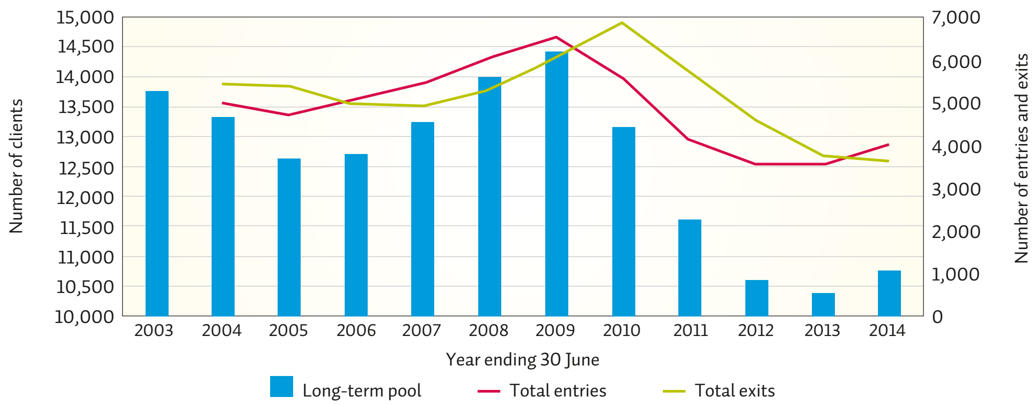
3.2.15 In the past year the rehabilitation rates for longer durations have deteriorated when compared to 2013 and the valuation assumptions. Some of the durations have had negative rehabilitation rates. This is because the number of new weekly compensation claims arising from older accidents and former weekly compensation claims reopening has exceeded the number of claims exiting. This is expected to have a moderate impact on the OCL. This experience is being investigated, as it is not fully understood what the key drivers are. We do note that the number of clients receiving weekly compensation after surgery has also increased since 2009, particularly for injuries in older accident periods (discussed further in paragraph 3.5.8).

3.3 Long-Term Weekly Compensation Pool

3.3.1 The long-term weekly compensation pool is made up of claims that have received payments for more than 365 days. The claims in the pool tend to be more complex and therefore require more focussed management. The management of these claims is discussed in more detail in Section 6.6. Long-term claims make up about 40% of the liability for weekly compensation. It should be noted that the number of long-term claims should naturally increase over time as the Scheme matures and the population increases.

3.3.2 Graph 12 shows the number of long-term claims over time and the number of clients entering and exiting the pool.

GRAPH 12 – LONG-TERM WEEKLY COMPENSATION CLAIMS



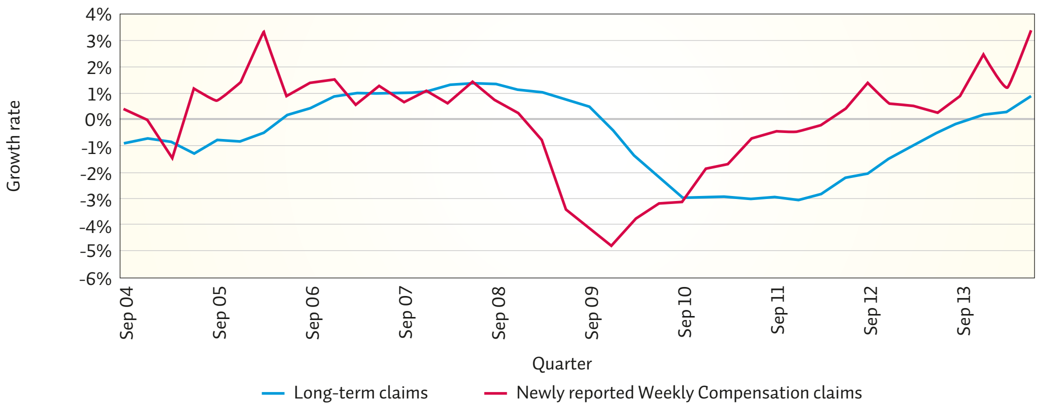
3.3.3 The number of long-term claims increased from 2006 to 2008 due to the increasing claims volumes and falling rehabilitation rates. This increase was reversed significantly as claims volumes fell post 2009 and the Recover Independence Service, which provided targeted rehabilitation for clients in receipt of weekly compensation for more than two and a half years, was established. However, the downward trend has reversed in 2014.

3.3.4 Entries have increased over the past year, while exits have fallen. In 2014 the number of entries to the long-term pool exceeded the number of exits for the first time since 2009. Exits have been declining as the number of clients in the pool able to be fully rehabilitated has dropped. In the longer term the number of claims entering and exiting the long-term pool should stabilise and the pool should grow in line with population growth and the maturity of the Scheme.

3.3.5 Included in the long-term claims pool are clients who have returned to work on a part-time basis. These clients receive abated weekly compensation payments, so while the number of claims does not change, there is a decrease in the weekly compensation amount paid. Over the past year 14% of long-term clients have returned to part-time work, a slightly higher proportion than last year (12%). This is particularly beneficial for long-term clients, as once clients return to part-time work they are more likely to increase working hours gradually until they are able to return to full-time work.

3.3.6 The increase in entry rates to the long-term pool can be directly linked to growth in new weekly compensation claims volumes as shown in Graph 13. In general, the trend for new long-term claims has lagged that for new claims.

GRAPH 13 – COMPARISON OF THE RATES OF QUARTERLY GROWTH IN LONG-TERM CLAIMS AND NEWLY REPORTED WEEKLY COMPENSATION CLAIMS



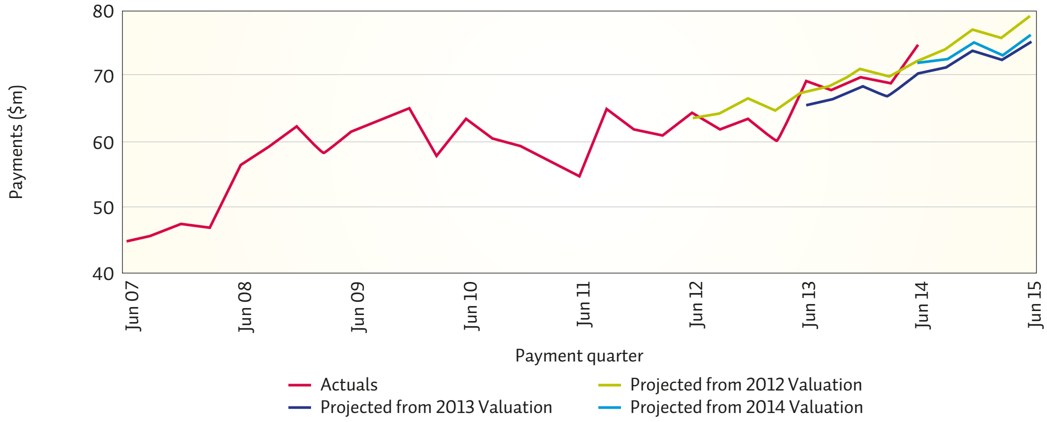
3.3.7 Management has hired additional frontline staff in response to the increase in the long-term weekly compensation claims pool. As these new staff are trained and gain experience they should help improve claim outcomes. Further to this, the resources and capabilities within the specialist Recover Independence Service (see paragraph 6.6.2) are being applied to all long-term clients, i.e. from 365 days duration rather than 912 days, as was previously the case.

3.4 Social Rehabilitation – Serious Injury

3.4.1 The experience for social rehabilitation care (non-capital) paid to seriously injured clients was generally favourable from 2010 to 2013, with quarterly payment trends remaining relatively flat. However, over the last year payments have increased by $27m (10.4%), largely due to growth in attendant care support which comprises some 65% of payments.

3.4.2 Graph 14 shows quarterly claim payments for care from June 2007 to June 2014 and the expected payments from the June 2014 valuation and the two previous June valuations.

GRAPH 14 – SOCIAL REHABILITATION – SERIOUS INJURY CARE PAYMENTS



3.4.3 As experience improved from 2011 to 2013, the valuation projections were correspondingly reduced. In the last year actual experience has been slightly higher than projected. This increase has been factored into the 2014 projection.

3.4.4 Payments per quarter expected by the valuation increase with time due to inflation and an increasing number of serious injury claims. Each year, new serious injury claims are added but few are expected to exit the pool. The majority of seriously injured clients are expected to remain on claim for their lifetime.

3.4.5 The increase in payments since the June 2013 quarter has been largely driven by growth in attendant care for claims greater than four years from accident, which comprise some 90% of the total attendant care paid. Growth in these older claims has come from both the number of claims requiring care support (3.7%) and increases in average care costs (7.5%). Average costs have increased due to both average rates paid and hours of care provided.

3.4.6 In response to the growth in attendant care hours, management undertook a desktop review of approximately 100 case files. This showed that procedures and benchmarks were not in all cases being adhered to. Management has since undertaken actions to re-enforce the correct application of procedures and benchmarks. The June 2014 quarter saw a reduction in attendant care hours, with this continuing into the September quarter.

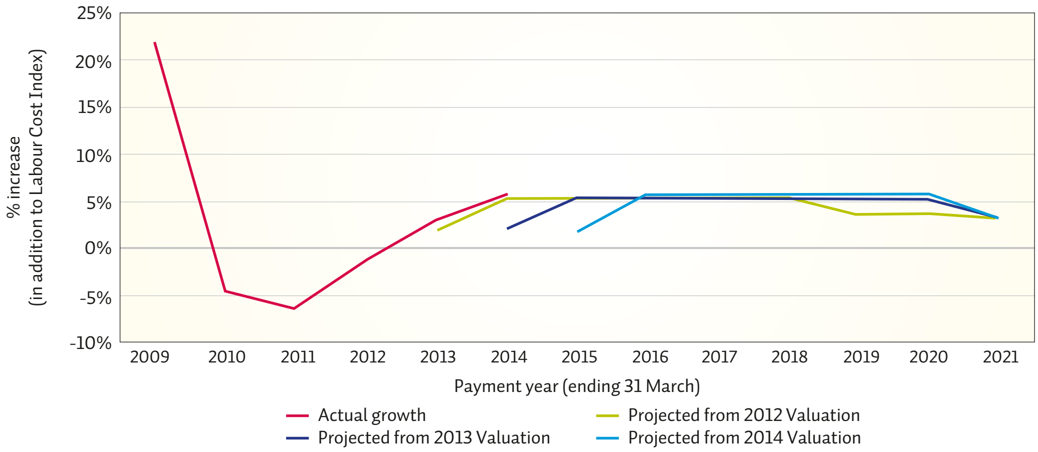
3.4.7 Despite the reduction in attendant care hours, overall payments for the June 2014 quarter increased. This was due to a spike in active rehabilitation payments, particularly for new claims. Both new claims volumes and active rehabilitation payments tend to be volatile. As such this is not a cause for alarm at this stage.

Growth in Care Packages

3.4.8 There are three sources of growth in care packages: an increase in average hours provided, private carers transferring to agency care and an increase in the rates paid to carers.

3.4.9 Graph 15 shows the annualised growth in care packages above inflation compared to the assumptions from the June 2014 valuation and the two previous June valuations.

GRAPH 15 – ANNUALISED GROWTH RATES IN CARE PACKAGES



3.4.10 Care package hours decreased from 2010 to 2012 as care provided was reviewed against established benchmarks appropriate for the type and severity of injuries. Hours are expected to generally increase over time, due to increasing needs as clients age. As noted above, recent increases have been higher than expected. Management's response appears to have had a satisfactory result.

3.4.11 Rates paid to carers vary depending on the type of care – contracted agency carers receive a higher rate than non-contracted family/private carers. Therefore the rate at which family carers transfer to agency care impacts the growth in the average rate paid to carers.

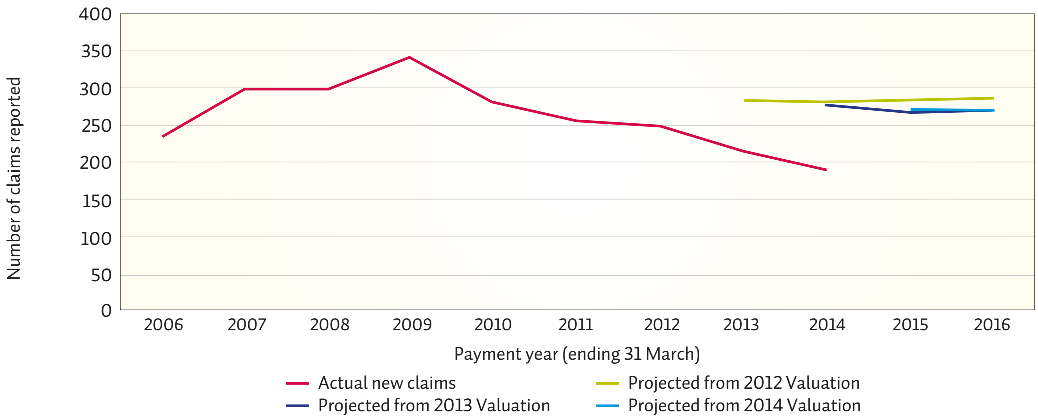
3.4.12 In recent years the rate at which family carers have moved to agency care has stabilised. Management has undertaken a series of initiatives to reduce the incentives to switch, including introducing self-management and recommending increases to the regulated rates paid to non-contracted carers.

3.4.13 The OCL assessment assumes that the three factors combine to contribute approximately 5.6% growth above inflation per annum until 2020, reducing beyond that date. This is an important driver of the OCL and requires on-going management.

Number of New Serious Injury Claims Reported

3.4.14 Graph 16 shows the number of new serious injury claims reported since 2006.

GRAPH 16 – NEW SERIOUS INJURY CLAIMS



3.4.15 The number of claims reported increased between 2006 and 2009 but has been decreasing since. This decrease is partly due to safety improvements that have reduced not only the number of fatal injuries but also the number of serious injuries. Another contributor to this is a reduction in exposure during the economic recession, e.g. less participation in more expensive and riskier leisure activities such as skiing. This pattern is particularly noticeable in the Motor Vehicle, Earners' and Non-Earners' Accounts.

3.4.16 The graph does not include claims that have been incurred and reported but not yet classified as serious injury. Therefore the most recent years of experience are likely to be understated to some extent. This has been allowed for in the assessment of the OCL.

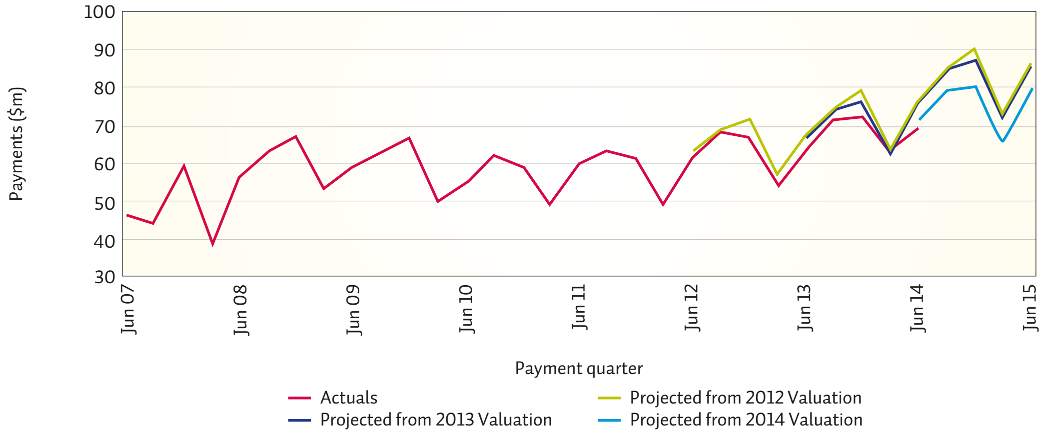
3.5 Elective Surgery

3.5.1 The insurance experience for elective surgery has generally been favourable over the past three years. In total this favourable experience has resulted in a reduction in liability of $175m, of which a reduction of $52m relates to experience in the past year.

3.5.2 Unlike other payment types, elective surgery is not directly affected by rehabilitation rates. Elective surgery is of itself a one-off event, although in many cases further surgery is required, which may occur many years later.

3.5.3 Graph 17 shows actual quarterly claim payments from June 2007 to June 2014 and the expected payments from the June 2014 valuation and the two previous June valuations.

GRAPH 17 – ELECTIVE SURGERY CLAIM PAYMENTS

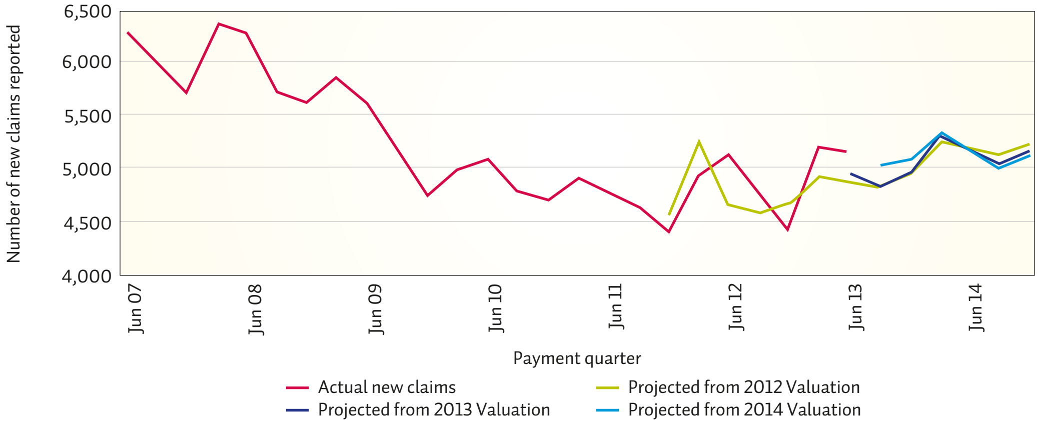


3.5.4 Claim payments increased until December 2008, driven by both the number of claims and average cost. Since December 2008 payments have stabilised at around $50m-$60m per quarter, due to claim numbers reducing slightly and average cost increases being contained. In the past two years there has been a slight increase in payments, but at a level lower than projected by the valuation. Some level of increase is expected due to inflation and population growth.

Claim Numbers

3.5.5 The number of new claims per quarter decreased by approximately 1,000 during the 2009 year and has remained relatively stable since, as shown in Graph 18.

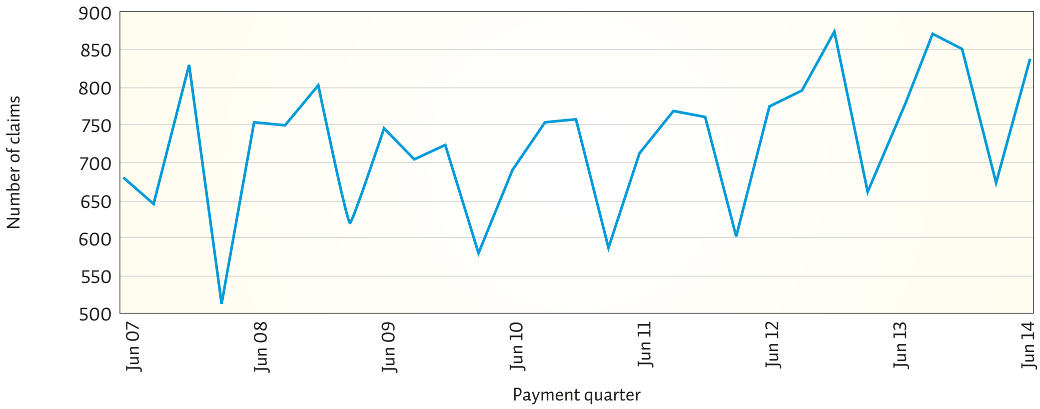
GRAPH 18 – NEW ELECTIVE SURGERY CLAIMS REPORTED WITHIN ONE YEAR OF ACCIDENT



3.5.6 This reduction in claim numbers has been predominantly due to a focus on ensuring that elective surgery requests are only accepted when injuries are wholly or substantially accident related.

3.5.7 Although the total number of claims has been relatively stable, Graph 19 shows that the number of claims receiving surgery more than 10 years after accident has been trending upwards over the past four years.

GRAPH 19 – ELECTIVE SURGERY CLAIMS MORE THAN 10 YEARS SINCE ACCIDENT



3.5.8 This trend increased the elective surgery liability by $95m in the 2013 financial year, before the flatter experience of the last year led to a liability reduction of $16m. When combined with associated medical and compensation costs, these claims constitute a moderate financial risk.

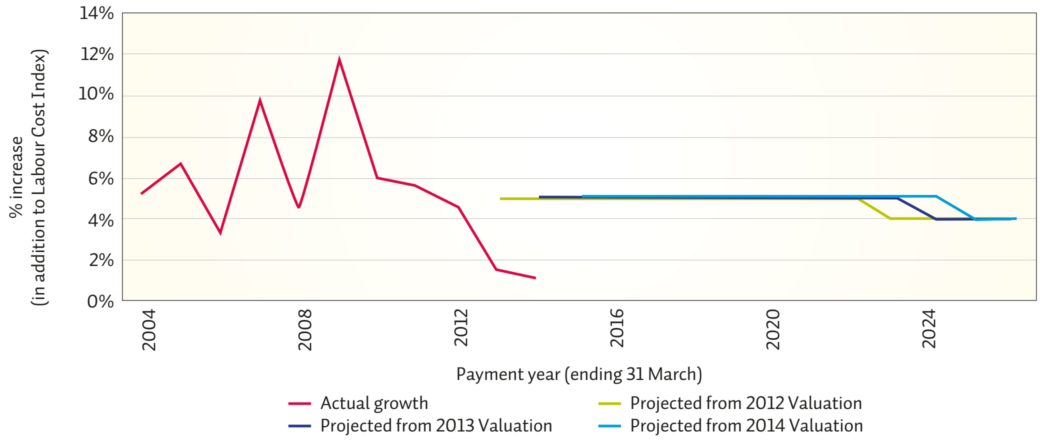
3.5.9 Claims at older durations tend to be more expensive as delays can make surgery more complicated and older-aged clients are more likely to have co-morbidities. Between 30% and 50% are repeat surgeries to replace deteriorating implants. The growth in claims with co-morbidities at older ages represents a risk to the Scheme, which is discussed further in Section 9.8.

Cost per Claim and Superimposed Inflation

3.5.10 The average cost per elective surgery claim had been increasing at a rate in excess of 5% per annum above normal inflation for several years before 2012. This phenomenon of increases above normal inflation, generally referred to as superimposed inflation, is not unusual in the health sector and is widely recognised around the world. However, over the last two years superimposed inflation has reduced significantly.

3.5.11 Graph 20 shows the historical levels of superimposed inflation and the expected levels from the June 2014 valuation and the two previous June valuations.

GRAPH 20 – ELECTIVE SURGERY SUPERIMPOSED INFLATION



3.5.12 Superimposed inflation has generally been driven by increases in underlying surgical rates and a general shift towards more complex surgeries, which naturally are more expensive. Since 2010 contract price increases have been limited to levels close to underlying economic inflation. The last two years of experience is a pleasing result. However, historically such gains have not been sustained. This remains an area requiring management attention.

3.5.13 We note considerable work is being undertaken in this area through the elective services review which is discussed in paragraph 1.4.29.

3.6 Medical Payments

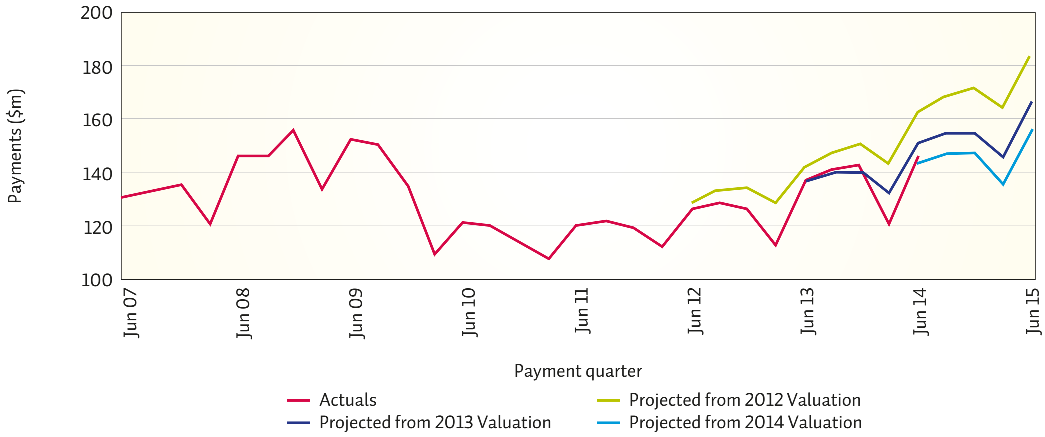
3.6.1 Medical payments are made to primary care providers. They consist of the following four categories:

- General practitioners (GPs).
- Radiology.
- Physiotherapy.
- Other medical, including specialist consultations, acupuncture, dental treatment and counselling.

