Te Tū o te Taha Pūtea
Financial Condition Report 2024

20 November 2024

He Kaupare. He Manaaki. He Whakaora.
Prevention. Care. Recovery.

This Financial Condition Report has been prepared by ACC's internal actuaries and issued by ACC's Chief Actuary.

In writing this report as at 30 June 2024, we've complied with the New Zealand Society of Actuaries' professional standards, including Professional Standard No. 31 — Non-Life Insurers — Financial Condition Report, appropriately adapted for ACC. In line with these standards, our objectives are to:

- present a view of the Accident Compensation Scheme (the Scheme) that's transparent and free from bias
- help others build a clear picture of the financial condition of the Scheme
- establish what's needed to ensure ACC's financial condition can support a fair and sustainable Scheme for New Zealanders now and in the future.

We're satisfied that the data, methods, and assumptions used in this report are appropriate for the purpose of assessing the financial condition of the Scheme. We have used a level of materiality based on ACC's audit procedures. This is determined at 0.8% of total assets or $452 million.

Readers should note that due to rounding, the sum of the components in some tables and charts may not exactly match the totals.

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Chief Actuary & Head of Actuarial Services
Date: 20 November 2024

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1. Summary

We write this report to help make sure that ACC is here for future generations

New Zealanders need to feel confident that if they or their friends or whānau are injured, ACC will be there to support their wellbeing — not just today but into the future.

ACC's Chief Actuary issues a formal Financial Condition Report each year to assess ACC's financial condition. This report is required under the Accident Compensation Act 2001 and sets out the financial condition of the Accident Compensation Scheme (the Scheme), how it's changed during the year, and the reasons for the changes. The report also includes forecasts on how the financial condition may change over time and identifies existing and future risks to the Scheme. No restrictions or limitations have been placed on the Chief Actuary in producing this report.

Where appropriate, we make recommendations for improving customer outcomes and ensuring a stronger financial condition in the future. We make recommendations in areas where ACC can act, but not in areas outside of ACC's control (for example, legislative and Scheme policy settings).

This report takes a long-term view. Currently, there are no risks to ACC's financial condition significant enough to affect its ability to pay claims over the short-to-medium term. This is because ACC can use assets (collected to fund existing claims) for both existing and new claims (if it needs to), for a period of time. However, there are underlying trends and issues that, if left unaddressed, are likely to result in the next generation having to pay significantly higher levies and taxes to ensure the Scheme remains sustainable. In the financial year to 30 June 2024, these trends and issues have worsened, meaning the Scheme's financial condition has deteriorated compared to 30 June 2023.

The scale, complexity, and long-term nature of the Scheme mean that it takes time to make changes and that decisions made today can have major implications for the future fairness and sustainability of the Scheme. ACC is working to reduce some of the pressure on future funding requirements by improving long-term Scheme performance.

It's increasingly important that this work is successful, and that decision-makers understand the likely impact of today's actions on future levy and taxpayers.

Throughout this report, results are stated on a basis consistent with the two government funding policies for ACC — one for the levied Accounts and one for the Non-Earners' Account. This means that in some cases figures differ from those in the 2024 financial statements, which are prepared on the required accounting basis. One of the main differences between these approaches is that the figures in the Financial Condition Report don't include a risk margin on the Outstanding Claims Liability (OCL). A reconciliation is provided in the report between the two approaches.

The overall financial result in 2023/24 was a deficit, and the long-term financial condition of the Scheme is under increasing pressure

In 2023/24, ACC's overall financial result was a net deficit of $5.8 billion as determined under the government funding policies. This resulted in an 11% decrease to the overall funding ratio of the Scheme, which means the ratio of Scheme assets to Scheme liabilities reduced. This decrease was because of a significantly weaker-than-expected underwriting result. This is the difference between income (levies and appropriations) received and the cost of claims incurred during a year (including expenses paid). It excludes economic movements such as investment income and costs, as well as the economic impacts from interest rates and inflation.

2023/24 is the first year since 2019/20 where favourable economic movements haven't been enough to substantially offset a weaker-than-expected underwriting performance. Economic movements aren't within ACC's control and can't be relied upon to always be favourable.

ACC has experienced an ongoing decline in claim performance over the past 10 years. In 2023/24, this has continued. As well as reducing the funding ratio at 30 June 2024 (which relates to assets and liabilities for claims that have already occurred), this also increased the new year cost gap (the gap between the income ACC expects to receive and the costs it expects to incur for each new year of claims). Claim performance is driven by how effectively and efficiently injured clients are rehabilitated, and is affected by a mix of factors, some of which are within ACC's control or ability to influence. Having claims receiving weekly compensation for longer was a significant driver of ACC's weaker-than-expected underwriting result, and growth in estimated future new year costs. Other main drivers were serious injury care and sensitive claims.

The 2023/24 movements in estimates for weekly compensation largely reflect actual claims performance for the 2023/24 year, but also allow for ACC's clearer and more realistic expectations of claims performance for upcoming years. These factors led us to review our rehabilitation rate assumptions, and include a deteriorating trend for a further year. The inclusion of this trend is part of the reason for the weaker-than-expected underwriting result.

There were other factors outside of ACC's control that have affected the funding ratios this year. In particular, recent court decisions have resulted in a substantial change to entitlements and ACC costs.

In considering the future long-term financial condition of the Scheme, we expect further pressure. This is primarily due to the forecast new year cost gap. When costs exceed income, the funding ratios will reduce.

ACC's income for new claims in a given year is generated through levies and appropriations. Costs incurred reflect the lifetime cost of injuries that occur in that year (new year costs), including the costs of managing those claims, and allowing for expected investment returns. Funding recommendations made to the Government are determined individually for each of the five ACC Accounts, in line with the government funding policies, by considering an Account's new year costs and its funding ratio compared to the funding target of 100%.

For the levied Accounts, while the Motor Vehicle and Work Accounts are in surplus for now, the Earners' Account is in deficit

The Motor Vehicle and the Work Accounts remain in surplus, above the 100% funding target. However, the new year cost gap for both Accounts has grown in 2023/24. For the Motor Vehicle Account, the new year cost gap has increased from $297 million in 2023/24 to $472 million in 2024/25. For the Work Account, the new year cost gap has increased from $296 million in 2023/24 to $426 million in 2024/25.

The extent of the new year cost gap means that funding ratios for these Accounts are projected to decline faster than we forecast last year. Assuming the levy rates are increased in line with the government funding policy for the levied Accounts every year, these Accounts are projected to drop below target within the next 10 years and remain below target for a significant period. The Motor Vehicle Account is projected to continue to decline until 2042/43 before starting to recover towards target, while the Work Account is projected to start to recover from 2035/36.

The Earners' Account is now in deficit, with a funding ratio at June 2024 of 91%. The new year cost gap for this Account is estimated at around $824 million for 2024/25. Assuming future levies are set in line with the government funding policy, the funding ratio is forecast to decrease to 66%

by 2032/33, and then to take more than 20 years to reach its funding target.

When Accounts drop below their funding target, it can take many years to get back close to target if there is a significant new year cost gap at that time. Ignoring economic fluctuations, the funding ratios will only improve if levies or appropriations are higher than new year costs.

However, it may take time for this to happen under the government funding policies, due to a cap which limits how much recommended levies and appropriations can increase in a single year[1]. If recommended levy increases are not accepted, this will likely lengthen the expected time required for each Account to return to its funding target.

For the non-levied Accounts, the Treatment Injury and Non-Earners' Accounts are projected to remain under funding targets for some time

The non-levied Accounts are both in deficit, below the 100% funding target. The Non-Earners' Account is now at only 53% compared to 81% in 2022/23, while the non-levied portion of the Treatment Injury Account (covering non-earner claims) decreased from 86% to 85% during the year.

Due to the considerable underwriting deficit in 2023/24, the Non-Earners' Account isn't forecast to reach a funding ratio of 90% until after 2050.

A major contributor to this deficit was a court decision during 2024 affecting the timing of when future costs need to be recognised for clients who obtain cover for a mental injury arising from sexual abuse.

For the Scheme to remain sustainable, the gap between new year costs and levies and appropriations will need to reduce

We're expecting the lifetime cost of the claims ACC receives each year to increase significantly over the next 10 years. Unless this expectation changes, ACC will likely need to recommend that levies and appropriations increase at cap for many years for most Accounts to meet rising costs and reduce the current annual funding gap.

ACC carries out annual calculations to support recommended appropriations for the non-levied Accounts. For the levied Accounts, ACC will be making recommendations for how levies should be set for the next three years, following the September 2024 levy consultation.

ACC must follow the two government funding policies, which prescribe how recommendations are calculated. These recommendations are not binding on the Government.

ACC can lessen some of the burden on levy payers and taxpayers

There are pressures on the Scheme's financial condition that ACC can't control or influence. However, there are things ACC can do to ease pressure in some areas. Focusing on client outcomes is key to improving the financial condition of the Scheme and reducing the burden on levy payers and taxpayers.

Client outcomes, and claim costs, can be improved by:

- increasing the effectiveness and efficiency of rehabilitation and other supports provided to help the recovery of people who get injured
- investing in a balanced injury prevention portfolio to reduce the incidence and severity of injuries in the community.

To further reduce the amount that needs to be paid in levies and appropriations, ACC invests its assets to generate returns above market benchmarks. In 2024, ACC's investment portfolio made a return of 7.46% after costs, which was 0.12% below the benchmark target of 7.58%. Historically, portfolio performance has closely tracked the benchmark.

ACC can also continue efforts to manage its operating expenses. In 2022/23, ACC's organisational expenses were equal to 9.1% of the total income ACC received from levies,

[1] Under the government funding policies, levies can increase at a maximum of 5% per year (5% plus inflation for the Motor Vehicle Account). Appropriations can increase at a maximum of 7.5% per year.

appropriations, and investment returns. It's important that the management of operating expenses isn't pursued to the detriment of claim performance, which has a much greater impact on financial condition.

There are significant opportunities to improve claim performance

In 2023/24, declining claim performance resulted in strain[2] of $2.9 billion to ACC's OCL, which is the money ACC will need to pay in the future to support clients who are currently injured. There was also additional OCL strain of $3.2 billion from the recent court decisions, offset by $0.2 billion mainly due to changes in actual compared to assumed care rates for serious injury claims. This led to a total strain of $5.9 billion. This is part of a longer-term pattern — the past five years has seen cumulative strain of $8.9 billion, of which $5.5 billion is the result of declining claim performance. ACC's total OCL is now $54.4 billion.

We acknowledge the scale of the challenges that ACC, like many organisations, has faced over the past few years. Although the COVID-19 pandemic has now passed, some of the challenges that arose during that time continue to linger.

Workforce constraints have continued to cause higher staff turnover than previously experienced. The wider health system, and the providers ACC works with and relies on, remain under pressure.

It's extremely difficult to quantify exactly how much impact these systemic issues have had. However, ACC acknowledges these external events don't fully explain the declining claim performance, with work underway to address areas ACC can influence. There is an expectation that future claim performance may deteriorate further over the next year before this work can have a positive impact.

This year, and over the past five years, the declining claim performance has been concentrated in three areas.

We've identified much of the strain in these areas as 'influenceable', which means ACC might be able to control or mitigate it — at least to some degree. If ACC can deliver and sustain significant improvements to claim performance in the following areas, there will be a positive impact on ACC's financial condition:

- **Weekly compensation rehabilitation rates.** In 2023/24, there was $1.33 billion of influenceable strain from compensation paid to clients who are unable to work, either temporarily or permanently, because of their injury. Over the past five years the total influenceable strain in this area has been $2.56 billion. The primary driver of the strain has been clients receiving payments for longer than expected. Improvement in rehabilitation performance to return clients to work earlier could significantly reduce the weekly compensation OCL.
- **Serious injury care.** This comprises payments made to seriously injured clients who need access to care services, either permanently or temporarily. In 2023/24, there was $864 million of influenceable strain in this area. Over the past five years the total influenceable strain has been $2.07 billion. The primary driver of the strain has been increases in attendant care hours, along with recent increases in the use of residential care and provider travel.
- **Sensitive claims.** These are claims for physical and mental injuries resulting from sexual abuse or sexual assault. In the past year, there was $610 million of strain in this area. Over the past five years the total influenceable strain has been $1.36 billion, initially driven by increasing numbers of clients accessing the services and more recently increasing average claim costs. We're more concerned about strain caused by increasing average cost of claims, rather than strain due to more survivors accessing services.

[2] Strain is an unexpected increase to the OCL due to the actual payments ACC is making to support clients being higher than expected.

Injury prevention is still not making a significant contribution to Scheme sustainability

Some injury prevention programmes are performing well. The expected net benefit from injury prevention in 2024/25 is $40 million, or 0.5% of the estimated new year costs. Overall, however, the current scale and performance of ACC's injury prevention portfolio is insufficient to have a significant impact on the financial sustainability of the Scheme.

The overall outlook for the portfolio is uncertain. Most of the investment has been committed, but most benefit realisation is still in the future.

Given the history of benefit targets not being met across a number of programmes, there's a risk that not all the future benefits will be delivered.

ACC is developing a new strategic approach to injury prevention and seeking Board approval in the second half of 2024/25. The proposed approach aims to increase the scale and impact of injury prevention programmes.

Within the proposal is a baseline review of the existing injury prevention portfolio. This will include an exit strategy for underperforming programmes with the intention of strengthening portfolio performance. This process is already underway, with many underperforming programmes exited in 2023/24.

There has been substantial reliance on a handful of programmes to deliver half the expected benefits for the whole portfolio. This is exacerbated by the lack of a pipeline for new programmes to be developed. To be successful, the new strategy should aim to address this.

As part of its strategy, Huakina Te Rā, ACC is committed to improving rehabilitation performance

Over the course of 2023/24 ACC has identified four key priorities to inform development of a prioritised work programme under Huakina Te Rā — the 2024/25 Enterprise Plan.

These priorities are:

- Improve rehabilitation performance.
- Improve Scheme access and experience for Māori and identified populations.
- Drive an injury prevention culture across Aotearoa New Zealand.
- Deliver an efficient, capable, and resilient organisation.

The most significant of these priorities for more immediate impact on the financial condition of the Scheme is rehabilitation performance. Delivering effective rehabilitation, especially for people requiring longer-term support, is one of the most effective ways that ACC can simultaneously improve client outcomes and financial condition.

As with any strategy, the success of Huakina Te Rā will depend on the degree to which ACC can translate intent into reality by navigating trade-offs and best using its scarce resources. Sufficient focus is required on each of the key priorities to achieve all of ACC's strategic goals.

The Enterprise Plan needs to deliver rehabilitation improvements

Several initiatives underway that fall under the Enterprise Plan, including longer-term work to design a future rehabilitation state, have the potential to have a positive impact on Scheme sustainability and fairness. We recognise, however, that there are many smaller initiatives underway that could make important contributions. The key initiatives underway are:

- improving key ACC process and decision-making to improve the way ACC works including ensuring seriously injured clients receive the right level of support
- strengthening how ACC commissions health services
- increasing capacity to help stabilise rehabilitation performance, particularly for long-term weekly compensation claims
- evolving the Integrated Services for Sensitive Claims into the Sensitive Claims Service to help reduce barriers for survivors seeking help.

We believe these initiatives will target areas that could improve the financial condition of the Scheme and it is critical these are successful. To achieve this, it's important that ACC focuses on:

- evidence-based initiatives that enhance Scheme access, experience and outcomes in a way that improves, or at least minimises, the impact on Scheme sustainability
- regularly measuring and reviewing progress, and being willing to disinvest from or change approaches to initiatives that aren't performing well
- ensuring major decisions are informed by modelling and analysis that estimates the impact that different strategic approaches may have on Scheme sustainability.

There are some other future risks to ACC's financial condition

There are some key risks that could affect ACC's financial condition in the future.

In recent years, favourable economic movements have either fully or partially offset weaker-than-expected underwriting performance. If an ongoing decline in claim performance coincides with unfavourable economic movements (for example, because of a decrease in interest rates), there could be a significant deterioration in the Scheme's financial condition. For example, as at 30 June 2024, a 1% decrease in interest rates would result in a 7.0% ($5.0 billion) decrease in the overall ratio of Scheme assets to liabilities.

The scale and severity of the impact that climate change will have on the Scheme is still highly uncertain and estimating financial impacts is difficult. We're not yet making any explicit allowance for these impacts in our projections.

Overall, we believe that the future risks posed by climate change to ACC's financial condition are likely to be in the same order of magnitude as other financial risks the Scheme already faces, such as the impact of economic movements and declining claim performance.

There are other risks and opportunities that could affect future financial condition, including:

- Future pay equity claims across the health system could result in significant growth in claim costs and the OCL.
- Extending cover or entitlements to a wider group of people leading to increased volume or cost of claims. This was seen when ACC's appeals in two cases were dismissed by the Court of Appeal in December 2023, leading to a $3.2 billion provision added to the OCL, primarily for bringing forward the liability for future reported claims.
- ACC could also choose to improve access to the Scheme entitlements where it believes there are current barriers, as it's doing for survivors of sexual abuse and assault.
- The Royal Commission of Inquiry into Abuse in Care may also have a financial impact on the Scheme, but it is too early to determine.
- An ageing population, mental health conditions, and other co-morbidities can affect rehabilitation, and shifts in these factors might, over time, have an impact on claim performance.

Our recommendations on how ACC can improve its financial condition are being progressed

There were four open recommendations in the 2023 Financial Condition Report on opportunities to improve the financial condition of the Scheme. While progress has been made during 2023/24, all four remain open. We have not made any new recommendations. The active recommendations are:

1. We recommend that ACC's injury prevention activities are guided by a detailed implementation strategy that:
    - sets out clear milestones for how ACC's strategic injury prevention targets will be achieved over time

- sets out accountabilities and responsibilities across ACC to ensure the importance of injury prevention as a lever for financial sustainability is recognised and managed
- includes approaches to ensure current and historic performance issues are appropriately managed
- strengthens investment logic, monitoring, and evaluation frameworks so that changes can be made at the right time if a programme seems to be going off track, or if the environment changes.

2. We recommend that ACC improve Māori access, outcomes, and experience by:
   - developing an evidence base about where there are unfair or avoidable differences in injury risk and Scheme access, outcomes, and experience for Māori
   - clearly demonstrating how the work ACC's doing will result in improved access, outcomes, and experience for Māori, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term (including Māori).
3. We recommend that ACC's work on sensitive claims:
   - improves ACC's understanding of the people suffering sexual abuse or assault in the community, including what their injury and claim patterns might mean for how services are delivered and funded, now and in the future
   - ensures services can be shown to deliver the right client outcomes, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term.
4. We recommend ACC places appropriate focus on claims that have the potential to have the greatest long-term impact on the OCL and new year costs, such as weekly compensation and social rehabilitation care and capital. ACC should ensure:
   - the services seriously injured clients are receiving are needs based and that effective monitoring and control frameworks are in place
   - that clients only enter or remain in the long-term claim pool due to complex or ongoing rehabilitation or support needs
   - work underway to improve rehabilitation outcomes can deliver the sustained performance improvements needed to have a positive impact on the OCL.

2. Why financial condition matters

2. Why financial condition matters

About this section

- This section talks about why we write this report each year.
- It introduces the concepts of Scheme sustainability and Scheme fairness.
- It also includes an explanation of some key actuarial concepts, which will help non-specialist readers better understand this report.
- This section is supplemented by a *Glossary* of key terms, which can be found on *page 80.*

Key messages

1. ACC is here for all New Zealanders.
2. We want to make sure the Scheme is here for the next generation and they're not paying for today's injuries.
3. Focusing on client outcomes will support improving the financial condition of the Scheme.
4. Making effective investments in injury prevention, and helping people recover from injury and return to independence, will both improve ACC's financial condition and result in better outcomes for New Zealanders.
5. This report needs to comply with some professional requirements, but we've tried to limit jargon and to keep things as simple as possible.
6. There are some key concepts that will help to understand what this report is saying about ACC's financial condition and sustainability.

Key concepts

Scheme Sustainability | Scheme Fairness | Financial Condition | Accounts | New Year Costs | Funding Ratio | Outstanding Claims Liability (OCL)

ACC is here for all New Zealanders

ACC provides no-fault personal injury cover to all New Zealanders and overseas visitors. It exists to prevent injuries and to rehabilitate and compensate injured people. Around one-third of New Zealanders are injured every year and make claims to ACC. For some the support needed is short term. For others, the support extends over a long period.

New Zealanders need to feel confident that if they or their friends or whānau are injured, ACC will be there to support them — not just today but into the future. As funders of the Scheme, levy payers and taxpayers must share this confidence. They need to know how their money is being used and what funds may be needed in the future to sustain the services under the Scheme. Ministers and the ACC Board, in their governance roles, also need this understanding and assurance.

We want to make sure the Scheme is here for future generations and they're not paying for our costs

ACC's Chief Actuary issues a formal Financial Condition Report each year to assess ACC's financial condition. Financial condition refers to the financial health of the parts of the Scheme that are relevant to ACC's ability to fulfil its core role — preventing injury or rehabilitating and compensating people after injury. This report is required under the Accident Compensation Act 2001 and no restrictions or limitations have been placed on the Chief Actuary in producing this report.

The report sets out the financial condition of the Scheme, how it's changed during the year and the reasons for the changes. The report also includes forecasts on how key aspects of financial condition may change over time and identifies existing and future risks to the Scheme. Where appropriate, we make recommendations for improving customer outcomes and ensuring a stronger financial condition in the future. We make recommendations in areas where ACC can act but not in areas outside of ACC's control (for example, legislative and Scheme policy settings).

We write the Financial Condition Report each year to help make sure the Scheme stays sustainable and fair:

- By sustainable, we mean a Scheme that fulfils its purpose, withstands shocks, and is here for future generations.
- By fair, we mean a Scheme with equity of access, outcomes, and experience, but that's also fair to future generations. We can make sure the Scheme is fair to future generations by funding it in a way that means that future generations don't have to pay for the costs of today's injuries.

Currently, there are no risks to ACC's financial condition significant enough to affect its ability to pay claims over the short-to-medium term. However, there are underlying trends and issues that, if left unaddressed, are likely to result in the next generation having to pay significantly higher levies and taxes to ensure the Scheme remains sustainable. In the financial year to 30 June 2024, these trends and issues have worsened, meaning the Scheme's financial condition has deteriorated compared to 30 June 2023. See the '*Future funding and sustainability*' section for further information.

Focusing on client outcomes will support improving the financial condition of the Scheme

Making effective investments in injury prevention, and helping people recover from injury and return to independence, will both improve ACC's financial condition and result in better outcomes for New Zealanders.

This report needs to comply with some professional requirements, but we've tried to keep things as simple as possible

In writing this report as at 30 June 2024, we've complied with the New Zealand Society of Actuaries' professional standards, appropriately adapted for ACC. In line with these standards, our objective is to present a view of the Scheme that's transparent and free from bias.

That's important in helping others to build a clear picture of the financial condition of the Scheme. It's also important in establishing what's needed to ensure ACC's financial condition can support a fair and sustainable Scheme for New Zealanders now and in the future.

We recognise that some of the content of this report is technical and complex so have done our best to reduce jargon and use plain language. There are occasions, though, where we need to present information or use language in certain ways to comply with professional standards.