3.6.2 The insurance experience for medical payments has been favourable for each of the past three years. In total this favourable experience has resulted in a reduction in liability of $538m, of which $68m has occurred in the past year.

3.6.3 Graph 21 shows quarterly medical payments from June 2007 to June 2014 and the expected payments from the June 2014 valuation and the two previous June valuations.

GRAPH 21 – MEDICAL CLAIM PAYMENTS



3.6.4 Medical payments were increasing until mid-2009, at which point there was a significant decrease. Following a period of stability up to December 2011, medical payments have been slowly increasing.

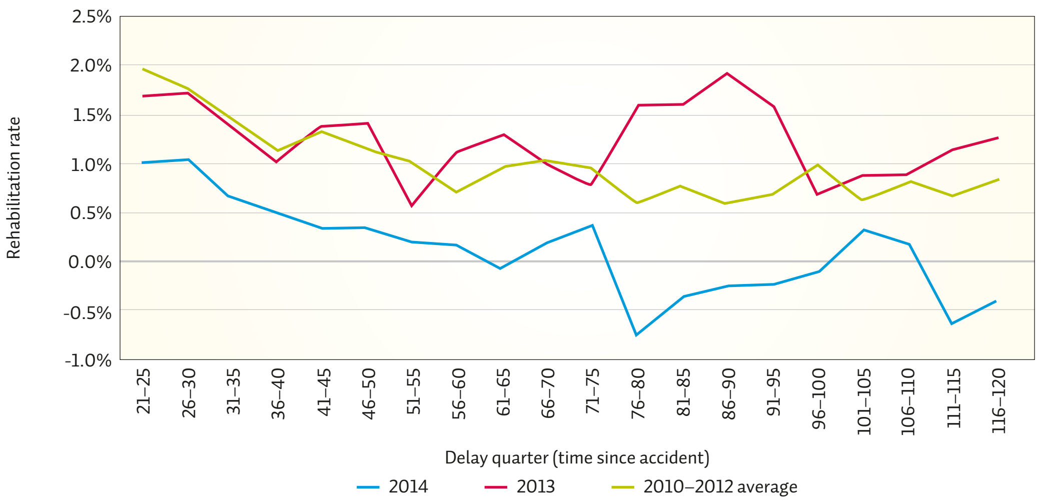
3.6.5 Projected claim payments have reduced in successive valuations for the past few years, as payments have not increased at the rates assumed.

Claim Numbers

3.6.6 The majority of claims receive some form of medical payment, so the number of new medical claims is very similar to the number of total claims. As shown in Graph 7 and discussed in paragraph 3.1.7, claim frequencies have increased in the last two years following several years of decreasing or flat experience. The level of growth seen to date has been allowed for in the valuation; however the increasing experience needs to be monitored.

3.6.7 Graph 22 shows the rehabilitation rates for claims that are still receiving medical services five or more years after accident.

GRAPH 22 – REHABILITATION RATES FOR LONG-TERM MEDICAL CLAIMS



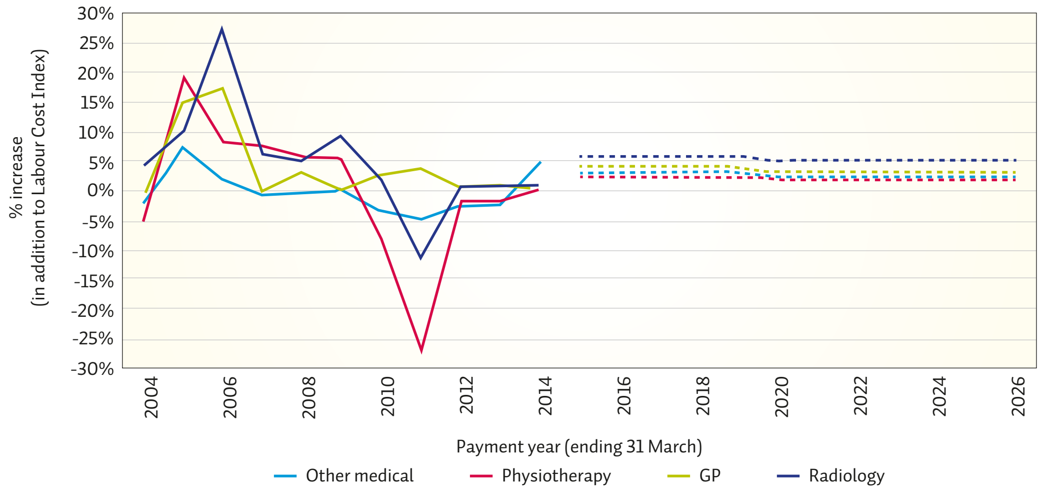
3.6.8 Rehabilitation rates for claims receiving medical treatment from five years after accident were lower in 2013/14 than in previous years. The most recent year has seen some negative rehabilitation rates, which have been caused by reopened claims exceeding the number of exiting claims. Indications are that this is particularly prevalent with claims receiving the following services:

- Dental – with significant changes to regulations on 1 April 2014 leading to dentists proactively contacting clients who had not kept up to date with repeat procedures.
- Specialists – this is consistent with the increasing number of older elective surgery claims (discussed further in paragraph 3.5.8). Surgeon consultations pre-surgery are recorded as specialist medical claims.
- GPs – this is likely to be linked with weekly compensation which is showing the same trend (discussed further in paragraph 3.2.15).

Cost per Claim and Superimposed Inflation

3.6.9 As with elective surgery, medical payments experience superimposed inflation. Graph 23 shows the historical levels of superimposed inflation (solid lines) for other medical, physiotherapy, GP and radiology treatments and the expected future levels projected from the June 2014 valuation (dotted lines).

GRAPH 23 – MEDICAL SUPERIMPOSED INFLATION



3.6.10 In the past 10 years all medical payment types have experienced considerable volatility in superimposed inflation. In the period from 2004 to 2008 there was a high level of superimposed inflation for all medical services. Since then a number of factors, including the economic downturn, the re-introduction of co-payments and contract changes, have meant that superimposed inflation was virtually nil, except for Other Medical where it has increased to 5% in the most recent year.

3.6.11 The 2013 Financial Condition Report recommended further analysis of the key drivers of superimposed inflation for medical payments with a view to determining whether the current assumptions remained appropriate. The key findings from this analysis are described below.

GP

3.6.12 Clients have increasingly chosen Accident and Medical (A&M) services, which are charged at a higher rate, over traditional GPs in the past few years, due to the convenience and timeliness of A&M services. This trend has been particularly pronounced in the younger age groups and is therefore likely to continue in the long term.

3.6.13 There appears to be a move towards coding treatments at the higher cost categories. This shift in mix appears unlikely to be driven by underlying injuries. The large volume of claims presents challenges in auditing the coding, as discussed in paragraph 6.9.1. However, there is a question as to whether more checks and balances should be considered.

Physiotherapy

3.6.14 The cost per claim under the current physiotherapy services contract has been flat since 2009 while under the Cost of Treatment Regulations it has increased steadily since 2011, at about 3% p.a., which is 1.2% above average Labour Cost Index (LCI) growth. In 2014, the cost per claim under regulations was 23% more expensive than the cost under contract.

3.6.15 Currently one-third of claims are paid under regulations and the rest under contract. However, 2% of the service providers per year have switched from contract to regulations. This trend is likely to continue in the next few years.

3.6.16 Providers under regulations have the option of charging an hourly rate or per treatment. Since 2011 the number of hours charged has increased dramatically whereas the number of treatments charged has decreased. This suggests further investigation is needed to understand the charging structure of these services.

Other Medical

3.6.17 The key drivers of long-term costs are dental, specialist and counselling services.

3.6.18 Dental costs have been controlled in recent years by regular reviews of treatments covered by regulations, and clearer definitions of which methods of treatment are the most appropriate.

3.6.19 The superimposed inflation for specialist services has been 1% p.a. on average for the last few years.

3.6.20 Counselling has had high superimposed inflation in the last few years. The new sensitive claims contract, coming into effect later in 2014, will remove the client co-payment and allow more services to be covered. It is anticipated that the amount of counselling provided per sensitive claim will grow in response.

Radiology

3.6.21 The main drivers of superimposed inflation in radiology are:

- increased usage of higher cost high-tech imaging (HTI) services
- increased usage of both low-tech imaging and HTI services for the same claim
- increased number of treatments accessed per claim.

3.6.22 A period of high superimposed inflation led to a one-off contract change in 2010 to bring the cost of HTI services down. This led to a period from 2011 to 2013 of much lower levels of superimposed inflation. However, it is unclear yet if the decrease in price inflation is a step change that has brought the costs down to a new level permanently or whether it is just part of the general economic and overall Scheme cycle.

Summary

3.6.23 The superimposed inflation assumptions for medical payments appear to be appropriate given current trends and drivers, except for physiotherapy which could be lowered slightly. The analysis and conclusions have been discussed with the external valuation actuaries.

3.7 Treatment Injury Account

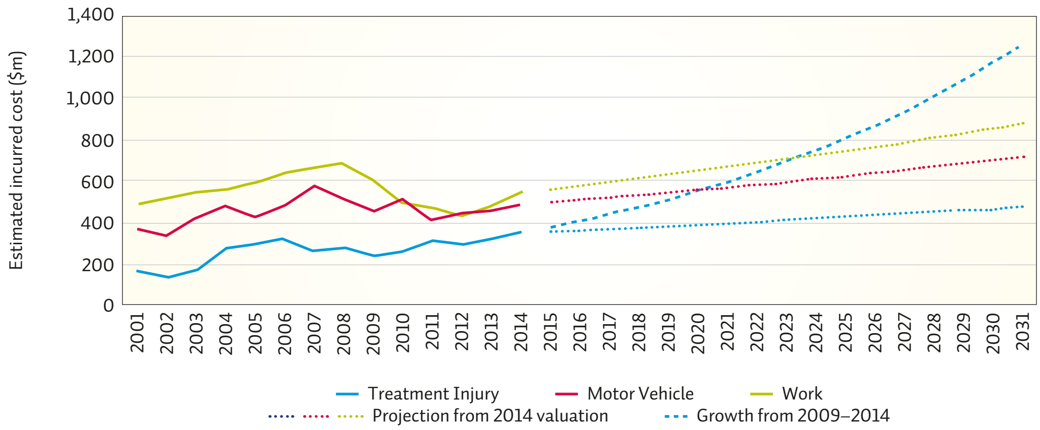
3.7.1 The Treatment Injury Account covers injuries that occur as a result of medical treatment by registered health professionals. Costs in the Treatment Injury Account have increased 45% since 2009 and continued to increase in the last year.

3.7.2 A significant contribution to the growth is claim frequency, shown in Graph 39 in Appendix A. While other Accounts' claim frequencies generally fell over the period from 2009 to 2012, the Treatment Injury Account has increased fairly consistently. Since 2009 claim frequency has increased 38%, which is significantly higher than for any other Account.

3.7.3 The other factor is cost per claim. Two-thirds 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. Thus, superimposed inflation is higher in the Treatment Injury Account than in other Accounts.

3.7.4 Graph 24 compares the actual experience and latest valuation projections of the Treatment Injury Account with those of the Motor Vehicle and Work Accounts.

GRAPH 24 – TREATMENT INJURY ACCOUNT INCURRED COSTS



3.7.5 The 2014 valuation projection assumes little growth for future accident years. However, incurred costs have increased 45% since 2009. The causes are not fully understood, but contributing factors are likely to include an expansion of coverage and increased reporting.

3.7.6 The key financial risk is growth continuing at the rate seen from 2009 to 2014. If this were to occur, Graph 24 highlights that the Treatment Injury Account would surpass the size of the Motor Vehicle and Work Accounts by 2020 and 2023 respectively.

3.7.7 The eventual outcome is likely to be somewhere in between the valuation projection and extrapolated past growth. This represents a significant financial risk. Treatment Injury is an area requiring focus. The 2013 Financial Condition Report recommended:

- the development of 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
- with respect to treatment injury, investigate alternatives for levying providers ahead of recommending a suitable course of action.

3.7.8 There is an opportunity to partner more with other stakeholders in the health sector on this issue. Work completed to date on these recommendations is discussed in Section 11.5. This work needs to progress.

3.8 Claims Experience After 30 June 2014

3.8.1 It has been noted that claims experience deteriorated slightly over the 2014 financial year, with performance slightly below expectations earlier in the financial year before increasing new claims volumes started to have an impact in the latter half of the year.

3.8.2 In the quarter to 30 September 2014, new claims volumes continued to increase at a higher rate than expected, particularly for weekly compensation. The 70- to 365-day rehabilitation rates are stable, but the rehabilitation rates for the longer durations are at levels below valuation expectations. This is expected to have a moderate impact on the liability.

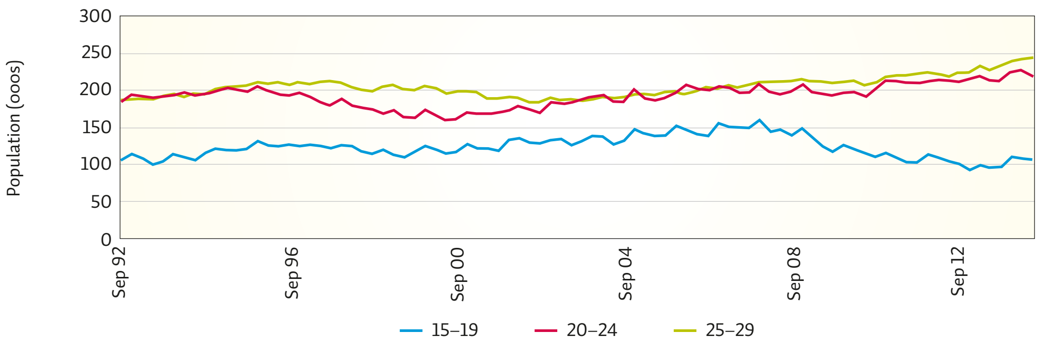
3.8.3 Given the changes in claims experience over the year, it is important that management be able to respond swiftly. This includes understanding the drivers in a timely manner to enable business changes, if required. This requires an analytical culture and the tools to be able to monitor and act systematically. While analysis is currently being undertaken, there is more to do in this direction. Work on developing a stronger analytical capability is progressing.

3.9 Future Expectations

3.9.1 This section provides some observations on key factors that are expected to impact future claims experience. Projections of future claims costs are provided in Section 9.6.

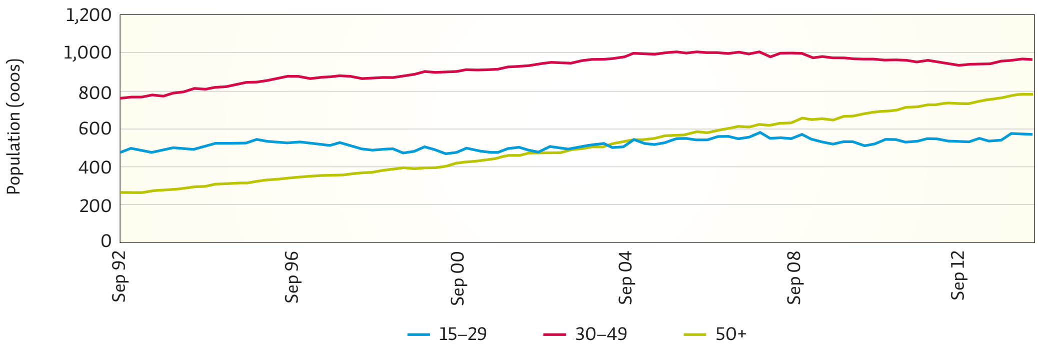
3.9.2 Paragraphs 3.2.9 to 3.2.11 outline how the economic environment impacts on new claims volumes. It is useful to briefly consider the employed population demographics, as illustrated by Graph 25 and Graph 26, which drive the economic environment. In an insurance context, this is essentially the policyholder base.

GRAPH 25 - EMPLOYED POPULATION AGED 15–29 BY AGE GROUP



3.9.3 It can be seen that the recent economic recession has impacted the employment of those aged 15 to 19 the most, with a substantial decrease in this group from 2008 to 2012. As the economy continues to recover, it is expected that the recent increase seen in the number employed in this age group will continue. This age group tends to exhibit higher than average claim frequency, which is likely to lead to a marginal increase in overall claims volumes over the next year.

GRAPH 26 – TOTAL EMPLOYED POPULATION BY AGE GROUP



3.9.4 The employed population aged over 50 is steadily increasing, and has been for many years. Older clients tend to have lower claim frequencies than the rest of the population, but they tend to take longer to recover. Therefore in the longer term it would be expected that claims would have longer durations, putting pressure on rehabilitation rates compared with historical norms. The age ceiling of 65 years for weekly support will limit weekly compensation costs, however the usage of other services is likely to increase. This will have a long-term impact on claims experience. More detail on the impact of an ageing population on the Non-Earners' Account claims experience can be found in Section 5.5.

3.10 Conclusion

3.10.1 After several years of reducing claims costs, the last financial year has seen a moderate increase.

3.10.2 Weekly compensation has been the key driver, with a substantial increase in new claims. Work done to date shows that claims volumes tend to move with macroeconomic conditions, with the unemployment rate explaining approximately 75% of the variation over time. This work is continuing in order to identify other systematic factors that may contribute to new claims growth. Management has responded to the new claims by increasing claims management staffing levels. The 70-day rehabilitation rate has fallen substantially. Management is investigating the cause. The rehabilitation rates from 182 days to three years after accident have come off historical highs, but remain satisfactory. The longer duration rehabilitation rates have deteriorated to a level below valuation expectations. Management is investigating.

3.10.3 Serious Injury attendant care costs increased substantially through the year, but the experience in the most recent quarters, including September 2014, has improved. This suggests that management's response has had the desired effect, ensuring that growth does not rise to unsustainable levels.

3.10.4 Elective surgery experience has been slightly favourable throughout the year, with low superimposed inflation a highlight. However, the continued growth in claims at older durations represents a risk.

3.10.5 Medical claim numbers have been slowly increasing, although superimposed inflation is under control at present.

3.10.6 We recommend that the investigations into the deterioration in the 70-day and longer duration (greater than three years) rehabilitation rates continue, to ensure that management can respond effectively.

4. Expenses

4.1 Overall Expenses

4.1.1 In this section expenses are separated into five categories: claims handling, investment, operating, injury prevention and levy collection. The last three are collectively referred to as "administration expenses".

4.1.2 Table 10 shows the expenditure for 2014 and compares this with the budget as well as the previous two years.

TABLE 10 – EXPENSES

($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total	2014 Budget	2013 Actual	2012 Actual
Claims handling expenses	**40.5**	**84.6**	**138.8**	**93.3**	**19.0**	**376.2**	**359.9**	**330.7**	**315.3**
Net operating costs	6.9	4.0	9.0	27.3	0.3	47.4	54.3	47.2	60.9
Injury prevention costs	9.7	5.5	6.7	12.0	0.1	34.0	40.0	22.4	23.0
Levy collection costs	1.1	0.1	19.6	18.0	0.0	38.9	38.7	37.4	41.3
Administration expenses	**17.7**	**9.6**	**35.2**	**57.3**	**0.4**	**120.3**	**133.0**	**107.1**	**125.2**
Investment expenses	16.0	6.4	14.4	13.8	5.3	55.9	63.9	60.7	54.0
Total expenses	74.2	100.7	188.4	164.4	24.7	552.4	556.8	498.5	494.4

4.1.3 Overall expenditure for 2014 was 1% lower than budget but 11% higher than 2013, mainly due to the increases in injury prevention costs (discussed in Section 4.3) and claims handling expenses. These increased from 2013 by 52% and 14% respectively.

4.1.4 Movements in the individual expense categories are discussed in more detail below.

4.2 Claims Handling Expenses

4.2.1 Table 11 compares claims handling expenses with claim payments.

TABLE 11 – CLAIMS HANDLING EXPENSES

	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total	2014 Budget	2013 Actual	2012 Actual
Claims handling expenses (CHE) ($M)	40.5	84.6	138.8	93.3	19.0	376.2	359.9	330.7	315.3
Claim payments ($M)	424.7	850.1	952.2	607.2	124.8	2,959.0	2,867.6	2,639.2	2,603.0
CHE/Claim payments	9.5%	10.0%	14.6%	15.4%	15.2%	12.7%	12.6%	12.5%	12.1%

4.2.2 Claims handling expenses, which comprise two-thirds of total expenses, have increased by $45.5m (14%), 50% more than the budgeted increase. The ratio of claims handling expenses to claim payments has, however, increased only marginally.

4.2.3 Contributing to the budgeted increase was the introduction in 2014 of a new standard employment contract which required one-off increases to move some staff to new salary bands and increased employer contributions to the ACC superannuation scheme. There was also a budgeted increase in claims management staff for file-checking actions taken to ensure privacy. Employee numbers ultimately increased 9.3% to 2,240, which was higher than budgeted, in response to the higher than expected new claims volumes.

4.2.4 Over 60% of the claims handling expenses are 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 Administration Expenses

4.3.1 Table 12 compares administration expenses with levy income.

TABLE 12 – ADMINISTRATION EXPENSES

	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total	2014 Budget	2013 Actual	2012 Actual
Administration expenses ($M)	17.7	9.6	35.2	57.3	0.4	120.3	133.0	107.1	125.2
Levy income ($M)	1,064.6	907.3	1,406.2	1,029.2	324.2	4,731.4	4,614.6	4,715.7	4,866.7
Expense ratio	1.66%	1.06%	2.51%	5.57%	0.13%	2.54%	2.88%	2.27%	2.57%

4.3.2 The 2014 expense ratio of 2.54% was 12% higher than 2013, but below budget and comparable to 2012.

4.3.3 Total administration expenses increased by $13m (approximately 12%) from 2013, only half the budgeted increase. This was due to two factors:

- Costs for the SOF programme budgeted to be incurred in 2014 being deferred until 2015.
- The budgeted increased investment in injury prevention not being fully realised.

4.3.4 Injury prevention investment is expected to continue to rise next year as the organisation develops its capability. This additional spend is expected to produce a commensurate return through reduced claim costs. See paragraphs 1.4.5 to 1.4.17 for more details.

4.3.5 The administration expenses for the Non-Earners' Account have increased by 56% as a result of investment in the Injury Prevention Falls programme.

4.3.6 The Work Account has the highest expense ratio of 5.57% predominantly due to the higher operating costs associated with supporting employer levy payers and workplace injury prevention programmes. The Non-Earners' and Motor Vehicle Accounts' expense ratios are comparatively low due to low levy collection costs. The expense ratio for the Treatment Injury Account is very low because, in addition to the low levy collection costs, there is currently little injury prevention activity.

4.3.7 Potential injury prevention activities related to treatment injury are currently being explored. This includes working with the Ministry of Health to identify ways of working with District Health Boards.

4.4 Investment Expenses

4.4.1 Table 13 compares investment expenses with funds under management. This includes all costs associated with external parties managing investment funds.

TABLE 13 – INVESTMENT EXPENSES

	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total	2014 Budget	2013 Actual	2012 Actual
Investment expenses ($M)	16.0	6.4	14.4	13.8	5.3	55.9	63.9	60.7	54.0
Average assets ($M)	7,452.6	2,671.9	6,628.1	6,373.4	2,415.0	25,541.1	26,986.0	21,891.8	19,504.9
Investment expenses/average assets	0.21%	0.24%	0.22%	0.22%	0.22%	0.22%	0.24%	0.28%	0.28%

4.4.2 Investment expenses decreased by $4.8m (8%) from 2013 with lower than anticipated funds allocated to external fund managers, a lower percentage allocation to equities and a lower than average commission rate. The rate of investment expenses, at 0.22% of funds under management, is highly competitive.

4.5 Conclusion

4.5.1 The organisation's expenses, excluding investment expenses, were 10% of levy income in 2014. Comparisons with other insurers are difficult to make for a number of reasons. ACC is much larger than other insurers so should be expected to have certain economies of scale, but 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, and incurs significant expenses due to its relationship with the Crown. In this context, an expense ratio of 10% of levy income appears to be satisfactory. We note that the expense ratio is expected to increase as levies are reduced in future years.

5. Pricing

5.1 Process for Setting Levy Rates

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

5.1.2 Following consultation, the Board considers feedback received prior to making levy recommendations to the Minister for ACC. Final levy rates are determined by Cabinet.

5.1.3 The levy-setting approach involves an extended timeframe. Levies are currently set one year prior to their adoption following a lengthy consultation period. This limits the ability to react to insurance experience as it develops but also limits over-reaction. A claims trend cannot often be responded to in a timeframe of less than two years. Furthermore any response to experience may be limited due to the political nature of levy decisions.

5.1.4 The Board is required to have a policy on fully funding the levied Accounts when making its levy recommendations. The funding policy is discussed in Section 9.2.

5.2 Levy Rates

5.2.1 Table 14 shows the levy rates that have applied in the past three years and those consulted on and decided for 2015/16.

TABLE 14 – RECENT-YEAR LEVY RATES

	Motor Vehicle Account (per vehicle)*	Earners' Account (per $100 of liable earnings)	Work Account (per $100 of liable earnings)
2012/13	$334.52	$1.48	$1.15
2013/14	$330.68	$1.48	$1.15
2014/15	$330.68	$1.26	$0.95
2015/16 consultation	$200.00	$1.20	$0.75
2015/16 decision	$195.00	$1.26	$0.90

**including Motorcycle Safety Levy*

5.2.2 The levies for the Work and Earners' Accounts reduced in 2014/15 as a result of both reductions in the costs of claims and rapidly improved funding positions. The strength of the funding positions meant that further reductions were expected.

5.3 Consultation for 2015/16

5.3.1 Recommended levy rates for the 2015/16 year were determined on the following basis:

- Claims experience assumed to continue as per recent trends.
- Best estimate investment returns given current and expected future market conditions.

- Risk-free interest rates develop over time as implied by the New Zealand Government bond yield curve at 31 December 2013.

5.3.2 On this basis the Board consulted on the following levy rates for 2015/16 (all GST exclusive):

- Earners' Account – $1.20 per $100 of liable earnings (down from $1.26).
- Work Account – $0.75 per $100 of liable earnings (down from $0.95).
- Motor Vehicle Account – $200 per vehicle (down from $330.68).

5.3.3 These are all average rates. In the case of the Work and Motor Vehicle Accounts, different rates apply to different industries and vehicle types respectively. Both the Earners' and Work Account rates apply up to a maximum salary level, which is consistent with the maximum weekly compensation amount payable under the Scheme.

5.3.4 Table 15 shows the composition of the proposed levies, and compares them with the 2014/15 levy year.

TABLE 15 – 2015/16 CONSULTATION LEVIES

	Motor Vehicle Account (per vehicle)*		Earners' Account (per $100 of liable earnings)		Work Account (per $100 of liable earnings)	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
Cost of new claims	$116.35	$120.02	$0.94	$0.97	$0.56	$0.57
Expenses	$21.87	$19.52	$0.27	$0.27	$0.17	$0.17
Incentive programme funding/Motorcycle Safety Levy	$0.75	$0.75	$0.00	$0.00	$0.06	$0.04
Funding adjustment	$191.71	$59.71	$0.05	-$0.04	$0.16	-$0.03
Average current year levy	**$330.68**	**$200.00**	**$1.26**	**$1.20**	**$0.95**	**$0.75**

**including Motorcycle Safety Levy*

5.3.5 The cost of new claims is projected to increase in all Accounts in line with superimposed inflation for medical and rehabilitation costs. Unlike the other two Accounts, the Motor Vehicle Account rate is expressed as a rate per vehicle. This results in the projected cost of new claims in the Motor Vehicle Account also increasing in line with standard inflation. Allowance has also been made for a projected increase in claim volumes in the Earners' Account of approximately 2% above population growth.

5.3.6 Expenses have decreased in the Motor Vehicle Account. Expenses include the lost investment return due to the average timing delay of levy receipt. As total levies are reducing significantly this reduces the cost of the levy delay.

5.3.7 The main features to note are the funding adjustments. As discussed in Section 9.5 the Earners' Account is approaching the top of its funding band and the Work Account is close to its target. As such, the Board has determined that it is appropriate to reduce levies. The Motor Vehicle Account is at the bottom of its funding band. In order to smooth levy rate reductions as the funding target is approached, the Board has determined that this levy also needs to be reduced.

5.3.8 The funding adjustment reported for the Work Account comprises two items: the residual levy of $0.31, which is set in legislation, and the remaining funding adjustment of -$0.34. As noted earlier in this report, the residual levy acts in the nature of a funding adjustment, and as such we have generally simply combined the two items. However, in the Work Account the split between the two is of consequence as the residual levy is charged to all employers, including those in the Accredited Employer Programme (AEP), whilst the remaining funding adjustment is not charged to AEP employers.

5.3.9 The purpose of the residual levy is to fund pre-1999 claims. Previously the cost of these claims was assessed as generally increasing, such that a greater burden over time was being put on employers with respect to these claims. In 2009 the Government fixed the total amount to be collected via residual levies to guard against this. Since then, with the general improvement in the Scheme's claims experience, the estimate of the pre-1999 claim costs has decreased to be substantially below the amount fixed in 2009.

5.3.10 The matter of consequence is that AEP employers are now subsidising non-AEP employers. To some extent this can be argued to be an outcome of the transaction undertaken when the residual levy amount was fixed. Had claim costs continued to increase, AEP employers would have been subsidised; given that they did not, the reverse must also apply. However, on balance, the result seems unsatisfactory. ACC has sought advice from Crown Law on whether the AC Act allows a change to the approach. The advice is that a change to legislation would be required to resolve this issue.

5.3.11 In its advice to the Minister for ACC on the 2015/16 levy rates, the Board recommended that no changes be made to the average levy rates consulted on. Changes to the split between petrol levy and licence fee for petrol-powered vehicles and adjustments to the rating table for risk rating of light passenger vehicles were made in the Motor Vehicle Account reflecting submissions from levy payers during the consultation.

5.3.12 We are satisfied that the levy rates consulted on are adequate to meet the cost of the coming year's claims and are consistent with the funding policy. Further, we consider that the levy rates are sustainable, barring some major change to economic conditions or Scheme performance.

5.4 Government Decision

5.4.1 The Government announced its decision on 5 August to reduce the average Motor Vehicle Account levy to $195 and the average Work Account levy to $0.90. The Government maintained the Earners' Account levy unchanged at $1.26.

5.4.2 The higher than recommended Work and Earners' Account levies mean that these Accounts will, all other things being equal, accumulate further funds in excess of the Board's funding target. This also implies that a faster reduction in levy rates than consulted on will ultimately be required.

5.5 Non-Earners' Account

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

5.5.2 As detailed in Section 9.3, claims incurred prior to 1 July 2001 are funded on a pay-as-you-go basis, with post-2001 claims fully funded (excluding risk margins). Any surplus or deficit from the pay-as-you-go target is recouped immediately in the following year. Any surplus or deficit from the fully funded target is recouped in the following three years.

5.5.3 The appropriation for the 2014/15 year compared with those in 2013/14 and 2012/13 is set out in Table 16.

TABLE 16 – NON-EARNERS' ACCOUNT APPROPRIATION

Appropriation ($000)	2012/13	2013/14	2014/15
Cost of new claims	1,002,991	1,015,245	1,027,772
Expenses (incl. claims handling expenses)	66,931	87,409	90,784
Funding adjustment	-47,662	-104,089	-272,951
Pay-as-you-go	105,556	114,059	114,897
Total	**1,127,816**	**1,112,623**	**960,501**

5.5.4 The majority of the appropriation is in respect of claim costs expected to arise in the coming year. The funding adjustment is becoming increasingly negative, even as the cost of claims increases. The total appropriation amount in 2014/15 is less than the cost of new year claims. This is because the Non-Earners' Account fully funded portion is above its funding target as discussed in Sections 9.5 and 9.6.

5.5.5 This funding adjustment can lead to some volatility in the Government's appropriation from year to year. The volatility is likely to increase in dollar terms as the post-1 July 2001 liability grows.

5.5.6 We consider the approved Government appropriation to be adequate and consistent with the funding policy as determined by Cabinet.

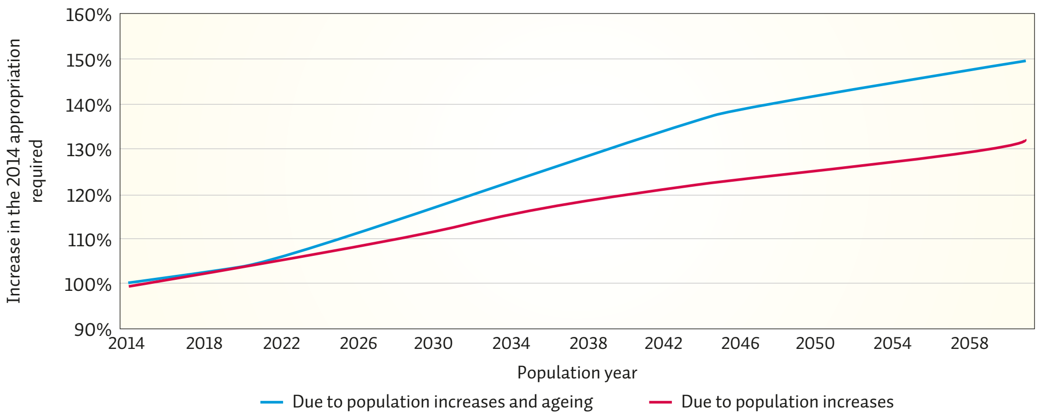
Quantification of the Effects of an Ageing Population

5.5.7 Following the recommendation in the 2013 Financial Condition Report, we have investigated the effects of the ageing population on the Non-Earners' Account funding requirements.

5.5.8 Population projections show the number of people aged 65 and over is expected to increase by 138% from 2014 to 2061, while the population aged less than 15 is only expected to increase by 8%. The entire non-earner population is estimated to increase by 32%, broadly in line with the total population increase. Although population ageing has a significant effect, the increased labour force participation among older people is expected to dampen the effect on the Non-Earners' Account.

5.5.9 Graph 27 shows how the appropriation is expected to increase in today's dollars, due to demographic and labour force changes.

GRAPH 27 – INCREASES IN THE APPROPRIATION REQUIRED DUE TO POPULATION AGEING



5.5.10 It is expected that a 32% increase in the appropriation will be required by 2061 due to population increases. A further 17% is required due to changes in the age distribution. This does not take into account any future economic or health changes. Whilst the long-term cost implications are significant, the immediate impact on the appropriation is expected to be small, at approximately 0.5% per annum.

5.5.11 Population ageing will have different effects on various payment types. For example, social rehabilitation requirements for non-serious injuries are expected to increase as the number of elderly who utilise care increases. Management has recognised the need to consider the operational impacts of these increases and work is ongoing to ensure an appropriate response, as discussed in paragraphs 9.8.2 and 11.4.9.

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 at an efficient cost to the New Zealand economy.

6.2 Front-End Claims Management

6.2.1 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.

6.2.2 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. For these claims there is no involvement other than making payments for the medical services rendered.

6.2.3 The approach is characterised by high claim numbers, easy entry and quick recovery and is highly efficient from an administrative viewpoint. It does, however, expose the Scheme to risks that claims are paid that are not injury related and some claims may be over serviced. These risks are balanced against claim escalation and trigger points that allow the management of claims as they are identified as being complex or potentially long term, or as treatments go beyond identified norms given the particular injuries.

6.3 Claim Screening

6.3.1 All claims that continue beyond the initial treatment phase are screened for long-term risk and/or complexity. In comparison with other injury compensation schemes, ACC has established robust standard screening processes. Screening determines:

- the level of risk of extended duration, based on psycho-social screening that helps to identify other factors in the client's life that may impede recovery, rehabilitation and return to independence
- the potential for the client to recover at work, if temporary adjustments to the work environment can be made.

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

6.3.3 Once a client is supported by a case manager, there is an expectation that at all times an action plan will be in place. Most clients referred to case management recover quickly – around 50% of workers who are approved for weekly compensation return to work within four weeks.

6.4 Low-Complexity Claims

6.4.1 Claims are managed within the short-term claim centres if full recovery is expected within 10 weeks and complexity indicators are low. The primary concern for these claims is to ensure a rapid return to work or independence. Once someone is out of work for a long period there is a risk that they will develop psychological and other conditions that can have damaging long-term health impacts. The management focus is on medical treatment, early intervention, vocational support, rehabilitation progress against injury norms, and the monitoring of any developing psycho-social issues.

6.5 High-Complexity Claims

6.5.1 Typically claims are case managed if it is expected that the clients will need support for an extended duration (usually 10 weeks or more), or a range of support services will be needed.

6.5.2 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 are able to arrange the provision of advice for clients on alternative employment opportunities.

6.5.3 Long-term claims are managed within certain legislative parameters:

- **Rehabilitation** – needs assessments must consider only the levels of need 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, 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 so, entitlement to weekly compensation can end three months after this decision has been made.

6.6 Long-Term Weekly Compensation Claims

6.6.1 Clients who receive weekly compensation for 52 weeks have a high likelihood of continuing to claim for extended periods, as by this stage they have often lost contact with their employers and may also have developed psychological and other health issues. Once clients have reached this point they are reviewed more actively for their rehabilitation prospects.

6.6.2 With increasing claims volumes ACC has recently reallocated resources to ensure that a high level of service for clients continues. If weekly compensation continues to 2.5 years' duration, clients are assigned to the Recover Independence Service, which comprises case managers with the particular skills required to manage the usually difficult issues involved with these very long-term claims.

6.7 Serious Injury Clients – Lifelong Disability

6.7.1 There are currently approximately 5,000 clients with serious injuries. In many of these cases lifelong support will be provided. All of these claims are managed by the National Serious Injury Service, which comprises specialised case managers.

6.7.2 The primary goal of case 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 able to be achieved), and otherwise to ensure that the appropriate levels of support service are available.

6.7.3 Support is also provided to clients whose injuries are not severe enough to be classified as serious injury. For some of these individuals long-term care is provided – traumatic brain injury is one area where claims often require similar support.

6.7.4 Management is reviewing the files of clients who are on the cusp of being serious injury and whose needs are complex, to ensure their needs are met. Where appropriate these clients will be managed in a similar way to seriously injured clients, and be able to access the same services.

6.8 Recent Changes to Claims Management

Claims Management by Third Party Administrators

6.8.1 A trial programme of partnering with Third Party Administrators (TPAs) commenced on 1 July 2013. Under this trial TPAs have been contracted to provide a non-work injury claims service to selected accredited employers.

6.8.2 Thirty-five employers are now participating in the trial with 2,700 claims so far having been transferred to their TPAs for management. Trial results to date show that anticipated recovery times are being achieved. Surveys of participating employers and employees have also shown positive service experience results.

Strategic Procurement of Health and Rehabilitation Services

6.8.3 A range of initiatives is being undertaken in the procurement of health and rehabilitation services, designed to improve client outcomes. These include:

- the Home and Community Support Service launched in September 2012. A recently completed review identified strong support from all stakeholders for the limited vendor model introduced and a number of opportunities for refinement, particularly around building knowledge amongst staff in how to use the service optimally to support and achieve rehabilitation outcomes
- a joint national Spinal Cord Impairment Action Plan with the Ministry of Health
- the Vocational Rehabilitation Services implemented in 2012 which are achieving positive return to work outcomes for clients, with 85% of clients indicating a high level of satisfaction with this service in 2013/14
- integration of the initial medical assessments, vocational independence medical assessments and clinical reviews of fitness for work into the vocational rehabilitation contract
- the new Child and Adolescent Rehabilitation Service, a national service for children who have suffered complex injuries and require a period of inpatient transition into the community following discharge from hospital
- the new Traumatic Brain Injury Residential Rehabilitation service which provides adult clients who have sustained moderate to severe traumatic brain injuries with a high-intensity residential rehabilitation service that facilitates early and supported transitions from acute services.

Client Service Optimisation

6.8.4 The Client Service Optimisation (CSO) project aims to improve resource allocation and decrease variances in clinical outcomes by predicting optimal return-to-work timeframes.

6.8.5 As part of the CSO project two new Service Needs Assessment teams have been deployed. Their function is to prioritise new weekly compensation claims using predictive analytics.

6.9 Conclusion

6.9.1 The claims process is designed to process efficiently the very large number of low-complexity claims received every year. Whilst this does expose the Scheme to some risks of covering non-injury-related conditions and over-servicing, these risks are offset by the administrative efficiencies gained through the approach.

6.9.2 Recent changes in claims management are designed to improve the customer experience and provide quality outcomes. The success of these changes will be measured through the quality performance framework discussed in paragraph 1.4.3.

7. Liability Valuation

7.1 Summary of Approach

7.1.1 ACC undertakes a valuation of its OCL every six months. This valuation complies with the New Zealand Equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts (NZ IFRS 4), issued by the New Zealand Institute of Chartered Accountants, and Professional Standard No. 4.1 – Valuations of General Insurance Claims, issued by the New Zealand Society of Actuaries.

7.1.2 The calculation of the OCL is outsourced to PwC, whose report, "Accident Compensation Corporation – Valuation of Outstanding Claims Liabilities as at 30 June 2014", dated 28 August 2014, was prepared by Paul Rhodes FNZSA FIA, Michael Playford FNZSA FIAA and Darryl Frank FIAA.

7.1.3 The OCL is calculated by forecasting expected future cash flows associated with accidents that occurred prior to 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 expected cash flows is undertaken separately by payment type. The main payment types analysed are shown in Table 17 along with the valuation methodology adopted.

TABLE 17 – 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 who have suffered serious injuries	Individual projection
Social rehabilitation – non-serious injury	Non-vocational rehabilitation services provided to clients who have not suffered serious injuries	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 noted are described briefly below:

- **Payment per active claim** – the number of future active claims is projected based on the number of starting claims and an assumed rate of discontinuance. 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 time in order to calculate the expected cash flows.
- **Payment decay** – future cash flows are projected based on the starting level of payments and an assumed rate of reduction over time.

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

7.2 Key Assumptions

7.2.1 The assumptions used in establishing the OCL are required to be "best estimate" (i.e. they should not contain any deliberate bias towards conservatism or optimism). The liability produced from these assumptions is considered to be a "central estimate".

7.2.2 The key assumptions used in determining the OCL can be separated into two broad groups:

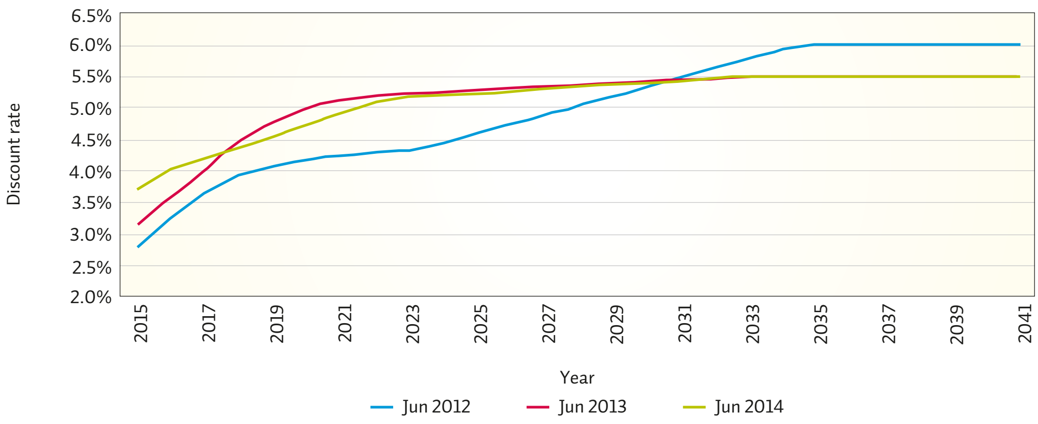
- **Economic assumptions** – these apply to all payment types, being discount and underlying inflation rates.
- **Claims experience assumptions** – assumptions made in order to estimate future cash flows, primarily rehabilitation rates, superimposed inflation (i.e. health inflation in excess of underlying economic inflation) and claims handling expenses. These are set separately by Account.

Economic Assumptions

7.2.3 Under NZ IFRS 4, discount rates are required to be "risk free". For this purpose Treasury prescribes the risk-free rates that are 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. A smoothing methodology is used to transition between the last observed short-term rate and the assumed long-term rate.

7.2.4 The discount rates used in the liability valuation as at 30 June 2014, together with the rates used in the two previous valuations, are shown in Graph 28.

GRAPH 28 – DISCOUNT RATES – APPLICATION OF THE YIELD CURVE TO LIABILITY



7.2.5 Over the past year short-term rates have increased and medium-term rates have reduced. The assumed long-term rate prescribed by Treasury is unchanged. Overall, this has resulted in a small OCL decrease of $93m.

7.2.6 Inflation rates are set by payment type in order to reflect the differing economic drivers of cost. Table 18 outlines the payment types to which the inflation assumptions are applied.

TABLE 18 – APPLICATION OF INFLATION ASSUMPTIONS

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

7.2.7 The assumptions for future CPI rates are specified by Treasury. The assumptions for future rates of AWE and LCI have been set relative to the CPI assumptions, based on historical differences between the relevant indices. The assumptions used in the 30 June 2014 liability valuation are shown in Table 19.

TABLE 19 – INFLATION ASSUMPTIONS FOR YEAR ENDED 30 JUNE

Year	AWE	CPI	LCI
2015	3.10%	1.89%	2.30%
2016	3.10%	2.10%	2.30%
2017	3.10%	2.10%	2.30%
2018	3.10%	2.10%	2.30%
2019	3.10%	2.10%	2.30%
2020	3.10%	2.10%	2.30%
2021	3.10%	2.10%	2.30%
2022	3.10%	2.10%	2.30%
2023	3.10%	2.10%	2.30%
2024	3.14%	2.10%	2.34%
2025	3.18%	2.14%	2.38%
2026	3.22%	2.18%	2.42%
2027	3.26%	2.22%	2.46%
2028	3.30%	2.26%	2.50%
2029	3.34%	2.30%	2.54%
2030	3.38%	2.34%	2.58%
2031	3.42%	2.38%	2.62%
2032	3.46%	2.42%	2.66%
2033	3.50%	2.46%	2.70%
2034	3.50%	2.50%	2.70%
2035+	3.50%	2.50%	2.70%

7.2.8 The smoothing period to long-term levels has been increased, resulting in lower inflation assumptions for the years 2015 to 2032. Long-term inflation assumptions are unchanged. The impact of the change is $830m, of which approximately $400m is due to the change of smoothing period. The size of this impact highlights the financial risk posed to the Scheme by inflation.

Claims Experience Assumptions

7.2.9 Claims experience assumptions are reviewed annually, in light of actual experience since the previous valuation.

7.2.10 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. This is because the rates tend to be volatile, often due to small volumes of data, whilst changes to assumptions can have large impacts.

7.2.11 The main assumption changes were:

- a $23m increase in rehabilitation rate assumptions. This was driven by an increase in the future claim numbers for elective surgery in older accident years and a reduction in the rehabilitation rates for social rehabilitation for non-serious injuries. This increase was partially offset by an improvement in the rehabilitation rates for independence allowance
- legislative changes of $118m driven by changes to hearing loss and sensitive claims entitlements.

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

7.3 Risk Margins

7.3.1 As noted, the application of the assumptions discussed above produces a "central estimate" of the OCL. This central estimate has an equal likelihood of being overstated or understated. NZ IFRS 4 requires insurers to add a risk margin to the OCL to increase the likelihood that the final OCL is ultimately sufficient to meet the claims to which it relates. NZ IFRS 4 does not specify the required level of the risk margin, but industry practice is to add a margin to the 75% sufficiency level (which means that the reported OCL will be sufficient to meet claim payments 75% of the time). ACC follows this industry norm.

7.3.2 The risk margins added to the central estimate to meet the 75% sufficiency requirement are shown in Table 20. These have been changed since the 2013 assessment.

TABLE 20 – RISK MARGINS

Account	Risk Margin 2013	Risk Margin 2014
Motor Vehicle	13.4%	13.8%
Non-Earners'	13.8%	13.8%
Earners'	11.2%	11.6%
Work	12.1%	11.6%
Treatment Injury	14.7%	13.8%
Total risk margin	**12.9%**	**12.9%**

7.3.3 For the 30 June 2014 assessment, risk margins have been combined across the following Account groups:

- Earners' and Work (shorter duration Accounts)
- Motor Vehicle, Non-Earners' and Treatment Injury (longer duration Accounts).