There are some key concepts that are helpful to understand

To understand what this report says about ACC's financial condition, it's helpful to understand some key concepts about:

- how the Scheme is structured and funded
- how we measure Scheme sustainability and fairness
- how we keep track of the money needed to cover the costs of all the injuries that have already happened (the OCL).

How the Scheme is structured and funded

ACC manages five Accounts, each funded differently. Combined, these Accounts fund the costs for every claim that ACC pays. The funding of each Account is matched with where injury risks happen. Each Account is funded by a levy, Parliament appropriation (funding from taxpayers paid by government), or a mixture of both.

Some of the funding ACC collects is used to rehabilitate injured people in the year it is collected. Most of the funding collected, however, is invested to support future rehabilitation and compensation for people with long-term injuries. These funds are invested to earn returns that help reduce the total funding required each year.

To best understand the financial condition of the Scheme, it's necessary to look at each Account individually, rather than looking at all the Accounts in aggregate. One of the reasons for this is Accounts can't be 'cross-subsidised', which means funds from one Account can't be transferred to another. This also means that any surplus funds collected for one Account must be returned to levy payers or taxpayers in the form of a reduction in future levies or appropriations for that same Account.

Account	What it covers	How it's funded
Motor Vehicle	Any injury involving a motor vehicle on a public road.	A vehicle licensing charge, plus a levy on petrol (not diesel or other fuels or energy sources).
Work	Any injuries that happen at the workplace or are work-related. Injury type and risk level are heavily dependent on industry.	A levy charged to employers as a percentage of payroll and the self-employed as a percentage of taxable earnings.
Earners'	Any injuries for earners that happen during everyday (non-work and non-motor-vehicle-related) activities.	A levy charged to employees as a percentage of salary, collected through PAYE tax, and the self-employed as a percentage of taxable earnings.
Treatment Injury	Any personal injuries caused by undergoing treatment by a Registered Health Professional (RHP), where the injury isn't an ordinary consequence of the treatment.	A mix of levies from employees and the self-employed and Parliament appropriation.
Non-Earners'	Any injuries that happen to people in New Zealand who aren't earning income and don't involve a motor vehicle or treatment injury.	Parliament appropriation. Claims post-1 July 2001 are funded on a fully funded basis, whereas claims pre-1 July 2001 are funded on a Pay As You Go (PAYG) basis

How we measure financial sustainability and fairness

We assess the financial sustainability and fairness of each Account by looking at two key measures — funding ratio, and new year costs:

- The **funding ratio** for each of ACC's Accounts relates to claims that have already happened at a given date, and is the ratio (%) of the Account's assets (mainly investments) relative to its liabilities (the OCL, with some elements excluded). It's a legislative requirement for ACC's levied Accounts[3] to be 'fully funded' (that is, to have a funding ratio of 100%). The government funding policy for the Non-Earners' Account and non-levied portion of the Treatment Injury Account also states that post-2001 claims should be fully funded. If Accounts are below 100% for too long, it can be difficult to get them back to target, and Scheme fairness and sustainability are threatened. It's also not optimal to be too far above 100% for too long, as this means ACC is holding onto more taxpayer and levy payer money than it needs.
- **New year costs** are the estimated lifetime costs of new claims for injuries occurring in a year, including all the costs associated with managing those claims, and allowing for expected investment returns. The new year cost gap is the difference between new year costs and the income received from levies or appropriations.

In theory, we want levies and appropriations to be set at a level that matches the cost of new injuries each year (so that there's no new year cost gap). If levies and appropriations are set too far below new year costs, then assets can be consumed faster than expected and the funding ratio of an Account will deteriorate. If levies and appropriations are set too far above new year costs, then ACC is overcharging levy payers and taxpayers.

In reality, there are situations where we want there to be a new year cost gap. If an Account's overfunded (meaning its funding ratio is above 100%), then a new year cost gap (where levies and appropriations are below new year costs) will help bring the Account's funding ratio down to the target of 100%.

Similarly, if an Account's below the target funding ratio, then it will be necessary to collect levies and appropriations above new year costs. This will increase the funding ratio of an Account back towards the target of 100%.

We talk more about funding ratios and new year costs in the '*Financial and actuarial results*' and '*Future funding and sustainability*' sections.

The Outstanding Claims Liability (OCL)

The OCL is the amount of money we believe that ACC will need to pay in the future to support clients who are currently injured. The money will be paid over the time they progress through their recovery (for example, on medical expenses and weekly compensation).

[3] The levied Accounts are Motor Vehicle, Work, Earners', and the portion of Treatment Injury covering earners' claims. The non-levied Accounts are the Non-Earners' and the portion of Treatment Injury covering non-earners' claims.

A simple calculation of the OCL is[4]:

Outstanding Claims Liability (OCL) = **Number of claims** X **Expected average annual costs of meeting these claims** X **Expected duration of claims**

When the OCL increases because ACC needs to pay more than expected to support clients, it's called OCL strain.

When the OCL decreases, because ACC needs to pay less than expected to support clients, it's called OCL release.

We classify OCL strain and release as either:

- non-influenceable, which ACC can't control, or
- influenceable, which occurs in areas where ACC might be able to mitigate the impact — at least to some degree.

Long-term injuries have the greatest impact on the OCL

Long-term and serious injuries have the greatest impact on the OCL. The long-term consequences of some injuries are one of the reasons that it's important for us to make forecasts about the future financial condition of the Scheme. This is because we need to make sure the Scheme can continue to provide the support that people need far into the future.

On 20 May 2024 two accidents occur	
Joe falls off his bike and injures his knee and wrist	Jane has a much more serious crash and is taken to hospital
• Joe goes to his GP, is certified as off work for eight weeks, and is referred to his physio for the same period. • By 30 June 2024, he's about two weeks away from returning to work. • The OCL for Joe as at 30 June 2024 will be the cost of weekly compensation for those two weeks, plus his last two physio appointments, plus any other services he needs from ACC for that last couple of weeks.	• Jane suffers a serious spinal injury and requires intensive care. She's unlikely to ever return to work, and will need in-home care and capital equipment to regain as much independence as possible. • By 30 June 2024, she has been profiled as a serious injury. • The OCL for Jane will include weekly compensation up to when she turns 65, the cost of care hours and capital equipment for the rest of her life, plus any other ACC services she's likely to need.
The OCL for a claim like this would be in the low thousands, and by June 2025 we'd be expecting the OCL for this claim to be zero, as by then Joe will be back at work and fully recovered.	**The OCL for a claim like this could be many millions of dollars. This claim will likely be included in the OCL for the rest of Jane's life. Each year we'd re-estimate what's left to pay to provide the services Jane needs, looking forward from the new balance date.**

[4] The calculation of the OCL is reduced by an allowance for returns to be earned on funds held before the money is paid out.

The OCL is closely tied to client outcomes

Generally, if ACC improves client outcomes (for example, by helping people return to independence sooner through improved rehabilitation performance), then the OCL also improves.

The OCL is an important concept that's discussed throughout this report. It's easy to think that OCL release is always a good thing and OCL strain, particularly influenceable strain, is always a bad thing. However, the truth is more nuanced. OCL performance always needs to be considered in a broader context. There are times when influenceable OCL strain can be considered positive (for example, where it's the result of a deliberate choice to reduce access barriers to Scheme entitlements). We discuss this more in the '*Claim performance*' section.

There's inherent uncertainty in some of our predictions

Much of the content in this report is based on predictive modelling. This modelling requires a lot of assumptions to be made about the future. As time goes on, these assumptions need to be updated to better reflect what's happened in the past, and what we think might happen in the future. This can result in changes to the predictions we make about funding ratios, new year costs and the OCL. While no-one can predict the future with 100% certainty, we take great care to ensure our predictions are as accurate as possible and regularly updated.

The results and numbers presented in this report sometimes differ from those in ACC's financial statements in the 2024 Annual Report

This is because the Financial Condition Report is prepared in a way that aligns with the government funding policies for ACC, while the financial statements in the Annual Report are prepared in a way that aligns with the Public Benefit Entity International Financial Reporting Standards (PBE IFRS 4 Insurance Contracts).

One of the biggest differences between these approaches is that the figures in the Financial Condition Report don't include a risk margin on the OCL. This is a margin added to the OCL that ensures it will be sufficient to meet claim payments 75% of the time under New Zealand accounting standards.

In addition, as opposed to the Annual Report, assets reported in the Financial Condition Report don't include any assets for the Accredited Employers Programme (AEP).

Liabilities reported in the Financial Condition Report are also slightly different than those reported in the Annual Report. They include off-balance sheet work-related gradual process claims not yet made and exclude liability for the AEP and unexpired risk liability.

More technical information is available in the appendices

This report is supplemented by the appendices that include more detailed technical information. There are seven sections in the appendices:

- **Appendix A — Additional background information.**
  This appendix provides some additional background information that we need to cover to meet our professional standards.
- **Appendix B — Financial and actuarial results details.**
  This appendix provides more detail to supplement the discussion in the '*Financial and actuarial results*' section of the main report. It also includes a reconciliation of the financial results presented in the Financial Condition Report to those presented in the Annual Report.
- **Appendix C — Valuation of the Outstanding Claims Liability.**
  This appendix discusses how ACC's OCL was valued for the year ending 30 June 2024.
- **Appendix D — Funding details.**
  This appendix provides more detail to supplement the discussion in the main report on the future funding requirements and sustainability of each of ACC's five Accounts.
- **Appendix E — Management of investments.**
  This appendix discusses the performance of ACC's investment portfolio and how this is managed and governed.
- **Appendix F — Claim performance details.**
  This appendix provides more detail to supplement the discussion in the main report on the claim and rehabilitation performance at ACC and the impact it's having on financial sustainability.
- **Appendix G — Risk management.**
  This appendix outlines the risks ACC faces and the associated risk frameworks it uses to achieve its objectives.

3. Financial and actuarial results

3. Financial and actuarial results

About this section

- This section discusses how ACC's financial condition has changed in the past year, as well as the trend over time.
- It does this by looking at the financial impact that ACC's underwriting activities (the underwriting result) and economic variables (the economic result) have had on the Scheme.
- This section includes projections on how we think the Scheme's funding ratio may change over the next four years.
- A breakdown of changes in the OCL is also included.

Key messages

1. The Scheme's funding ratios are worse than we projected in last year's report. This was the impact of a significantly weaker underwriting result, partially offset by favourable economic movements.
2. Significant OCL strain of $5,868 million was the key driver of ACC's weaker-than-expected funding ratios.
3. Economic results won't always be favourable. If a poor economic result coincides with a weak underwriting result, then ACC's financial condition will deteriorate even faster.
4. ACC is consulting on levies in 2024. Assuming the Government approves future levies and appropriations in line with funding policies, we expect underwriting deficits to continue for at least the next four years. This is partly to reduce the funding surplus in some Accounts.

Key concepts

Funding Ratio | OCL | Underwriting Result | Economic Result | New Year Costs

The Scheme's funding ratios are worse than expected due to the significantly weaker-than-expected underwriting performance

As discussed in the '*Why financial condition matters*' section, the funding ratios of ACC's five Accounts are a key indicator of the financial condition of the Scheme. This is because funding ratios show the amount of assets the Account has available to pay for existing claims (the OCL).

The target funding ratio for each Account is 100%[5]. This means ACC aims to hold assets equal to the OCL, excluding the risk margin and some other elements. When funding ratios are close to the target of 100%, we can be more confident that the Scheme is sustainable and fair.

Each year as at 30 June, we calculate how the funding ratio has changed for each of ACC's five Accounts. If total income received during the year is greater than the total costs incurred, then the assets of the Account will increase relative to its liabilities (the OCL). This represents an improvement to the Account's funding ratio. If, however, costs exceed income, then the funding ratio declines.

Last year, we projected there would be a fall in funding ratios for most Accounts during 2023/24. However, as at 30 June 2024, the funding ratios for most Accounts have fallen even further than expected.

The primary reason for the decrease was the impact of a significantly weaker-than-expected underwriting result, which was partially offset by a favourable economic result:

- The underwriting result is the movement in funding position[6] as a result of underwriting activities during the year. It's the difference between income (levies and appropriations) received and the cost of claims incurred during a year (including expenses paid). It excludes investment income and costs, as well as the economic impacts from interest rates and inflation.
- Economic movements are changes to economic variables that are outside of ACC's control (such as interest rates, inflation, and investment income). Economic movements can result in large changes to the Scheme's funding ratio and be favourable to the Scheme even if the wider economic climate is less favourable (or vice versa).

Table 1 shows the 2023/24 underwriting and economic result compared to the expected 2023/24 underwriting and economic results as at 30 June 2023. Throughout this report, results are stated on a basis consistent with the government funding policies for ACC (described in '*Appendix A — Additional background information*'). This means that, in some cases, figures differ from those in the 2024 financial statements, which are prepared on the required accounting basis. A reconciliation is shown in '*Appendix B — Financial and actuarial results details*' with adjustments to:

- exclude AEP income, costs, and OCL
- exclude the OCL risk margin
- exclude the unearned risk liability
- include work-related gradual process incurred but not reported claims.

[5] The exception to the 100% funding ratio target is pre-2001 claims in both the Non-Earners' Account and the non-levied portion of the Treatment Injury Account. These claims are funded under a PAYG approach. This means no additional funding needs to be held at the end of the year so the funding targets for these claims are effectively 0%.

[6] Funding position is a different way of expressing funding ratio, as the dollar amount of assets held less the liabilities, rather than the percentage of assets over liabilities. If the funding position increases/decreases relative to the size (assets) of the Account, then the funding ratio will also increase/decrease and vice versa.

Table 1: 2023/24 underwriting and economic results

$M	Actual	Expected	Difference
Income			
Total levies and appropriations	**6,339**	**6,172**	**166**
Less Expenditure			
Cash claim costs	7,782	7,231	552
Change in OCL	6,584	717	5,868
Expenses	165	195	(31)
Total expenditure	**14,531**	**8,143**	**6,388**
Underwriting result	**(8,193)**	**(1,970)**	**(6,222)**
Plus Economic			
Change in discount and inflation rate assumptions	1,306	0	1,306
Unwind of risk-free interest rate[7]	(2,337)	(2,337)	0
Net investment income	3,442	2,913	529
Economic result	**2,411**	**576**	**1,836**
Total movement in funding position	**(5,781)**	**(1,395)**	**(4,387)**
Movement in funding ratio	**(11%)**	**(3%)**	**(8%)**

The OCL increase in 2023/24 was the largest driver of ACC's weaker-than-expected funding ratios

At 30 June 2023, we expected a $1,395 million decrease in the Scheme's overall funding position, which would have been a 3% reduction in the Scheme's funding ratio. However, the actual movement in funding position over the year was $4,387 million worse than expected, a further 8% reduction in the overall funding ratio. The main driver of this was a significantly higher-than-expected change in OCL.

The increase in OCL was $4,561 million higher than expected due to two main factors:

- OCL strain increased the liability by $5,868 million more than expected. Around half of this was caused by non-influenceable factors outside of ACC's control (as discussed further below). The remaining influenceable portion was due to declining claim performance impacting our future claim payment projections.
- Higher risk-free interest rates, slightly offset by increased inflation rates, reduced the OCL by $1,306 million more than expected.

Declining claim performance also meant that higher-than-expected cash claim costs added another $552 million to the weaker-than-expected result. Net investment income contributed positively to the funding position over the year, at $529 million higher than expected.

[7] As existing claims move one year closer to the date of expected payment, the reduction in the number of years over which discounting takes place is termed as the unwind of the risk-free interest rate.

All Accounts experienced larger-than-expected underwriting deficits driven by OCL strain

Table 2 shows the opening funding ratios by Account as at 30 June 2023, the expected change in the ratios during 2023/24, and the impact this year's underwriting and economic results had on the final ratios as at 30 June 2024.

We show the funding ratio of the entire Accounts here, and also the fully funded[8] portions of the non-levied Accounts. As discussed in the '*Future funding and sustainability*' section, for the non-levied Accounts we are primarily concerned with the fully funded[8] portions for funding purposes.

Table 2: Movement in funding ratio by Account

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	*TI — levied portion*	*TI — non-levied fully funded portion*	Non-Earners' Account	*Non-Earners' Account — fully funded portion*	Weighted average
Opening funding ratio as at 30 June 2023	**131%**	**137%**	**102%**	**83%**	*131%*	*86%*	**55%**	*81%*	**102%**
Impact of expected underwriting result	(4%)	(6%)	(7%)	(2%)	*(7%)*	*(2%)*	0%	*(3%)*	(4%)
Impact of expected economic result	1%	2%	2%	1%	*2%*	*1%*	1%	*2%*	1%
Expected funding ratio as at 30 June 2024	**127%**	**133%**	**96%**	**82%**	*126%*	*85%*	**56%**	*80%*	**99%**
Difference between actual and expected underwriting result	(3%)	(5%)	(9%)	(3%)	*(6%)*	*(3%)*	(17%)	*(29%)*	(11%)
Difference between actual and expected economic result	4%	4%	4%	3%	*2%*	*4%*	2%	*3%*	3%
Actual funding ratio as at 30 June 2024	**128%**	**131%**	**91%**	**82%**	*122%*	*85%*	**40%**	*53%*	**91%**

8 In the Non-Earners' Account and non-levied portion of the Treatment Injury Account, claims for accidents that occurred prior to 1 July 2001 are funded on a PAYG basis, whereas claims made after 1 July 2001 are fully funded.

Table 3 summarises the impacts of OCL strain and release across each Account. Each year we categorise the change in OCL according to the level of influence ACC management has over the movement in claims volumes and costs above or below expected.

When the change in liability occurs in areas that management might have at least partial control over, we consider the movement influenceable. If the change in liability is fully beyond the control of ACC management, the movement is considered non-influenceable.

Table 3: OCL strain/release by Account

$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2023/24
Influenceable OCL strain/(release)	347	353	1,055	363	794	2,911
Non-influenceable OCL strain/(release)	(104)	(7)	27	(109)	3,150	2,956
Total OCL strain/(release) as at 30 June 2024	**243**	**345**	**1,082**	**253**	**3,944**	**5,868**

The influenceable OCL strain of $2,911 million was primarily driven by weaker-than-expected claim performance across all Accounts. The Earners' Account was particularly impacted by this influenceable strain, largely driven by weekly compensation claims remaining on the Scheme for longer than expected. This has contributed to the Earners' Account funding ratio falling below 100% (91%). The non-influenceable OCL strain of $2,956 million was driven by:

- an increase of $3,184 million due to the additional provision held in relation to recent court decisions
- a reduction of $227 million mainly due to changes in actual compared to assumed care rates for serious injury claims.

Most of the non-influenceable provision for court decisions is held in the fully funded portion of the Non-Earners' Account, resulting in the funding ratio declining from 81% to 53%.

More detailed analysis on influenceable strain and claim performance can be found in the '*Claim performance*' section. Further details of the court decisions can be found in the '*Future risks and opportunities*' section.

If a poor economic result coincides with a weak underwriting result, then ACC's financial condition will deteriorate faster

For the previous four years, the Scheme has recorded underwriting deficits between $2.4 billion and $3.4 billion. The underwriting deficit this year is significantly higher at $8.2 billion. While a considerable portion of this is due to the TN and AZ court cases outside of ACC's control, the underwriting deficit excluding these amounts would still have been higher than in previous years at $5.0 billion.

As has been the case for levied Accounts for several years, a certain amount of underwriting deficit can be deliberate. If Accounts are above the target funding ratio of 100%, excess funds need to be returned to levy payers. However, in the past five years (and even more so this year) underwriting deficits have also been driven by declining claim performance. We discuss this in more detail in the '*Claim performance*' section.

2023/24 is the fourth consecutive year where economic movement was better than expected. This is primarily due to increasing interest rates and the impact this has on the OCL. Economic movements are not within ACC's control and cannot be relied upon to always be favourable. If an ongoing decline in claim performance coincides with unfavourable economic movements there could be a significant deterioration in the Scheme's financial condition.

This would pose a threat to Scheme sustainability and fairness.

Table 4 shows the impact of the various underwriting and economic factors that have contributed to movements in the Scheme's funding position over the past five years. It shows that in four of these years OCL strain has been the primary driver of larger-than-expected underwriting deficits.

Table 4: Actual vs expected movement in funding position

$M	2019/20	2020/21	2021/22	2022/23	2023/24
Expected movement in funding position at start	**(1,661)**	**(1,322)**	**(919)**	**(1,064)**	**(1,395)**
Levy/appropriation income higher/(lower) than expected	22	323	272	272	166
Cash claim costs paid (higher)/lower than expected	79	(396)	19	(164)	(552)
Expenses paid (higher)/lower than expected	39	19	13	48	31
OCL (strain)/release	(134)	(450)	(1,499)	(902)	(5,868)
Underwriting movement higher/(lower) than expected	**6**	**(504)**	**(1,195)**	**(746)**	**(6,222)**
Net investment income higher/(lower) than expected	1,990	3,443	(6,062)	793	529
Economic assumptions for the OCL higher/(lower) than expected	(5,184)	7,944	7,641	2,029	1,306
Economic movement higher/(lower) than expected	**(3,194)**	**11,387**	**1,578**	**2,822**	**1,836**
Closing movement in funding position	**(4,849)**	**9,561**	**(536)**	**1,013**	**(5,781)**

The 2019/20 result shows how the Scheme can be impacted by unfavourable economic movements — in this case risk-free interest rates fell to historical lows. These unfavourable economic movements significantly increased the OCL and put upward pressure on levies and appropriations.

A drop in interest rates remains the economic movement most likely to negatively impact on ACC's financial condition. As at 30 June 2024, a 1% decrease in interest rates would result in a 7% decrease in the overall weighted average funding ratio of the Scheme ($5 billion decrease in funding position). This impact varies significantly by Account, ranging from 3% for the Work Account to 12% for the Motor Vehicle Account. The average time that claims remain on the Scheme is the main driver of this pattern, with the Motor Vehicle Account having more seriously injured, and therefore longer-duration claims on average.

See '*Appendix B — Financial and actuarial results details*' for further aggregate sensitivity analysis.

Economic movements are outside ACC's control, and our investment portfolio can only partially offset the impact that economic movements have on our liability. The long-term nature of the Scheme means that it's not possible to fully match the Scheme's investment assets to total claim liabilities. Other factors that affect financial condition, such as claim performance, can be (at least partially) within ACC's influence. By acting on these factors, ACC can strengthen its financial condition and reduce the risk posed by future unfavourable economic movements.

We expect deficits to continue for at least the next four years

ACC consulted on levies in 2024. Assuming that the Government approves levies for this consultation round and annual appropriations in line with the funding policies, we forecast that ACC will continue to return underwriting deficits in each of the next four years and that these deficits will be close to $2.5 billion each year. If funding is approved at lower levels than the funding policy calculations, these deficits will be higher.

As Table 5 shows, we do not forecast economic movements to provide a significant offset to the projected underwriting deficits. In total we expect the Scheme's overall funding position to reduce by between $2.0 billion and $2.3 billion in each of the next four years. As discussed above, there is a risk that interest rates could decline more than expected in these projections, which would result in larger deficits to ACC.