7.3.4 The change in risk margins has resulted in a minimal increase in the OCL of $4m.

7.4 Claims Handling Expenses

7.4.1 The OCL must include an allowance for claims handling expenses. These are allowed for 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.

7.4.2 The claims handling expenses liability excludes significant one-off costs for the SOF programme, which have been included in the 2015 budget. Due to the difficulty of accurately identifying the SOFprogramme costs, the projection was based on the 2014 budget. This method produces long-term results that are consistent with current budget forecasts.

7.4.3 Consequently, there has been no movement in the claims handling expense liability due to claims experience and modelling.

7.5 Results

7.5.1 The results of the liability valuation as at 30 June 2014 are shown in Table 21. This shows the current OCL, the OCL as at 30 June 2013 and major causes of change.

TABLE 21 – LIABILITY VALUATION AT 30 JUNE 2014

($M)	Liability at 30 June 2014	Changes Due to New Risk Margins	Changes Due to Economic Assumptions	Changes Due to Experience and Modelling Changes	Expected Increase	Liability at 30 June 2013
Medical costs	2,095.1	0.7	-85.1	-20.7	165.3	2,035.0
Elective surgery	2,705.7	2.1	-114.7	-52.3	223.9	2,646.7
Social rehabilitation	12,399.1	-0.9	-540.5	502.6	485.6	11,952.3
Compensation related	6,772.6	0.8	-175.4	76.0	168.3	6,702.9
Other	1,891.1	0.9	-60.4	61.4	-53.1	1,942.3
Claims handling expenses	1,832.8	0.2	-67.5	0.0	16.9	1,883.2
Total liability	**27,696.4**	**3.8**	**-1,043.6**	**567.0**	**1,006.9**	**27,162.3**

7.5.2 The OCL as at 30 June 2014 was $27.696b. This was an increase of $534m from the previous OCL. The OCL was expected to increase by $1.007b over the year. This reflects that the Scheme is not yet mature, so we expect new claims to come on to the Scheme at a greater rate than they are removed. The OCL is also expected to grow with underlying population growth and inflation.

7.5.3 The OCL increased by $567m due to experience and modelling changes. Part of this increase was driven by policy and regulatory changes relating to hearing loss entitlements and sensitive claims.

7.5.4 Changes due to economic assumptions decreased the OCL by $1,044m. This was a result of:

- an increase in discount rates resulting in a reduction of $93m
- a decrease in inflation rates resulting in a reduction of $430m
- an increase in the smoothing period for inflation rates resulting in a reduction of $400m
- a decrease in actual inflation in 2014 from that expected, resulting in a decrease of $121m.

7.6 Sensitivity Analysis

7.6.1 Many of ACC's claims are very long term in nature. This makes assessments of the OCL highly sensitive to long-term assumptions. Table 22 shows the sensitivity of the liability to changes in several key assumptions.

TABLE 22 – SENSITIVITY ANALYSIS OF OCL

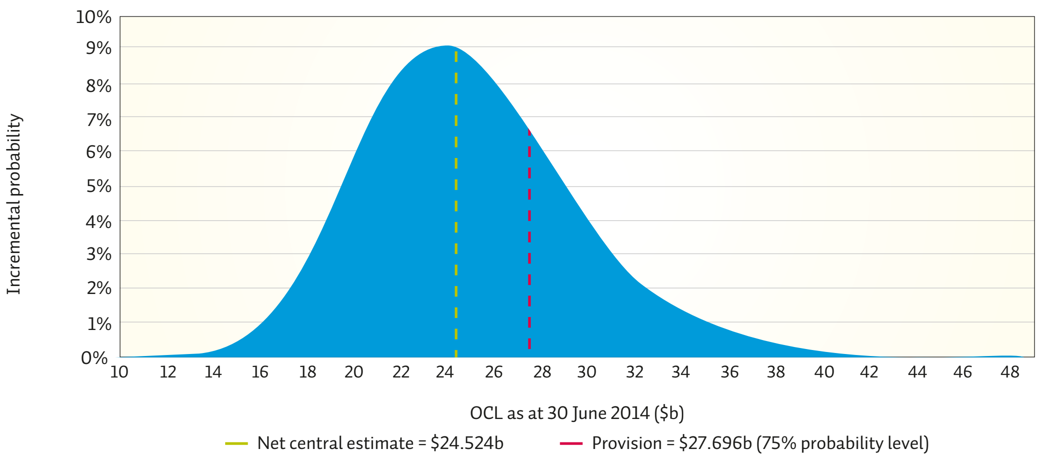
Key Assumption	Scenario	Impact on Liability ($M)
	Liability as at 30 June 2014	**27,696**
Discount rates	Increase of 1%	-3,585
	Decrease of 1%	4,759
Inflation rates	Increase of 1%	4,917
	Decrease of 1%	-3,754
Long-term gap between discount rates and inflation rates	Increase of 0.5%	-576
	Decrease of 0.5%	911
Discounted mean term	+1 year	-826
	-1 year	852
Growth in care packages - social rehabilitation for serious injury	Increase of 1% after 2 years	2,433
	Decrease of 1% after 2 years	-1,792
Superimposed inflation - excluding social rehabilitation for serious injury	Increase of 1%	1,053
	Decrease of 1%	-792
Long-term continuance rates for non-fatal weekly compensation	Increase of 1% pa	702
	Decrease of 1% pa	-586
Long-term continuance rates for elective surgery	Increase of 1% pa	585
	Decrease of 1% pa	-426
Mortality rates for social rehabilitation for serious injury	Increase of 10%	-365
	Decrease of 10%	404
Medium- to long-term claim size for non-fatal weekly compensation	Reduced by 10%	-647
Long-term claim size for elective surgery	Reduced by 10%	-242

7.6.2 All long-term assumptions can have significant impacts on the OCL, although the economic assumptions have the largest effect.

7.6.3 From the levy payer's perspective, these sensitivities can be considered in the context of levy rates. Underlying annual claim costs are approximately $3.7b, so a $1b change in the OCL, assuming that the effect is spread over five years, translates to roughly a 5% change in levy rates. Of course the actual impact on levies is dependent on other factors and will not necessarily be evenly distributed across the Accounts.

7.6.4 Graph 29 shows the distribution of potential estimates of the OCL, excluding the risk margin. This shows the wide variability in ACC's financial performance, with estimates generally ranging between $15b and $36b. This highlights the need to view ACC's performance with an appropriately long time horizon.

GRAPH 29 – ESTIMATED DISTRIBUTION OF OCL AT 30 JUNE 2014



7.7 Unexpired Risk Provision

7.7.1 NZ IFRS 4 requires that a Liability Adequacy Test (LAT) be performed. This tests that the provision for unearned premiums in the balance sheet is sufficient to meet the claims and associated expenses that are expected to arise during the period covered by the unearned premiums.

7.7.2 To the extent that the LAT shows a deficit, an unexpired risk provision is required to be established.

7.7.3 The LAT is conducted separately by Account, but excludes the Non-Earners' Account as levies are paid monthly, meaning that there is no unearned premium liability.

7.7.4 In past years risk margins applied in the LAT were set at higher levels than those used for the purposes of the OCL. As part of the review discussed above, the risk margins for the LAT have been reduced to the same level as used for the OCL.

7.7.5 Table 23 sets out the LAT results.

TABLE 23 – LIABILITY ADEQUACY TEST

	2014				2013
($000)	Motor Vehicle Account	Earners' Account	Work Account	Total	Total
Present value of costs of injuries	166,911	968,582	432,997	1,568,490	1,572,876
Plus: Allowance for expenses	6,156	32,208	36,966	75,330	79,068
Plus: Risk margin	23,034	112,356	50,228	185,617	286,752
Less: Unearned levy liability	386,439	911,596	637,642	1,935,677	2,241,710
Unexpired risk liability (set to 0 if negative)	**0**	**201,549**	**0**	**201,549**	**42,077**

7.7.6 The LAT shows that an unexpired risk provision of $201.5m was required at 30 June 2014, which was $159.4m higher than the provision of $42.1m at 30 June 2013. The surpluses in the Motor Vehicle and Work Accounts cannot be offset against the deficit in the Earners' Account.

7.7.7 Previously the levy for the Earners' portion of the Treatment Injury Account was included in the calculation for the Earners' Account. This has now been excluded as these funds are not available for the Earners' Account.

7.7.8 At 30 June 2013 there was a net surplus of $303m (being the surplus in the Motor Vehicle and Work Accounts less the unexpired risk provision). At 30 June 2014 there was a net surplus of $106m. The total reduction in surplus of $197m was driven by a number of factors:

- The unearned levy liabilities had reduced causing a deficit of $313m. This was a combination of:
  - levies for the Earners' and Work Accounts being reduced
  - the levy for the Treatment Injury portion of the Earners' Account being excluded.
- The Treatment Injury portion of Earners' cost of injuries was correspondingly excluded, providing a surplus of $122m.
- There was an expected deficit of $78m at 30 June 2014, mostly from the Earners' Account.
- The reduction in risk margins as discussed above generated a surplus of $92m.
- Discount rates increased slightly overall causing a surplus of $7m.
- An increase in new claims expenditure during 2014 above expected causing a deficit of $27m.

7.7.9 The Motor Vehicle Account was significantly underfunded and as such the current levies are much higher than the underlying cost of claims. Hence no unexpired risk provision is required. The Work Account levies in the past few years have been set to include a reasonable margin which allowed the Account to move towards its funding target. Since the Work Account is approaching the top of the targeted funding band, future levies will need to be reduced. The Earners' Account levies are currently set below the cost of claims determined under the LAT basis (risk-free discount rates plus a risk margin) which results in the Earners' Account requiring a provision of $201.5m.

7.7.10 In the future, all other things being equal, it is to be expected that the unexpired risk provisions will increase as levy rates reduce towards, and beyond, the underlying annual cost of new claims.

8. Investments

8.1 Policy

8.1.1 The approach to investment management has been developed over a number of years. The fundamental driver of investment decisions is a consideration of the long-term risk/reward trade-off. ACC is a long-term investor and is able to make decisions from this perspective. In this respect 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 Investment Committee sets risk tolerances, approves asset allocation benchmarks and major transactions in unlisted markets, reviews investment performance and compliance, and provides delegations to the investment team more generally.

8.2.2 The strategic asset allocation benchmarks are reviewed annually by the Investment Committee based on recommendations from management.

8.2.3 The Investment team is able to act within various discretions as delegated by the Investment Committee. These include the discretion to vary the asset allocation from the benchmark weights, within the tolerances set by the Investment Committee. Movements outside these discretions require the approval of the Investment Committee.

8.2.4 The investment portfolios are all actively managed. Almost all New Zealand investments are internally managed, as are the majority of investments in Australia. Since April 2011 a small portion of the investment in global equities has also been directly managed. The majority of the investments outside Australasia are managed by external fund management companies.

8.2.5 The governance of the investment function is robust. In particular, there is adequate separation of duties between the investment managers and the compliance and reporting functions.

8.2.6 The Investment Data System has been introduced since the last report. This is an important project that will improve the quality of systems being used to access data and report on the investment portfolio. The first and second phases of the project have been delivered and the third phase is anticipated for release in November 2014.

8.3 Liability Profile

8.3.1 Most claims are short term in nature. These do not pose any significant investment issues.

8.3.2 A small number of claims are for very long-term injuries. In the extreme, a serious birth injury can result in a client being on the Scheme 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 additional health sector inflation.

8.3.3 Weekly compensation claims tend to be of medium duration (around five years) and are subject to wage-related inflation. Elective surgery claims are long term and subject to high levels of cost inflation.

8.3.4 Overall, the liabilities are of long average duration (in excess of 15 years across the Scheme as a whole) and are generally subject to both general price inflation and additional health sector inflation.

8.4 Investment Risks

8.4.1 Investment risk is considered in an asset and liability context. The main economic and financial scenarios that could have an impact on 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, investment policy is set with an aim of keeping each of these risks at a manageable level. There is also a need to strike an appropriate balance between reducing these risks and enhancing returns.

8.4.3 Risk arising from a significant decline in real interest rates is able to be reduced by holding long-dated New Zealand bonds. However, the scope to reduce this risk is limited, as the average duration of the liabilities is significantly longer than the duration of the available domestic bonds. For this reason an "interest rate derivative asset allocation overlay" is used to obtain some further protection against declines in long-term real interest rates. This overlay comprises fixed-for-floating interest rate swaps and New Zealand Government bonds funded through repurchase agreements.

8.4.4 All of the claim liabilities are sensitive to inflation, whereas a significant proportion of the investment assets do not provide protection against 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. While ACC is the largest investor in the New Zealand inflation-linked bond market, its large size relative to the available supply means that the majority of fixed interest investments continue to be held in instruments that are not linked to inflation. So-called "real assets", such as equities and property, may provide some protection over long horizons, but history suggests their returns may be adversely affected by rising inflation in the immediate term.

8.4.5 As the Scheme continues to mature, more serious-injury claims are being added, which extend the average duration of the claim obligations. This lengthening in the average duration will tend to increase exposure to the risks of a decline in bond yields or a deterioration in the inflation outlook.

8.4.6 The risks arising from investment in equity markets and credit are expected to be matched by higher than expected investment returns (and thereby lower expected future levy rates). An appropriate trade-off between risk and return is struck through the asset allocation process.

8.4.7 Movements in exchange rates alter the market values of investments. When assessing the resulting contribution to overall asset and liability risk, the relationship between currency movements and other market movements is taken into account. For example, there is a tendency for the New Zealand dollar to fall when equity markets decline. As a result, having some foreign currency exposure in the portfolio helps to offset the risk of a decline in equity markets. Foreign currency hedging is determined as part of the asset allocation process.

8.5 Asset Allocation

8.5.1 Strategic asset allocation benchmarks are reviewed and updated annually.

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

8.5.3 Given this constraint, the asset-liability risk is analysed after first assessing what asset allocation would constitute a "minimum risk portfolio". This minimum risk portfolio is typically dominated by Government bonds, but tends to include relatively small allocations to equity and other asset classes.

8.5.4 From this minimum risk portfolio, consideration is given to other possible asset allocations that trade off higher net asset risk for higher expected returns. It is through this process that an optimal asset allocation that balances risk and expected returns is determined.

8.5.5 Asset allocations are set separately for each of the five Accounts, reflecting their differing liability profiles and funding positions.

8.5.6 Table 24 sets out the strategic asset allocations for each Account as at 30 June 2014. These represent the benchmark holdings; actual allocations at any point in time may differ (within limits prescribed by the Investment Committee) depending on the professional judgement of the Investment team.

TABLE 24 – STRATEGIC ASSET ALLOCATIONS BY ACCOUNT

	2014 by Account						
Asset Class	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2014 Total	2013 Total
NZ cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
NZ long bonds	44.0%	37.5%	46.0%	48.0%	36.5%	42.4%	41.8%
NZ indexed linked bonds	20.0%	19.0%	12.5%	11.0%	19.0%	16.3%	11.4%
Global bonds (hedged)	1.5%	3.0%	7.0%	7.0%	3.0%	4.3%	2.5%
Global bonds (unhedged)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%
NZ property & infrastructure	3.0%	3.5%	3.5%	3.5%	3.5%	3.4%	4.0%
NZ equities	9.0%	12.0%	7.5%	8.5%	12.0%	9.8%	9.6%
Australian equities (hedged)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.3%
Global equities (hedged)	2.5%	3.0%	3.5%	2.0%	4.0%	3.0%	2.5%
Global equities (unhedged)	14.0%	16.0%	14.0%	14.0%	16.0%	14.8%	19.4%
Total	**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%	7.2%	11.2%
Total equity weight (treating NZ property & infrastructure as "half equities")	**31.0%**	**36.8%**	**30.8%**	**30.3%**	**37.8%**	**33.3%**	**37.7%**
Total foreign currency exposure	**14.0%**	**16.0%**	**14.0%**	**14.0%**	**16.0%**	**14.8%**	**21.9%**

8.5.7 The largest changes in the asset allocation from 2013 to 2014 were:

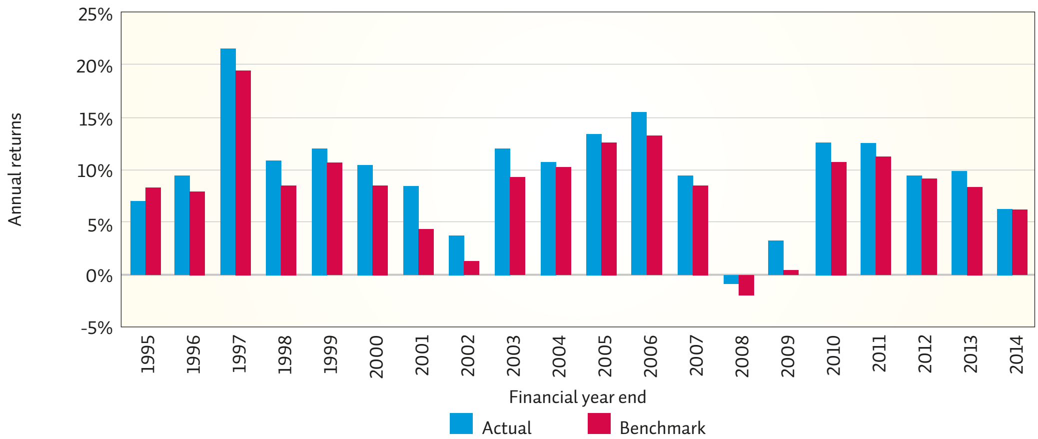
- equity weights were decreased by around 4–5% across all Accounts. The assessed equity risk premium reduced as share markets continued to perform strongly. This was compounded by the increased funding ratio, which decreases the attractiveness of equities as it implies a greater potential for share market volatility to affect levy rates. The reduction is slightly more in the Accounts with higher equity allocations (Non-Earners' and Treatment Injury) and slightly less in the others

- New Zealand index linked bonds remain attractive to ACC as the asset that most closely matches claims liabilities. Allocations have risen for all Accounts, but most particularly for the Accounts with longer duration liabilities (Motor Vehicle, Non-Earners' and Treatment Injury)
- a significant decrease in foreign currency exposure of 6-10% across all Accounts. This partly reflects a rise in New Zealand relative interest rates. Over the past year longer dated New Zealand swap yields have increased relative to all major currencies. This mostly reflects a stronger local economy and the Reserve Bank of New Zealand commencing a tightening cycle.

8.6 Investment Returns

8.6.1 Graph 30 compares investment performance with benchmark returns in the past 20 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. In only one year were actual returns less than benchmark. This is an excellent result.

GRAPH 30 – COMPARISON WITH BENCHMARK RETURNS



8.6.2 Investment returns were 0.1% above the benchmark in 2014. Investment returns vary by Account due to their different allocations. Each Account's return was satisfactory in 2014.

8.7 Conclusion

8.7.1 The investment approach recognises that there is no close match to the nature of the liabilities. As a result there will always be a significant level of mismatch risk on the balance sheet. Within this constraint, the investment philosophy is directed towards a detailed assessment of the marginal reward available for marginal risk assumed. In the long term it is to be expected that this approach will provide the best outcomes for levy payers. This long-term approach has reaped significant rewards and reduced the levies that would otherwise have been payable in the past 10 years.

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 Solvency in the case of ACC, which is a statutory monopoly with the right to raise levies, 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 funding policies of the various Accounts.

9.2 Funding Policy – Levied Accounts

9.2.1 The Board is required to establish a policy on fully funding the OCL for the levied Accounts. For the most recent levy consultation ACC applied the same funding policy as for the previous year.

9.2.2 Fully funded is defined in the AC Act and simply means that sufficient assets must be held to meet the OCL. In determining this, the legislation requires account to be taken of the uncertainty inherent in forecasting and the objective of levy stability over time.

9.2.3 The Board's funding policy establishes target bands as well as mid-points for each Account where these are expressed as the proportion that assets bear to liabilities. These interact as follows:

- Each Account is managed to stay within the funding band.
- Generally, levy rates will not be changed whilst an Account is within the funding band. Exceptions are when trends or other factors indicate that the band will be breached.
- Once an Account moves outside the funding band, levy rates are adjusted to bring the funding back to the mid-point within five years.

9.2.4 The funding bands and mid-points are shown in Table 25.

TABLE 25 – FUNDING BANDS

Account	Minimum	Mid-point	Maximum
Motor Vehicle	100%	116.0%	140%
Earners'	100%	115.5%	135%
Work	100%	117.5%	140%

9.2.5 The mid-points have been set such that when each Account is at the mid-point, there is a 1 in 20 probability of it falling outside the band within a two-year period.

9.2.6 An important point is that the 100% minimum is set with reference to the OCL reported in the financial accounts, and as such includes a risk margin. The Board has determined that the AC Act's requirement that a full funding policy have regard to "forecast uncertainty" means that the risk margin should be funded.

9.2.7 Once within the band, it is anticipated that if changes are needed to levy rates (when funding ratios are projected to breach the limits with no levy changes), these changes will be gradual to target a return to the mid-point in five years.

9.2.8 One of the purposes of the funding policy is to manage the impact on levy rates of the volatility inherent in the Scheme's financial position. The potential impact of the volatility can be observed in recent movements in the Work Account's funding position. Consultation levy rates were determined based on, amongst other things, a funding ratio of 130%. By 30 June this had fallen to 117%. About half this fall was due to a change to hearing loss regulations. The other half was largely due to movements in discount rates. This emphasises the need for levies to be set with a sufficiently long time horizon.

Funding Policy Review

9.2.9 The Government has been reviewing ACC's funding policy. In essence the Government's concern is to ensure that ACC, as a statutory monopoly with the right to raise levies, does not take too much money out of the economy. The Government is also considering measures that may help improve the process and governance arrangements regarding levy setting.

9.2.10 The remainder of this section applies the current funding policy to all solvency projections.

9.3 Funding Policy – Non-Earners' Account

9.3.1 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).

9.3.2 The fully funded portion is treated as a point estimate. Rather than using funding bands, any surplus or deficit is funded over a three-year period. This can lead to a reasonable level of volatility in the Government's appropriation, although historically the main driver of volatility has been changes in the new-year claims estimates.

9.3.3 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%, rather than 100% of the liability reported in the annual accounts.

9.3.4 The pre-2001 claims currently represent a liability of $3.0b. This liability is projected to remain stable for the next 10 years as annual claim payments are of a similar size to the unwinding of the discount rate. These claims will take many decades to run off. Until this time, the Non-Earners' Account will record a deficit with respect to these claims.

9.4 Funding Policy – Treatment Injury Account

9.4.1 The Treatment Injury Account is not directly funded, but rather receives monies raised through the Earners' Account levy and the Non-Earners' Account appropriation, the proportion being set with respect to the expected future costs of treatment injury claims to earners and non-earners. Its funding policy reflects those of the Earners' and Non-Earners' Accounts. Unfunded pre-2001 claims represent a liability of $1.0b.

9.5 Funding Ratios

9.5.1 Table 26 summarises the balance sheet of each Account at 30 June 2014. From this can be derived the funding ratios. Note that these figures are different from those shown in the Annual Report 2014 for the following reasons:

- The Annual Report has "derivative financial instruments" listed in assets and liabilities; Table 26 records the net derivative position as an asset.

- Work Account liabilities have been adjusted, as discussed in paragraph 9.5.4, to include liability for future-reported gradual process claims due to past exposure.

TABLE 26 – CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2014						
	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2013 Total
Assets ($m)							
Cash and cash equivalents	120	70	167	94	16	466	407
Receivables	138	48	144	177	38	546	363
Accrued levy revenue	102	0	1,157	1,206	0	2,466	2,607
Net investment assets	8,141	2,837	7,071	6,889	2,658	27,597	24,904
Net intangible and other assets	16	20	36	34	5	111	115
Property, plant, and equipment	5	6	11	10	1	33	39
Total assets [A]	**8,522**	**2,982**	**8,586**	**8,411**	**2,719**	**31,220**	**28,434**
Less liabilities ($m)							
Payables, accrued liabilities, and provisions [B]	390	236	331	295	128	1,381	1,241
Unearned levy liability [C]	386	0	1,026	638	0	2,050	2,242
Unexpired risk liability [D]	0	0	202	0	0	202	42
Outstanding claims liability [E]	7,785	5,633	5,326	6,421	3,537	28,702	27,810
Total liabilities	**8,561**	**5,870**	**6,885**	**7,354**	**3,664**	**32,334**	**31,335**
Net liabilities	**-39**	**-2,888**	**1,701**	**1,056**	**-946**	**-1,114**	**-2,901**
Funding ratio ([A] – [B] – [C] – [D])/[E]	**99.5%**	**48.7%**	**131.9%**	**116.5%**	**73.3%**	**96.1%**	**89.6%**

9.5.2 Table 27 shows the funding ratios of each of the Accounts in the past three years. These are calculated from Table 26 as the total assets less payables, unearned levy liability and unexpired risk liability over the OCL.