Table 5: Summary of projected movement in funding position

$M	2023/24	2024/25	2025/26	2026/27	2027/28
Underwriting result	(8,193)	(2,593)	(2,532)	(2,442)	(2,392)
Economic result	2,411	358	431	402	307
Movement in funding position	**(5,781)**	**(2,236)**	**(2,102)**	**(2,040)**	**(2,086)**
Movement in funding ratio	**(11%)**	**(3%)**	**(3%)**	**(2%)**	**(2%)**

The current funding ratios of the Motor Vehicle and Work Accounts are over the target funding ratio of 100%. To move these ratios towards the 100% target, under the funding policy excess funds are returned to levy payers over time through reduced levies. As a result, these Accounts are expected to produce underwriting deficits, contributing to the overall projected deficit.

If deficits continue over the medium-to-long term, the funding ratio of Accounts may continue to decline and ACC's financial condition will weaken, which can threaten Scheme sustainability and fairness. This is explored in more detail in the '*Future funding and sustainability*' section.

4. Future funding and sustainability

4. Future funding and sustainability

About this section

- This section focuses on the funding that the Scheme will need over the coming years.
- This is determined by looking at the funding ratio of the Scheme's Accounts, and also considering if there's enough money coming in each year from levies and appropriations to cover new year costs.
- The section includes predictions for how levies and appropriations may need to change over the coming years, in line with the government funding policies for the Scheme.
- It also discusses the implications for Scheme sustainability and fairness if funding and costs don't align.

Key messages

1. We assess the future funding requirements for the Scheme by looking at the future funding ratio and claim costs for each Account.
2. Declining claim performance along with other claim cost pressures have contributed to the existing large gap between new year costs and income for all Accounts.
3. Through to the end of the 2028 financial year, the period covered by the 2024 levy consultation, the future funding ratio of most Accounts is expected to decline because ACC is spending more on claims than it's receiving through levies and appropriations. This is partially deliberate for Accounts in surplus.
4. For the Scheme to remain sustainable, the gap between new year costs and levies and appropriations will need to reduce.
5. We are recommending increases in levies and appropriations in our 2024 pricing reviews, and we are forecasting further increases after these periods for all Accounts.
6. ACC can lessen some of the burden on levy payers and taxpayers through its investment portfolio, injury prevention programmes, and by improving claim performance.

Key concepts

Government Funding Policies | Funding Ratio | New Year Costs | New Year Rate

Under the government funding policies, the future funding requirements for the Scheme are determined by looking at the claim costs and future funding ratios for each Account

ACC must calculate the levies and appropriations in accordance with two government funding policies — one for the levied Accounts and one for the Non-Earners' Accounts. This is done annually for the Accounts funded by appropriations (the non-levied Accounts) and three-yearly for the levied Accounts.

Under the government funding policies, ACC calculations are based on projected new year costs — the lifetime costs of claims occurring in a year. There is then a funding adjustment, which is the change required in the levy rate or appropriation to move the Account towards the 100% funding target over time. The funding adjustment can either increase or decrease the levy or appropriation, depending on whether there is a funding deficit or surplus. Increases must not exceed a cap, which is 5% per year for levied Accounts (5% plus inflation for the Motor Vehicle Account) and 7.5% per year for the non-levied Accounts. See '*Appendix A — Additional background information*' for more on the government funding policies.

For the levied Accounts, ACC consults on proposed changes to the levy system. This includes the Account-level aggregate levy rates for the three levied Accounts, and the class rates for the Motor Vehicle and Work Accounts, which may move differently to the aggregate rate. After considering the feedback from public, ACC then makes recommendations to the Minister for ACC.

In September 2024, ACC consulted on capped increases to all levied Accounts for each of the 2026-2028 levy years covered by the consultation. At the time of writing the consultation has closed and ACC is awaiting final decisions.

For the non-levied Accounts, the Ministry of Business, Innovation and Employment (MBIE) recommends the Non-Earners' appropriation amount to the Government using ACC's calculations as the primary input.

The recommendations are not binding on the Government when determining the final levy rates and appropriations, which means final decisions can be different to ACC's initial calculations or recommendations.

The gap between new year costs and income has increased for all Accounts

The difference between forecast income and the new year costs, allowing for investment returns, is known as the 'new year cost gap'. Across all Accounts, the aggregate new year cost gap projected for 2024/25 is $2,140 million. This means that the new year cost for 2024/25 is around $2,140 million more than what we expect ACC to collect in levies and appropriations. The new year cost gap has increased significantly from the $1,207 million we projected for 2024/25 in last year's report, primarily due to the increase in the new year costs.

For levied Accounts, the rate that needs to be set to match new year costs is called the 'new year rate'. For non-levied Accounts, the level that appropriations need to be set to match new year costs is called the 'new year cost'. Table 6 shows the projected 2024/25 new year cost gap, rates, and costs for each Account.

Table 6: Projected 2024/25 new year rate/cost and new year cost gap by Account

	Motor Vehicle Account (average rate per vehicle)	Work Account (average rate per $100 of payroll)	Earners' Account (rate per $100 wages)	Treatment Injury Account (levied) (rate per $100 wages)	Treatment Injury Account (non-levied)[9] ($M)	Non-Earners' Account[9] ($M)
2024/25 levy or appropriation	$113.94	$0.63	$1.33	$0.06	$264	$1,914
New year rate/cost	$225.28	$0.95	$1.73	$0.13	$272	$2,111
New year cost gap (%)	-49%	-34%	-23%	-55%	-3%	-9%
New year cost gap ($M)	-$472	-$496	-$824	-$143	-$8	-$198
Funding ratio as at 30 June 2024	128%	131%	91%	122%	85%	53%

Declining claim performance has increased estimated new year costs for all Accounts

Over time, the estimated new year costs and the funding adjustments fluctuate with changes in external and internal factors. This has an impact on forecast levies and appropriations.

While there's fluctuation, declining claim performance has resulted in consistent upward pressure on levies and appropriations in the past five years.

This is reflected through the direct impact claim performance has on funding ratios, and through the resulting impact on projected new year costs.

Table 7 shows how claim performance has resulted in increases to the projected 2025/26 new year costs for all Accounts and an increase in the new year rate for all the levied Accounts.

Table 7: Changes in 2025/26 new year costs due to claim performance from 2019 to 2024

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account (levied)	Treatment Injury Account (non-levied)	Non-Earners' Account
2025/26 new year costs as at 30 June 2024 ($M)	999	1,514	3,781	274	285	2,230
Change from claim performance 2019-2024 ($M)	↑ 105 (11%)	↑ 340 (30%)	↑ 1,024 (39%)	↑ 65 (33%)	↑ 24 (8%)	↑ 500 (31%)
Change from other factors ($M)	↓-89 (-9%)	↑ 27 (2%)	↑ 142 (5%)	↑ 10 (5%)	↓-26 (-9%)	↑ 101 (6%)
Impact of claim performance on new year rate	↑ $24.58	↑$0.21	↑$0.47	↑$0.03		

[9] The numbers for the Non-Earners' Account and non-levied portion of the Treatment Injury Account only include the fully funded portion of these Accounts, as required for funding purposes.

Claim performance factors in the past five years causing the increase in projected 2025/26 new year costs include:

- People taking longer to be rehabilitated who then needed more weekly compensation payments. This was a key driver of increasing new year costs for the Work Account and the Motor Vehicle Account and has accounted for more than half of the increase for the other levied Accounts.
- Higher claim frequency for weekly compensation claims. This contributed to the increased new year costs for most levied Accounts, except for the Motor Vehicle Account, where the number of new weekly compensation claims was lower than expected.
- Funding for ambulance and public health acute services (PHAS) has increased significantly by around $480 million more than expected in the past five years. This caused more than half of the increase in the Motor Vehicle and Non-Earners' Accounts.
- Average care payments to seriously injured clients have increased by significantly more than expected in the past five years. This caused around an $80 million increase for the Motor Vehicle Account.
- Higher-than-expected care payments to non-seriously injured clients have contributed to almost half of the increased costs for the non-levied portion of the Treatment Injury Account. This has caused smaller increases for the other Accounts.
- Growing sensitive claim numbers and growing average payments for sensitive claims have caused small increases to new year costs in the Earners' and Non-Earners' Accounts.
- Increases to new year costs were partially offset by lower medical and elective surgery payments and the expected number of new claims for most Accounts.
- For the Motor Vehicle Account, the higher average costs for serious injury claims have been offset by a lower projected volume of new seriously injured clients.

Other factors in the past five years causing the major changes in projected new year costs include:

- Higher forecast investment returns have reduced new year costs for all Accounts. The reduction is most significant for the non-levied portion of the Treatment Injury Account and the Motor Vehicle Account.
- Higher-than-expected inflation has contributed to higher projected claim costs for all Accounts. This has more than offset the reduction from higher forecast investment return for the Work, Earners' and Non-Earners' Accounts.
- The expected number of vehicles reduced, resulting in a lower overall projected claim cost for the Motor Vehicle Account.
- High wage inflation in recent years increased levy income for the Work and Earners' Accounts. While higher wages also contribute to higher costs of weekly compensation claims, the net effect is a reduction in the projected new year rate.
- In the non-levied Accounts, the higher-than-expected non-earner population has contributed to a higher projected number of new year claims leading to higher new year costs.
- The change from other factors includes the impact of legal cases over the past five years, including AZ and TN. The outcomes of legal cases are outside of ACC's control and as such these impacts are unavoidable. For more information see the '*Future risks and opportunities*' section.

Since 2019 the expected new year cost gap for 2025/26 increased by $2.1 billion to $2.4 billion. Of this, $0.6 billion is due to previous recommended levy increases not being approved. Rehabilitation performance, medical cost inflation (including significant increases to PHAS), and changes in economic assumptions contribute to the remaining $1.5 billion. The levy and appropriation increases being sought for the 2025/26 year, if approved, would reduce the gap by $0.3 billion to $2.1 billion.

The funding ratios of most Accounts are projected to decline for some time as a result of the new year cost gap

When forecast income is below new year costs, the shortfall will result in a reduction in the future funding ratio.

As discussed in the '*Financial and actuarial results*' section, the decline in the funding ratio is partially deliberate for Accounts with large funding surpluses.

At present this is the Work Account, the Motor Vehicle Account, and the levied portion of the Treatment Injury Account. When this occurs, levies or appropriations are deliberately reduced to return the surplus funds over time, which moves the funding ratio towards the 100% target. Conversely, when Accounts are below target, levies and appropriations are deliberately increased to increase the assets available in the Account and move the funding ratio toward the 100% target.

The growth of the new year cost gap compared to last year's report means that the levied Accounts are now projected to decline faster. Assuming the levy rates are increased in line with the government funding policy every year, these Accounts are all projected to drop below target within the next 10 years and remain below target for a significant period. This is particularly seen in the levied portion of the Treatment Injury Account as its funding ratio is projected to decrease to 38% by 2044/45 before it starts to recover. However, it's a relatively small portion of the Treatment Injury Account. Combined with the fully funded non-levied portion, the Treatment Injury Account funding ratio is projected to decrease to around 81% by 2041/42. The 2024/25 levy for the levied portion of the Treatment Injury Account is only $0.06 per $100 wages, compared to $1.33 for the Earners' levy.

The Earners' Account funding ratio at June 2024 is below the funding target at 91%. Due to the large new year cost gap (around $800 million in 2024/25), the Earners' Account is projected to decrease to 66% by 2032/33 and take more than 20 years to recover to 100%.

This assumes capped levy increases from the 2024 levy consultation and in the future are approved by the Government.

The non-levied Accounts have smaller new year cost gaps but are well below their funding target. The funding ratio on these Accounts is expected to decline for up to three years and then gradually improve over time.

The Non-Earners' Account funding ratio reduced from 85% last year to 53% this year. A large portion is due to the TN court case. Without the provisions for TN the Non-Earners' Account would be at 75%.

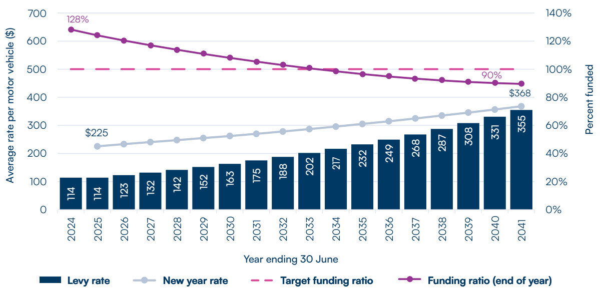
While the Account remains in deficit, the funding policy allows for appropriations to be higher than the new year costs to increase the funding ratio toward the funding target. However, the recovery of the funding position is limited by the cap, which only allows increases of 7.5% per annum. This means future calculated appropriations are not projected to be higher than the new year costs until 2029/30 onwards. As the funding ratios get closer to target the difference between appropriations and the new year costs will decrease.

However, due to the $5.6 billion funding deficit at June 2024, the funding ratio of the Non-Earners' Account isn't forecast to reach 90% until after 2050.

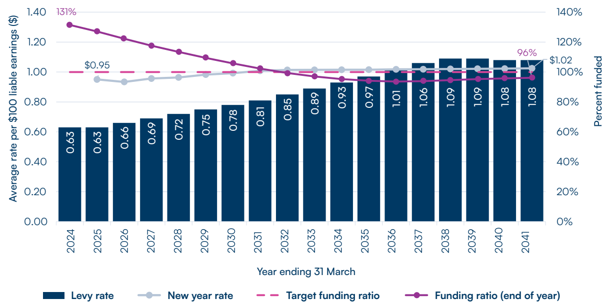
The charts in Chart 1 show the projected movement of funding ratios, new year rates and costs, and levies and appropriations out to 2041. The Treatment Injury Account is represented over two charts as it's funded through a mix of levies and appropriations.

Chart 1: Current and future funding ratios, levies, appropriations and new year rates/cost

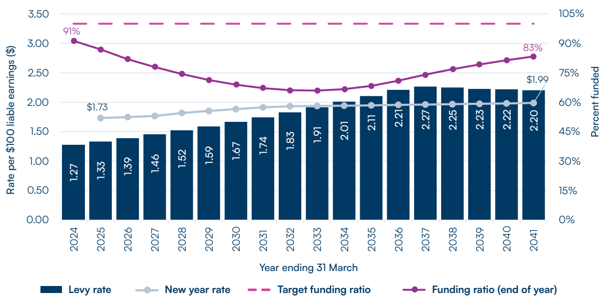
Motor Vehicle Account



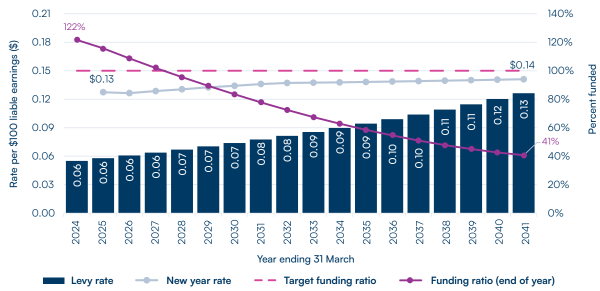
Work Account



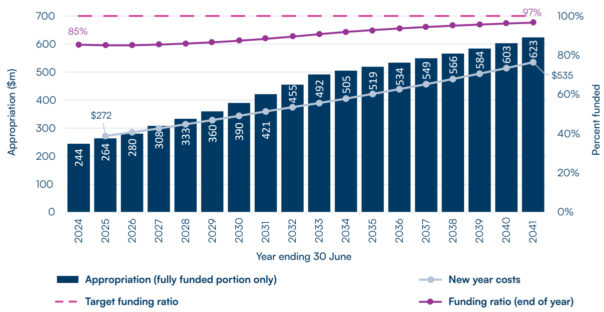
Earners' Account



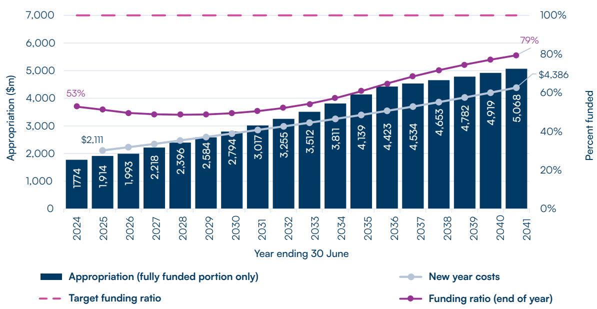
Treatment Injury Account (levied)



Treatment Injury Account (non-levied)



Non-Earners' Account



These projections assume that ACC's recommended increases to levies and appropriations, calculated under the government funding policies, are approved. This is not guaranteed, and has not always occurred. For all Accounts, we are projecting levy and appropriation increases to be required over a long period of time.

The funding policies for both the levied and non-levied Accounts are designed to deal with over- and under-funding in the Accounts, as well as any new year cost gap. When no increases are approved, the funding policies do respond to recover the shortfall in funding at a later date. However, as increases in funding are capped and decreases are uncapped, an Account's funding position or approved funding can drop suddenly, but recovery is much slower. This is particularly true if the funding position is left to fall too low or the new year cost gap is too large.

For the Scheme to remain sustainable, the gap between new year costs and levies and appropriations will need to reduce

Under current projections, levies and appropriations for all Accounts need to increase for at least the next 10 years. If no increases are approved, and assuming costs don't reduce, then funding ratios will deteriorate faster than we are projecting, and it will be more difficult to achieve the funding targets in the long term. It will also mean that future increases need to be larger, or at cap for longer.

The exposure base for the Work and Earners' Accounts, and the levied portion of the Treatment Injury Account, is liable earnings. Even when no increases in the levy rate are approved, we expect the income received on these Accounts to increase as liable earnings increase.

However, there is no inflationary component to the exposure base for the Motor Vehicle Account, which is the number of vehicles.

Therefore, when no increases are approved for this Account, in real terms, the income received by ACC reduces. Put simply, as costs of treatment, rehabilitation, and compensation increase by inflation for ACC each year, the income received from the Motor Vehicle Account falls behind, if not adjusted at least for inflation.

The Motor Vehicle Account levy was last changed in 2017/18 when it was reduced from $130.26 to $113.94, primarily due to favourable economic changes. It has remained unchanged, despite recommended levy increases at each levy consultation since then.

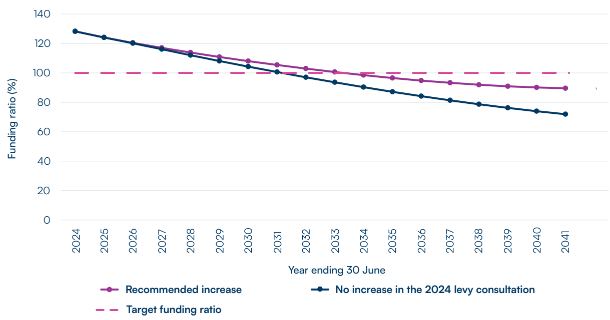
Labour cost inflation (LCI) rose 21.9% from June 2018 to June 2024. If the Motor Vehicle levy had been increased just to cover inflation since June 2018 (that is, no other cost pressures), this would imply a levy of $138.89 as at 1 July 2024. The forecast LCI from June 2024 to June 2027 is 7.3% indicating a levy of $149.03 would be needed, effective 1 July 2027, just to cover inflation. The recommended Motor Vehicle levy from the 2024 consultation, effective from 1 July 2027, is $141.69.

Shown in Chart 2, we have estimated the future funding ratio of each Account under two scenarios:

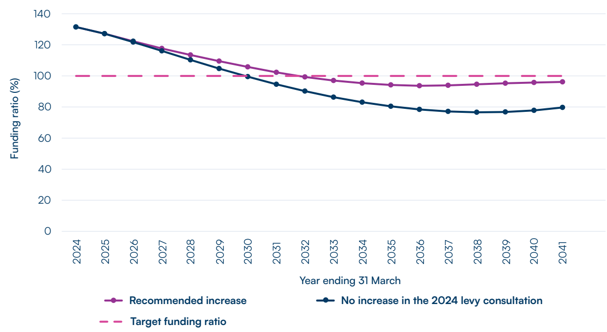
- The **first scenario** is if increases to levies and appropriations recommended under the government funding policies are approved.
- The **second scenario** is if no increases are approved in the 2024 levy consultation for the levied Accounts, and no increases are approved in appropriations over the same period for the non-levied Accounts, but recommended increases are approved in later years.

Chart 2: Future funding ratio scenarios

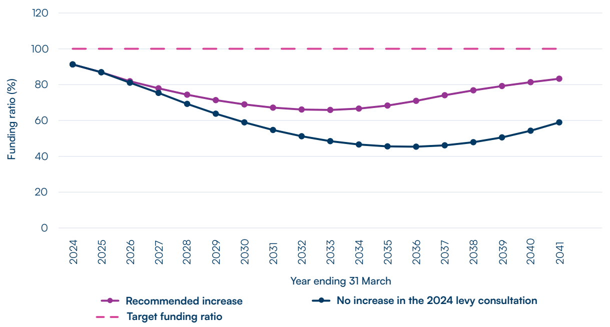
Motor Vehicle Account



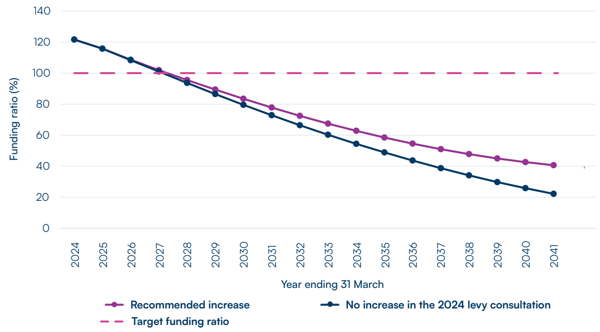
Work Account



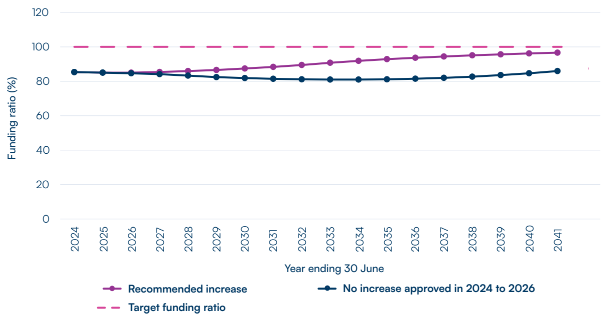
Earners' Account



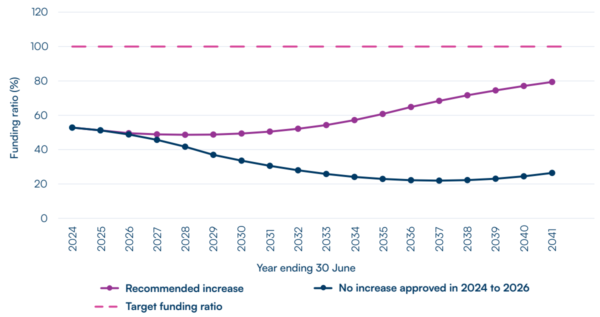
Treatment Injury Account (levied)



Treatment Injury Account (non-levied)



Non-Earners' Account



If recommended levy increases aren't approved, and with no other material offset, the faster deterioration of the funding ratio would have a material impact on Scheme sustainability and fairness. For the Earners' Account the funding ratio would drop to 45% by 2035/36 and still be only 95% in 2056/57. The levied portion of the Treatment Injury Account would decline to only 8% in 2048/49 due to the 55% new year cost gap. The Non-Earners' Account would decline to 22% in 2036/37, mainly due to the provisions for the TN legal case increasing the deficit to $4.9 billion. This would make it hard to return to target without a series of higher-than-cap increases or a large one-off increase.

Risks to ACC's financial condition are growing

A perfectly fully funded and fully sustainable Scheme would maintain 100% funding ratios in all Accounts, and no new year cost gaps. This would give stable funding positions, at target, going forward. In practice this is very difficult to achieve and maintain, as there are a lot of moving parts in the system in which ACC operates.

The 2023/24 year has put further pressure on ACC's sustainability. As we have stated elsewhere in the report, despite this pressure ACC can still afford to pay claims over the short-to-medium term.

ACC can use assets (collected to fund existing claims) for both existing and new claims (if it needs to), although ultimately this is not sustainable and goes against the principle of full funding.

By way of illustration, we have considered an extreme scenario where no future levy or appropriation increases are approved. This scenario doesn't represent a realistic real-world situation, it's just intended to illustrate the relative pressure on the Scheme compared to last year. Under this scenario all assets within the Accounts would eventually be used and the levy and appropriation collected beyond that point would be insufficient to fund new claim costs and expenses. Once the assets were used, the amount required to fund cash costs for future years would be significantly more than would be the case under current funding policy settings.

Table 8 shows, as at 30 June 2023 and 30 June 2024, how many years it would take each Account to use all its assets based on projections with no future levy or appropriation increases. As can be seen, this has reduced for all Accounts since last year.

Table 8: Years to consume assets under extreme scenario

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account (levied)	Treatment Injury Account (non-levied)	Non-Earners' Account
30 June 2024	25	19	14	16	33	11
30 June 2023	32	29	23	20	33+	16

The burden on levy payers and taxpayers may substantially increase over the next 10 years

The projected ongoing increases in levies and appropriations are likely to have an impact on New Zealand households, particularly lower income households with less disposable income.

Table 9 shows the levy impact in 10 years for an average income household with two cars. The increases shown in the table are over and above base inflation.

Table 9: Impact of expected levy increases over the next 10 years on an average income household

	Expected levy payment in 2024	Expected levy payment in 2034	Increase	Percentage increase	Average annual increase
Motor Vehicle Account	$228	$346 (excluding inflation)	$118	52%	4.3%
Earners' Account (including the levied portion of Treatment Injury Account)	$1,396	$2,204 (2024 income levels)	$808	58%	4.7%
Total	**$1,623**	**$2,550**	**$926**	**57%**	**4.6%**

Rising appropriations for the non-levied Accounts will also have an impact. At present every taxpayer in New Zealand contributes on average about $419 toward the appropriation. In 10 years, this is expected to increase by 40%, or 3.4% per annum, on top of base inflation.

Work Account levies are also expected to rise 4.0% per year, or 48% in total, over the next 10 years, to $976 in today's money (excluding inflation). This increase will have less direct impact on households but is still important to account for due to the impact on businesses and the self-employed.

ACC can lessen some of the burden on levy payers and taxpayers through its investment portfolio, injury prevention programmes, and by improving claim performance

ACC has a responsibility to reduce pressure on levy payers and taxpayers, while maintaining Scheme sustainability and fairness.

ACC has three core levers it can use to reduce upward pressure on levies and appropriations:

- Improving the effectiveness and efficiency of rehabilitation and other supports provided to better help people return to independence sooner. This is discussed more in the '*Claim performance*' section.

- Investing in a balanced injury prevention portfolio to reduce the incidence and severity of injuries in the community. Injury prevention is discussed more in the '*Injury prevention*' section.
- Investing and managing its assets to generate a good return, and to partially match future claim costs.

We've changed our approach to allowing for injury prevention and Integrated Change Portfolio benefits

In previous pricing reviews the estimated financial benefits from injury prevention were explicitly allowed for to reduce the projected levies and appropriations. This year the explicit net financial benefits have been removed. This means the investment is assumed to be offset by the expected claim benefits, but further benefits have not been allowed for. This is because most of the consistently performing injury prevention programmes have now been in place for several years, so the benefits of these programmes are already reflected in ACC's current claims experience. In addition, there have been no new programmes in recent years that are expected to make significant impacts on the claim costs. We may reassess the financial benefits from injury prevention if new programmes are introduced in the future.

Similarly, estimated financial benefits from the Integrated Change Investment Portfolio (ICIP) were explicitly allowed for in previous pricing reviews. Investment in the ICIP ended in 2023 and ACC decided that the benefits would no longer be monitored as a separate portfolio.

Instead, more limited monitoring will occur through existing reporting to the Board on ACC's Service Agreement, Statement of Intent, and organisational performance. In line with the business decision to move monitoring of the ICIP benefits into baseline targets, we are no longer making an explicit allowance for the ICIP benefits to reduce expected levies and appropriations. Future benefits from ICIP programmes are assumed to be reflected in existing claims experience and/or expenses.

Investment returns help keep levies and appropriations lower

New year costs, which form the basis of ACC recommendations on how levies and appropriations are set, factor in expected future investment returns from ACC's investment portfolio.

Investment returns have a material impact on new year costs, helping to keep them lower, which in turn reduces upward pressure on levies and appropriations. Table 10 shows the expected effect of investment returns on the new year rate in 2025/26.

Table 10: 2025/26 new year rate/cost discounted by forecast investment returns and risk-free rates

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account (levied)	Treatment Injury Account (non-levied)	Non-Earners' Account
New year rate/cost discounted by expected investment returns	$233.17	$0.93	$1.75	$0.13	$285m	$2,230m
New year rate/cost discounted by expected risk-free rates	$248.95	$0.97	$1.82	$0.13	$331m	$2,361m
Difference	**7%**	**4%**	**4%**	**6%**	**16%**	**6%**

Operating expenses also have an impact

ACC can also continue efforts to manage its operating expenses. Each year ACC's organisational expenses are projected to be around 7% of the total new year costs. In June 2024, ACC confirmed a major restructure that aimed to improve rehabilitation performance and reduce operating expenses through a more efficient utilisation of scarce resources.

It's important that the management of operating expenses isn't pursued to the detriment of claim performance, which has a much greater impact on financial condition.

5. Claim performance

5. Claim performance

About this section

- Claim performance is influenced by how efficiently and effectively ACC is managing claims, as well as by external factors. It's closely linked to rehabilitation performance.
- Along with prevention, claim and rehabilitation performance is a core lever for financial sustainability.
- Claim performance is closely linked to client outcomes. Rehabilitating people to health and independence sooner reduces the OCL, which in turn improves the Scheme's financial condition.
- When considering claim performance, we pay special attention to influenceable OCL strain.
- Areas experiencing influenceable OCL strain can present good opportunities for ACC to improve claim performance, as they're the areas where ACC might have more control or influence.

Key messages

1. In 2023/24, a significant decline in claim performance resulted in $2.9 billion of influenceable OCL strain.
2. Over the past five years declining claim performance had resulted in $5.5 billion of influenceable OCL strain.
3. The operating environment has been challenging, but this does not fully explain declining performance.
4. This year, and in previous years, weaker claim performance has been driven by three key areas. These are weekly compensation rehabilitation rates, serious injury care hours and costs, and the average cost of sensitive claims.
5. This year there was also influenceable OCL strain in the serious injury capital and non-serious injury care areas, along with an increase in claims handling expenses.
6. ACC is committed to improving claim performance by delivering better rehabilitation outcomes for New Zealanders.

Key concepts

OCL | New Year Costs | Influenceable and Non-influenceable Strain | Payment Types | Serious Injury

Understanding claim performance and the OCL

Managing claims effectively and efficiently is one of the most important things that ACC can do to improve its financial condition. It's also the right thing to do for ACC's clients.

Claim performance is closely tied to rehabilitation outcomes. In general, if rehabilitation outcomes improve, then claim performance improves. Better rehabilitation outcomes means that more New Zealanders are returning to health, work, and independence sooner. This directly translates into reduced costs, which in turn means levies and appropriations don't need to increase as quickly.

We tend to assess claim performance by looking at movements in the OCL. As discussed in the '*Why financial condition matters*' section, the OCL is the amount of money we believe ACC will need to pay in the future to clients who are currently injured.

We expect that the OCL will increase year-on-year. This is due to the cost of new claims being higher than the cost of claims exiting as the Scheme matures due to factors such as inflation. When the OCL increases because ACC needs to pay more than expected to support clients it's called OCL strain. When it decreases because ACC needs to pay less than expected to support clients it's called OCL release. If strain or release is completely outside of ACC's control, it's labelled as non-influenceable. If it's in areas where ACC might be able to mitigate it — at least to some degree — it's labelled as influenceable. The impact of economics is always excluded from this measure.

Each year any OCL strain is included in the overall OCL baseline for the next year. So if there's $200 million of strain one year, and $300 million the year after, then there's been a total strain of $500 million over two years.

We pay particular attention to influenceable strain, because this points to the areas where there's the greatest potential to improve claim and rehabilitation performance. In this way, labelling strain as influenceable can be thought of as highlighting something for the attention of ACC management.

Influenceable strain isn't always a bad thing. There are times when influenceable OCL strain can be considered positive (for example, where it's the result of a deliberate choice to remove access barriers to Scheme entitlements).

Over the past five years, however, the scale of influenceable strain is concerning due to the impact it's having on the Scheme's financial condition.

The influenceable strain in 2023/24 makes up more than half of the influenceable strain we have seen over the past five years.

Even if we identify strain as influenceable, and ACC decides that some mitigating action is needed, it doesn't mean that it can be fully fixed straight away. Some of the strain we identify as influenceable can only be influenced through interventions that might take several years to put into place.

In 2023/24, the total OCL strain was $5.9 billion

In the 2023/24 financial year there was $2.9 billion of influenceable OCL strain. There was also a non-influenceable OCL strain of $3.0 billion, meaning overall there was a total strain of $5.9 billion. This equates to a **13% increase in the total OCL.**

Declining claim performance resulted in $2.9 billion of influenceable OCL strain

The influenceable OCL strain of $2.9 billion can be broken down into two core components:

- **Number of active claims.** This is the number of new and existing claims ACC is managing. It's affected not only by new claims entering, but by how long both new and older claims are staying on the Scheme. In the past year, increases to how long people were staying on the Scheme resulted in $2,185 million of OCL strain.
- **Average cost of claims.** This is the average amount paid per claim. In the past year, the average amount paid per claim was higher than expected, resulting in $726 million of OCL strain.

Both demonstrate an overall decline in claim performance in the past year.

Table 11 shows the total OCL strain and release in 2023/24 across key payment types. Payment types are the categories of payment that ACC makes to help rehabilitate clients and compensate them for lost earnings because of their injuries.

Monitoring payment types help us understand claim performance trends and identify opportunities where ACC might be able to improve rehabilitation outcomes.

Table 11: OCL movement by payment type in the 2023/24 financial year

		Influenceable		Non-influenceable		
Payment type ($M)	**Expected OCL as at 30 June 2024**	**Active claims**	**Average cost of claims**	**Rate changes**	**Non-influenceable modelling**	**Total OCL strain/ (release)**
Weekly compensation	12,337	1,408	(219)			1,189
Sensitive claims	4,626	424	114	88	3,176	3,803
Serious injury care	17,291	163	601	(364)	(43)	357
Serious injury capital	2,200	43	123		(3)	164
Non-serious injury care	1,387	123	(4)	20	41	180
Non-serious injury capital	600	12	27	2		42
Elective surgery	3,632	117	(43)	24		99
Medical	2,126	14	(34)	7		(12)
Other	5,187	(122)	160	7		46
Total OCL	**49,385**	**2,185**	**726**	**(215)**	**3,171**	**5,868**

Overall, weekly compensation, serious injury care and sensitive claims were the key payment types driving $2,911 million of influenceable strain.

The sensitive claims payment type was the key driver of non-influenceable strain because of the provision set aside for the outcome of court cases ($3.2 billion).

This was only partially offset by a non-influenceable release of $364 million for serious injury care.

This release was mainly driven by a reduction of serious injury attendant care rates, as the previously assumed care and support workers' pay equity uplifts had not materialised during the year.

Table 12 shows the largest drivers of influenceable OCL strain for each Account.

Table 12: Drivers of influenceable strain across Accounts

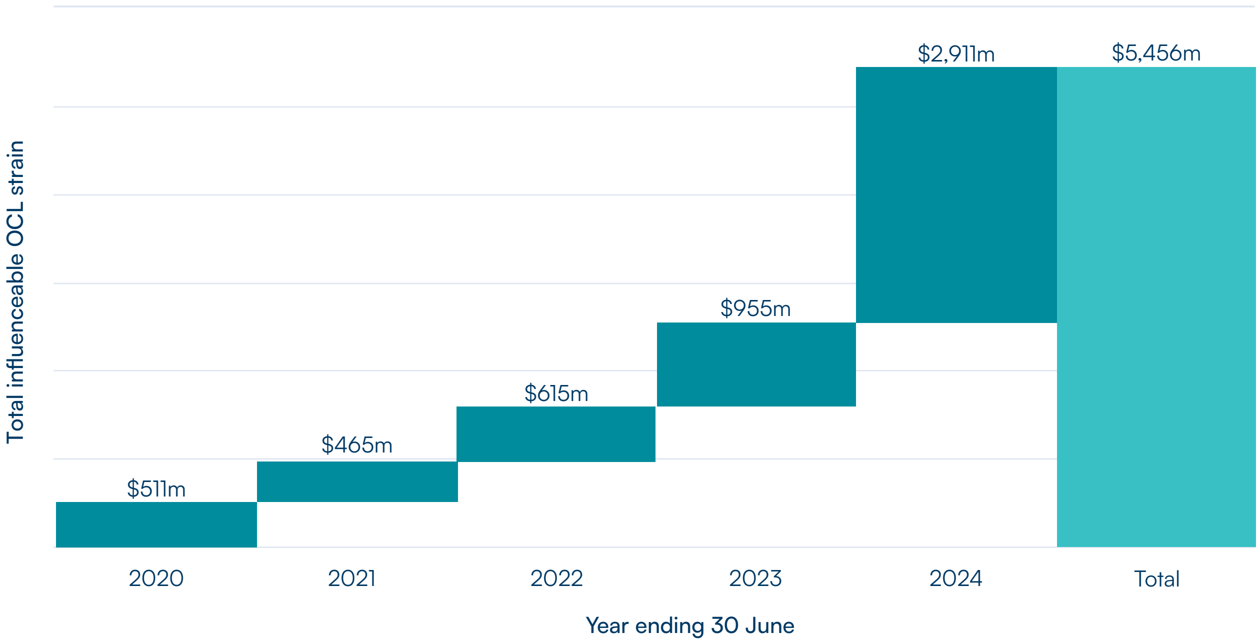
	Influenceable strain ($M)	**Largest payment type contributing to strain**
Motor Vehicle	347	Serious injury care
Work	353	Weekly compensation
Earners'	1,055	Weekly compensation
Treatment Injury	363	Serious injury care
Non-Earners'	794	Sensitive claims
Total	**2,911**	

Over the past five years declining claim performance has resulted in $5.5 billion of influenceable OCL strain

This year's results reinforce a 10-year pattern of declining claim performance and resulting OCL strain. As shown in Chart 3, in the past five years there's been a cumulative total of $5,456 million of influenceable strain. These increases are placing ongoing pressure on the financial condition of the Scheme. This, in turn, increases how much needs to be collected in levies and appropriations to keep the Scheme fair and sustainable.

The 2023/24 result is significantly worse than expected despite our assumptions having been adjusted for the large strain experienced during the 2022/23 year. This is due to the consequential impact of deteriorating experience on our long-term assumptions of claim performance, and ACC's clearer and more realistic expectation that claim performance will continue to deteriorate in the short term while initiatives to address declining performance are being set up.

Chart 3: Cumulative influenceable OCL strain in the past five years



Declining claim performance has been driven by three payment types

Over the past five years, declining claim performance has mainly been driven by three payment types:

- **Weekly compensation.** This is paid to clients who are unable to work, either temporarily or permanently, because of their injury. This also includes loss of potential earnings payments, which are paid to clients who were under 18 at the time of their injury, and who are now over 18 and unable to work. These are typically seriously injured clients.
- **Serious injury care.** This comprises all care-related payments made to seriously injured clients who need access to care services, either permanently or temporarily. It includes costs for clients in residential care facilities and the cost of care providers who travel to a client's home.
- **Sensitive claims.** These are claims for physical and mental injuries resulting from sexual abuse or sexual assault. These clients are eligible for counselling services, attendant care, and vocational rehabilitation services, along with weekly compensation for lost earnings while in recovery. ACC has made a strategic choice to reduce access barriers for survivors of sexual abuse and assault. Because of this we're paying more attention to OCL strain arising from increasing costs per claim, rather than strain caused by increasing numbers of claims.

The cumulative strain from each of these payment types over the past five years is shown in Table 13.

Table 13: Influenceable OCL strain by payment type and year

$M	2020	2021	2022	2023	2024	Total
Weekly compensation strain	341	438	262	181	1,189	2,410
Serious injury care strain	335	80	157	655	764	1,991
Sensitive claims strain	69	249	229	69	539	1,155
Other OCL net strain/(release)	(235)	(303)	(33)	51	420	(100)
Total	**511**	**465**	**615**	**955**	**2,911**	**5,456**

Different payment types are the key drivers of strain across the five Accounts. We discuss the three payment types highlighted here in more detail below.

Weekly compensation rehabilitation rates

↑ 2023/24 influenceable strain: $1,189 million

↑ Five-year influenceable strain: $2,410 million

Total OCL: $13,351 million

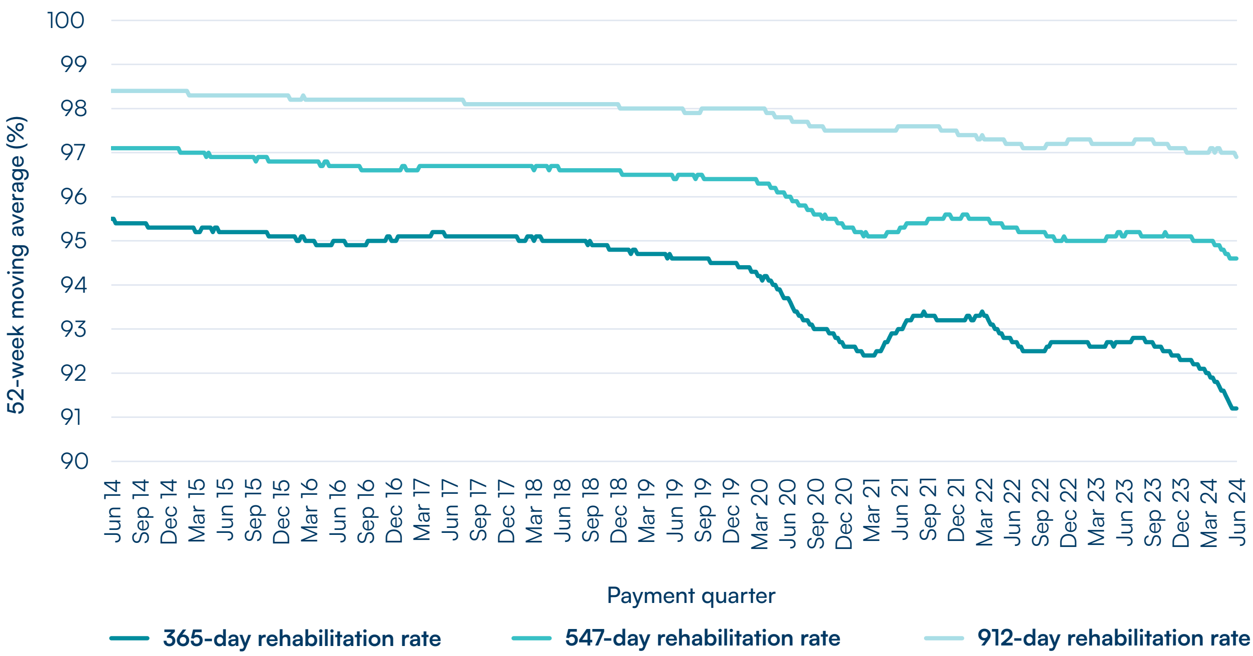
Over the past year, lower-than-expected rehabilitation rates contributed to $1,189 million of influenceable weekly compensation strain. Rehabilitation rates measure how long people on the Scheme take to recover from their injuries and return to health and independence. The components of the influenceable strain were:

- **Number of active claims:** $1,408 million influenceable OCL strain. This is driven by the number of active claims being 5% higher than expected, equating to approximately 14,000 additional active claims. This is due to claims staying on the Scheme for longer than expected, mainly at short and medium durations. This deterioration in rehabilitation rates has also led to the worsening of assumed future rates of rehabilitation for claims 0-7 years post-accident date.
- **Average cost of claims: $219 million influenceable OCL release.** The strain caused by increasing numbers of active claims was partially offset by a $219 million influenceable release. This is mainly due to a decrease in payments per active claims that are 0-9 years since accident date.

There has been $2,410 million of cumulative influenceable weekly compensation OCL strain over the past five years. Over half of this strain occurred in the last year. Chart 4 shows the 365-day, 547-day, and 912-day rehabilitation rates in the past 10 years, presented as 52-week rolling average results. The chart shows that while rehabilitation rates had generally been declining between 2014 and 2018, they began to decline faster around 2019.

Deteriorating rehabilitation rates were the largest driver of the $1,408 million of influenceable strain in 2023/24, particularly in the Earners' and Work Accounts. In addition, ACC's expectation is rehabilitation performance will continue to deteriorate over the next year while new initiatives are implemented. These factors led us to review our rehabilitation rate assumptions, and include a deteriorating trend for a further year. The inclusion of this trend accounted for about a quarter of the $1,408 million OCL strain.

Chart 4: Short-to-medium-term rehabilitation rates



The growth of non-seriously injured clients entering the Long-Term Claims Pool (LTCP) is of significant concern. The LTCP refers to claims that have received more than 365 days of cumulative weekly compensation. The overall growth in the LTCP for the 12 months to June 2024 was 13.7%. This is significantly higher than the average annual growth over the past five years of 9.9%, and significantly higher than the recent average annual growth in the earner population of around 1%. A more sustainable growth rate is likely to be around 3% to 4%, assuming new weekly compensation claim growth and rehabilitation performance can return to pre-COVID-19 pandemic levels. The growing proportion of the pool compromising non-seriously injured clients is of significant concern to the sustainability to the Scheme.

ACC is looking to move weekly compensation claims at risk of (potentially unnecessarily) entering the LTCP into a case management model where they would be assigned a dedicated case manager. It is expected that the majority of the recruitment of additional case managers to provide this service will be completed by the end of 2024, but it will likely be some months into 2025 before they are fully on board and trained. ACC expects rehabilitation rates will continue to deteriorate over this period. This capacity uplift is only intended to stabilise performance, with further work planned (and needed) to genuinely turn rehabilitation performance around. We discuss initiatives ACC has undertaken to address this later in this section.

ACC expects weekly compensation rehabilitation performance to deteriorate in the short term. In the longer term, ACC expects rehabilitation performance to start to improve. If this performance eventuates, this might result in an OCL release in the future.