TABLE 27 – FUNDING RATIOS IN PAST THREE YEARS

	30 Jun 2012	30 Jun 2013	30 Jun 2014
Motor Vehicle Account	68%	87%	100%
Non-Earners' Account	40%	47%	49%
Earners' Account	106%	126%	132%
Work Account	87%	113%	117%
Treatment Injury Account	53%	67%	73%
Total	**72%**	**90%**	**96%**

9.5.3 As can be seen, the funding ratios of all three levied Accounts increased in the period, with the Earners' and Work Accounts remaining within their funding bands. The Motor Vehicle Account has reached its full funding band.

9.5.4 The Work Account's funding ratio is shown to be lower than the level implied by the balance sheet in the Annual Report due to gradual process claims being reported on a "claims made" basis in the balance sheet and on a full incurred basis here. It is important to note that levies collected include allowances for these claims, whether reported or not. The additional liability was $1,006m as at 30 June 2014.

9.5.5 The Non-Earners' and Treatment Injury Accounts' solvency positions appear low. This is, as noted above, a specific decision of Cabinet. The solvency positions reported are consistent with the Accounts' funding policies.

9.5.6 The Treatment Injury Account's funding ratio is driven primarily by the non-earners' portion, which accounts for 72% 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 form a larger proportion of the total claims of the Account. However, the Account will remain below 100% funding as the non-earners' portion does not fund pre-2001 claims or the risk margin on post-2001 claims.

9.6 Projections

9.6.1 This year, a dynamic financial analysis tool (DRM) was used to generate 500 sets of possible financial positions for all Accounts except the Treatment Injury Account. The results of the simulations are summarised in this section.

9.6.2 Financial strength is measured by the funding ratio. Asset volatility is modelled by allowing for:

- variations in the rates of investment return earned
- changes in claims experience, as changes in the level of claim payments drive the surplus (or deficit) which impacts the future value of assets.

9.6.3 The model allows for two main sources of variability in the OCL:

- Changes in claims experience impacting the number of claims, continuance rates, average payments and superimposed inflation.
- Economic assumptions relating to discount rates and inflation.

9.6.4 Table 28 sets out the future levy rates assumed in the projections. The 2015/16 rates are as set by Cabinet and the rates for 2016/17 and beyond are as provided in the 2015/16 levy consultation.

TABLE 28 – ASSUMED LEVY RATES

	Motor Vehicle Account	Earners' Account	Work Account
2014/15	$330.68	$1.26	$0.95
2015/16	$195.00	$1.26	$0.90
2016/17	$162.00	$1.20	$0.75
2017/18	$162.00	$1.20	$0.75
2018/19	$162.00	$1.20	$0.75

9.6.5 For the Non-Earners' Account, appropriations have been included at the levels approved by Cabinet through Vote ACC in 2014.

9.6.6 Table 29 summarises the projected central estimate funding positions.

TABLE 29 – PROJECTED CENTRAL ESTIMATE FUNDING POSITIONS (BASED ON 500 SIMULATIONS)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Target
Motor Vehicle Account	100%	109%	113%	116%	120%	124%	116.0%
Non-Earners' Account (fully funded portion)	106%	103%	96%	92%	88%	87%	88.0%
Earners' Account	132%	131%	127%	123%	119%	116%	115.5%
Work Account	117%	126%	128%	128%	128%	127%	117.5%

9.6.7 The funding ratio for the Motor Vehicle Account is projected to increase for the next five years, reaching the funding target in 2016/17. For the fully funded portion of the Non-Earners' Account the assumed appropriations reduce the funding ratio to the target of 88% by 2017/18.

9.6.8 As the Earners' Account is currently close to the top of its funding band, the assumed levy reduction for 2016/17 and beyond is projected to decrease the funding ratio gradually to reach the target in 2018/19.

For the Work Account, the levy rates set up to 2015/16 are expected to increase the funding ratio and are followed by levy reductions from 2016/17 onwards, which are projected to slowly reduce the funding ratio, maintaining its position within the funding band, but above target.

9.6.9 More details for each Account are provided in the following sections where each graph represents the distribution of the 500 sets of projected funding ratios.

- The funding band (the grey area) refers to the target funding band for levied Accounts as shown in Table 25.
- For the Non-Earners' Account, the funding target refers to the 88% funding target for the fully funded portion.
- The 50th percentile (the green line) refers to the median of the 500 sets of funding ratios.
- The 5th, 25th, 75th and 95th percentiles show the range of projected funding ratios. The probability of the funding ratio falling outside this range is 10%.

Motor Vehicle Account

9.6.10 Graph 31 and Table 30 show that for the Motor Vehicle Account:

- the funding ratio is expected to increase gradually but remain within the funding band for the next nine years
- levies are likely to need to reduce from the consulted rates from around 2020 in order to remain within the funding band
- there is about a 25% probability that the funding ratio will fall below the funding band, necessitating higher levies than those allowed for in the projections
- there is a larger probability that the funding ratio will rise above the funding band, which will require further levy reductions than allowed for. By 2023 there is a 50% probability that levies will need to be further reduced.

GRAPH 31 – DISTRIBUTION OF PROJECTED FUNDING RATIOS – MOTOR VEHICLE ACCOUNT

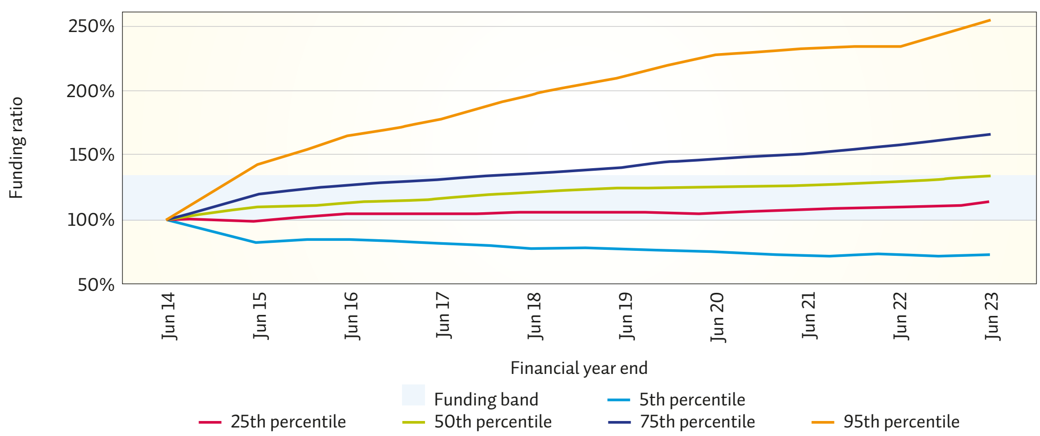


TABLE 30 – FUNDING RATIO PROBABILITIES

	30 Jun 2015	30 Jun 2016	30 Jun 2017	30 Jun 2018	30 Jun 2019	30 Jun 2020
Above maximum of 140%	5%	13%	18%	21%	26%	30%
Below minimum of 100%	28%	20%	19%	18%	19%	18%
Staying within the band	66%	68%	63%	61%	55%	51%

Non-Earners' Account

9.6.11 As previously discussed, 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 88%.

9.6.12 Graph 32 and Table 31 show that for the fully funded portion of the Non-Earners' Account:

- with the proposed appropriations, the median funding ratio is expected to reduce from the current level of 106% and reach the target of 88% by 2018, and stay close to that level for the remainder of the projection period
- the distribution of outcomes is centred fairly evenly on the 50th percentile, indicating that the forecast appropriations are consistent with the assumptions underlying the projections.

GRAPH 32 - DISTRIBUTION OF PROJECTED FUNDING RATIOS - NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION)

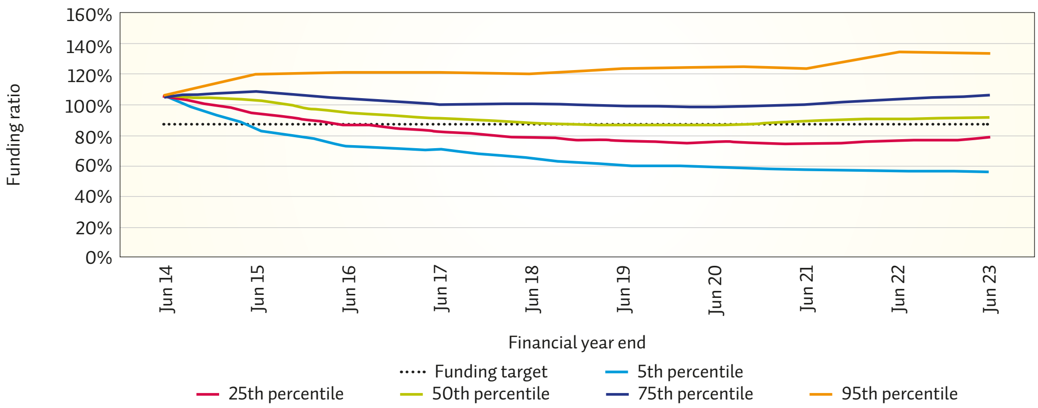


TABLE 31 – FUNDING RATIO PROBABILITIES (FULLY FUNDED PORTION ONLY)

	30 Jun 2015	30 Jun 2016	30 Jun 2017	30 Jun 2018	30 Jun 2019	30 Jun 2020
Below 100%	40%	63%	74%	74%	76%	76%
Below 88%	10%	29%	41%	49%	51%	51%

9.6.13 For the overall Non-Earners' Account, the pre-2001 liability is projected to remain relatively stable with the $3b OCL as at 30 June 2014 projected to decrease to $2.6b by 2023. This means that the funding ratio of the Account as a whole is projected to remain below 50% until 2020, after which time it is expected to grow and reach slightly over 65% by 2024.

Earners' Account

9.6.14 Graph 33 and Table 32 show that, for the Earners' Account:

- with the assumed levy rates, the median (50th percentile) funding ratio will remain relatively stable within the current funding band for the next nine years
- there is more than 50% probability that the funding ratio will remain within the target funding band until 2020, indicating that levies are unlikely to change significantly from those assumed in the forecast in the next few years
- in the next couple of years the greater risk is of the funding ratio going above the funding band.

GRAPH 33 – DISTRIBUTION OF PROJECTED FUNDING RATIOS – EARNERS' ACCOUNT

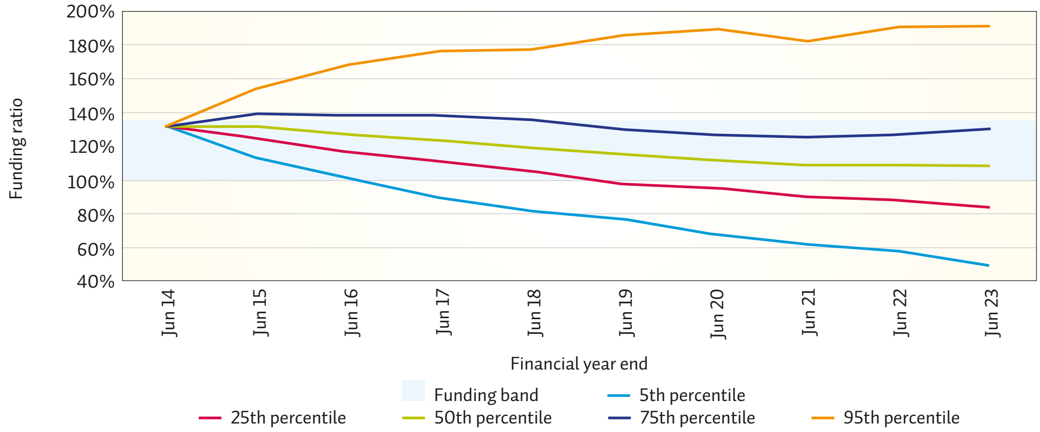


TABLE 32 – PROBABILITY OF STAYING WITHIN FUNDING BAND

	30 Jun 2015	30 Jun 2016	30 Jun 2017	30 Jun 2018	30 Jun 2019	30 Jun 2020
Above maximum of 135%	36%	32%	28%	26%	21%	18%
Below minimum of 100%	1%	4%	11%	18%	27%	32%
Staying within the band	63%	64%	61%	56%	52%	50%

Work Account

9.6.15 Graph 34 and Table 33 show that, for the Work Account:

- with the assumed levy rates, the median (50th percentile) funding ratio will remain relatively stable for the next nine years at slightly above the target level of 118%
- over the course of the projections, there is more than 50% probability that the funding ratio will remain within the funding band, again indicating that levies will not need to change significantly from those assumed in the forecast
- the risks of falling outside the band on the high and low sides are fairly evenly distributed.

GRAPH 34 - DISTRIBUTION OF PROJECTED FUNDING RATIOS – WORK ACCOUNT

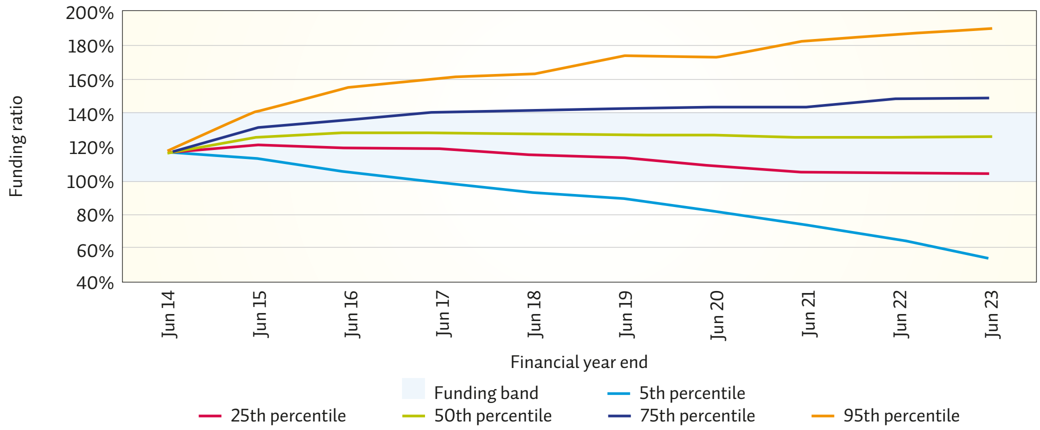


TABLE 33 – FUNDING RATIOS

	30 Jun 2015	30 Jun 2016	30 Jun 2017	30 Jun 2018	30 Jun 2019	30 Jun 2020
Above maximum of 140%	6%	17%	25%	28%	28%	29%
Below minimum of 100%	1%	3%	6%	8%	12%	15%
Staying within the band	94%	79%	69%	64%	60%	56%

Statements of Comprehensive Income

9.6.16 Table 34 provides the projected Statement of Comprehensive Income by Account for 2014/15.

TABLE 34 – PROJECTED 2014/15 STATEMENT OF COMPREHENSIVE INCOME

	2015 Projected						
($M)	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total	2014
Income							
Levies	1,065.3	870.8	1,257.3	813.6	234.0	4,241.0	4,731.4
Total income	**1,065.3**	**870.8**	**1,257.3**	**813.6**	**234.0**	**4,241.0**	**4,731.4**
Expenditure							
Claims incurred							
Medical costs	91.9	600.9	377.0	108.4	23.7	1,201.9	1,187.0
Elective surgery	38.4	84.4	186.4	58.1	56.7	424.0	361.4
Social rehabilitation	191.9	170.4	98.3	26.5	107.1	594.2	1,029.3
Compensation related	100.7	13.7	472.5	329.8	49.6	966.3	978.7
Other	27.0	15.2	24.9	32.6	12.1	111.9	171.8
Claims handling expenses	26.5	73.7	136.5	70.3	21.8	328.8	330.0
Total incurred claims	**476.4**	**958.2**	**1,295.6**	**625.9**	**271.0**	**3,627.2**	**4,058.1**
Administration expenses							
Net operating costs	2.7	1.5	2.6	10.1	0.5	17.4	47.5
Injury prevention costs	20.7	5.1	12.6	19.1	0.2	57.8	34.0
Levy collection costs	1.5	0.0	23.9	31.8	0.0	57.2	38.9
Total expenses	**25.0**	**6.6**	**39.0**	**61.0**	**0.7**	**132.3**	**120.3**
Total expenditure	**501.3**	**964.8**	**1,334.7**	**686.9**	**271.7**	**3,759.5**	**4,178.5**
Surplus/(deficit) from underwriting activities	**563.9**	**(94.1)**	**(77.4)**	**126.7**	**(37.7)**	**481.5**	**553.0**
Decrease/(increase) in unexpired risk liability	**0.0**	**0.0**	**(36.3)**	**0.0**	**0.0**	**(36.3)**	**(159.5)**
Economic							
Changes to discount and inflation rate assumptions	0.0	0.0	0.0	0.0	0.0	0.0	922.3
Investment expenses	(17.8)	(7.4)	(14.3)	(11.7)	(6.4)	(57.6)	(55.9)
Investment income (above risk free)	158.0	(29.6)	138.8	97.0	16.2	380.4	884.9
Total economic	**140.2**	**(37.0)**	**124.4**	**85.3**	**9.8**	**322.8**	**1,751.3**
Total surplus/(deficit)	**704.2**	**(131.1)**	**10.8**	**212.0**	**(27.9)**	**768.0**	**2,144.8**

9.6.17 The projected surplus from underwriting activities is only slightly lower than the actual result in 2014. This occurs because both the levy and claims incurred are projected to reduce by similar amounts. The projected surplus is much lower than the actual result in 2014. The 2014 result was driven by investment income being greater than expected and changes to inflation rate assumptions.

9.6.18 The levied Accounts are all projected to produce surpluses as levy rates are in excess of those required to meet the cost of new claims. As these Accounts are all fully funded, levies will ultimately need to reduce in order to avoid further accumulation of funds.

9.6.19 The decrease in the total incurred claims projected for 2015 is due to one-off changes in assumptions and legislation which acted to increase reported claims incurred in 2014. These are discussed further in Section 7.

9.6.20 The unexpired risk liability is projected to grow as levies fall. For 2014/15 only the Earners' Account has a levy rate low enough to require an unexpired risk liability. This is an accounting requirement and not part of the economic substance of the levy rates.

9.6.21 The biggest contributions to the surplus are the levies collected above the cost of claims and investment returns in excess of risk-free rates.

9.6.22 The Non-Earners' and Treatment Injury Accounts are projected to produce deficits. This is because for both the Non-Earners' Account and the non-earners' portion of the Treatment Injury Account, the post-2001 fully funded component is currently over-funded (based on the Non-Earners' Account's funding policy). In effect, then, funds are returned to the Government in the form of a lower appropriation.

9.6.23 Table 35 provides the projected Statement of Comprehensive Income for the total Scheme for 2014/15 to 2017/18. Again, these projections use the 2015/16 rates as set by Cabinet and the rates for 2016/17 and beyond as provided in the 2015/16 levy consultation.

TABLE 35 – PROJECTED STATEMENT OF COMPREHENSIVE INCOME

($M)	2015 Projected	2016 Projected	2017 Projected	2018 Projected
Income				
Levies	4,241.0	3,945.3	3,897.0	4,095.3
Total income	**4,241.0**	**3,945.3**	**3,897.0**	**4,095.3**
Expenditure				
Claims incurred				
Medical costs	1,201.9	1,276.1	1,348.1	1,420.6
Elective surgery	424.0	448.6	487.2	527.8
Social rehabilitation	594.2	621.4	654.3	687.0
Compensation related	966.3	997.1	1,050.6	1,098.5
Other	111.9	114.4	118.4	121.4
Claims handling expenses	328.8	337.3	349.0	360.9
Total incurred claims	**3,627.2**	**3,794.9**	**4,007.6**	**4,216.1**
Administration expenses				
Net operating costs	17.4	19.3	20.8	22.1
Injury prevention costs	57.8	65.1	70.2	75.0
Levy collection costs	57.2	62.3	67.1	71.4
Total expenses	**132.3**	**146.8**	**158.1**	**168.5**
Total expenditure	**3,759.5**	**3,941.7**	**4,165.7**	**4,384.6**
Surplus/(deficit) from underwriting activities	**481.5**	**3.6**	**(268.7)**	**(289.3)**
Decrease/(increase) in unexpired risk liability	(36.3)	(123.5)	(92.0)	(59.9)
Economic				
Investment expenses	(57.6)	(70.3)	(77.1)	(84.0)
Investment income (above risk free)	380.4	393.1	350.3	325.9
Total economic	**322.8**	**322.7**	**273.2**	**241.9**
Total surplus/(deficit)	**768.0**	**202.9**	**(87.5)**	**(107.3)**

9.6.24 The major items of note from these projections are:

- levies are projected to decrease in 2016/17 in line with the consulted levy rates, offset by inflation and population growth
- investment income above the risk-free rate decreases as equity risk premiums are forecast to fall
- claim costs are projected to increase by about 5% per annum due to inflation, superimposed inflation and population growth. This is compounded by discount rates which are expected to be low in the short term before increasing. This results in a greater amount of investment income being required to offset claims growth
- expense increases are largely driven by increased investment in injury prevention activity, on which a return is expected in the form of lower claims costs
- the unexpired risk liability rises as levy rates reduce
- Scheme surpluses fall as the levied Accounts' funding levels increase above their targets and levies are reduced in response.

9.6.25 Table 29 and Table 35 show that levy rates assumed in the 2015/16 levy consultation are sufficient to meet solvency requirements as specified in the funding policies. The Non-Earners' Account appropriation, under the projection assumptions is also sufficient.

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 of a sufficient size to affect net assets to a material degree. Hence there is no need for ACC to acquire reinsurance in respect of 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 experience from the February 2011 Christchurch earthquake, the Board has concluded that the amounts involved are not sufficient to 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. In neither case is the expected cost significant in terms of the total balance sheet. Further, we 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. We do not believe the Board needs to reconsider the need for reinsurance for the foreseeable future.

9.8 Long-Term Scheme Issues

9.8.1 There are a number of economic and environmental issues that have a large impact over the long term, despite not being significant of themselves in the immediate future. The long-term nature of the Scheme means that projections of solvency need to take these issues into account. Some have been investigated thoroughly, allowing them to be quantified in the projections:

- Superimposed inflation on medical costs (see paragraphs 3.6.9 to 3.6.23).
- The effects of the ageing population on the Non-Earners' Account funding (see paragraphs 5.5.7 to 5.5.11).

The remainder of this section highlights issues that have not yet been quantified.

Operational Impacts of an Ageing Population

9.8.2 The wider implications of demographic changes on the Scheme are being addressed through an ageing population strategy. This strategy is a longer-term project focussed on injury prevention, the design of appropriate in-patient and community rehabilitation services, and claims management capability to meet the needs of a growing client population with less focus on returning to full-time work after injury. The financial implications of these changes are uncertain at this point.

Boundaries of Cover

9.8.3 Coverage when incapacity is not solely related to an accident can be unclear. Once a claim is accepted, other factors such as normal ageing and the presence of other health conditions may influence the need for medical treatment beyond what was required due to the original injury, and extend the duration of rehabilitation and compensation.

9.8.4 In the case of clients suffering from hearing loss, costs are shared between ACC and health authorities using a method of apportionment. Notwithstanding this example, which is written into legislation, in general the cost of care for an individual is covered by ACC unless the injury is "caused wholly or substantially" by other factors (e.g. the ageing process). Entitlements provided under the AC Act are substantially greater than otherwise available. This leads to boundary concerns: people suffering from some level of incapacity have a natural incentive for that incapacity to be deemed an accident. This leads to a range of unsatisfactory outcomes including disputes, court cases and client dissatisfaction with the system.

9.8.5 This difference in entitlements provided leads to risks: the coverage decision impacts the outcome for the client, while incentives for providers are different depending on the source of funding.

9.8.6 This will become more prevalent in the longer term, with increases in ageing, obesity and conditions such as diabetes. Management believes that the best response is to improve the consistency of decision making (discussed further in Section 1.4) and consider joint funding approaches. This work needs to progress.