Serious injury care

↑ 2023/24 influenceable strain: 764 million

↑ Five-year influenceable strain: $1,991 million

Total OCL: $16,998 million

In the past year, there was $764 million of influenceable serious injury care strain. This was partially offset by a $408 million OCL release. The components of the influenceable strain were:

- **Number of active claims:** $163 million influenceable OCL strain. This was driven by a higher-than-expected number of new serious injury claims profiled over the last year, particularly for accident years prior to 2023. This increase has only been partially reflected in the assumed future serious injury claim numbers. This is because ACC's view is that the experience over the past year is a temporary trend, due to a catch-up in claims being profiled following several years of low numbers of claims being profiled.
- **Average cost of claims:** $601 million influenceable OCL strain. This was driven by care hours being 5% higher than expected and increased use of residential care facilities. Travel payments were also significantly higher than expected over the year. These increases have resulted in changes to assumptions for future average costs for serious injury claims.

There are a comparatively small number of seriously injured clients. Out of almost 1.0 million active ACC claims[10] as at 30 June 2024, 5,602 are serious injury claims. Due to high client and claim complexity for serious injuries, their care requirements represent a significant portion of the total OCL ($17.0 billion, or 32%, as at 30 June 2024). Due to the long-term nature of these claims, small changes in service provision can have a significant impact on the OCL.

[10] A claim is defined as active if it has received a payment in 2023/24.

Of the $1,991 million five-year total influenceable serious injury care strain, more than one-third occurred in the past year. Over the past five years the influenceable serious injury care strain has been concentrated in the Motor Vehicle, Treatment Injury, and Non-Earners' Accounts. This is primarily due to the higher volume of serious injuries in these Accounts.

Last year, we highlighted a significant deterioration in experience due to higher-than-expected attendant care hours and utilisation of residential care, and adjusted our assumptions accordingly. However, in 2024, experience continued to worsen above expectation. Higher-than-expected attendant care hours were seen across both non-contracted and contracted care. Residential care payments were higher than expected due to a combination of increases in rates, higher-than-expected new claims, and greater utilisation of services. In addition, this year travel payments were also higher than expected due to a combination of increases in rates and utilisation, particularly for journeys greater than 15 km.

ACC has put in place initiatives focused on improving the rehabilitation outcomes for serious injury claims. These include:

- Building case management capability and providing a new level of supervision to support and monitor decisions on the care provided for serious injury claims.
- Developing a tool to allow staff to allocate providers based on their proximity to clients to reduce travel time.
- Enhancing monitoring and reporting tools, such as a residential support services dashboard, to provide more meaningful information on the drivers of performance and the impacts of improvement initiatives.

These initiatives on their own within the existing frontline model are not enough to make a material improvement to rehabilitation performance. ACC is increasing the number of case managers at the level required within the recovery team that works with some of the most complex or sensitive injuries. This is intended to further improve case management and outcomes for seriously injured clients and stabilise performance.

Sensitive claims

↑ 2023/24 influenceable strain: $538 million

↑ Five-year influenceable strain: $1,155 million

Total OCL: $8,313 million

ACC fully funds the services for survivors of sexual abuse and assault. As a result of ongoing work to improve the accessibility and effectiveness of sensitive claim services, growth in the number of active sensitive claims is expected and appropriate. This does, however, make it important that the average cost per claim is carefully managed to ensure the service remains sustainable. The components of the 2023/24 influenceable strain in sensitive claims were:

- **Number of active claims:** $424 million influenceable OCL strain. This was driven by a 2% higher-than-expected number of active claims, particularly from re-opened claims from accident years prior to 2015. This deterioration in rehabilitation rates resulted in a reduction (deterioration) to rehabilitation assumptions.
- **Average cost of claims:** $114 million influenceable OCL strain. This was driven by 11% higher-than-expected average payments for sensitive claims in the Non-Earners' Account due to backdated loss of potential earnings (LoPE) payments. This experience has also been reflected in an increase in the future average payment assumption for sensitive claims in the Non-Earners' Account.

Nearly half of the $1,155 million five-year total for influenceable sensitive claim strain occurred in the last year. While the number of new sensitive claims is still increasing, this has been at a lower rate than projected at last year's valuation. This is believed to be related to capacity constraints in the sector, rather than a slowing of demand, as waitlists for services and declined referrals remain high.

We know some of the average cost strain is driven by higher-than-expected backdated LoPE payments. We have seen a strong upward trend in the proportion of total sensitive claim costs that are being paid as backdated LoPE since 2018/19. This is especially evident in the Non-Earners' Account in the past year, particularly for claims older than five years. This is thought to be largely driven by the TN court case decision, which is discussed in more detail in the '*Future risks and opportunities*' section.

There has also been a significant increase in the continuance rates of sensitive claims that were first reported before the introduction of Integrated Services for Sensitive Claims (ISSC) in 2014. These rates had been gradually improving until 2022 but have since deteriorated. This is also likely driven by the TN court decision.

The TN decision has impacted other areas of the increase in the sensitive claims liability, including the increase in active claim numbers for older accident periods. However, it has not been possible to isolate the impact of this from other OCL changes and quantify the full impact of the TN decision.

Operational changes are underway to capture the additional claim information needed to fully identify entitlements resulting from the decision, but this work may not be completed before 30 June 2025. Any liability changes directly resulting from the TN decision would likely be considered non-influenceable if we could isolate them. So the influenceable strain for sensitive claims is likely to be overstated, and non-influenceable strain understated, to some degree.

Other payment types have also experienced OCL strain

The influenceable OCL strain seen in other payment types last year has been overshadowed by the higher-than-usual levels of strain seen in the three key payment types. Serious injury capital, non-serious injury care and claims handling expenses are three other payment types that have experienced a combined influenceable OCL strain of $429 million over the past year. The influenceable OCL strain in other payment types was from:

- **Serious injury capital.** This covers social rehabilitation capital payments for seriously injured clients and includes payments for medical consumables, rehabilitation equipment, artificial limbs, housing modifications, and motor vehicle purchase and modifications. In 2023/24, there was $167 million OCL strain — largely driven by higher-than-expected payments for housing modifications.
- **Non-serious injury care.** This covers all payments made to non-seriously injured clients who need access to care services, either permanently or temporarily. In 2023/24, there was $119 million OCL strain — primarily driven by a higher-than-expected number of active claims due to deteriorating rehabilitation rates.
- **Claims handling expenses (CHE).** The liability for CHE represents the funding ACC estimates it needs to hold for the future processing and administration costs for servicing claims that have occurred, both reported and unreported, as at 30 June 2024. ACC is recruiting an additional 250 claims handling staff as part of a change in its case management approach for weekly compensation and serious injury claims. The OCL strain of $143 million for CHE in the 2023/24 year is largely due to this increased headcount and the resulting increase in claim handling expenses. If this has a beneficial impact on claims performance, even if it's simply preventing things continuing to deteriorate, the avoided future strain will likely outweigh this year's CHE strain in time.

- **Other.** There was a net OCL release of $9 million from all other payment types. There was an increase in active elective surgery claims ($75 million OCL strain) and average payments for non-serious injury capital claims ($40 million OCL strain). This was offset by lower-than-expected active hearing loss claims ($101 million release) and new claims for other medical providers ($24 million release).

The operating environment has been challenging, but this doesn't fully explain declining claim performance

We acknowledge the scale of the challenges that ACC, like many organisations, has faced over the past few years.

Although the COVID-19 pandemic has now passed, some of the challenges that arose during that time have continued to linger. Workforce constraints have caused higher staff turnover than previously experienced. This has resulted in a recurring cycle of training and upskilling employees while trying to keep up with incoming claims.

The wider health system and the providers ACC work with and rely on remain under pressure. Fewer staff are having to take on more clients, which has increased waiting times. Increased demand for labour and supplies has driven up waiting times for specialised rehabilitation equipment.

It's extremely difficult to quantify exactly how much impact these systemic issues have had. We're confident, though, that they don't fully explain ACC's declining claim performance. This decline began well before the COVID-19 pandemic and there's no evidence that would allow us to attribute increasing numbers and costs of claims solely to external events.

As part of its Huakina Te Rā strategy, ACC is committed to improving claim performance by delivering better rehabilitation outcomes for New Zealanders

ACC has identified four key priorities as part of its Huakina Te Rā strategy, discussed further in the '*Future risks and opportunities*' section. The most significant of these priorities for more immediate impact on the financial condition of the Scheme, is rehabilitation performance. Delivering effective rehabilitation, especially for people requiring longer-term support, is one of the most effective ways that ACC can simultaneously improve client outcomes and financial condition.

There's extensive work underway across ACC to deliver better rehabilitation outcomes for New Zealanders. Rehabilitation performance has deteriorated over many years, and it is vitally important these initiatives deliver improvement. It is essential appropriate baselines are set to measure and monitor what these initiatives are delivering against what ACC expect them to.

The Enterprise workplan initiatives need to deliver significant results

Several initiatives underway that fall under the Enterprise Plan, including longer-term work to design a future rehabilitation state, have the potential to have a positive impact on Scheme sustainability and fairness. We recognise, however, that there are many smaller initiatives underway that could make important contributions. The key initiatives underway are:

- improving key ACC process and decision-making to improve the way ACC works, including ensuring seriously injured clients receive the right level of support
- strengthening how ACC commissions health services, starting with elective surgery, high tech imaging and residential support services
- increasing capacity to help stabilise rehabilitation performance, particularly for long-term weekly compensation claims

- evolving the Integrated Services for Sensitive Claims into the Sensitive Claims Service to help reduce barriers for survivors seeking help. The updated service is expected to start from December 2024.

We believe these initiatives will target areas that could improve the financial condition of the Scheme and it is critical these are successful. To achieve this it's important that ACC focuses on:

- evidence-based initiatives that enhance Scheme access, to experience, and outcomes in a way that improves, or at least minimises, the impact on Scheme sustainability
- regularly measuring and reviewing progress, and being willing to disinvest from or change approaches to initiatives that aren't performing well
- ensuring major decisions are informed by modelling and analysis that estimates the impact that different strategic approaches may have on Scheme sustainability.

6. Injury prevention

6. Injury prevention

About this section

- This section discusses the performance of ACC's investment to reduce the incidence and severity of injuries in Aotearoa New Zealand.
- It includes the effectiveness of the overall prevention investment and the performance of specific investments.
- Investment in injury prevention is important to financial condition because it can reduce the amounts New Zealanders need to pay to keep the Scheme financially sustainable.
- Investment in injury prevention can also provide wider social benefits, but these are less relevant to this report which is focused on ACC's financial condition.
- In most cases, there is a legislative requirement that ACC only invests in prevention initiatives that will result in lower levies or appropriations.

Key messages

1. Injury prevention is still not making a significant contribution to Scheme sustainability.
2. Two key issues are limiting the performance of the injury prevention portfolio:
    - The scale of the investment isn't sufficient to result in a meaningful reduction in the cost of claims each year.
    - Much of ACC's investment is underperforming.
3. Some programmes are performing well, but there continues to be a reliance on a few programmes to deliver benefits.
4. The overall outlook for the portfolio is uncertain. Most of the investment has been committed, but most benefit realisation is still in the future. Given the history of benefit targets not being met across a number of programmes, there's a risk that not all the future benefits will be delivered.
5. ACC is working on a new strategic approach to increase the scale and the performance of the injury prevention portfolio.

Key concepts

Return on Investment | Claim Benefits | New Year Costs

Preventing injuries reduces social, economic, and personal harm

Reducing the incidence and severity of injuries is one of ACC's core purposes.

Successful injury prevention can deliver a wide range of social and economic benefits to communities. In writing the Financial Condition Report, however, we're primarily concerned with the impact of ACC's injury prevention investment on Scheme sustainability and fairness.

Injury prevention is a lever that can be used to improve ACC's financial condition over the longer term. By decreasing the number or severity of injuries, injury prevention programmes can reduce claim costs. This will reduce new year costs, which in turn can lead to lower levies and appropriations.

ACC's investment is guided by section 263 of the Accident Compensation Act 2001. This legislation requires ACC to be satisfied its investment in prevention is likely to result in a cost-effective reduction in levies or appropriations, or can be funded by another source, such as Parliament appropriation.

As a result, ACC uses the return on investment (ROI) to monitor the performance of its injury prevention investments. The ROI is the claim benefits[11] from an injury prevention investment divided by the investment amount. The ROI is an indicator of performance, as it directly measures the amount of return on a particular investment relative to its cost. The higher claim benefits are compared to investments, the higher the ROI. The higher the ROI, the greater the financial benefits to levy payers and taxpayers through reduced levies and appropriations.

Injury prevention is still not making a significant contribution to Scheme sustainability

Injury prevention is not having a significant impact on new year costs and it's unclear what impact it will have going forward

The expected net claim benefit from injury prevention in 2024/25 is $40 million[12], or 0.5% of the estimated new year costs.

This means the new year costs would be 0.5% higher without an expected net claim benefit from injury prevention.

Without a more significant reduction in new year costs, injury prevention can't result in a meaningful reduction to levies and appropriations.

Determining what targets should be set for injury prevention performance is a strategic choice that ACC needs to make. (See the '*ACC is working on a new strategic approach*' section for more information on ACC's new approach to injury prevention.) For illustration purposes only, a 5% reduction target in new year costs could be considered as material. To achieve a 5% reduction in projected new year costs for 2024/25, the injury prevention portfolio would need to deliver $432 million of claim benefits. Higher claims benefits would need to be delivered through some combination of:

- increased scale of investments with a similar ROI to the existing portfolio, or
- investments with a higher ROI.

Much of ACC's current investment is at risk of underperforming

Since July 2006, ACC has invested $810.7 million in injury prevention. This has delivered a total of $597.1 million in estimated benefits between July 2006 and June 2024. There are $178.5 million of future committed investments and $722.5 million of future expected benefits as at the end of 2023/24 [13].

11 Claim benefits are the number of claims avoided multiplied by the average expected cost of the avoided claim as a result of an injury prevention initiative.

12 This excludes investments that don't contribute towards the target ROI.

13 These figures are inclusive of all investments, including those without an ROI.

When including expected future investments and benefits, the ROI for ACC's overall injury prevention portfolio is $1.43. This excludes investments that don't contribute towards the target ROI yet. This means that an extra 43 cents is expected to be returned to levy payers and taxpayers for every dollar invested. If future investments prove insufficient to deliver intended benefits, or if future benefits are lower than assumed, the ROI would fall. Conversely, if less investment is required or more benefits are delivered than expected, the ROI would rise.

When considering only estimated benefits that have been delivered against investments made to date, the portfolio ROI drops to $0.74.

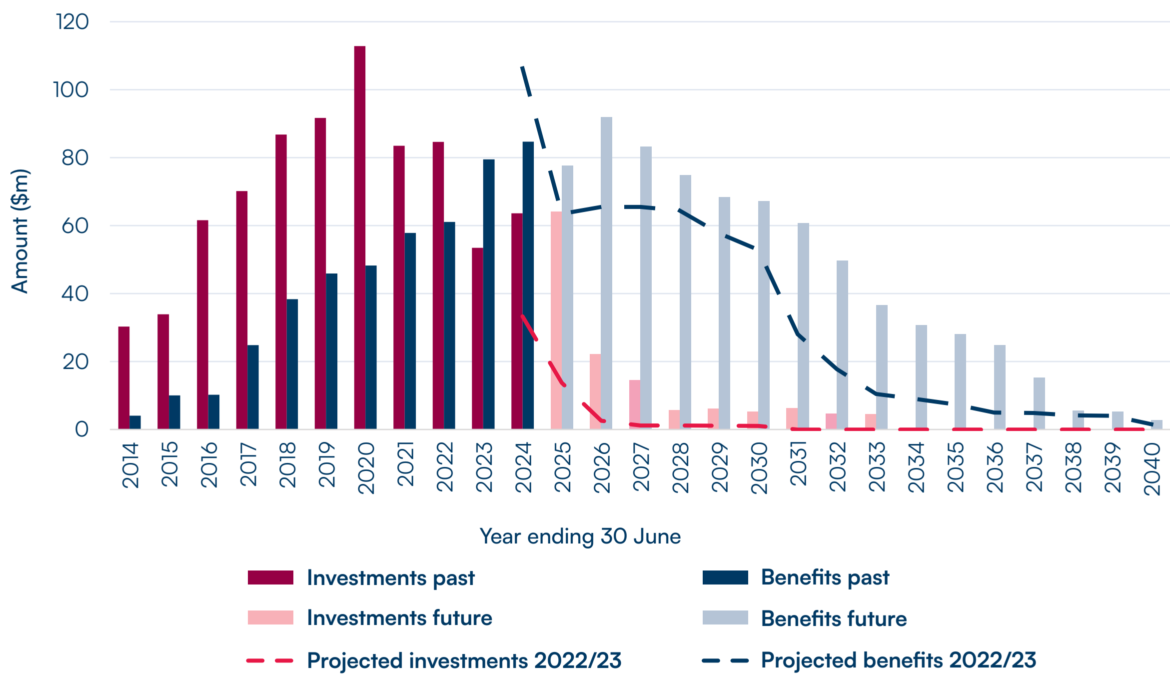
During 2023/24, the estimated future benefits were revalued and overall reduced by $28 million due to declining portfolio performance and outlook. This is part of an annual revaluation of the estimated future benefits from the injury prevention portfolio. Since 2021, the annual revaluation has resulted in a total reduction in future benefits of $125 million.

The net reduction of $28 million was mainly from two portfolios: $17.6 million was from the Workplace portfolio and $17.5 million from the Treatment Safety portfolio. These were offset by a net increase in future benefit of $7.1 million in the Targeted portfolio.

Investment in injury prevention is long term, with upfront investments providing benefits expected in the future. As at 30 June 2024, 88% of programme investment has been spent, but only 45% of claim benefits have been realised. This ratio, along with the history of reducing expected future benefits, indicates a risk of not realising all future benefits.

Chart 5 shows past and future investments and claim benefits across the entire injury prevention portfolio at the end of 2023/24. These are compared against the future investments and benefits expected at the end of last year (2022/23).

Chart 5: Past and future investments and claim benefits as at 30 June 2024



Future investments increased six-fold to $133.2 million as reinvestments were approved during the year to 2023/24. These reinvestments are expected to deliver $163.1 million in additional benefits from 2024/25. Also, poor rehabilitation performance and changes in economic assumptions drove up the expected average lifetime cost of a claim saved. This contributed a further $120.1 million increase in expected future benefits.

Performance is mixed across the five injury prevention portfolios

ACC's injury prevention investment is split into five portfolios, with a sixth Māori portfolio that sits across these. Each portfolio consists of multiple sub-portfolios, which then consist of programmes.

There are 59 programmes in design, implementation or delivery as at 30 June 2024.

This follows the exit of 21 programmes that were not meeting performance expectations as at the end of the previous year.

There are no new programmes in the year to 30 June 2024. Table 14 shows past investments and past benefits since July 2006 to date. It also shows projected future investments and benefits from 2024/25 onwards. Māori programmes are counted under the Māori portfolio to avoid double counting.

Table 14: Injury prevention past and future investments and benefits as at 30 June 2024

Portfolio		Past	Future	Commentary
Targeted (excluding Māori)				
Makes investments targeted at outcomes related to sports and active recreation, ageing well and transportation	Investment: Benefits:	$434.9m $470.2m	$111.2m $519.3m	80% of committed investment has been made and 48% of estimated benefits have been realised. This portfolio has the highest proportion (57%) of programmes in delivery. Also, three of its programmes belong to the five biggest in terms of future benefits. These three have a combined future benefit of $332.6 million, or 64% of this portfolio's total future benefits. **ROI to date: $1.08** **Expected ROI: $1.89**
Treatment Safety				
Targets injuries acquired during a medical treatment	Investment: Benefits:	$67.6m $13.0m	$2.3m $67.0m	97% of committed investment has been made, but only 16% of estimated benefits have been realised. This portfolio expects to deliver 85% of its future benefits through one programme[14]. This programme is one of the top five programmes in terms of future benefits and is expected to start delivering benefits from 2026/27. **ROI to date: $0.19** **Expected ROI: $1.15**

[14] ACC expects 85% of future benefits under the Treatment Safety portfolio to come from the Neonatal programme.

Table 14: Injury prevention past and future investments and benefits as at 30 June 2024 continued

Portfolio		Past	Future	Commentary
Workplace (excluding WorkSafe and Māori)				
Directs investments towards preventing work-related injuries	Investment: Benefits:	$94.2m $101.8m	$14.2m $136.1m	87% of committed investment has been made and 43% estimated benefits have been delivered. One of its six programmes in delivery is among the top five in terms of future benefits. This programme is expected to deliver 52% of the portfolio's future benefits. **ROI to date: $1.08** If WorkSafe was included the ROI to date would drop to $0.61. **Expected ROI: $2.23** If WorkSafe was included the expected ROI would drop to $1.20.
WorkSafe				
A subset of the Workplace portfolio	Investment: Benefits:	$92.0m $12.2m	$9.0m $0.0m	91% of the committed investment has been made, with no further benefits expected. This investment, the second largest in terms of past investment in a programme, resulted in a loss to ACC. WorkSafe has the lowest ROI for a portfolio, excluding portfolios with no ROI yet. ACC has now exited the portfolio, with no further funding planned beyond 2024/25. **ROI to date: $0.13** **Expected ROI: $0.12**
Strategic (excluding Māori)				
Makes long-term investments aligned to ACC's injury prevention strategic objectives	Investment: Benefits:	$101.2m $0.0m	$5.2m $0.0m	95% of the committed investment has been made, with no further benefits expected. Ten of 11 programmes are in design, one is in implementation. None of these are included in the ROI calculation as yet. Expected benefits from the portfolio are yet to be determined. **No ROI yet**
Māori				
An overarching portfolio directed towards Māori outcomes	Investment: Benefits:	$20.9m $0.0m	$36.6m $0.0m	36% of committed investment has been made. This portfolio is woven into other portfolios rather than being a standalone portfolio. Programmes are in design or implementation, with claim benefits yet to be determined. **No ROI yet**
Total	**Investment:** **Benefits:**	**$810.7m** **$597.1m**	**$178.5m** **$722.5m**	The overall outlook for the portfolio is uncertain. Most of the investment has been committed, but most benefit realisation is still in the future. Given the history of benefit targets not being met across a number of programmes, there's a risk that not all the future benefits will be delivered. **ROI to date: $0.74** **ROI: $1.43**

Some programmes are performing well, but there is a reliance on a few programmes to deliver benefits

There are areas of high performance in the prevention portfolio.

In the Targeted portfolio, five programmes have performed well in the past year. These are road (Ride Forever, Young Driver), sports (Netball, Football) and violence (Gun Violence) programmes:

- Ride Forever delivered an estimated $20.3 million benefit against $14 million expected
- Young Driver delivered $18.7 million against $11.4 million expected
- Football and Netball delivered $7 million collectively against a total $4.4 million expected
- Gun Violence delivered a $6.3 million benefit against $1.8 million expected[15].

In the Workplace portfolio, three programmes exceeded expected claim benefits in the year. These were the FarmStrong, Wool, and Grants and Subsidies[16] programmes. These collectively delivered an estimated $14.3 million benefit against an expected $5.7 million. The WorkSafe portfolio delivered an estimated $5 million against a target of $0.6 million, which was deliberately set at a low level due to previous poor performance.

In the Treatment Safety portfolio, MORSIM (operating room simulation) delivered $5.3 million against $1.1 million expected.

Five programmes account for 64% of the total expected future benefits

While there are areas of good performance, the overall performance outlook for the portfolio is uncertain.

The total estimated benefit in the year to 30 June 2024 from the injury prevention portfolio was $84.7 million. This is below the $106.2 million that was expected. The estimated benefit was realised through only nine programmes out of a total of 28 in delivery. The remaining 19 either did not reach their benefit targets (12) or delivered nil benefits (seven) in the year to 30 June 2024.

Of the $722.5 million future claim benefits, 64% ($460.8 million) is expected to be delivered through only five programmes, with 85% expected through the top ten programmes. This poses a risk to future overall performance, as investment risk isn't well-diversified among the 59 injury prevention programmes. The investment committed to these five programmes from inception through 2023/24 is $210.6 million, with a further $84.1 million committed from 2024/25. Table 15 shows the benefit performance of these programmes.

[15] The Gun Violence future benefits were reduced by almost 70% during the 2022/23 revaluation as the programme didn't perform as expected. The original pre-revaluation (in 2022/23) target was $5.2 million.

[16] Grants and Subsidies estimated benefits were delivered through two grants; 17 grants delivered nil benefits in the year to 30 June 2024.

Table 15: Injury prevention programmes with the most expected future benefits as at 30 June 2024

Portfolio		Past	Future	Commentary
Falls and Fractures				
	Investment: Benefits:	$94.9m $36.2m	$68.3m $202.6m	This Targeted programme achieved its claim benefit targets in the past year. 85% of claim benefits are yet to be delivered with 42% of committed investment remaining. **ROI to date: $0.38** **Expected ROI: $1.46**
Ride Forever				
	Investment: Benefits:	$54.7m $96.9m	$9.4m $87.0m	This well-performing Road programme delivered $19.2 million of estimated claim benefits in the past year. It exceeded the expected benefit target by 37%. **ROI to date: $1.77** **Expected ROI: $2.87**
Grants and Subsidies				
	Investment: Benefits:	$26.6m $6.7m	$4.5m $71.1m	This Workplace programme achieved its claim benefit target for the second year in a row. 91% of its total benefits are yet to be realised with 14% of committed investment remaining. Only two of 19 grants have delivered benefits to date, with expected benefits from 17 grants delayed. **ROI to date: $0.25** **Expected ROI: $2.50**
Neonatal				
	Investment: Benefits:	$11.7m $0.0m	$1.1m $57.1m	100% of the benefits for this Treatment Safety programme lie in the future. Its current ROI relies on the delivery of all its future benefits. Benefit delivery is expected to start in 2026/27. Targeted claim savings are small in volume, but high in cost. If the number of claims saved are not as many as expected, the estimated amount of claim savings may not be met. **ROI to date: $0** **Expected ROI: $4.46**
Roading infrastructure				
	Investment: Benefits:	$22.6m $0.0m	$0.9m $43.0m	100% of claim benefits for this programme are yet to be delivered while 96% of committed investments have been made. This programme is long term in nature due to the time it takes for road engineering changes to be implemented. Target claim savings are small in number but high in cost, with delivery expected to start in 2024/25. **ROI to date: $0** **Expected ROI: $1.82**
Total				
	Investment: **Benefits:**	**$210.6m** **$139.8m**	**$84.m** **$460.8m**	The ROI for the five concentration risk programmes is higher than the overall portfolio ROI. However, 61% of benefits are still to be realised. **ROI to date: $0.66** **Expected ROI: $2.04**

Some risks for the five programmes relate to securing external funding, delays in benefit realisation and fewer claim savings than expected. For Falls and Fractures, failure to secure expected external funding as planned would result in an ROI reduction. Further benefit delivery delays by most grants from Grants and Subsidies would negatively impact the performance outlook for the programme. The timing gap between investment and benefit realisation and nature of Roading Infrastructure will make it hard to address any underperformance.

Some programmes have delivered no benefit

In a balanced portfolio of prevention initiatives, and over time, some investments would be expected to fail or underperform. Since 2012, there have been 61 injury prevention programmes that haven't delivered and are not expected to deliver any benefits. Only five of these remain in delivery now, while 56 have been exited. Two programmes are currently establishing baselines to determine claim savings and an ROI. Potential claim savings for the remaining three are currently being determined.

If the number and size of investments with no return is too high, this places additional pressure on the remaining portfolio to return benefits for levy payers and taxpayers. Table 16 provides a summary of injury prevention programmes with no benefits delivered or expected to be delivered. Exited programmes represent $186.7 million, or 23%, of all prevention investment.

Table 16: Programmes exited or in delivery with nil ROI by portfolio

Portfolio		Exited	In delivery	Total
Targeted	Investment:	$49.7m	$19.2m	$68.9m
	Number:	21	2	23
Treatment Safety	Investment:	$12.6m	$16.6m	$29.2m
	Number:	7	3	10
Strategic	Investment:	$98.7m	$0m	$98.7m
	Number:	6	0	6
Workplace	Investment:	$25.8m	$0m	$25.8m
	Number:	22	0	22
Total	**Investment:**	**$186.7m**	**$35.8m**	**$222.5m**
	Number:	**56**	**5**	**61**

ACC is working on a new strategic approach and developing its implementation plan

ACC is developing a new strategic approach to injury prevention. It will be aligned with the key priorities of the Huakina Te Rā enterprise strategy, particularly 'drive an injury prevention culture across Aotearoa New Zealand'. The proposal will include an implementation plan through 2033 and will seek the Board's endorsement in the second half of 2024/25. More details on the four key priorities of Huakina Te Rā can be found in the '*Future risks and opportunities*' section.

The strategic approach will aim to increase the impact and scale of the injury prevention portfolio through four key focus areas:

- Improving the equity of prevention outcomes
- Reducing the incidence and severity of high-impact injuries
- Mitigating the risk of reinjury and subsequent injuries
- Strengthening protective factors that mitigate the structural and societal drivers of harm.

It intends to do this by strengthening ACC's use of data and evidence, governance practices, and performance measurement. It will also rely on collaboration, partnerships, and system influence to deliver its intentions. In addition, it will look at tailoring injury prevention to clients and incorporating it into their rehabilitation.

The '*Recommendations*' section outlines the aspects we believe it is important for the new approach to focus on to have a significant positive impact on financial condition.

7. Future risks and opportunities

7. Future risks and opportunities

About this section

- This section discusses further opportunities and risks relevant to the financial condition of the Scheme.
- These opportunities and risks are in addition to those discussed in previous sections.
- It focuses on those opportunities and risks that are significant enough to have a material potential impact on the future sustainability of the Scheme.
- Some of the opportunities and risks discussed will have an impact in the shorter term (the next few years), while the impact of others will be felt longer term.

Key messages

1. ACC has identified four key priorities as part of its 2024/25 Enterprise Plan for Huakina Te Rā.
2. Future pay equity claims across the health system could result in significant cost pressures.
3. Expansion of Scheme boundaries presents a risk to financial sustainability.
4. The Royal Commission of Inquiry into Abuse in Care may also have a financial impact on the Scheme, but it's too early to say.
5. An ageing population, mental health conditions, and other co-morbidities can affect rehabilitation and shifts in these factors might, over time, have an impact on claim performance.
6. The impacts of climate change on the Scheme are uncertain.
7. ACC doesn't need reinsurance at this time.

Key concepts

Huakina Te Rā | Scheme Boundaries | Climate Change

ACC has identified four key priorities as part of its 2024/25 Enterprise Plan for Huakina Te Rā

In July 2023, ACC launched its new enterprise strategy, Huakina Te Rā.

Huakina Te Rā has three dual-framed strategic goals that ACC aims to achieve by 2033/34:

- Mana Taurite | Equity is the dual goal for all people in Aotearoa New Zealand to experience accessible services and improved outcomes.
- Ringa Atawhai | Guardianship is the dual goal for the Scheme to be sustainable for present and future generations.
- Oranga Whānau | Safe and Resilient Communities is ACC's dual goal to partner and invest to help create safer and more resilient communities.

Over the course of 2023/24, ACC has identified four key priorities to inform the development of a prioritised work programme — the 2024/25 Enterprise Plan. These priorities are:

- **Improve rehabilitation performance.** Drive better client outcomes across the rehabilitation system using data, evidence, and insights to deliver excellent case management, agreed pathways of care, and effective commissioning for outcomes.
- **Improve Scheme access and experience for Māori and identified population groups.** Understand and remove access barriers as a foundation to achieving Mana Taurite I Equity. Improve experience of the rehabilitation system in a way that works for ACC's communities.
- **Drive an injury prevention culture across Aotearoa New Zealand.** Leverage insights and influence to reduce the incidence and impact of injury, including how ACC contracts with providers, delivers for clients, and partners with other agencies and communities.
- **Deliver an efficient, capable, and resilient organisation.** Activate and enable our people to achieve an efficient, effective, and resilient ACC, and protect the long-term sustainability of the Scheme, including strengthening the controls environment.

A number of initiatives contributing to each of these strategic priorities are currently underway, including:

- Develop a Rehabilitation Investment Plan (elements of which are discussed further in the '*Claim performance*' section).
- Progress the Mana Taurite | Equity Action Plan (discussed further in the '*Recommendations*' section).
- Develop an Injury Prevention 10-year Strategic Plan (discussed further in the '*Injury prevention*' section).

As with any strategy, the success of Huakina Te Rā will depend on the degree to which ACC can translate intent into reality by navigating trade-offs and best using its scarce resources. Sufficient focus is required on each of the key priorities to achieve all of ACC's strategic goals.

From a financial sustainability perspective, we believe it's important that ACC focuses on:

- evidence-based initiatives that enhance Scheme access, experience, and outcomes in a way that improves, or at least minimises, the impact on Scheme sustainability
- regularly measuring and reviewing progress, and being willing to disinvest from or change approaches to initiatives that aren't performing well
- ensuring major decisions are informed by modelling and analysis that estimates the impact that different strategic approaches may have on Scheme sustainability.

Future pay equity claims across the health system could result in significant cost pressures

The OCL covers projected future costs for health system workers supporting ACC clients, including those who provide care for both our seriously injured and non-seriously injured clients. At the time of writing, a potentially significant pay equity claim for care workers is still under negotiation with a representative group of employers. This could result in a substantial increase to carer pay rates and claims costs with an associated significant increase in non-influenceable OCL strain. The Government is due to receive advice on progress and cost estimates on the pay equity claim by 31 October 2024.

If future pay rate increases for other health care professionals are beyond current expectations, there could be further non-influenceable OCL strain.

Expansion of Scheme boundaries presents a risk to financial sustainability

Scheme boundaries is a term that describes the overall coverage provided by the Scheme. The boundaries of the Scheme expand when the Scheme coverage is changed to include an injury, condition or group of people that weren't previously covered.

Expanding coverage can be of benefit to New Zealanders by providing support to those who weren't previously eligible to receive it. However, this does incur additional costs that are ultimately borne by levy payers and taxpayers. When there's a significant unfunded expansion of Scheme boundaries it can impact on the Scheme's long-term financial sustainability.

Scheme boundaries can't be expanded by judicial review. However, when a judge's interpretation of the existing law differs from ACC's current application it can have the effect of extending cover and entitlements to a wider group of people.

Last year, we reported there were three cases before the courts which, depending on their ruling, could have had a material impact on the Scheme's financial condition. ACC's appeals in two of these cases, AZ and TN, were dismissed by the Court of Appeal in December 2023. Both of these cases primarily impact the non-levied Accounts, and therefore the Government/taxpayers will need to fund the impact of these decisions.

AZ relates to ACC covering missed diagnoses of non-treatable foetal conditions detectable through antenatal screening. Only a handful of additional claims are anticipated each year due to this decision. A $41 million provision (excluding risk margin) is being held within the OCL to cover the expected future claim costs of these claims.

TN relates to claimants who obtain cover for a mental injury arising from sexual abuse. The Court of Appeal decision clarified that the date of mental injury, rather than the date of first treatment, should be used to determine if a claimant is a potential earner under section 6 of the Accident Compensation Act 2001. The decision means a liability must now be held for incurred but not reported (IBNR) claims from the date of the mental injury, rather than from the date of first treatment, for potential claims for abuse happening as a child. The decision also means that many more claimants whose abuse happened as a child are likely to be eligible for loss of potential earnings backdated to their date of mental injury. A $3,143 million provision (excluding risk margin) is being held within the OCL to cover the expected incurred claim costs for this decision, most of which relates to the IBNR liability. ACC is working through how to operationalise this decision.

One further legal case, D, remains outstanding and relates to mental injuries that arise out of a physical injury. In May 2024, ACC's Board agreed to take this case to the Court of Appeal. The appeal is scheduled to be heard in May 2025. A judgement can usually be expected within three months of the hearing. Given the uncertainty around this case, and the fact that ACC has appealed this decision, it is being treated as a contingent liability with no explicit value.

The Royal Commission of Inquiry into Abuse in Care may also have a financial impact on the Scheme, but it is too early to determine

In addition to the three cases mentioned above, the Royal Commission of Inquiry into Abuse in Care has the potential to affect ACC. In July 2024, the final report of the inquiry was presented to Parliament and released to the public. The Royal Commission investigated what happened to tamariki (children), rangatahi (young people), and adults in State and faith-based care in Aotearoa New Zealand between 1950 and 1999.

ACC is working closely with MBIE and the Crown Response Unit to review the Royal Commission's recommendations. This process may take some time and will require collaboration across government given the recommendations cross over the work of several agencies. It is too soon to determine the potential impact of this inquiry on the Scheme's financial condition, but it could be significant given the Scheme's coverage of sensitive claims.

An ageing population, mental health conditions, and other co-morbidities can affect rehabilitation, and shifts in these factors might have an impact on claim performance over time

The New Zealand population is expected to grow by 0.8% per year over the next decade. The population of those aged 65 and over is expected to grow much faster at 2.8% per year. The overall proportion of the population aged 65 and over is expected to increase from 17% to 21% by 2034. Conversely, the population aged under 20 is expected to reduce by around 0.3% per year over the next decade. The overall proportion of the population aged under 20 is expected to decline from 25% to 22% by 2034.

This shift in population is likely to have an impact on the volume, types, and costs of claims ACC receives each year, as well as the type and size of the population funding these claims. This will be a gradual change over time and is likely to impact each Account differently.

Similarly, mental health and other co-morbidities can have a gradual impact on Scheme sustainability by complicating recovery. Research commissioned by ACC in 2022 found that clients with serious mental health needs cost ACC 40% more than other clients, particularly through a greater likelihood to remain on weekly compensation for longer. However, while there's some evidence of an increase in the proportion of claims with mental health conditions, this doesn't explain deteriorating ACC performance to any significant degree.

There's value in ACC deepening it's understanding of how mental health conditions and other co-morbidities influence recovery, as well as the impacts of shifting population demographics. This, however, should be part of wider efforts to understand and respond to all the major factors contributing to declining claim performance.

The impacts of climate change on the Scheme are uncertain

There's considerable evidence of the serious and immediate health impacts that climate change will have for New Zealanders. This includes direct effects of increased heat and exposure to extreme weather events, indirect effects of increased exposure to microbial contamination, particulate air pollutants, and carriers of new diseases, and potential disruption to health services.

However, there's little research about the impacts of climate change on accidents and injuries. This means that estimating financial impacts for ACC is difficult. We're not yet making any explicit allowance for these impacts in our projections.

Examples of areas where ACC may see changes in the frequency and severity of claims are:

- claims associated with activities that may be impacted by climate change (for example, driving and recreation or sporting activities)
- increased violence claims due to the potential impact that increased temperatures may have on human behaviour

- potential increases in the number of drownings or water-related claims due to rising temperatures and sea levels
- increased claims from flooding events and wildfires.

It's also possible that the impacts of climate change result in the incidence of some types of injuries decreasing (for example, injuries associated with winter snow sports).

At present, the biggest risk of increasing claim costs due to climate change is likely to be the secondary impact of a demand surge on the health system. This will likely result in an increase in general health-related costs, which would impact the cost and availability of services funded or contracted by ACC.

Climate change may also have an impact on ACC's investment portfolio, which is discussed in more detail in ACC's Annual Report and climate disclosures.

As society adjusts to the effects of climate change there will be impacts on the Scheme. The scale and severity of these impacts are, however, difficult to predict. The nature of the Scheme means there's little global research that can be used when assessing the potential impact of climate change. New Zealand's unique climate, topography, and industry mix means the use of future global research may also be limited. Careful interpretation would be needed before it can be considered appropriate for use in New Zealand.

ACC made its first climate disclosure under the Aotearoa New Zealand Climate Standards (NZCS) in 2023/24. The NZCS was issued by the External Reporting Board (XRB) and is mandatory for certain financial market participants covered by the Financial Markets Conduct (FMC) Act.

While the FMC Act does not apply to ACC, Cabinet has decided that all Crown funds with greater than $1 billion in total assets under management are to comply with the new framework. The disclosure covers details of climate-related risks and opportunities that climate change presents on ACC's operations. ACC's climate disclosure capability will be developed over three years of reporting cycles from 2023/24.

Overall, we currently believe that the future risks posed by climate change to ACC's financial condition are likely to be in the same order of magnitude as other financial risks, such as the impact of economic movements and declining claim performance.

ACC doesn't need reinsurance at this time

Reinsurance can be used as a means of protecting insurers from large claim risks. Based on the findings in 2021/22 of a scenario analysis we undertook considering the financial impacts of various catastrophic events, ACC's Board agreed that the Scheme doesn't require reinsurance at this time.

ACC maintains a significant balance sheet as part of its obligation to maintain funds to pay for the lifetime costs of claims that have already occurred. As a result, ACC is well placed to cope with significant and unexpected events, resulting in accident or injury (potentially to significant numbers of people) without requiring reinsurance. In the short term, any reasonably foreseeable call on funding could be met and the resulting deficit could be reduced over time through increased levies and appropriations, in line with the government funding policies. Unless there's a significant change in Scheme circumstances, the need for reinsurance should be reviewed again in 2026/27.

8. Recommendations

8. Recommendations

About this section

- Each year we recommend actions ACC can take to improve its financial condition and enhance Scheme sustainability and fairness.
- The Scheme's long-term nature means recommendations may take several years to resolve.
- Recommendations from prior years can be carried over to future reports, depending on how much progress has been made to address them.
- In the 2023 Financial Condition Report one recommendation was closed (measuring customer outcomes), one was significantly updated (injury prevention), and limited updates were made to the other three (Māori access, outcomes, and experience, sensitive claims insights and outcomes, and longer-term claim performance). As of last year's report, there were four active recommendations.

Key messages

1. This year we have closed no recommendations and made no new ones, so the four active recommendations from last year remain open.
2. For each recommendation we detail the progress made over the 2023/24 year and have noted what we would need to see before the recommendation could be closed.

Key concepts

Financial Condition Report recommendation

The injury prevention recommendation is being progressed, albeit slowly

Recommendation	2023/24 progress highlights

We recommend that ACC's injury prevention activities are guided by a detailed implementation strategy that:
 	
• sets out clear milestones for how ACC's strategic injury prevention targets will be achieved over time
• sets out accountabilities and responsibilities across ACC to ensure the importance of injury prevention as a lever for financial sustainability is recognised and managed
• includes approaches to ensure current and historic performance issues are appropriately managed
• strengthens investment logic, monitoring, and evaluation frameworks so that changes can be made at the right time if a programme seems to be going off track, or if the environment changes.
	• ACC has continued with the development of a revised strategic approach to guide its injury prevention investment activity.
	• This work is expected to involve investing in fewer, high-impact initiatives supported by a clear evidence base, and ACC playing a stronger advocacy role with its partners. ACC's new strategic approach is also expected to involve shifting from its current tactical programme investment approach to a broader systems model of injury prevention, delivered at scale.
	• The revised strategic approach, rebranded as ACC's business strategy for preventing and mitigating the impact of injuries, was presented to the Board on 28 August 2024.
	• ACC is working through the following initiatives in response to feedback from the Board. These are expected to be completed during the 2024/25 year:
	  ◦ a detailed implementation plan on how ACC will achieve the 5% reduction in new year costs by 2040 set out in the Strategy; and
	  ◦ a baseline review to understand current injury prevention spending and the extent to which it is aligned to the new strategic approach; and
	  ◦ designing a set of measures to quantify the impact of investments and their scalability.

Commentary

Our injury prevention recommendation that was first made in 2015 was significantly updated in 2023 to focus on the development of a detailed injury prevention implementation strategy.

There have been delays in the development of ACC's new strategic approach to injury prevention, meaning it was not completed in the 2023/24 financial year. The three initiatives from the Board outlined above should help ACC understand the effectiveness of current and future injury prevention programmes, their scalability in support of the broader injury prevention strategy and how these programmes will contribute to achieving the strategy. Given the positive impact that injury prevention can have on ACC's financial condition, we believe it's important for the momentum in this area to be maintained.

We also believe that injury prevention requires a whole-of-ACC approach. The responsibility for reaching an ambitious injury prevention target cannot sit in only one function, but instead needs to be shared across the organisation.

To have a positive significant impact on financial condition (and in order to close this recommendation), we believe that it's important that the new strategic approach:

- Sets clear targets over time for the reduction in new year costs that injury prevention should deliver. This should include a final target, as well as time-bound milestone targets. These targets should include a cost benefit measure such as ROI.
- Explores different options for how both scale and performance may increase to deliver the desired reduction in new year costs.
- Improves the portfolio's benefit realisation profile by reducing the current timing disparity between investment made and benefits realised. This shouldn't be through deprioritising long-term investments. Instead, the focus should be on limiting where full funding is committed before significant benefits are delivered.
- Strengthens investment logic, monitoring, and evaluation frameworks so that changes or disinvestment can be made at the right time if a programme seems to be going off track, or if the environment changes.
- Includes consideration of how to avoid the risk of concentrating the bulk of benefits in a small number of programmes.

Sufficient progress would need to be made for this recommendation to be closed — or at least refocused — in 2025.

The Māori access, outcomes, and experience recommendation is being progressed

Recommendation	2023/24 progress highlights

We recommend that ACC improve Māori access, outcomes, and experience by:
• developing an evidence base about where there are unfair or avoidable differences in injury risk and Scheme access, outcomes, and experience for Māori
• clearly demonstrating how the work ACC's doing will result in improved access, outcomes, and experience for Māori, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term (including Māori).
	• ACC's Mana Taurite Equity Action Plan under its dual-framed Huakina Te Rā strategy was approved by the Mana Taurite | Equity Committee in February 2024. The action plan focuses on systemic change and details the expected timeframes for initiatives planned under four workstreams. For financial condition, the most significant of these initiatives are:
	  ◦ Confirm core outcome measures. ACC has developed a set of Māori outcome measures under Te Kāpehu Whetū (ACC's Māori outcomes framework). The measures were developed collaboratively and are expected to guide ACC's initiatives and decisions that aim to improve Scheme access and experience for Māori. The measures were endorsed by the Executive team in July 2024.
	  ◦ Design and implement an equity data road map. A group was previously established to address data quality issues, including ethnicity classifications identified by the Māori Data Working Group. This group also educates users on the correct use of data and continues to work on determining and verifying data quality issues.
	• The utilisation of Rongoā Māori[17] services continues to grow, with 11,400 kiritaki (clients) having been supported by the service since June 2020. In the Quarter 4 Managed Client Survey, 87% of kiritaki said the Rongoā Māori service helped them to achieve their recovery goals and rehabilitation outcomes. ACC has commissioned an external researcher to produce a report on the outcomes experienced following injury by kiritaki who have received rongoā services. The final report will be delivered in November 2024.