Expansion of Coverage

9.8.7 The solvency position would be reduced by an unexpected retrospective expansion of cover. The risk to solvency is mitigated by the ability to post-fund any such increase, although intergenerational equity would be compromised.

9.9 Conclusion

9.9.1 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. The immediate risk is that the funding ratios grow faster than expected, necessitating significant levy reductions and a resultant instability in levies.

9.9.2 There are a number of long-term Scheme issues that impact solvency and sustainability that require continued monitoring and modelling. Management is continuing to progress actions in response to these issues.

10. Risk Management

10.1 Framework

10.1.1 The enterprise risk management framework, adopted in 2010, is based on the "three lines of defence" model as follows:

- **First line** – business units are accountable for the management of risks.
- **Second line** – monitoring of risk identification and management.
- **Third line** – independent internal and external assurance processes.

10.2 Implementation

10.2.1 Implementation of the enterprise risk management framework is charged to the Chief Risk and Actuarial Officer.

10.2.2 Staff and management have primary responsibility for the identification and management of risks within their business groups and ensuring that risk management is fully integrated in the normal course of activities. They are supported in this by the Risk & Compliance Office.

10.2.3 Monitoring of financial risks is provided through regular monitoring and reporting of the OCL valuation, annual levy rate calculations, asset and liability modelling and regular Scheme monitoring reports focusing on changes in claims experience. These are performed through the day-to-day functions of the Finance, Actuarial and Investment teams.

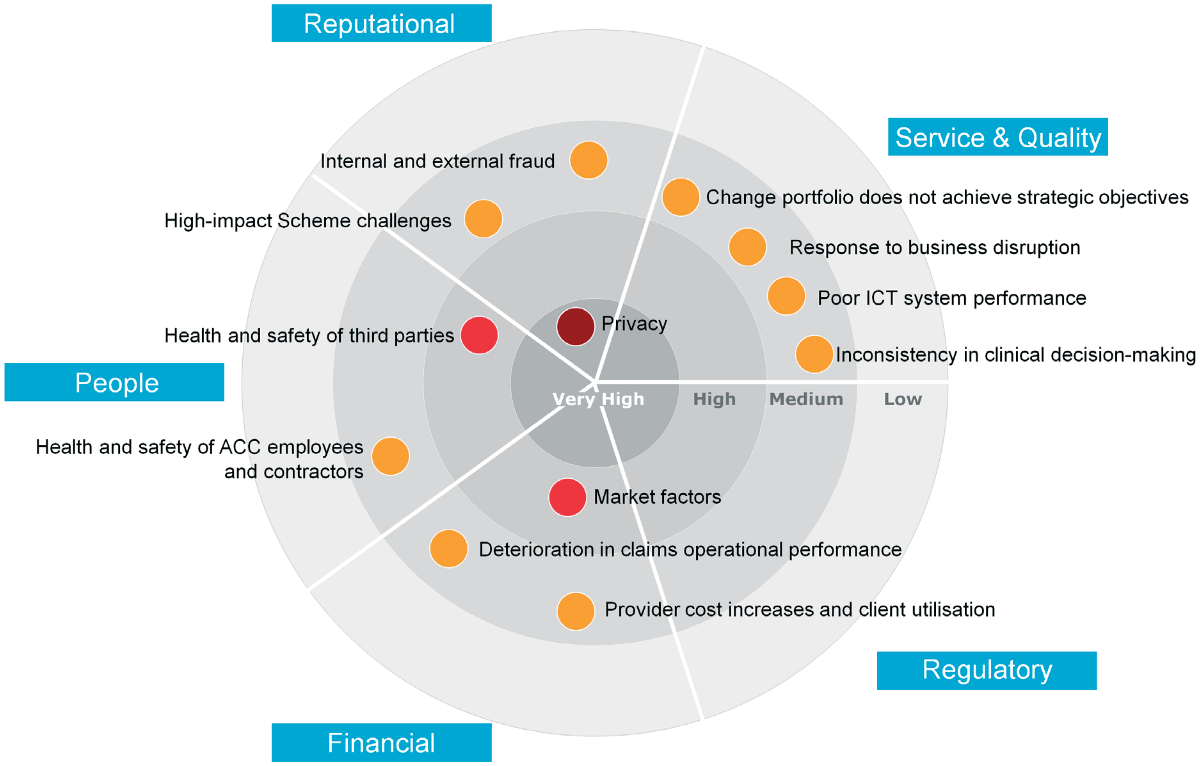
10.2.4 The second line also monitors other risks through specialist functions such as health and safety, privacy, business continuity and data security.

10.2.5 The Assurance Services function provides the third line of defence through independent assurance to the Board and senior management on the effectiveness of risk management, controls and the governance processes.

10.3 Key Risks

10.3.1 Key risks identified through the framework are allocated to one of five risk impact categories: reputational, service and quality, regulatory, financial,and people. The risk radar shown in Figure 1 illustrates the categorisation of identified risks from the August 2014 Quarterly Risk Report. Where risks have potential impacts in more than one category, they are represented by their greater perceived impact.

FIGURE 1 – RISK RADAR



10.3.2 The Board receives advice on identified risks and the management actions arising through quarterly reports to the Executive Risk and Compliance Committee and the Board Audit and Risk Committee. As at 30 June specific risks relating to the SOF programme had not been identified. These are now being included in regular reporting to the Board.

10.3.3 A brief discussion on selected key risks follows.

Reputational

10.3.4 Risks to ACC's reputation relate to the objective of improving public trust and confidence and relate to privacy, fraud and high-impact Scheme challenges.

10.3.5 Privacy has been of paramount concern following the recommendations of the 2012 Independent Privacy Report. Enhancements have been made to systems and processes that have directly contributed to a fall in recorded privacy breaches. Most breaches occurring now are due to human error. Further sustainable breach reductions are likely to require significant technological investment and as such are likely to arise for the SOF programme.

10.3.6 A follow-up review of privacy management is expected to be released by the end of November 2014.

Service and Quality

10.3.7 This category covers a broad range of operations, including delivery on programmes of change, process and system performance, the response to natural disasters and consistency in clinical decision-making. Most of these have been discussed in earlier sections of this report.

Regulatory

10.3.8 While there are no key risks identified that can be categorised primarily under regulatory risk, there are aspects of regulatory risk in all other categories.

10.3.9 The compliance function, with a focus on regulatory risk, is being strengthened with the introduction of a compliance policy and framework. The framework supports a move to principles-based compliance with emphasis on evidence of compliance with regulatory requirements and organisational policies. Monitoring and testing activities will occur throughout the year using a risk-based approach.

Financial

10.3.10 The primary financial risks arise from large-scale movements in investments, the OCL and any resulting asset liability mismatch. These risks affect the balance sheet and influence levy rate recommendations. The identification and actions in place to manage these risks are the subject of much of this report.

10.3.11 There is also exposure to non-financial risks that, if realised, could have high impacts on operations and, as a result, lead to large financial impacts (for example via the cost of response).

People

10.3.12 A Programme Director of Health and Safety has been engaged to develop a health and safety strategy, work plan and inaugural due diligence report. The discovery phase aims to establish a health and safety baseline for how ACC meets its obligations under the current and proposed health and safety legislation. Of particular concern is the response to health and safety of third parties which management has identified as needing greater attention.

10.4 Performance

10.4.1 Assurance Services recently reviewed the implementation of the enterprise risk management system. Its report identified three critical actions (there were six others rated "significant") required to improve effectiveness:

- The roles and responsibilities within the risk management framework require clarification.
- A formalised and targeted training programme does not exist for the first line of defence.
- There is an absence of formalised feedback mechanisms on risk management practice.

10.4.2 An external review to define how the risk management system should be structured by benchmarking against Australasian banking and insurance organisation practices has recently been completed. Management is developing an action plan in response. This is an important piece of work.

10.5 Conclusion

10.5.1 Considerable progress has been made in developing and implementing a risk management framework. As yet the system has not been consistently embedded. Management is focused on ensuring this occurs, and in our view the actions being taken to achieve this are sufficient and appropriate.

11. Progress Against Recommendations from 2013 Report

11.1 Introduction

11.1.1 This section details progress the organisation has made against the recommendations from the 2013 Financial Condition Report. The recommendations have been grouped into six broad themes:

- Elective Services.
- Boundaries of cover.
- Ensuring long-term financial sustainability.
- Treatment Injury.
- Ensuring quality client outcomes.
- Risk Management.

11.1.2 Owing to the long-term nature of the Scheme, many of these recommendations will require more than a year for resolution. It is indicated where a recommendation has been continued into the following year. In the majority of cases where actions specific to the recommendations have been completed the business is continuing to ensure these actions are embedded operationally.

11.1.3 In summary, of the 26 recommendations included in the 2013 report, 14 have been closed, five are expected to be closed once specified actions have been agreed, one is on hold and six are still in progress and have been included in the recommendations of the 2014 report.

11.2 Elective Services

Recommendation 2:

11.2.1 Consider the potential to move to a "fee for outcome" approach to contracting in areas where such an approach is suitable. [Responsibility: Customer]

Recommendation 22:

11.2.2 Develop a strategy to reduce the level of health cost inflation on ACC funded benefits. This will require an approach that better aligns client and health provider incentives with those of the levy payer along with a range of appropriate control points in the claims management process. [Responsibility: Customer]

Management Comment:

11.2.3 These are being considered as part of the elective services review discussed in paragraph 1.4.29 of this report. The review is due to be presented to the Board before the end of 2014.

These recommendations will be closed once the strategy has been agreed by the Board.

Recommendation 15:

11.2.4 Investigate reasons for high rates of decline and client cancellation of elective surgery requests and undertake actions in response. [Responsibility: Customer]

Management Comment:

11.2.5 A review of declines and cancellations of elective surgery requests was completed in 2014 with results and further actions to be taken described in paragraphs 1.4.25 and 1.4.26 of this report.

This recommendation has been completed and closed.

11.3 Boundaries of Cover

Recommendations 4 & 19:

11.3.1 Undertake actions to improve early resolution of disputes including an investigation into the processes and policies in place for cover and case management decisions. [Responsibility: Operations]

Management Comment:

11.3.2 The Disputes and Decision-Making project has been investigating ways to engage with customers when making adverse decisions and increase the number of review applications resolved internally. Where a dispute is unable to be resolved internally the use of alternative dispute resolution tools is being tested before a review is submitted for formal hearing. Results to date have been encouraging as discussed in paragraphs 1.4.19 to 1.4.22.

11.3.3 Work has started on the scoping of the review management capability expansion stage of the project.

This recommendation will be closed once the practices have been integrated into standard operations.

Recommendation 16:

11.3.4 Investigate reasons for high rates of decline of gradual process claims. Investigate reasons for low rates of claiming for gradual process conditions. [Responsibility: Customer]

Management Comment:

11.3.5 A proposal to undertake a comprehensive strategic revision of the work-related gradual process, disease or infection claims management service is under consideration, as part of the development of the Clinical Services Directorate (CSD) work programme. The proposed approach consists of three steps: analysis of the current state, management response and implementation.

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

Recommendation 18:

11.3.6 Educate the health sector with regards to ACC provided cover to improve expectation setting. [Responsibility: Customer]

Management Comment:

11.3.7 The elective services review is addressing ways of improving the treatment pathway for clients which includes consideration of how to help participants understand cover. The review recommendations include ways to assist the secondary health sector through the use of electronic claims processing and the provision of clinical decision guidelines. Specific actions in the primary health sector are likely to be similar but we are prioritising the secondary sector at this stage.

This recommendation will be closed once the elective services strategy has been agreed by the Board.

Recommendation 20:

11.3.8 Undertake work to define more clearly the boundary of ACC provided cover. This will help public understanding and allow greater clarity and accountability of ACC's claims decisions. [Responsibility: Policy]

Management Comment:

11.3.9 This is a recommendation first made in the 2012 FCR and to date progress has been slow due to higher priorities.

11.3.10 The Board has considered advice on the options available regarding legislative change and has agreed that the focus over the next 12 months, in conjunction with MBIE, should be to enable more effective management of the ACC-health interface through the use of a range of regulatory instruments. This will be done through enabling shared responsibility for mixed-cause conditions and giving greater scope for collaborative arrangements with other funders.

11.3.11 In addition to the consideration of the legislation, the focus is on ensuring that claims decisions are made objectively, in line with quality clinical advice, and consistently throughout the claims process. If this is achieved there will be greater clarity of the boundary between ACC coverage and the wider health sector.

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

11.4 Ensuring Long-Term Financial Sustainability

Recommendation 5:

11.4.1 Implement a stronger governance framework for injury prevention that ensures that the proposed strategic and investment approach delivers a return on this investment across an appropriately balanced portfolio. [Responsibility: Injury Prevention]

Management Comment:

11.4.2 The Injury Prevention Investment Committee has been established to review programmes using the investment portfolio approach, including a Return on Investment framework.

This recommendation has been completed and closed.

Recommendation 7:

11.4.3 Undertake further analysis of the key drivers of superimposed inflation for medical payments with a view to determining whether the current assumptions remain appropriate. [Responsibility: Actuarial Services]

Management Comment:

11.4.4 The analysis has been completed and the current superimposed inflation assumptions are considered appropriate for all medical payment types except physiotherapy. This is discussed in paragraphs 3.6.9 to 3.6.23 of this report.

This recommendation has been completed and closed.

Recommendation 12:

11.4.5 Review the application of the residual levy to participants in the Accredited Employer Programme. [Responsibility: Product]

Management Comment:

11.4.6 Crown Law has confirmed that discontinuing the collection of the residual portion of the Work Account levy cannot be done without legislative change. This issue has been included in ACC's post-2014 election Briefing to the Incoming Minister (BIM). Management has progressed this recommendation as far as it is able to.

This recommendation has been completed and closed.

Recommendation 10:

11.4.7 The majority of claims for older people are covered under the Non-Earners' Account and the effects of an ageing population are not currently built into the projection of future claim liabilities for the annual appropriation process. This will affect the long-term funding path of the Non-Earners' Account and should form part of the advice to the Government on the funding required and the risks involved. [Responsibility: Actuarial Services]

Management Comment:

11.4.8 The impact of New Zealand's ageing population on the Non-Earners' Account appropriation is discussed in paragraphs 5.5.7 to 5.5.11 of this report and will be included in the advice given to Treasury and MBIE for the Non-Earners'Account appropriation in February 2015.

This recommendation has been completed and closed.

Recommendation 23:

11.4.9 Consider how ACC should take account of the fact that New Zealand's population is ageing. This needs to encompass such matters as the intent of the Accident Compensation Act 2001, the cover boundary definition, longer term operational and financial planning, and how to secure the best outcomes for the public. [Responsibility: Policy]

Management Comment:

11.4.10 The Executive has endorsed a long-term ageing population strategy that will:

- align existing business initiatives by formally establishing a cross-organisational team under the business ownership of the Chief Customer Officer
- undertake detailed analysis of the operational impacts of New Zealand's ageing population which will inform future outcome measures, claims management capacity and capability and an Injury Prevention (IP) response beyond falls
- formally establish a cross-agency work plan with the Ministry of Health.

11.4.11 This is discussed further in paragraph 9.8.2.

This recommendation has been completed and closed.

11.5 Treatment Injury

Recommendation 8:

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. [Responsibility: Injury Prevention and Policy]

Recommendation 9:

11.5.2 With respect to treatment injury, investigate alternatives for levying providers ahead of recommending a suitable course of action. [Responsibility: Policy]

Management Comment:

11.5.3 Experience in the Treatment Injury Account (see Section 3.7) and potential levy responses have been included in ACC's post-2014 election BIM.

11.5.4 Treatment Injury has been established as a focus in the current IP work programme with a five-year plan identifying specific areas for IP actions.

11.5.5 A Board paper is being prepared outlining a plan for the Treatment Injury Account covering injury prevention, levying options and an assessment of the suitability of the current legislation.

These two recommendations are still in progress and have been held open for the following year.

11.6 Ensuring Quality Client Outcomes

Recommendation 1:

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. [Responsibility: Policy]

Management Comment:

11.6.2 This issue has been included in ACC's post-2014 election BIM and a discussion between the Chief Executive and his counterpart at the Ministry of Health is planned to identify actions to progress this.

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

Recommendation 3:

11.6.3 There is significant opportunity to collaborate with other government initiatives under the disability action plan, and to work more closely with non-government organisation suppliers and we recommend that this be explored further. [Responsibility: Operations]

Management Comment:

11.6.4 ACC has a watching brief as a member of the joint agency group for the three-year pilot of the Enabling Good Lives initiative in Christchurch. This initiative involves developing a new way of working with and engaging disabled people by offering them greater choice and control of the supports they receive to lead everyday lives.

11.6.5 In addition, the National Serious Injury Service programme managers are currently working with the wider health and disability sector to progress the development of services to ensure a better client experience.

This recommendation has been completed and closed.

Recommendation 6:

11.6.6 Investigate the recent increase in care hours provided to seriously injured clients so as to ensure that care packages remain at an appropriate level, aligned to client needs. [Responsibility: Operations]

Management Comment:

11.6.7 Analysis identified that processes and protocols in place for managing seriously injured clients were not being followed in all cases. This highlighted some actions that were needed across the portfolio , including:

- a workshop at the end of May 2014 for all claims management staff working with seriously injured clients with key messages regarding attendant care and the use of the Support Needs Assessment tool, guidelines and liability management
- establishment of the Serious Injury Strategy Manager role from 1 August 2014 to focus on and support continuous quality improvement in the management of seriously injured clients.

11.6.8 As discussed in Section 3.4, recent experience has seen a decrease in care hours. Management is satisfied that the processes are in place to ensure clients receive the appropriate levels of care.

This recommendation has been completed and closed.

Recommendation 11:

11.6.9 Investigate the ability to collect clients' health information to enable more targeted rehabilitation. [Responsibility: Policy]

Management Comment:

11.6.10 The business has agreed that further work on this is not appropriate at this time. There is potential to consider this as part of the work being done against Recommendations 20 and 23.

This recommendation is on hold at this time.

Recommendation 13:

11.6.11 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: Customer]

Management Comment:

11.6.12 A framework to measure the quality and consistency of the end-to-end claims management process is in development to support the measurement of quality claims management.

11.6.13 The introduction of the CSD provides the means to improve the quality and consistency of clinical pathways selected by providers and the clinical advice provided to them.

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

Recommendation 14:

11.6.14 Consider assigning accountability for ensuring obligations are met to a direct report of the Chief Executive. [Responsibility: Actuarial Services]

Management Comment:

11.6.15 The role of Chief Customer Officer, established on 1 September 2014, is charged with customer experience design and analytics, the design and delivery of the IP strategy and design of quality, consistent, evidence-based clinical treatment and rehabilitation. The separation of this role from the operational aspects of the organisation provides the required degree of internal tension between customer needs and operational prudence to ensure that obligations under the AC Act are met.

This recommendation has been completed and closed.

Recommendation 17:

11.6.16 With regards the long-term claims pool, review the quality of vocational rehabilitation, consistency of claim decision making and options for early resolution of disputes. [Responsibility: Customer]

Management Comment:

11.6.17 Consistent decision making is supported by the CSD work programme of investigations into clinical advice and decision-making in selected key clinical areas and the introduction of expert medical panels.

11.6.18 Options for early resolution of disputes for all claims are included in the Disputes and Decision-Making project described against Recommendation 4.

11.6.19 The vocational rehabilitation contract variation available from 12 May 2014 includes incentives for suppliers to deliver both full- and part-time return to work outcomes.

This recommendation has been completed and closed.

Recommendation 21:

11.6.20 Review the application of controls within the claims management process, particularly with respect to claims not receiving weekly compensation. [Responsibility: Operations]

Management Comment:

11.6.21 Following a pilot of specialised non-earner teams in Christchurch and Counties Manukau, a national roll-out of the 'Enabling Independence' service is in the early stages of planning. The purpose of this initiative is to develop core claims management standards and process guidelines and increase the appropriate and timely use of community-based and professional rehabilitation services.

11.6.22 Claims are initially streamed based on complexity factors for the clients and injuries followed by structured interviews to assess the needs of individual clients. This initiative is aligned with the Service Needs Assessment function (described in paragraph 6.8.5).

This recommendation has been completed and closed.

11.7 Risk Management

Recommendation 24a:

11.7.1 Develop increased formalisation of risk identification, analysis and management. [Responsibility: Risk and Compliance Office]

Recommendation 24b:

11.7.2 Improve the monitoring and breadth of treatment plans. [Responsibility: Risk and Compliance Office]

Recommendation 24c:

11.7.3 Improve staff training and engagement with regards to risk management. [Responsibility: Risk and Compliance Office]

Management Comment:

11.7.4 An external review to help define how the risk management system should be structured by benchmarking against overseas practices has recently been completed. Management is reviewing this and actions will be identified that will encompass the content of these three recommendations.

These three recommendations have been closed and will be resolved through the actions resulting from the external risk management review.

APPENDIX A

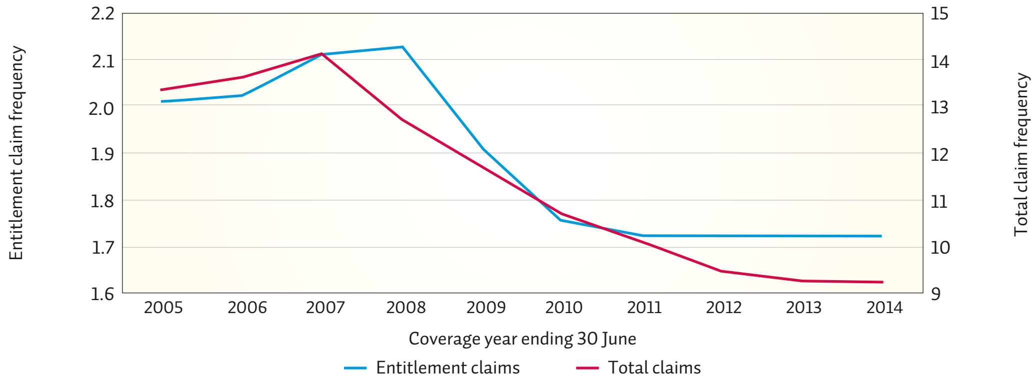
Claim Frequencies by Account

Motor Vehicle Account

A.1 The Motor Vehicle Account covers injuries where moving motor vehicles are involved and includes injuries to pedestrians and bicyclists hit by motor vehicles while on or walking along public roads. 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.2 For every 100 vehicles each year there is just over one motor vehicle-related injury that results in an ACC claim. Claim frequencies have decreased over the past few years; injury rates should generally be expected to gradually decrease with safety improvements in vehicle and road design. Over 80% of these claims are medical only. Annual claim frequency rates are shown in Graph 35. Entitlement claims receive rehabilitation and/or compensation support in addition to medical treatment.

GRAPH 35 – MOTOR VEHICLE ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 MOTOR VEHICLES

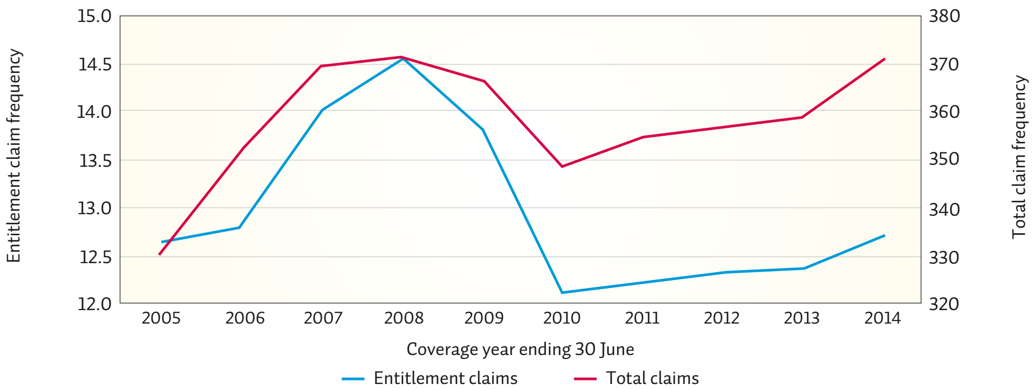


Non-Earners' Account

A.3 The Non-Earners' Account is funded through Government appropriations (Vote ACC) from general taxation to cover personal injuries occurring to non-earners. The breadth of exposure under the Non-Earners' Account is wide, covering all injuries to non-earners including, but not limited to, those that occur in the home, during sport, in/on the water and in public/commercial environments (e.g. schools, parks). However, it excludes those injuries covered by the Motor Vehicle and Treatment Injury Accounts.