[17] Rongoā Māori is the traditional healing system used in te ao Māori. Rongoā services comprise many different techniques including — but not limited to — mirimiri (bodywork), rākau rongoā (native flora herbal preparations), whitiwhiti kōrero (support and advice) and karakia (prayer).

Commentary

ACC has progressed several initiatives over the past year focused on improving access, outcomes, and experience for whānau Māori.

The passing of the Accident Compensation (Access Reporting and Other Matters) Amendment Act 2023 means ACC has new obligations to report annually on levels of access to the Scheme for injured Māori and other people in identified population groups. Legislation outlines the minimum requirements for analysis that must be reported within these annual Scheme access reports, to be staged over the first three reports. Work is progressing on the first report for the 2024 financial year, due to be finalised in December.

The proposed set of Māori outcome measures for Te Kāpehu Whetū look promising, with a wide range of measures included. However, clarity will be required when assessing what outcomes are 'equitable' in relation to these measures, as differences in geographical, age, and work profiles may skew direct comparisons between ethnicity populations.

ACC also needs to understand the historical and ongoing limitations of its ethnicity data and how that might impact any baseline measures and targets that are set, and how these are monitored over time. There is some work underway within the Standards Advisory Group on the determination and verification of data quality issues identified.

There has been good progress over the year with the development of the Mana Taurite Equity Action Plan, the development of a set of Māori outcome measures, and research into how rongoā services are impacting kiritaki outcomes. While the recommendation won't be closed this year, we may be able to close it in 2025 with continued focus in this space.

To close this recommendation, we would expect to see the implementation of, and regular monitoring against, the outcomes framework, with clearly defined baselines and targets. We would also want to see analysis of the sustainability and cost-effectiveness of initiatives where appropriate. For example, if earlier access to services improves long-term rehabilitation or reduces re-injury.

It is important to note that not all initiatives will be expected to provide a financial benefit for the Scheme. Some will instead be designed to reduce access barriers or reduce historical health inequities, which may increase overall Scheme costs but are still important under ACC's commitment to Te Tiriti o Waitangi. While cost shouldn't necessarily be a barrier in these situations, ACC needs to be clear as to the purpose and expected outcomes from each initiative.

The sensitive claims outcomes and insights recommendation is being progressed

Recommendation	2023/24 progress highlights
We recommend that ACC's work on sensitive claims: • improves ACC's understanding of the people suffering sexual abuse or assault in the community, including what their injury and claim patterns might mean for how services are delivered and funded, now and in the future • ensures services can be shown to deliver the right client outcomes, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term.	The detailed design for the new Sensitive Claims Service contract was completed over the year after significant consultation with providers, stakeholders, and business units from across the organisation. Procurement for this contract was released to the market in April 2024, with successful applicants notified in September 2024. The new contract will commence on 1 December 2024. • This new contract was designed to include access to a broader range of services to better suit survivors needs, ensure packages of care are time-bound so only treatment that is supporting recovery goals is continued, and provide access to more survivors. • As part of the design, consideration was also given to how the service will be monitored to make sure ACC is getting the benefits expected.

Commentary

There has been good progress on this recommendation in the past year. The design phase of the new contract included an extensive consultation with key stakeholders, such as providers, client advocates, professional bodies and government agencies, to gather feedback and address key challenges.

The contract also includes new features, such as the level of assessment linked to the client's needs, and time-bound packages of care with fixed review points. The intention is that clients will receive the care and support that is appropriate to their need, which should help support the financial sustainability of the Scheme.

We believe the nature of sensitive claims, where it can take survivors many years to come forward and make a claim, means that it's crucial to maintain a focus on Scheme financial sustainability. This is to ensure those experiencing sexual assault or abuse today will benefit from a robust Sensitive Claims Service when they decide to come forward in the future.

As work in this area progresses, we will be looking for evidence to demonstrate the effectiveness and efficiency of services under the new Sensitive Claims Service contract. We will also be looking to see how plans to appropriately collect and use insight gathered through the new contract inform future delivery of this service. This will become particularly important given the likely increased sensitive claims volumes that will follow the recent legal judgment and the Royal Commission of Inquiry into Abuse in Care's report.

This recommendation is currently on track to be closed in 2025, providing:

- the proposed monitoring framework is successfully implemented and tracks relevant outcomes from a financial condition perspective
- ACC has the internal capacity and delegated responsibilities set up to undertake this monitoring
- a process is in place to identify and respond when any of the measures are going off track.

The longer-term claim performance recommendation is being progressed

Recommendation	2023/24 progress highlights
We recommend ACC places appropriate focus on claims that have the potential to have the greatest long-term impact on the OCL and new year costs, such as weekly compensation and social care and capital. ACC should ensure: • the services seriously injured clients are receiving are needs-based and that effective monitoring and control frameworks are in place • that clients only enter or remain in the long-term claim pool due to complex or ongoing rehabilitation or support needs • work underway to improve rehabilitation outcomes can deliver the sustained performance improvements needed to have a positive impact on the OCL.	• ACC has several initiatives underway to target serious injury care and the LTCP. • The Support Needs Assessment Guidance Group was created to provide scrutiny of the levels of attendant and residential care received by seriously injured clients. This group makes recommendations for ensuring the right level of care is being provided, reviewing new applications for residential support services and helping transition clients back to the community where appropriate. • ACC has started to change its case management model so that earner clients in the LTCP are managed by a dedicated case manager. One aspect of this change has been the move to specialised focus teams which was completed in May 2024. • ACC has continued to build the capability of team leaders so that they can support their teams to work with complex processes and practices to support LTCP earner clients (for example, the vocational independence process).

Commentary

The OCL strain seen at the June 2024 OCL valuation is a continuation of a 10-year pattern of declining claim performance and resulting OCL strain. The result reflects areas of strain from long-term claims where claim performance is under pressure. Drivers of the strain for seriously injured clients included attendant care, residential support services, and provider travel. So these are areas where ACC can look to improve the assessment of care needs. For weekly compensation claims the key driver has been an increase in the number of claims continuing to remain on the Scheme for longer than expected, highlighting an opportunity for ACC to improve rehabilitation outcomes and return clients to work.

ACC has started to see some signs of improvement in targeted areas as a result of these initiatives, although these are too recent and at too low volumes to have had a material impact on the 30 June 2024 OCL valuation. These initiatives on their own within the existing frontline model are not enough to have a material impact on rehabilitation performance, which is continuing to deteriorate. Additional frontline capacity is being put in place to support these initiatives to stabilise performance, particularly for long-term claims.

This would include increasing the number of case managers to the level required:

- to help stabilise or improve (reduce) the number of the new entries into the LTCP, and support rehabilitation outcomes for clients already in the LTCP; and
- across Partnered Recovery (the recovery team that works with some of the most complex or sensitive injuries) to further improve case management and outcomes for seriously injured clients.

There are many initiatives underway that could help address this recommendation. However, it is also true that claim performance has been worsening for some time, and this was evident again, and to a greater degree, in 2023/24. The requirement to significantly increase frontline capacity to stabilise performance indicates the difficulty ACC faces in improving long-term claim performance.

Importantly, this capacity uplift is only intended to stabilise performance — further work is planned (and needed) to genuinely turn rehabilitation performance around. It is likely to take several months before any material performance stabilisation is seen due to how long it takes to hire and train new case managers, and a further period of time until outcomes are realised as clients progress in their rehabilitation pathways. The extra work needed, beyond stabilisation, will be even further into the future.

To close this recommendation, we will need to see demonstrable improvements made against each of its elements. As part of this, ACC needs to ensure it balances its focus on both short-term and long-term rehabilitation improvements. While short-term rehabilitation has less of an impact on the OCL, the impact on new year costs (and therefore funding requirements) can be significant. It is also essential that appropriate baselines are set to measure and monitor what each initiative is delivering against what ACC expects them to. Based on the timeframes indicated by the business, this recommendation is unlikely to be closed until the 2026 financial year at the earliest.

Glossary

Account
ACC manages five Accounts, each funded differently. Combined, these Accounts fund the costs for every claim that ACC pays.

Appropriation

Money received from the Government (from the general tax pool) to cover costs arising from the Non-Earners' Account and a portion of the Treatment Injury Account.

Claim benefits

The estimated monetary value of claims avoided through an injury prevention initiative.

Client

A person who makes a claim under the Scheme.

Customer

Anyone in New Zealand who receives or funds ACC services, including clients, levy payers, and taxpayers.

Deficit

An excess of expenditure over income.

Economic movements

Changes to economic variables (such as interest rates, inflation, and investment income) that are outside of ACC's control.

Financial condition

The financial health of the parts of the Scheme that are relevant to ACC's ability to fulfil its core role — preventing injury or rehabilitating and compensating people after injury.

Financial Condition Report recommendation

A recommendation made on how ACC can improve its financial condition.

Fully funded

A funding approach where the assets held equal the lifetime cost of claim liabilities.

Funding adjustment

An adjustment made to the levy rate or appropriation to move an Account towards its funding target.

Funding policy

A policy set by the Government that says how the levies or appropriations will be set to fund the Scheme.

Funding position

The difference between assets held and liabilities for an Account expressed as a dollar amount. If the funding position increases/decreases relative to the size (assets) of the Account, then the funding ratio will also increase/decrease and vice versa.

Funding ratio

The ratio of assets held to liabilities for an Account.

Funding target

The target funding ratio for an Account.

Huakina Te Rā

ACC's enterprise strategy launched on 1 July 2023.

Integrated Change Investment Portfolio (ICIP)

A large range of initiatives intended to improve performance and deliver better outcomes for customers.

Levied Accounts

Accounts funded by levies. The levied Accounts are the Motor Vehicle, Work, and Earners' Accounts. In addition, the portion of the Treatment Injury Account covering earners' claims is also funded by levies.

Levies/levy

The rate, per unit of exposure, that ACC charges for the Earners', Work, and Motor Vehicle Accounts. These are prescribed by the Government every three years.

New year costs

The estimated lifetime costs of new claims for injuries that occur during the year, including all the costs associated with managing those claims, allowing for expected investment returns.

New year cost gap

The difference between new year costs and the income received from levies or appropriations.

New year rate

The rate levies would need to be set at to match new year costs.

Non-levied Accounts

Accounts funded by appropriation. Currently the Non-Earners' Account and the portion of the Treatment Injury Account covering non-earners' claims.

Outstanding Claims Liability (OCL)

The expected amount of money we believe that ACC will need to pay in the future to support clients who are currently injured. The money will be paid over the time clients progress through their recovery (for example, on medical expenses and weekly compensation).

OCL release

An unexpected decrease in the OCL because ACC needs to pay less than expected to support clients.

OCL strain

An unexpected increase in the OCL because ACC needs to pay more than expected to support clients.

Pay As You Go (PAYG)

A funding approach where claims are funded as costs arise.

Payment type

Types of payment ACC makes to provide compensation and rehabilitation to clients.

Rehabilitation rates

How long people on the Scheme take to recover from their injuries and return to health and independence.

Return on investment (ROI)

The ratio of claim benefits to investments. The higher claim benefits are compared to investments, the higher the ROI.

Risk margin

A margin added to the central estimate of claims to allow for uncertainty in the estimate of the OCL. This is required under accounting standards.

Scheme

The Accident Compensation Scheme, comprising the Motor Vehicle, Work, Earners', Treatment Injury, and Non-Earners' Accounts.

Scheme fairness

The degree to which the Scheme has equity of access, outcomes, and experience, and is also fair to future generations.

Scheme sustainability

The degree to which the Scheme can fulfil its purpose, withstands shocks, and endure for future generations.

Serious injury

An injury of a specified severity and/or complexity level that leaves a person impaired and requiring support, such as home or nursing care to various levels, often throughout their lives.

Surplus

An excess of income over expenditure.

Underwriting result

The difference between income (levies and appropriations) received and the cost of claims incurred during a year (including expenses paid). It excludes investment income and costs, as well as the economic impacts from interest rates and inflation.

Unexpired risk liability

A provision for claims ACC can expect to incur after the end of the financial year that are funded by levies already received.

Appendices

Appendix A – Additional background information

ACC has a clear governance structure

As a Crown entity, ACC has a Board appointed by the Minister for ACC. The Board delegates day-to-day management and leadership to the Chief Executive. Each year the Minister and the Board agree on performance targets, which shape ACC's priorities and its work.

The Ministry of Business, Innovation and Employment (MBIE) oversees ACC policy around cover, entitlements and funding, and the New Zealand Treasury monitors performance and Board appointments for the Minister. ACC is responsible for service delivery and is accountable through the Board to the Minister.

ACC's corporate structure and strategic objectives influence its choices, including where it focuses investment. Key strategic documents include:

- Enterprise Strategy
- Statement of Intent
- Service Agreement
- Letter of Expectations (from the Minister for ACC).

ACC manages five Accounts

ACC manages five Accounts, each funded differently. Combined, these Accounts fund the costs for every claim that ACC pays.

Each of the Accounts has a different exposure and funding base. Exposure is the number of people or motor vehicles that could be involved in an event resulting in a claim. The funding base refers to those required to pay levies and appropriations. Although the two are usually linked, they're not necessarily the same.

Exposure

The number and mix of people in New Zealand and the activities in which they participate can change. This can affect the volume and types of injury occurring and the subsequent claims made to ACC.

For example, the volume and types of claims that ACC receives can be affected by changes in:

- net migration (both volumes and demographics)
- the types of work New Zealanders do
- attitudes to working part time and working past the age of retirement
- the vehicle types driven on the roads
- the way people choose to spend their leisure time.

Changing economic conditions can influence these factors. When economic conditions change, the activities in which people participate and their attitudes to making claims can also change.

We use exposure to estimate how many claims ACC might receive in the future. As it's not possible to estimate exposure based on every New Zealander's activities and lifestyle, we estimate it using readily available and reliable information.

Funding base

New Zealand levy payers and taxpayers fund ACC in different ways for each Account. For each of the levied Accounts (the Motor Vehicle, Work, and Earners' Accounts) we calculate the levy using a 'levy base' that's linked to the way of collecting funds.

ACC uses external estimates and forecasts to quantify the levy base. Often changes in levy bases will also be reflected in changes in the volume and types of claims made, but these are not always fully aligned.

Levies and appropriations are set in advance, based on the expected claim volumes, types, and costs, and (for the levied Accounts) the levy base. There can be differences in the timing of when changes are reflected in claims and the levy base. When these timings change unexpectedly, the funding collected can be different from what's needed, affecting ACC's financial condition.

Below we outline the coverage, exposure, and funding bases for each of the five Accounts[18].

Motor Vehicle Account

Includes all injuries from accidents involving a motor vehicle on a public road.

Exposure is calculated as the estimated number of vehicles on the road based on Waka Kotahi NZ Transport Agency's historical levels of vehicle registrations. This data is also used to forecast future registrations. The estimated number of vehicles on the road includes rental vehicles that tourists may use to travel around New Zealand.

The funding base uses the number of vehicle registrations and the level of petrol consumption in New Zealand. We use the historical level of petrol consumption supplied by MBIE to project future consumption. Levies are paid alongside the registration of vehicles and a petrol levy is collected as oil enters the country.

Work Account

Includes all work or work-related injuries.

Exposure is calculated as the number of people working and earning in New Zealand. This number is estimated from the labour force of New Zealand less those who are unemployed. Quarterly estimates for both the labour force and the number unemployed come from the Treasury's budget releases. People working for employers in the Accredited Employers Programme (AEP) or not working while receiving weekly compensation are not included in the Work Account exposure.

The funding base uses total liable earnings paid to the earner population as described above.

The liable earnings are limited to a specified maximum amount each year and in 2023/24 this was $139,384. Every month, Inland Revenue sends information to ACC on the earnings of New Zealand workers. Future liable earnings are estimated using average weekly earnings inflation, which is linked to the Consumer Price Index (CPI) from Treasury forecasts.

Earners' Account

Includes all claims made by people working and earning for injuries that happen during everyday activities, such as sports and leisure, and sensitive claims caused by sexual violence. Excludes those claims that fall within the Motor, Work or Treatment Injury Accounts.

This is the number of people working and earning in New Zealand, estimated as the Work Account exposure, but includes people working for employers in the AEP and those receiving weekly compensation. We call this population the Earners' Account population or the earner population.

The funding base is the same as that used in the Work Account, but includes liable earnings paid to those employed by Accredited Employers (AEs) and weekly compensation paid to ACC's clients.

Treatment Injury Account

Includes injuries occurring when receiving treatment from a registered health professional.

The exposure for this Account covers the whole New Zealand population. It's split between the earner population and the non-earner population.

The funding base for this Account is split between treatment injury claims for earners and those for non-earners. Funding for earner claims (the levied portion) uses the same liable earnings as the Earners' Account to determine the levy rate. Funding for non-earner claims (the non-levied portion) forms part of the appropriation funded annually by the Government.

[18] The Accounts haven't always been as neatly defined as this because of changes over time. In particular, the Work Account includes all injuries to earners, whether at work or not, that happened before 1 July 1992.

Non-Earners' Account

Includes all injuries to people not working, excluding those covered by the Motor Vehicle or Treatment Injury Account.

The non-working New Zealand population is estimated from the Treasury's total population less the Earners' Account population. Non-working tourists are included in the population. We call this population the Non-Earners' Account population or the non-earner population.

ACC receives an annual appropriation from the Government, which comes from the general tax pool.

The Government sets ACC's funding policies

The funding needed for each Account is calculated in line with the government funding policies. There are two funding policies: one for the levied Accounts and one for the Non-Earners' Account.

The government funding policy for the levied Accounts is in a statement gazetted in April 2021 (Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts - 2021-go1226 - New Zealand Gazette).

The Government last updated the Non-Earners' Account funding policy in 2019/20, shown in Table 17.

Table 17: Non-Earners' Account funding policy from 2019/2020

Pre-1 July 2001 claims	Post-1 July 2001 claims
• Pay As You Go basis • One-year funding horizon • Funding position target of 0%	• Fully funded basis • Costs are discounted using investment forecasts • Funding position target of assets at 100% of liabilities, excluding risk margin • Three-year funding horizon when the Account is above its funding target • Ten-year funding horizon when the Account is below its funding target
Annual increases in the appropriation are capped at 7.5%.	

Each of ACC's five Accounts has a target funding position set through its funding policy. For all Accounts this is currently 100%[19]. If a fund is at target, it means we're estimating that sufficient funds are being held to cover the remaining expected amount of money we believe that ACC will need to pay in the future to support clients who are currently injured (the OCL).

We expect each Account to have volatility around the target given the nature of the Scheme. However, if Accounts remain significantly underfunded for too long, it can become difficult to bring them back to target. This could lead to problems with intergenerational equity as the Scheme moves away from the principles of full funding[20].

The components of funding

There are two main components to the funding calculations. First, the **new year costs** represent the lifetime costs of ACC rehabilitating and supporting people injured during the year. New year costs are estimated by forecasting:

- economic conditions
- claim frequency and severity
- expenses
- exposure.

Secondly, a **funding adjustment** is applied to ensure there's enough money to also pay for the expected ongoing costs of past claims, while not over-collecting funds.

The funding adjustment is calculated so that each Account is forecast to move towards the funding target set by the funding policies over time.

Once these two components are estimated, further adjustments can be made on any annual increase in the recommended levy or appropriation. Increases are capped at 5%[21] for the levied Accounts and 7.5% for the non-levied Accounts. There is no limit applied if the recommended levy or appropriation is a decrease.

ACC consults businesses, communities, and individuals on recommended levies and provides explanations of the drivers and assumptions behind them every three years. The Board then reviews the feedback and recommends levy rates to the Minister for ACC. The final levy rates are set by Cabinet. The proposed levy rates for 2025/26, 2026/27 and 2027/28, along with proposed levy system changes to the Motor Vehicle and Work Accounts, are currently in progress.

Levies from motorcycle owners cover only about 28% of the cost of injuries involving motorcycles, with the remaining 72% cross-subsidised by other vehicle type owners. The proposed changes to the Motor Vehicle Account primarily focus on motorcycles and aim to better align risk. These changes include:

- Increasing the motorcycle owner's levy contribution to the cost of injuries from accidents involving motorcycles.
- Changing the classification of motorcycles for levying purposes.
- Reducing levies by 25% for motorcycle riders who complete advanced rider safety training.
- Reclassification of battery electric vehicles (BEVs) and plug-in hybrid vehicles (PHEVs) to impose levies on owners that accurately reflect their risk exposure.

The proposed changes to the Work Account include:

- Changes to classification units (CUs) and levy risk groups (LRGs).
- Changes to the interest charged on payment plans, penalty interest, and credit interest.

The final decisions of the 2024 levy consultation will be approved by Cabinet in before the end of 2024.

ACC doesn't consult the public on the recommended appropriations. The final appropriation is jointly approved by the Minister of Finance and the Minister for ACC through the annual October Baseline Update.

19 Except for claims which occurred pre-2001 in the Non-Earners' Account and non-levied portion of the Treatment Injury Account, which are funded on a PAYG basis.

20 Full funding means the assets held to cover estimated claim liabilities are equal to those liabilities.

ACC offers products to some customers

In certain circumstances, ACC offers variations to standard cover and pricing (levies) and calls these 'products'. Some products are compulsory for specific groups of people, while others are optional.

The Work Account offers two products: the AEP and CoverPlus Extra (CPX). Businesses that do not have these products will have their levies adjusted through either Experience Rating or No Claim Discounts, depending on the amount of levies they pay. The Motor Vehicle Account offers one product — the Fleet Saver Discount. No products are offered in the Earners' Account, the Non-Earners' Account or the Treatment Injury Account. Recent changes and those proposed in the 2024 levy consultation to products in the Work and Motor Vehicle Accounts are discussed below.

The purpose of these products is to provide eligible customers with incentives to improve claim management and to promote injury prevention and effective rehabilitation. In return, their levies are adjusted to reflect their claim histories or the levels of risk they're assuming.

Levy product enhancements requiring regulatory change can only be introduced after approval has been given by Cabinet following appropriate public consultation.

To ensure adequate levies are charged, as we do every three years, we reviewed the levies for these products for the 2024 levy consultation.

Accredited Employers Programme

Large employers (those who pay annual Work levies of over $250,000) may be eligible for the AEP. Employers must apply to ACC to be part of the programme and must demonstrate a commitment to injury prevention and rehabilitation, have experience in workplace health and safety, and be able to finance claims.

Members of the AEP represent 19% of total liable earnings and 14% of the workforce. Under the programme AEs have the authority to make entitlement decisions and deliver injury prevention, rehabilitation, and claim management for specified periods. In return, the AEs receive reductions in their Work Account levies.

Recent changes to AEP focus on the following four areas:

- Improving claims and injury management assessment.
- Introducing a new performance monitoring model.
- Implementing new health and safety assessment requirements.
- Introducing additional pricing options for AEs on the Partnership Discount Plan.

These changes will take effect from 1 April 2025, with a one-year notice period, allowing accredited employers and ACC time to prepare and adapt their processes and systems.

The AEP has two plans: Full Self Cover Plan and Partnership Discount Plan (PDP).

Full Self Cover Plan

Around 71% of all AEs have the Full Self Cover Plan. This means that each AE is solely responsible for the lifetime costs of any injuries incurred at work by their employees during a cover year. They also manage the provision and payment of treatments, rehabilitation services, and compensation during their selected claim-management period of two to four years. At the end of this period the AE pays ACC an amount equal to the estimated remaining lifetime costs of all open claims. Claims that are notified or re-opened after the end of the claim-management period are not included in the claim hand-back calculations. Payments on these claims are invoiced to the AE as they emerge.