A.4 On average around 35% of non-earners experience injuries that result in ACC claims each year. There has been a sizeable increase in claim frequencies in the most recent year. More than 95% of claims in the Non-Earners' Account are medical only. Annual claim frequency rates are shown in Graph 36. For non-earners the additional support provided for entitlement claims is mostly home care and assistance.

GRAPH 36 – NON-EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 NON-EARNERS

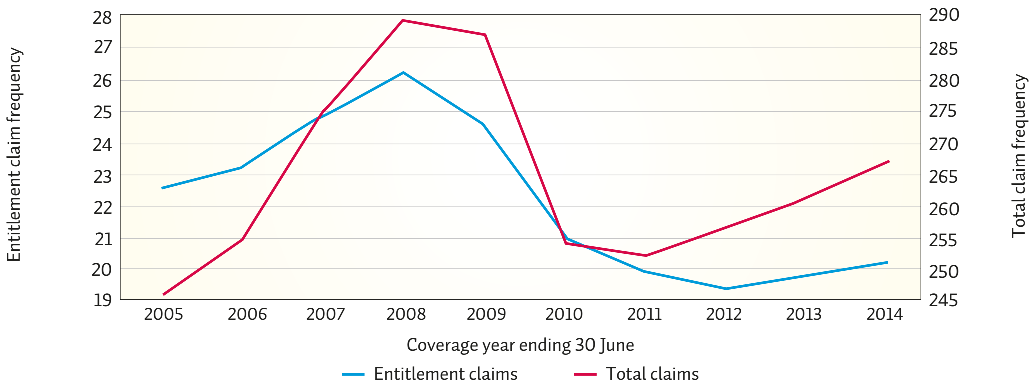


Earners' Account

A.5 The Earners' Account is funded by levies paid by earners to cover non-work-related personal injuries occurring on or after 1 July 1992. The breadth of exposure under the Earners' Account is wide, covering all non-work-related injuries, including but not limited to those that occur in the home, during sport, in/on the water and in public/commercial environments. However, it excludes those injuries covered by the Motor Vehicle and Treatment Injury Accounts.

A.6 On average just over 25% of earners experience non-work-related injuries that result in ACC claims per year. More than 90% of these claims are medical only. From 2005 to 2008 the rates of injury rapidly increased. From early 2009 the rate of injury decreased substantially, although this has since increased, consistent with the economic cycle (discussed in paragraphs 3.2.9 and 3.2.10). Annual claim frequency rates are shown in Graph 37.

GRAPH 37 – EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 EARNERS

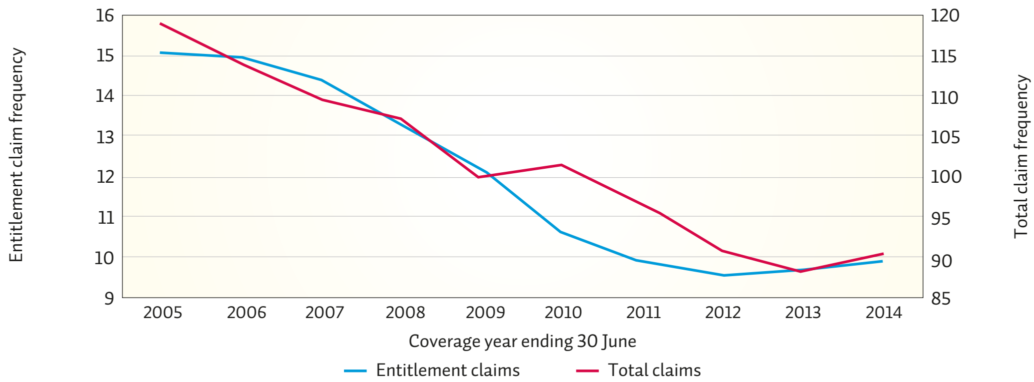


Work Account

A.7 The Work Account is funded by levies paid by employers and the self-employed to cover employees and the self-employed ('employed people') who experience work-related personal injuries on or after 1 July 1974, and non-work injuries between 1 July 1974 and 30 June 1992.

A.8 On average close to 10% of employed people[1] experience work-related injuries that result in ACC claims each year. Since 2003 the number of work-related claims has trended downwards, only showing any signs of increase in the latest year. This increase is consistent with the rest of the Scheme. Close to 90% of these claims are medical only. Annual claim frequency rates are shown in Graph 38.

GRAPH 38 – WORK ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 EMPLOYED PEOPLE

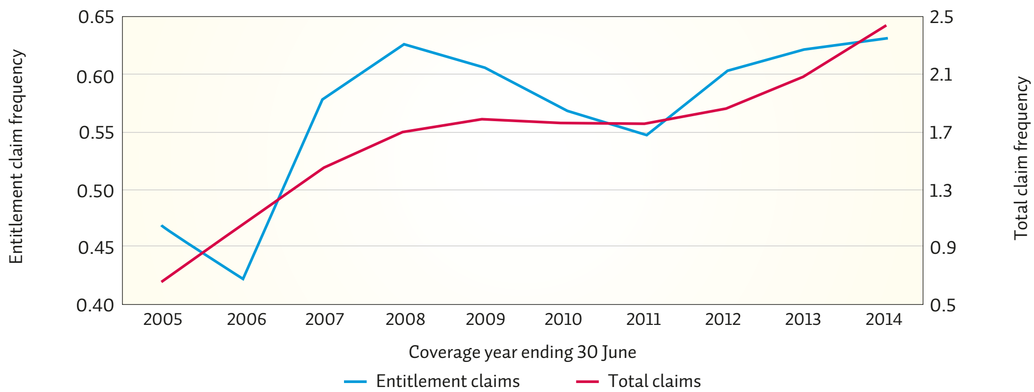


Treatment Injury Account

A.9 The Treatment Injury Account covers injuries that occur when receiving medical treatment that are not normal complications or risks arising from 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. Prior to 2005 the Account was called the Medical Misadventure Account and mostly covered the more serious treatment injuries occurring in the health care system. In 2005 the Account was renamed as 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.10 Since the treatment injury legislation was introduced in 2005, the number of treatment injury claims has increased consistently. About 0.2% of the population experiences treatment injuries that result in ACC claims each year. Since 2005 the number of treatment injuries/claims has continued to increase and it has yet to stabilise. Approximately 70% of these claims are medical only, although this proportion is continuing to increase. Annual claim frequency rates are shown in Graph 39.

GRAPH 39 – TREATMENT INJURY ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



1 *This analysis excludes the Accredited Employers Programme, in which larger employers are allowed to self-insure, unless otherwise stated.*

A.11 For the non-earners' portion of the Treatment Injury Account, serious injury claims drive the majority 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 from birth-related treatment injuries. Injuries at birth make up 35–50% of treatment injury serious injury claims. 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. Table 36 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 for more recent accident years, as there is often a lengthy delay before loss of potential earnings compensation becomes payable.

TABLE 36 – NON-EARNERS' PROPORTION OF TREATMENT INJURY NOMINAL COSTS

	Pre-1999	1999-2001	2001-2014	2014/15+
Ambulance	61%	61%	61%	61%
Claims handling expenses	87%	87%	73%	52%
Death benefits	30%	30%	14%	18%
Elective surgery	57%	57%	47%	57%
Lump Sum/Independence allowance	59%	59%	56%	55%
General Practitioners	36%	36%	38%	48%
Radiology	41%	41%	42%	41%
Physiotherapy	26%	26%	39%	45%
Other medical	53%	53%	47%	60%
Social rehabilitation non-serious injury – capital	52%	52%	54%	51%
Social rehabilitation non-serious injury – care	53%	53%	60%	69%
Social rehabilitation serious injury – capital	96%	96%	95%	95%
Social rehabilitation serious injury – care	98%	98%	97%	97%
Vocational rehabilitation	62%	62%	3%	2%
Weekly compensation – non-fatal	55%	55%	37%	26%
Overall	**93%**	**93%**	**84%**	**73%**

A.12 The majority of treatment injuries that occur to earners result only in follow-up medical treatment. Claims that move into the OCL are predominantly recovery support claims if the treatment injuries result in compensation or rehabilitation support.

APPENDIX B

Cumulative Revenue Statement to 30 June 2014

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

- the surplus/deficit that has emerged in each financial year separately by coverage year. The surplus/deficit is derived from the cash flows in the accident year (i.e. the aggregate levy collected [excluding the residual portion], claim payments, expenses and investment returns), and the movement in the OCL including risk margin, and Unexpired Risk Liability (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 2014; 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. This amount 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 reserves and a deficit means a reduction in the overall Account's reserves. A deficit may indicate a conscious decision to return funds during that year if the Account was, at the time, considered to be over-funded.

Total Scheme

B.3 The financial position generally deteriorated until 30 June 2009 due to increasing Scheme utilisation. From 30 June 2009 to 30 June 2013 the financial position improved significantly due to an increased focus on Scheme sustainability and improved claims management. A small deficit appeared in 2014, partially due to a significant alteration in URL and higher claim payments.

TABLE 37 – TOTAL SCHEME POSITION BY ACCIDENT YEAR

	Accident Year to 30 June							
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	2,510,390							
Investment income	59,726							
Claims paid (incl all expenses)	(1,235,184)							
Movement in OCL	(1,525,380)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**(190,447)**	**0**						
Levy income	0	2,658,666						
Investment income	(8,349)	(4,937)						
Claims paid (incl all expenses)	(567,586)	(1,366,174)						
Movement in OCL	157,527	(2,108,272)						
Movement in URL	66,925	(584,436)						
Surplus/(Deficit) at 30/06/2008	**(541,930)**	**(1,405,153)**	**0**					
Levy income	0	0	3,153,098					
Investment income	22,069	22,868	18,854					
Claims paid (incl all expenses)	(219,580)	(660,515)	(1,455,223)					
Movement in OCL	(135,653)	239,655	(2,554,714)					
Movement in URL	0	584,436	(565,064)					
Surplus/(Deficit) at 30/06/2009	**(875,093)**	**(1,218,709)**	**(1,403,049)**	**0**				
Levy income	0	0	0	3,406,169				
Investment income	62,385	62,680	137,396	114,531				
Claims paid (incl all expenses)	(125,303)	(208,535)	(570,724)	(1,349,373)				
Movement in OCL	212,212	370,137	855,780	(2,326,871)				
Movement in URL	0	0	565,064	(105,287)				
Surplus/(Deficit) at 30/06/2010	**(725,798)**	**(994,426)**	**(415,534)**	**(260,831)**	**0**			
Levy income	0	0	0	0	3,967,999			
Investment income	57,824	51,140	140,665	216,904	149,273			
Claims paid (incl all expenses)	(81,853)	(111,264)	(165,187)	(447,065)	(1,339,850)			
Movement in OCL	68,458	220,125	366,955	829,595	(2,237,434)			
Movement in URL	0	0	0	105,287	0			
Surplus/(Deficit) at 30/06/2011	**(681,370)**	**(834,426)**	**(73,101)**	**443,890**	**539,987**	**0**		
Levy income	0	0	0	0	0	4,103,601		
Investment income	45,225	34,550	99,625	159,773	223,607	116,870		
Claims paid (incl all expenses)	(65,940)	(82,278)	(97,903)	(142,531)	(456,157)	(1,372,215)		
Movement in OCL	(68,895)	(49,999)	(10,907)	73,568	570,479	(2,350,689)		
Movement in URL	0	0	0	0	0	(68,592)		
Surplus/(Deficit) at 30/06/2012	**(770,979)**	**(932,152)**	**(82,286)**	**534,699**	**877,916**	**428,975**	**0**	
Levy income	0	0	0	0	0	0	3,936,425	
Investment income	44,188	34,613	120,493	183,892	230,449	239,532	117,652	
Claims paid (incl all expenses)	(53,868)	(63,575)	(71,084)	(84,954)	(140,362)	(479,632)	(1,445,674)	
Movement in OCL	185,117	171,018	186,687	206,120	330,382	814,421	(2,226,550)	
Movement in URL	0	0	0	0	0	68,592	(42,077)	
Surplus/(Deficit) at 30/06/2013	**(595,542)**	**(790,096)**	**153,810**	**839,758**	**1,298,385**	**1,071,887**	**339,777**	**0**
Levy income	0	0	0	0	0	0	0	3,967,932
Investment income	28,784	20,747	81,377	128,948	161,715	157,229	143,920	67,586
Claims paid (incl all expenses)	(55,918)	(62,471)	(65,130)	(72,860)	(95,862)	(155,278)	(543,175)	(1,579,683)
Movement in OCL	20,410	86,324	73,933	130,121	140,487	273,450	598,387	(2,331,232)
Movement in URL	0	0	0	0	0	0	42,077	(201,549)
Surplus/(Deficit) at 30/06/2014	**(602,267)**	**(745,496)**	**243,989**	**1,025,967**	**1,504,725**	**1,347,288**	**580,985**	**(76,945)**

B.4 Deficits were recorded for accident years to 2009, and again in 2014. In the interim years the financial condition improved significantly.

TABLE 38 – TOTAL SCHEME CUMULATIVE REVENUE STATEMENT

($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
					Accident Year to 30 June					
Levy income		**2,510,390**	**2,658,666**	**3,153,098**	**3,406,169**	**3,967,999**	**4,103,601**	**3,936,425**	**3,967,932**	
Investment income		**311,853**	**221,661**	**598,410**	**804,047**	**765,044**	**513,630**	**261,572**	**67,586**	
Cumulative claims paid (incl CHE)		(2,326,284)	(2,450,408)	(2,321,830)	(2,003,014)	(1,931,162)	(1,902,502)	(1,897,361)	(1,475,479)	
OCL		(1,086,204)	(1,071,012)	(1,082,266)	(1,087,466)	(1,196,086)	(1,262,818)	(1,628,163)	(2,331,232)	
Claims incurred		**(3,412,488)**	**(3,521,420)**	**(3,404,096)**	**(3,090,481)**	**(3,127,248)**	**(3,165,320)**	**(3,525,524)**	**(3,806,710)**	
Expenses		(12,021)	(104,403)	(103,423)	(93,769)	(101,070)	(104,623)	(91,488)	(305,754)	
Surplus/(Deficit)		**(602,267)**	**(745,496)**	**243,989**	**1,025,967**	**1,504,725**	**1,347,288**	**580,985**	**(76,945)**	
Assets	13,564,250	483,938	325,516	1,326,255	2,113,433	2,700,812	2,610,106	2,209,148	2,254,286	27,587,745
Liabilities	16,951,114	1,086,204	1,071,012	1,082,266	1,087,466	1,196,086	1,262,818	1,628,163	2,331,232	27,696,362
Net assets	**(3,386,864)**	**(602,267)**	**(745,496)**	**243,989**	**1,025,967**	**1,504,725**	**1,347,288**	**580,985**	**(76,945)**	**(108,618)**

Motor Vehicle Account

B.5 The Motor Vehicle Account's position deteriorated until 2010, particularly due to an improved modelling of serious injury claims, which acted to increase significantly the assessed liability. Since then there has been a general improvement.

TABLE 39 – MOTOR VEHICLE ACCOUNT BY ACCIDENT YEAR

	Accident Year to 30 June							
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	276,182							
Investment income	9,088							
Claims paid (incl all expenses)	(114,039)							
Movement in OCL	(260,174)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**(88,943)**	**0**						
Levy income	0	290,756						
Investment income	(387)	(202)						
Claims paid (incl all expenses)	(57,772)	(131,250)						
Movement in OCL	(11,903)	(342,898)						
Movement in URL	(563)	(38,833)						
Surplus/(Deficit) at 30/06/2008	**(159,570)**	**(222,427)**	**0**					
Levy income	0	0	346,307					
Investment income	2,547	2,903	1,985					
Claims paid (incl all expenses)	(32,654)	(60,483)	(126,273)					
Movement in OCL	(102,139)	(59,509)	(427,815)					
Movement in URL	0	38,833	(70,120)					
Surplus/(Deficit) at 30/06/2009	**(291,816)**	**(300,682)**	**(275,915)**	**0**				
Levy income	0	0	0	383,552				
Investment income	9,756	11,826	22,021	10,576				
Claims paid (incl all expenses)	(21,946)	(30,290)	(51,481)	(123,409)				
Movement in OCL	36,547	36,906	27,478	(445,395)				
Movement in URL	0	0	70,120	(105,287)				
Surplus/(Deficit) at 30/06/2010	**(267,458)**	**(282,240)**	**(207,777)**	**(279,963)**	**0**			
Levy income	0	0	0	0	590,727			
Investment income	7,840	9,353	23,134	25,149	30,311			
Claims paid (incl all expenses)	(17,218)	(19,549)	(21,576)	(40,952)	(114,413)			
Movement in OCL	7,451	63,802	88,730	94,678	(407,033)			
Movement in URL	0	0	0	105,287	0			
Surplus/(Deficit) at 30/06/2011	**(269,385)**	**(228,634)**	**(117,490)**	**(95,801)**	**99,592**	**0**		
Levy income	0	0	0	0	0	742,192		
Investment income	4,698	5,644	16,246	21,310	42,464	27,553		
Claims paid (incl all expenses)	(14,020)	(16,817)	(15,981)	(21,552)	(40,272)	(110,873)		
Movement in OCL	(32,725)	(30,688)	2,741	(8,619)	38,401	(436,938)		
Movement in URL	0	0	0	0	0	0		
Surplus/(Deficit) at 30/06/2012	**(311,432)**	**(270,496)**	**(114,484)**	**(104,663)**	**140,185**	**221,934**	**0**	
Levy income	0	0	0	0	0	0	783,348	
Investment income	4,483	5,451	18,423	24,176	48,883	62,572	33,478	
Claims paid (incl all expenses)	(11,275)	(12,207)	(11,698)	(14,528)	(17,115)	(37,050)	(103,779)	
Movement in OCL	51,818	42,527	50,368	31,926	69,347	96,311	(394,815)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(Deficit) at 30/06/2013	**(266,407)**	**(234,724)**	**(57,391)**	**(63,088)**	**241,301**	**343,766**	**318,232**	**0**
Levy income	0	0	0	0	0	0	0	816,255
Investment income	2,314	2,949	11,765	15,502	32,134	40,633	41,731	20,998
Claims paid (incl all expenses)	(12,689)	(12,437)	(11,955)	(14,422)	(15,266)	(20,940)	(41,833)	(119,715)
Movement in OCL	3,344	20,302	6,974	19,747	43,393	48,785	71,038	(389,890)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(Deficit) at 30/06/2014	**(273,438)**	**(223,911)**	**(50,606)**	**(42,261)**	**301,561**	**412,244**	**389,169**	**327,648**

B.6 Deficits were produced for the accident years up to 2010, since when the Account's financial position has gradually improved, primarily due to higher levies. The Account remains in deficit by $39m.

TABLE 40 – MOTOR VEHICLE ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident Year to 30 June									
($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
Levy income		**276,182**	**290,756**	**346,307**	**383,552**	**590,727**	**742,192**	**783,348**	**816,255**	
Investment income		**40,339**	**37,925**	**93,574**	**96,713**	**153,791**	**130,758**	**75,209**	**20,998**	
Cumulative claims paid (incl CHE)		(269,897)	(265,837)	(222,279)	(199,530)	(169,352)	(158,209)	(136,450)	(104,701)	
OCL		(307,781)	(269,558)	(251,523)	(307,663)	(255,892)	(291,843)	(323,777)	(389,890)	
Claims incurred		**(577,678)**	**(535,395)**	**(473,802)**	**(507,192)**	**(425,244)**	**(450,052)**	**(460,227)**	**(494,591)**	
Expenses		(12,280)	(17,196)	(16,685)	(15,333)	(17,713)	(10,654)	(9,161)	(15,014)	
Surplus/(Deficit)		**(273,438)**	**(223,911)**	**(50,606)**	**(42,261)**	**301,561**	**412,244**	**389,169**	**327,648**	
Assets	4,507,535	34,344	45,647	200,917	265,402	557,454	704,087	712,946	717,539	7,745,870
Liabilities	5,386,616	307,781	269,558	251,523	307,663	255,892	291,843	323,777	389,890	7,784,544
Net assets	**(879,081)**	**(273,438)**	**(223,911)**	**(50,606)**	**(42,261)**	**301,561**	**412,244**	**389,169**	**327,648**	**(38,675)**

Non-Earners' Account

B.7 The Non-Earners' Account position generally deteriorated until 2009, following which it steadily improved. Accidents in the year to 30 June 2013 returned a slight deficit in financial year 2014; we note that claim payments in the year after accident have increased significantly (from $103m for the 2012 accident year to $117m for the 2013 accident year).

TABLE 41 – NON-EARNERS' ACCOUNT BY ACCIDENT YEAR

	Accident Year to 30 June							
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	628,121							
Investment income	12,134							
Claims paid (incl all expenses)	(426,530)							
Movement in OCL	(257,271)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**(43,545)**	**0**						
Levy income	0	684,868						
Investment income	(4,584)	(3,055)						
Claims paid (incl all expenses)	(102,471)	(469,460)						
Movement in OCL	38,991	(359,964)						
Movement in URL	(868)	0						
Surplus/(Deficit) at 30/06/2008	**(112,478)**	**(147,612)**	**0**					
Levy income	0	0	877,127					
Investment income	4,486	7,564	8,664					
Claims paid (incl all expenses)	(26,384)	(112,372)	(519,408)					
Movement in OCL	10,883	113,676	(396,086)					
Movement in URL	0	0	0					
Surplus/(Deficit) at 30/06/2009	**(123,493)**	**(138,743)**	**(29,704)**	**0**				
Levy income	0	0	0	946,204				
Investment income	9,797	12,330	40,263	27,855				
Claims paid (incl all expenses)	(14,020)	(21,543)	(100,751)	(508,963)				
Movement in OCL	18,249	38,038	137,701	(365,268)				
Movement in URL	0	0	0	0				
Surplus/(Deficit) at 30/06/2010	**(109,468)**	**(109,918)**	**47,509**	**99,827**	**0**			
Levy income	0	0	0	0	881,277			
Investment income	9,293	11,514	36,466	52,062	21,949			
Claims paid (incl all expenses)	(8,958)	(10,308)	(21,596)	(87,588)	(526,037)			
Movement in OCL	8,971	32,548	27,486	151,998	(362,444)			
Movement in URL	0	0	0	0	0			
Surplus/(Deficit) at 30/06/2011	**(100,162)**	**(76,163)**	**89,865**	**216,300**	**14,744**	**0**		
Levy income	0	0	0	0	0	841,684		
Investment income	5,982	7,495	24,541	32,793	25,658	11,436		
Claims paid (incl all expenses)	(6,951)	(7,294)	(13,558)	(19,999)	(97,822)	(549,063)		
Movement in OCL	(29,028)	(13,159)	(14,789)	(2,163)	105,499	(393,350)		
Movement in URL	0	0	0	0	0	0		
Surplus/(Deficit) at 30/06/2012	**(130,158)**	**(89,121)**	**86,060**	**226,931**	**48,079**	**(89,294)**	**0**	
Levy income	0	0	0	0	0	0	843,798	
Investment income	8,309	10,609	35,796	47,845	32,164	27,697	14,286	
Claims paid (incl all expenses)	(6,565)	(5,992)	(10,665)	(12,147)	(23,458)	(102,988)	(586,335)	
Movement in OCL	20,421	20,822	16,133	31,149	22,318	154,576	(384,208)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(Deficit) at 30/06/2013	**(107,993)**	**(63,681)**	**127,323**	**293,778**	**79,104**	**(10,009)**	**(112,459)**	**0**
Levy income	0	0	0	0	0	0	0	803,201
Investment income	5,123	6,736	23,370	31,391	20,351	14,326	14,162	5,805
Claims paid (incl all expenses)	(7,198)	(5,693)	(9,418)	(10,057)	(14,120)	(25,770)	(116,674)	(628,244)
Movement in OCL	(1,841)	14,889	(201)	16,301	19,912	34,447	100,465	(410,360)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(Deficit) at 30/06/2014	**(111,910)**	**(47,749)**	**141,075**	**331,413**	**105,247**	**12,994**	**(114,505)**	**(229,598)**

B.8 Accident years up to 2008 produced deficits, followed by steady surpluses. The 2013 and 2014 years produced deficits as funds were returned due to the Account being over-funded in respect of the Non-Earners' funding policy which differs from other Accounts (refer to Section 9.3).

TABLE 42 – NON-EARNERS' ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident Year to 30 June									
($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
Levy income		**628,121**	**684,868**	**877,127**	**946,204**	**881,277**	**841,684**	**843,798**	**803,201**	
Investment income		**50,539**	**53,195**	**169,100**	**191,946**	**100,122**	**53,458**	**28,448**	**5,805**	
Cumulative claims paid (incl CHE)		(590,028)	(621,291)	(662,318)	(628,840)	(653,373)	(671,200)	(696,876)	(618,648)	
OCL		(190,624)	(153,150)	(229,756)	(167,983)	(214,715)	(204,327)	(283,743)	(410,360)	
Claims incurred		**(780,653)**	**(774,441)**	**(892,073)**	**(796,823)**	**(868,088)**	**(875,526)**	**(980,619)**	**(1,029,008)**	
Expenses		(9,917)	(11,370)	(13,079)	(9,914)	(8,064)	(6,622)	(6,133)	(9,596)	
Surplus/(Deficit)		**(111,910)**	**(47,749)**	**141,075**	**331,413**	**105,247**	**12,994**	**(114,505)**	**(229,598)**	
Assets	804,051	78,715	105,401	370,831	499,396	319,962	217,321	169,237	180,762	2,745,675
Liabilities	3,778,613	190,624	153,150	229,756	167,983	214,715	204,327	283,743	410,360	5,633,270
Net assets	**(2,974,562)**	**(111,910)**	**(47,749)**	**141,075**	**331,413**	**105,247**	**12,994**	**(114,505)**	**(229,598)**	**(2,887,594)**

Earners' Account

B.9 The financial position deteriorated across all accident years until 30 June 2009 but each accident year since has returned a surplus (excluding the URL impact).

TABLE 43 – EARNERS' ACCOUNT BY ACCIDENT YEAR

	Accident Year to 30 June							
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	880,215							
Investment income	16,506							
Claims paid (incl all expenses)	(440,139)							
Movement in OCL	(560,944)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**(104,363)**	**0**						
Levy income	0	990,261						
Investment income	566	196						
Claims paid (incl all expenses)	(256,512)	(515,005)						
Movement in OCL	91,998	(808,316)						
Movement in URL	(1,370)	(311,915)						
Surplus/(Deficit) at 30/06/2008	**(269,681)**	**(644,779)**	**0**					
Levy income	0	0	1,105,674					
Investment income	5,234	5,622	4,477					
Claims paid (incl all expenses)	(92,061)	(309,759)	(558,807)					
Movement in OCL	(14,328)	139,169	(1,018,712)					
Movement in URL	0	311,915	(284,697)					
Surplus/(Deficit) at 30/06/2009	**(370,837)**	**(497,832)**	**(752,065)**	**0**				
Levy income	0	0	0	1,338,050				
Investment income	10,215	14,902	31,978	49,930				
Claims paid (incl all expenses)	(48,456)	(85,251)	(265,695)	(475,693)				
Movement in OCL	104,326	194,305	468,554	(841,632)				
Movement in URL	0	0	284,697	0				
Surplus/(Deficit) at 30/06/2010	**(304,753)**	**(373,877)**	**(232,532)**	**70,654**	**0**			
Levy income	0	0	0	0	1,509,239			
Investment income	6,355	8,543	30,520	87,368	56,509			
Claims paid (incl all expenses)	(30,546)	(43,500)	(69,270)	(204,334)	(461,291)			
Movement in OCL	35,689	78,017	148,891	353,328	(799,251)			
Movement in URL	0	0	0	0	0			
Surplus/(Deficit) at 30/06/2011	**(293,256)**	**(330,816)**	**(122,391)**	**307,017**	**305,205**	**0**		
Levy income	0	0	0	0	0	1,487,337		
Investment income	3,461	4,656	23,951	70,565	92,470	46,425		
Claims paid (incl all expenses)	(24,926)	(31,006)	(38,111)	(59,675)	(202,678)	(468,563)		
Movement in OCL	12,431	23,908	13,655	49,943	273,836	(795,659)		
Movement in URL	0	0	0	0	0	(11,534)		
Surplus/(Deficit) at 30/06/2012	**(302,290)**	**(333,259)**	**(122,896)**	**367,850**	**468,834**	**258,006**	**0**	
Levy income	0	0	0	0	0	0	1,313,075	
Investment income	1,622	2,465	22,344	70,235	85,998	84,137	34,413	
Claims paid (incl all expenses)	(20,612)	(23,911)	(27,221)	(33,828)	(55,615)	(227,818)	(506,600)	
Movement in OCL	45,634	57,266	67,461	89,278	149,729	310,052	(772,441)	
Movement in URL	0	0	0	0	0	11,534	(42,077)	
Surplus/(Deficit) at 30/06/2013	**(275,646)**	**(297,438)**	**(60,312)**	**493,534**	**648,946**	**435,911**	**26,371**	**0**
Levy income	0	0	0	0	0	0	0	1,380,252
Investment income	1	459	15,995	53,435	64,909	57,317	44,501	20,043
Claims paid (incl all expenses)	(19,072)	(22,158)	(22,813)	(25,341)	(32,948)	(62,561)	(257,357)	(556,084)
Movement in OCL	11,847	15,288	34,313	73,977	52,685	115,324	241,657	(831,337)
Movement in URL	0	0	0	0	0	0	42,077	(201,549)
Surplus/(Deficit) at 30/06/2014	**(282,870)**	**(303,848)**	**(32,817)**	**595,605**	**733,593**	**545,991**	**97,248**	**(188,675)**

B.10 The overall financial position is a surplus of $1,701m.

TABLE 44 – EARNERS' ACCOUNT CUMULATIVE REVENUE STATEMENT

		Accident Year to 30 June								
($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
Levy income		**880,215**	**990,261**	**1,105,674**	**1,338,050**	**1,509,239**	**1,487,337**	**1,313,075**	**1,380,252**	
Investment income		43,958	36,843	129,265	331,534	299,887	187,879	78,913	20,043	
Cumulative claims paid (incl CHE)		(907,878)	(1,000,270)	(952,506)	(770,609)	(722,601)	(730,589)	(735,976)	(524,569)	
OCL		(273,349)	(300,362)	(285,839)	(275,106)	(323,000)	(370,283)	(530,784)	(831,337)	
Claims incurred		**(1,181,227)**	**(1,300,633)**	**(1,238,344)**	**(1,045,715)**	**(1,045,601)**	**(1,100,872)**	**(1,266,760)**	**(1,355,906)**	
Expenses		(25,817)	(30,320)	(29,412)	(28,263)	(29,932)	(28,353)	(27,981)	(233,064)	
Surplus/(Deficit)		**(282,870)**	**(303,848)**	**(32,817)**	**595,605**	**733,593**	**545,991**	**97,248**	**(188,675)**	
Assets	2,672,939	(9,522)	(3,486)	253,022	870,711	1,056,593	916,274	628,032	642,663	7,027,227
Liabilities	2,136,219	273,349	300,362	285,839	275,106	323,000	370,283	530,784	831,337	5,326,280
Net assets	**536,720**	**(282,870)**	**(303,848)**	**(32,817)**	**595,605**	**733,593**	**545,991**	**97,248**	**(188,675)**	**1,700,947**

Work Account

B.11 The Work Account has produced more stable results than the rest of the Scheme, with consistent decreases in claim frequency interrupted by a slight uptick in 2014.

TABLE 45 – WORK ACCOUNT BY ACCIDENT YEAR

	Accident Year to 30 June							
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	627,266							
Investment income	17,372							
Claims paid (incl all expenses)	(243,169)							
Movement in OCL	(358,964)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**42,505**	**0**						
Levy income	0	584,128						
Investment income	(719)	(144)						
Claims paid (incl all expenses)	(138,961)	(233,867)						
Movement in OCL	75,966	(444,715)						
Movement in URL	70,014	(233,688)						
Surplus/(Deficit) at 30/06/2008	**48,806**	**(328,287)**	**0**					
Levy income	0	0	538,957					
Investment income	8,692	5,509	1,633					
Claims paid (incl all expenses)	(57,838)	(159,950)	(234,440)					
Movement in OCL	299	87,007	(493,072)					
Movement in URL	0	233,688	(210,247)					
Surplus/(Deficit) at 30/06/2009	**(41)**	**(162,032)**	**(397,169)**	**0**				
Levy income	0	0	0	479,329				
Investment income	25,270	15,778	12,579	12,120				
Claims paid (incl all expenses)	(33,367)	(59,211)	(137,267)	(224,198)				
Movement in OCL	52,772	90,162	202,342	(431,174)				
Movement in URL	0	0	210,247	0				
Surplus/(Deficit) at 30/06/2010	**44,634**	**(115,303)**	**(109,268)**	**(163,923)**	**0**			
Levy income	0	0	0	0	702,234			
Investment income	26,429	13,759	15,924	21,629	23,936			
Claims paid (incl all expenses)	(20,051)	(29,041)	(44,144)	(101,519)	(223,068)			
Movement in OCL	15,590	34,763	72,816	179,808	(425,945)			
Movement in URL	0	0	0	0	0			
Surplus/(Deficit) at 30/06/2011	**66,603**	**(95,822)**	**(64,672)**	**(64,004)**	**77,158**	**0**		
Levy income	0	0	0	0	0	731,683		
Investment income	26,476	12,350	13,739	16,678	44,000	21,807		
Claims paid (incl all expenses)	(14,969)	(18,806)	(22,679)	(30,210)	(97,300)	(224,170)		
Movement in OCL	(5,945)	(4,464)	10,343	39,072	140,330	(429,570)		
Movement in URL	0	0	0	0	0	(57,057)		
Surplus/(Deficit) at 30/06/2012	**72,164**	**(106,741)**	**(63,269)**	**(38,464)**	**164,187**	**42,693**	**0**	
Levy income	0	0	0	0	0	0	644,463	
Investment income	22,894	9,811	10,864	13,161	34,603	36,126	18,511	
Claims paid (incl all expenses)	(11,387)	(15,245)	(16,461)	(17,958)	(32,764)	(96,589)	(228,027)	
Movement in OCL	51,072	32,430	34,518	40,539	66,015	177,342	(393,825)	
Movement in URL	0	0	0	0	0	57,057	0	
Surplus/(Deficit) at 30/06/2013	**134,743**	**(79,745)**	**(34,349)**	**(2,722)**	**232,042**	**216,630**	**41,122**	**0**
Levy income	0	0	0	0	0	0	0	669,385
Investment income	16,810	6,626	7,390	9,106	24,866	25,516	21,512	11,795
Claims paid (incl all expenses)	(12,060)	(15,270)	(15,481)	(15,312)	(21,879)	(33,284)	(107,386)	(251,318)
Movement in OCL	15,146	26,170	12,908	3,569	34,030	64,985	141,331	(419,655)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(Deficit) at 30/06/2014	**154,639**	**(62,219)**	**(29,533)**	**(5,360)**	**269,059**	**273,847**	**96,579**	**10,206**

B.12 Surpluses were produced for all accident years apart from 2008 to 2010; most resulted from higher levies and a reducing claim rate. In accident year 2014 we note there was a small surplus. Table 46 is based on the annual accounts so includes gradual process claims on a "claims made" basis rather than on an incurred basis. Hence this shows the Account to have a surplus of $2,062m, rather than that implied by the funding ratios reported in Section 9.5.

TABLE 46 – WORK ACCOUNT CUMULATIVE REVENUE STATEMENT

		Accident Year to 30 June								
($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
Levy income		**627,266**	**584,128**	**538,957**	**479,329**	**702,234**	**731,683**	**644,463**	**669,385**	
Investment income		**143,224**	**63,690**	**62,128**	**72,694**	**127,406**	**83,449**	**40,023**	**11,795**	
Cumulative claims paid (incl CHE)		(498,617)	(486,927)	(427,317)	(350,123)	(331,168)	(295,452)	(287,921)	(203,662)	
OCL		(154,064)	(178,647)	(160,145)	(168,186)	(185,570)	(187,242)	(252,495)	(419,655)	
Claims incurred		**(652,681)**	**(665,574)**	**(587,462)**	**(518,309)**	**(516,739)**	**(482,694)**	**(540,416)**	**(623,317)**	
Expenses		36,830	(44,463)	(43,156)	(39,073)	(43,842)	(58,590)	(47,492)	(47,656)	
Surplus/(Deficit)		**154,639**	**(62,219)**	**(29,533)**	**(5,360)**	**269,059**	**273,847**	**96,579**	**10,206**	
Assets	5,064,602	308,703	116,428	130,612	162,826	454,629	461,090	349,073	429,862	7,477,825
Liabilities	3,709,512	154,064	178,647	160,145	168,186	185,570	187,242	252,495	419,655	5,415,516
Net assets	**1,355,090**	**154,639**	**(62,219)**	**(29,533)**	**(5,360)**	**269,059**	**273,847**	**96,579**	**10,206**	**2,062,308**

Treatment Injury Account

B.13 The Treatment Injury Account's performance deteriorated sharply in financial years 2007 and 2008 as the impact of the expanded coverage introduced in 2005 started to take effect. Since then the performance of the accident years has been stable. The later accident years benefited from more appropriate levy rates as the full effect of the coverage expansion was better understood.

TABLE 47 – TREATMENT INJURY ACCOUNT BY ACCIDENT YEAR

							Accident Year to 30 June	
($000)	2007	2008	2009	2010	2011	2012	2013	2014
Surplus/(Deficit) at 30/06/2006	**0**							
Levy income	98,606							
Investment income	4,626							
Claims paid (incl all expenses)	(11,306)							
Movement in OCL	(88,027)							
Movement in URL	0							
Surplus/(Deficit) at 30/06/2007	**3,900**	**0**						
Levy income	0	108,653						
Investment income	(3,224)	(1,732)						
Claims paid (incl all expenses)	(11,870)	(16,592)						
Movement in OCL	(37,525)	(152,379)						
Movement in URL	(288)	0						
Surplus/(Deficit) at 30/06/2008	**(49,007)**	**(62,049)**	**0**					
Levy income	0	0	285,033					
Investment income	1,111	1,269	2,095					
Claims paid (incl all expenses)	(10,643)	(17,951)	(16,295)					
Movement in OCL	(30,367)	(40,689)	(219,029)					
Movement in URL	0	0	0					
Surplus/(Deficit) at 30/06/2009	**(88,906)**	**(119,420)**	**51,804**	**0**				
Levy income	0	0	0	259,034				
Investment income	7,347	7,843	30,555	14,050				
Claims paid (incl all expenses)	(7,513)	(12,238)	(15,530)	(17,110)				
Movement in OCL	318	10,726	19,705	(243,401)				
Movement in URL	0	0	0	0				
Surplus/(Deficit) at 30/06/2010	**(88,754)**	**(113,089)**	**86,534**	**12,573**	**0**			
Levy income	0	0	0	0	284,522			
Investment income	7,907	7,970	34,622	30,696	16,568			
Claims paid (incl all expenses)	(5,080)	(8,866)	(8,600)	(12,673)	(15,041)			
Movement in OCL	757	10,994	29,032	49,783	(242,761)			
Movement in URL	0	0	0	0	0			
Surplus/(Deficit) at 30/06/2011	**(85,170)**	**(102,991)**	**141,587**	**80,379**	**43,288**	**0**		
Levy income	0	0	0	0	0	300,705		
Investment income	4,608	4,405	21,148	18,427	19,014	9,649		
Claims paid (incl all expenses)	(5,074)	(8,355)	(7,575)	(11,095)	(18,085)	(19,546)		
Movement in OCL	(13,627)	(25,596)	(22,856)	(4,666)	12,413	(295,172)		
Movement in URL	0	0	0	0	0	0		
Surplus/(Deficit) at 30/06/2012	**(99,263)**	**(132,536)**	**132,304**	**83,045**	**56,630**	**(4,364)**	**0**	
Levy income	0	0	0	0	0	0	351,741	
Investment income	6,880	6,276	33,066	28,474	28,801	29,000	16,964	
Claims paid (incl all expenses)	(4,028)	(6,220)	(5,038)	(6,492)	(11,411)	(15,186)	(20,933)	
Movement in OCL	16,170	17,973	18,207	13,229	22,973	76,140	(281,261)	
Movement in URL	0	0	0	0	0	0	0	
Surplus/(Deficit) at 30/06/2013	**(80,240)**	**(114,507)**	**178,539**	**118,256**	**96,993**	**85,589**	**66,511**	**0**
Levy income	0	0	0	0	0	0	0	298,839
Investment income	4,536	3,976	22,857	19,514	19,455	19,436	22,014	8,945
Claims paid (incl all expenses)	(4,899)	(6,913)	(5,464)	(7,728)	(11,649)	(12,723)	(19,926)	(24,323)
Movement in OCL	(8,085)	9,675	19,938	16,527	(9,533)	9,909	43,896	(279,988)
Movement in URL	0	0	0	0	0	0	0	0
Surplus/(Deficit) at 30/06/2014	**(88,688)**	**(107,769)**	**215,871**	**146,569**	**95,265**	**102,212**	**112,495**	**3,473**

B.14 Deficits were produced for accident years up to 2008, following which the Account's financial position gradually improved, primarily due to higher levies. There remains a significant unfunded portion in the Non-Earners' portion of Treatment Injury, which is responsible for the overall deficit of $946m.

TABLE 48 – TREATMENT INJURY ACCOUNT CUMULATIVE REVENUE STATEMENT

	Accident Year to 30 June									
($000)	Pre 2007	2007	2008	2009	2010	2011	2012	2013	2014	Total
Levy income		**98,606**	**108,653**	**285,033**	**259,034**	**284,522**	**300,705**	**351,741**	**298,839**	
Investment income		**33,793**	**30,008**	**144,343**	**111,161**	**83,838**	**58,085**	**38,978**	**8,945**	
Cumulative claims paid (incl CHE)		(59,863)	(76,082)	(57,410)	(53,912)	(54,668)	(47,053)	(40,137)	(23,900)	
OCL		(160,386)	(169,295)	(155,003)	(168,528)	(216,908)	(209,123)	(237,365)	(279,988)	
Claims incurred		**(220,250)**	**(245,376)**	**(212,413)**	**(222,441)**	**(271,576)**	**(256,176)**	**(277,502)**	**(303,888)**	
Expenses		(837)	(1,054)	(1,092)	(1,185)	(1,519)	(403)	(722)	(423)	
Surplus/(Deficit)		**(88,688)**	**(107,769)**	**215,871**	**146,569**	**95,265**	**102,212**	**112,495**	**3,473**	
Assets	515,124	71,698	61,526	370,874	315,097	312,173	311,334	349,860	283,461	2,591,148
Liabilities	1,940,155	160,386	169,295	155,003	168,528	216,908	209,123	237,365	279,988	3,536,752
Net assets	**(1,425,031)**	**(88,688)**	**(107,769)**	**215,871**	**146,569**	**95,265**	**102,212**	**112,495**	**3,473**	**(945,603)**

APPENDIX C

Coverage

Schedule of Services

C.1 Table 49 provides a summary of the main services provided by the Scheme in the event of a covered personal injury.

TABLE 49 – SCHEDULE OF SERVICES

<table>
<tr><td colspan="4">Medical</td></tr>
<tr><td>Public health acute services</td><td colspan="3">Accidental injury costs arising from acute inpatient care, emergency department, outpatient, complex burns, pharmaceuticals, and laboratories</td></tr>
<tr><td>General practitioners</td><td colspan="3">Payments to general practitioners and accident and medical clinics</td></tr>
<tr><td>Radiology</td><td colspan="3">Payments for radiology services – low-tech (e.g. x-ray) and high-tech (e.g. MRI)</td></tr>
<tr><td>Physiotherapy</td><td colspan="3">Payments to physiotherapists</td></tr>
<tr><td>Ambulance</td><td colspan="3">Emergency transportation to a medical facility, by road and/or air</td></tr>
<tr><td>Elective surgery</td><td colspan="3">Predominantly orthopaedic-related surgery</td></tr>
<tr><td>Other medical</td><td colspan="3">All medical costs except those categorised above. These include counselling for claims requiring support beyond that for physical injuries</td></tr>
<tr><td colspan="4">Compensation</td></tr>
<tr><td>Weekly compensation – non-fatal</td><td colspan="3">Loss of earnings and loss of potential earnings for minors</td></tr>
<tr><td>Death benefits</td><td colspan="3">Funeral grants and support for spouse and/or dependants</td></tr>
<tr><td colspan="4">Rehabilitation</td></tr>
<tr><td>Lump sum</td><td colspan="3">Additional support to compensate for permanent impairment due to injury, including work-related gradual process claims arising from prolonged exposure to an element, e.g. asbestos</td></tr>
<tr><td>Vocational</td><td colspan="3">Programmes to support clients in their return to independence</td></tr>
<tr><td rowspan="4">Social rehabilitation</td><td rowspan="2">Serious injury</td><td>Capital</td><td>Predominantly housing and motor vehicle modifications for those with serious injuries</td></tr>
<tr><td>Non-capital</td><td>Care costs (such as attendant care and assessments) and other costs related to serious injury</td></tr>
<tr><td rowspan="2">Non-serious injury</td><td>Capital</td><td>Predominantly equipment, orthotics for splints, medical consumables and residential modification costs for those with non-serious injuries. Included here is provision of ongoing aids and appliances for hearing loss suffered through a traumatic event or prolonged work exposure to loud noise</td></tr>
<tr><td>Non-capital</td><td>Provision of care, assessments and other support-related social rehabilitation for those with non-serious injuries</td></tr>
</table>

Account Structure

C.2 ACC is financially managed under five Accounts, each designed to align levy collection to the risk exposure to injury. Table 50 summarises the coverage and levy mechanism of each of the Accounts.

TABLE 50 – 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 self-employed as a percentage of taxable earnings
Treatment Injury	When receiving medical treatment in the health care system	Levy paid from 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 50. In particular, the Work Account includes all injuries to earners, whether at work or otherwise, that occurred prior to 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 the WorkPlace Cover product, which provides full insurance cover in respect of accidents in the workplace.

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

C.7 The goal of the AEP is to improve workplace safety and rehabilitation performance by providing employers with appropriate financial incentives. Entry is subject to satisfactory workplace safety standards, claims management ability and the 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 back to the Work Account. This risk is mitigated 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 $2.1m. Currently total annual levies of the Work Account are approximately $750m; these failures represent a cost of roughly 0.3% of one year's levies.

Self-Employed

C.9 Most self-employed people are insured under the CoverPlus product. This provides insurance against both work and non-work injuries, so includes the risks that would otherwise arise in the Earners' Account.

C.10 CoverPlus Extra provides agreed-value weekly compensation cover for self-employed and non-PAYE shareholder employees, allowing those who have volatile incomes from year to year some certainty in their cover.

Incentive Programmes

C.11 ACC offers two incentive programmes designed to encourage safety in the workplace. Both offer discounts on levies in return for businesses meeting certain health and safety standards.

C.12 The Workplace Safety Management Practices programme (WSMP) is available to all employers. Three levels of accreditation are available, primary, secondary and tertiary, providing levy discounts of 10%, 15% and 20% respectively. As inclusion in the programme is dependent upon the employer meeting a safety audit, it tends to attract only larger employers.

C.13 The Workplace Safety Discounts programme is targeted at businesses (including self-employed) with 10 or fewer employees and provides a 10% discount to participants, who are required to complete a training course and meet an audit.

Experience Rating

C.14 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% or decreased by up to 50%.

C.15 For small employers (levies less than $10,000 per annum) and self-employed, a no-claims discount scheme applies under which levy modifications of -10%, 0% and 10% apply.

C.16 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 who have loadings greater than 15% to help improve their safety practices.

Motor Vehicle Account

C.17 The levy consultation for 2013/14 proposed the introduction of a Fleet Safety Incentive Programme to the Motor Vehicle Account. Modelled on the WSMP programme and designed to improve the safety performance of commercial vehicle fleets, this programme, now known as "Fleet Saver", was launched on 2 December 2013. As at 6 October 2014, 25 fleets have been admitted to the programme, representing 2.5% of the heavy vehicle fleet.

C.18 The levy consultation for 2014/15 (discussed in Section 5) included a proposal to expand the Fleet Saver programme to businesses that rent out heavy goods service vehicles. This programme will be known as "Fleet Saver for Rentals" and begins from October 2014.

PREVENTION. CARE. RECOVERY.
Te Kaporeihana Āwhina Hunga Whara

www.acc.co.nz
0800 101 996

ACC7096 January 2015 Print ISSN: 2230–2042 Online ISSN: 2230–2050