ACC charges the AEs for the services they incur and that is lower than the standard Work Account levy. The average levy for AEs on the Full Self Cover Plan is around 10% of the standard Work Account levy in 2024/25.

[21] The Motor Vehicle Account is capped at 5% plus inflation.

Partnership Discount Plan

The remaining 29% of AEs are on the PDP. Each employer could select a claim-management period of one or two years until 1 April 2025. Since then, employers can also choose a three- or four-year claim-management period. For the duration of this period, they are responsible for the cost of injuries incurred at work by their employees during that cover year. After that the claims are handed back to ACC to be managed and paid.

The average levy for AEs on the PDP is between 40% and 50%, of the standard Work Account levy, depending on the durations they select to manage claims.

CoverPlus Extra (CPX)

CPX is an optional cover product that allows self-employed workers to choose how much of their income will be covered if they have an injury and can't work. The level of compensation paid, and the levy charged, vary according to the cover amount.

CPX provides self-employed workers with certainty on the amounts they pay and the benefits they receive. The weekly compensation amounts are the same regardless of where they injure themselves — whether it's at work, on the road or anywhere else. This is particularly beneficial for people with volatile incomes.

There are two options for CPX cover:

1. **Full compensation.** Under this option ACC pays 100% of the agreed compensation until the client gets back to full-time work. This option incurs additional costs for providing the client with 100% weekly compensation while they're unable to work full-time, rather than reducing the weekly compensation for a partial return to work.
2. **Lower levels of weekly compensation.** Under this option the level of compensation paid reduces as the client gradually returns to work. No amount is paid once the client can substantially do their pre-injury work. This is the same as the standard weekly compensation ACC offers to non-CPX customers.

Experience rating and No Claims Discount

Businesses in operation for at least three years are either experience rated or qualify for the No Claims Discount adjustment. This applies to all non-AEP businesses. The category into which a business falls is determined by the levy amount paid in the previous three years.

Businesses that pay more than $10,000 in levies each year are experience rated. The Work Account levy may be increased by up to 100% or decreased by up to 50%. The experience ratings are determined by considering the businesses' previous three-year claim history and three-and-a-half-year payment period for work-related injuries and takes into account:

- the number of weekly compensation days paid to employees
- the number of claims for employees with medical costs over $500
- any accidental death claims.

Businesses that pay less than $10,000 in levies each year and all self-employed workers come under the No Claims Discount assessment. Businesses may pay an adjusted levy based on their previous three-year claim history and a three-and-a-half-year payment period for work-related injuries, allowing for the following:

- Those that have had no weekly compensation days paid. and no accidental death claims receive a 10% discount.
- Businesses with more than 70 weekly compensation days paid or with any accidental death claims get a 10% loading.
- All other businesses pay the standard Work Account levy for their classification units.

Neither programme pays for itself. The value of the loadings charged on experience rating and No Claims Discount is around $60 million less than the amount paid in reductions due to participating in these programmes. Consequently, businesses outside the experience rating and No Claims Discount programmes are currently paying around 6% higher in levies to cross-subsidise the cost of claims from businesses within them.

The 2024 levy consultation proposed changes in the experience rating and No Claims Discount programmes to make the levy system more effective. The proposed changes include:

- removing the No Claims Discount programme because it has not improved workplace safety through fewer injuries
- reducing the level of cross-subsidisation for experience rating
- an increase in the threshold for medical fees from $500 to $750.

Fleet Saver

The Motor Vehicle Account has an optional Fleet Saver incentive programme designed to improve the safety performance of commercial vehicle fleets.

Businesses with five or more vehicles weighing more than 3,500 kg, and that demonstrate strong safety-management practices, are eligible for the programme. In return, they can reduce the ACC portion of their vehicle licensing fees. There are around 110,000 motor vehicles that weigh more than 3,500 kg.

There are three levels of accreditation, depending on levels of on-road and workplace safety practices. The discounts available reflect the accreditation levels: Bronze Fleet Saver members receive a 10% reduction in levies, silver a 25% discount, and gold a 40% discount.

The 2024 levy consultation proposed removing the Fleet Saver product because it has not effectively reduced the risk of injury in the transport industry. This is likely because of the limited participation, with only 35 active members contributing to 6.7% of the total heavy vehicles, and the programme being based only on audits.

Claims are paid across several services

Table 18 summarises the main payments the Scheme makes to rehabilitate and compensate people with covered personal injuries.

Table 18: Schedule of services

Medical			
Public health acute services			Accidental injury costs from acute inpatient, emergency department and outpatient care, pharmaceuticals, care for complex burns, and laboratory services.
General practice			Payments to GPs, and accident and medical clinics.
Radiology			Payments for radiology services — low-tech (for example, X-ray) and high-tech (for example, magnetic resonance imaging [MRI]).
Physiotherapy			Payments to physiotherapists.
Ambulance			Emergency transport to a medical facility, by road and/or air.
Elective surgery			Mainly orthopaedic-related surgery.
Other-medical			All medical costs except those listed above. These include counselling for claims that need support beyond physical injuries.
Compensation			
Weekly compensation — non-fatal			Loss of earnings based on 80% of weekly income (capped) before incapacity from the injury occurred, and loss of potential earnings for minors.
Death benefits			Funeral grants and support for spouses and/or dependants.
Lump sum and independence allowance			Additional support to compensate for permanent impairment due to injury. This includes work-related gradual process claims that result from ongoing exposure to an element (for example, asbestos). Injuries that occurred on or after 1 April 2002 are paid by lump sum. Eligible claims for injuries before 1 April 2002 receive quarterly independence allowance payments. These payments may also be paid to clients with gradual process, sensitive or treatment injury claims, if the exposure occurred on or before 31 March 2002.
Rehabilitation			
Vocational			Programmes to support clients' return to independence.
Social rehabilitation	Serious injury	Capital	Mainly housing and motor vehicle modifications for people with serious injuries.
		Non-capital	Care costs (such as attendant care and assessments) and other costs related to serious injury.
	Non-serious injury	Capital	Mainly equipment, orthotics for splints, medical consumables and residential modification costs for people with non-serious injuries. Includes ongoing aids and appliances for hearing loss suffered through traumatic events or prolonged work exposure to loud noise.
		Non-capital	Care, assessments, and other social rehabilitation support for people with non-serious injuries.

Claim-management process

Claim management is the function of providing rehabilitative support to injured people to return them to work and/or independent living to the extent practicable. For most people the support required is relatively minor (such as a one-off visit to a GP). In these cases, ACC's only involvement is to make payments for the medical services provided.

For some individuals the services and support required are more complex. Where full rehabilitation isn't possible, claim management includes support to allow people to be as independent as possible.

ACC's claim-management functions provide different levels of support, depending on client needs. ACC screens all claims at the point of registration to establish which recovery teams are best suited to the clients and their needs. These decisions aren't based purely on injury diagnoses. Factors such as age, co-morbidities, and living circumstances are also considered. Throughout their recovery, clients can transition between the teams, depending on the level of support they require.

Over the past year, ACC has made changes to its claim management functions. Assisted Recovery is now using a one-to-one claim management approach for claims receiving weekly compensation alongside a one-to-many approach for non-weekly compensation claims.

The recovery teams are:

1. **Enabled Recovery** (approximately 9% of claims). Clients primarily manage their own recovery using an online portal to select services and regularly check in.
2. **Assisted Recovery** (approximately 49% of claims). Clients generally have less complex injuries and needs, with support provided by team members at key stages of their recovery.
3. **Supported Recovery** (approximately 15% of claims). Clients with more complex injuries and needs. They have dedicated ACC contacts who work with them on their recovery.
4. **Partnered Recovery** (approximately 16% of claims). Clients with some of the most complex or sensitive injuries. They have a dedicated ACC recovery partner, working alongside the client through their rehabilitation journey and supporting them to increase their independence.
5. **Other** (approximately 10%). Clients primarily managed by providers under escalated/ integrated care pathways.

Further changes to claim management functions will be taking place, with the establishment of an Integrated Recovery team who will have a focus on clients receiving weekly compensation for more than 12 months.

Reviews of ACC claim decisions

Clients who are dissatisfied with ACC's decisions on support can ask for a review. The review applications can be made by clients about claim-related decisions or by business customers regarding their classifications and associated levies.

Reviews can be lodged against any decision ACC makes on a claim. More than one review can be lodged for an individual claim. The biggest proportion of review applications relates to decisions on whether injuries are covered, followed by decisions on funding elective surgery.

Before involving an external party, ACC investigates a claim for which a review request has been lodged. The next step in resolving a dispute is the opportunity to use Alternative Dispute Resolution (ADR) services, which can include mediation, conciliation, and facilitation. ADR provides ACC and a client with an opportunity to engage in meaningful conversations with an independent party to find a way forward or resolution without the need for a more formal review hearing.

Around 70% of all review requests are resolved without the need for a formal review hearing. If an issue can't be resolved between ACC and a client, the case will be sent to an independent company for a review of the decision.

In addition to funding conciliation and dispute resolution, ACC started funding a navigation service in September 2019. Through this service clients can receive independent advice on and support in navigating their journeys with ACC. Free support is provided through the Workplace Injury Advocacy Service, which specialises in work-related injuries and issues, and Way Finders, which serves all other needs.

Table 19 shows that 10,498 reviews were lodged in 2023/24, up from 8,934 in 2022/23. These accounted for about 7.47% of ACC's decisions to decline support in the same period, slightly below the percentage in 2022/23.

Table 19: Review lodgements and outcomes

	Year ending 30 June							
	2017	2018	2019	2020	2021	2022	2023	2024
Number of reviews lodged	7,189	7,578	8,056	8,638	9,364	8,261	8,934	10,498
% of decline decisions	7.23%	7.16%	7.22%	8.05%	8.53%	7.81%	7.60%	7.47%
Number of reviews completed	6,400	7,721	8,322	9,503	9,282	9,328	9,080	11,172
Number resolved without going to formal hearing	2,785	3,426	4,163	5,788	6,318	6,224	6,526	8,310
% resolved without going to formal hearing	44%	44%	50%	61%	68%	67%	72%	74%
Number found in favour of clients at formal hearings	1,151	1,415	1,457	1,228	869	905	731	740
% of formal hearings found in favour of clients	32%	33%	35%	33%	29%	30%	29%	26%
Number found in favour of ACC at formal hearings	2,428	2,844	2,674	2,458	2,078	2,161	1,788	2,084
% of formal hearings found in favour of ACC	68%	67%	65%	67%	71%	70%	71%	74%

Of the reviews completed, the proportion resolved without the need for a formal hearing has been rising since 2017. This has likely been driven by the extended timeframe for Review Specialists to work on cases prior to their going to third parties, and a lift in Review Specialists' capability since 2019/20.

Appendix B – Financial and actuarial results details

This appendix provides more detail to supplement the discussion in the '*Financial and actuarial results*' section of the main report on how ACC's financial condition has changed in the past year.

We rely on data from ACC's Cloud Data Platform (CDP) to determine claim assumptions for average cost, duration and active claims. This data is used to determine the OCL and new year costs. We perform a reconciliation between quarterly CDP data extracts and between the CDP data and general ledger. These reconciliations are included within the annual external audit.

In addition, the external valuation actuary (Taylor Fry) also performs a reconciliation in the annual data sets they are provided.

Based on these reconciliations performed, we believe that the data is relevant and appropriate for the purposes of the valuation and to determine new year costs.

Reconciliation between balance sheet and funding ratio

The government funding policies for ACC specify how the funding ratio should be calculated for each Account. Table 20 shows how the assets and liabilities shown on the balance sheet are adjusted to reach the funding ratio as prescribed by the funding policies.

Table 20: Reconciliation between balance sheet and funding ratio by Account

$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	*TI — levied portion*	*TI — non-levied fully funded portion*	Non-Earners' Account	*Non-Earners' Account — fully funded portion*	Total 2023/24	Total 2022/23
Available assets										
Balance sheet total assets	15,031	12,682	14,720	6,055	*2,289*	*3,766*	5,655	*5,655*	54,143	52,516
- deduct applicable liabilities[22]	(534)	(1,139)	(2,544)	(155)	*(59)*	*(93)*	(168)	*(125)*	(4,540)	(4,783)
- remove assets required for AEP[23]	0	(415)	0	0	*0*	*0*	0	*0*	(415)	(379)
Funding policy available assets to cover OCL	**14,497**	**11,128**	**12,176**	**5,900**	*2,231*	*3,672*	**5,487**	*5,529*	**49,188**	**47,354**
OCL										
Balance sheet OCL	12,796	8,821	14,914	8,231	*2,094*	*4,914*	15,458	*11,871*	60,220	51,537
- remove risk margin	(1,492)	(880)	(1,574)	(1,024)	*(260)*	*(611)*	(1,827)	*(1,403)*	(6,797)	(5,809)
- remove AEP[23]	0	(415)	0	0	0	0	0	0	(415)	(379)
- add work-related gradual process incurred but not reported claims	0	939	0	0	0	0	0	0	939	982
Funding policy OCL	**11,304**	**8,464**	**13,340**	**7,208**	*1,834*	*4,303*	**13,631**	*10,468*	**53,946**	**46,332**
Funding ratio	**128.2%**	**131.5%**	**91.3%**	**81.9%**	*121.7%*	*85.3%*	**40.3%**	*52.8%*	**91.2%**	**102.2%**

22 The funding policy states these liabilities should be removed from total assets when calculating the funding ratio: payables, accrued liabilities, investment liabilities, and unearned levy liability.

23 Accredited Employer Programme (AEP) is assumed to be 100% funded with the OCL (excluding risk margin) and same value of assets excluded.

ACC's overall funding position decreased by $5,781 million in 2023/24 due to the significantly weaker-than-expected underwriting performance

Table 21 shows how ACC's overall funding position and overall funding ratio changed during 2023/24.

It includes:

- the Scheme surplus/deficit as stated in the 2024 Annual Report
- the adjustments required to move the Scheme surplus from an accounting basis to a funding basis consistent with the government funding policies for ACC.

Table 21: Change in ACC's overall funding position and funding ratio in 2023/24

	2023/24 funding position ($M)	2023/24 funding ratio	2022/23 funding position ($M)	2022/23 funding ratio
Opening funding position/ratio	**1,023**	**102.2%**	**10**	**100.0%**
Plus Scheme surplus/(deficit)	(7,239)	(13.8%)	911	2.0%
Plus change in value of work-related gradual process (WRGP) claims incurred but not reported	44	0.1%	(24)	(0.1%)
Less risk margin on change in OCL	988	1.9%	135	0.3%
Less change in unexpired risk liability	426	0.8%	(10)	(0.0%)
Total change in funding position/ratio	**(5,781)**	**(11.0%)**	**1,013**	**2.2%**
Closing funding position/ratio	**(4,759)**	**91.2%**	**1,023**	**102.2%**

This year's underwriting deficit was significantly larger than expected due to the OCL strain

Table 22 includes a breakdown of the components that contributed to the 2023/24 movement in funding position, split by underwriting and economic performance. It compares this year's results against the 2023/24 projected result as at 30 June 2023 and last year's budget set on 28 February 2023.

Table 22: Movement in funding position vs expected

$M	Actual 30 June 2024	Expected	Difference	Budget
Income				
Total levies and appropriations	**6,339**	**6,172**	**166**	**6,188**
Less Expenditure				
Claims incurred				
Medical costs	2,132	2,063	69	2,184
Elective surgery	564	524	40	582
Sensitive claims	371	305	66	328
Social rehabilitation	1,329	1,184	145	1,291
Compensation-related	2,405	2,263	142	2,211
Other	325	267	58	354
Claims handling expenses	656	624	32	624
Total cash claim costs	**7,782**	**7,231**	**552**	**7,576**
Total change in OCL under the funding policies	**6,584**	**717**	**5,868**	**765**
Total claims incurred	**14,367**	**7,948**	**6,419**	**8,340**
Expenses				
Net operating costs	83	92	(9)	93
Injury prevention costs	81	103	(22)	103
Total expenses	**165**	**195**	**(31)**	**196**
Total expenditure	**14,531**	**8,143**	**6,388**	**8,536**
Movement in funding position from underwriting activities	**(8,193)**	**(1,970)**	**(6,223)**	**(2,348)**
Plus Economic				
Impact of economic assumptions for the OCL higher/(lower) than expected	1,306	0	1,306	0
Investment management costs	(74)	(70)	(4)	(70)
Unwind of risk-free interest rate	(2,337)	(2,337)	0	(2,138)
Investment income	3,516	2,982	534	2,987
Movement in funding position from economic factors	**2,412**	**576**	**1,836**	**779**
Total movement in funding position	**(5,781)**	**(1,395)**	**(4,387)**	**(1,569)**

The funding position of all Accounts declined over 2023/24

Table 23 sets out the total movement in funding position for the year ending 30 June 2024, split by Account.

Table 23: Movement in funding position by Account

$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2023/24	Total 2022/23
Income							
Total levies and appropriations	**478**	**967**	**2,555**	**403**	**1,936**	**6,339**	**5,901**
Less Expenditure							
Claims incurred							
Medical costs	159	191	660	36	1,086	2,132	1,897
Elective surgery	32	82	279	42	129	564	495
Sensitive claims	0	5	164	0	202	371	283
Social rehabilitation	336	81	229	204	480	1,329	1,183
Compensation-related	253	708	1,318	105	20	2,405	2,064
Other	59	116	78	40	32	326	223
Claims handling expenses	61	124	274	56	140	656	574
Total cash claim costs	**900**	**1,309**	**3,002**	**483**	**2,088**	**7,782**	**6,719**
Total change in OCL under the funding policies	**294**	**391**	**1,510**	**364**	**4,025**	**6,584**	**1,761**
Total claims incurred	**1,194**	**1,700**	**4,512**	**848**	**6,113**	**14,367**	**8,481**
Expenses							
Net operating costs	5	58	15	1	4	83	86
Injury prevention costs	11	21	20	3	27	81	62
Total expenses	**16**	**79**	**35**	**3**	**31**	**165**	**148**
Total expenditure	**1,211**	**1,779**	**4,547**	**851**	**6,144**	**14,531**	**8,629**
Movement in funding position from underwriting activities	**(732)**	**(812)**	**(1,992)**	**(448)**	**(4,209)**	**(8,193)**	**(2,727)**
Plus Economic							
Impact of economic assumptions for the OCL higher/(lower) than expected	327	139	230	256	353	1,306	2,029
Investment management costs	(22)	(16)	(18)	(9)	(8)	(74)	(81)
Unwind of risk-free interest rate	(566)	(349)	(574)	(355)	(492)	(2,337)	(1,408)
Investment income	892	773	1,006	374	472	3,516	3,200
Movement in funding position from economic factors	**631**	**547**	**643**	**266**	**324**	**2,411**	**3,740**
Total movement in funding position	**(101)**	**(265)**	**(1,349)**	**(183)**	**(3,884)**	**(5,781)**	**1,013**
Total movement in funding ratio	**(2%)**	**(6%)**	**(10%)**	**(1%)**	**(15%)**	**(11%)**	**2%**

The main drivers of this year's underwriting deficit of $8,193 million are shown in Table 24. It compares the actual movement in funding position from underwriting activities to what was expected. This is split into three parts:

1. The expected deficit when the levies and appropriations were priced. This was the last levy consultation in 2021 for the levied Accounts and the Non-Earners' Forecast Adjustments in 2022 for the non-levied Accounts ($1,982 million).
2. The expected deficit from 1 is brought forward to the beginning of the current financial year, 30 June 2023 ($1,970 million).
3. The actual performance in the year to 30 June 2024 ($8,194 million) is compared to what was expected from 2.

Table 24: Analysis of movement in funding position from underwriting activities by Account

$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2023/24
Levies/appropriations different from expected new year costs	(366)	(298)	(412)	(83)	191	(967)
Expected reduction in OCL for PAYG claims	n/a	n/a	n/a	38	150	188
Different assumptions for pricing vs valuation	(166)	(165)	(333)	(130)	(409)	(1,203)
Expected movement in funding position from underwriting activities at time of pricing	**(532)**	**(463)**	**(745)**	**(174)**	**(68)**	**(1,982)**
Updated levies forecast	(61)	24	152	9	17	141
Updated claim assumptions	(1)	(130)	(397)	(92)	(116)	(736)
Updated economic assumptions	135	88	192	91	100	606
Updated movement in funding position from underwriting activities for 30 June 2024 (as at 30 June 2023)	**(459)**	**(480)**	**(798)**	**(166)**	**(66)**	**(1,970)**
Actual vs expected levy/appropriation income	0	58	95	13	0	166
Actual vs expected cash paid	(31)	(45)	(206)	(41)	(198)	(521)
Actual vs expected change in OCL	(243)	(345)	(1,082)	(253)	(3,944)	(5,868)
Closing movement in funding position from underwriting activities for 30 June 2024 (as at 30 June 2024)	**(732)**	**(812)**	**(1,992)**	**(448)**	**(4,209)**	**(8,193)**

At the time of pricing, an underwriting deficit was expected for all Accounts in 2023/24

Pricing for the 2023/24 financial year was based on 30 June 2021 data for the levied Accounts, and 30 June 2022 for the non-levied Accounts. At that time, an underwriting deficit was projected for all Accounts with a total projected deficit of $1,982 million. Three components contributed to this result:

- A $967 million deficit due to total approved levies and appropriations being set below the expected cost of 2023/24 claims. The bulk of this relates to the levied Accounts where these were above their funding targets at the time of pricing. Levies were therefore set below the cost of claims to reduce the funding ratios and move them closer to the funding target.
- A $188 million surplus relating to non-earner claims incurred prior to 2001 and funded on a Pay As You Go (PAYG) basis. This was an expected accounting surplus that occurs every year.
- A $1,203 million deficit due to differences in the assumptions used to calculate levies and appropriations and those used for determining the OCL. This is because investment returns, rather than risk-free rates, are used to determine the cost of new year claims when pricing levies and appropriations. Since the OCL uses risk-free rates, the expected cost of new year claims results in a higher liability than what is projected with levy and appropriation assumptions.

The projected underwriting deficit for 2023/24 was slightly smaller as at 30 June 2023 compared to when levies and appropriations were priced

The change in the projected movement in funding position from underwriting activities, between the time of pricing and the beginning of the 2023/24 financial year, varied depending on Account. In total, the projected underwriting deficit for 2023/24 reduced by $11 million from $1,982 million to $1,970 million due to the following factors:

- Higher projected income in 2023/24 of $141 million — primarily due to higher liable earnings driven by greater workforce participation and higher-than-expected wage growth, especially within the Earners' Account.
- Changes to economic assumptions since the time of pricing resulted in a $606 million favourable movement in the funding position. This was mainly due to higher discount rates since the time of pricing, which led to a lower expected OCL for new claims as of 30 June 2023. This component of the expected OCL increase is included within the underwriting result.
- These improvements were almost entirely offset by deteriorating claim performance since the time of pricing, resulting in worsening claim assumptions and a $736 million increase in claim costs.

Worse-than-expected OCL strain in the current year resulted in the 2023/24 underwriting deficit being significantly higher than expected

The total actual underwriting deficit as at 30 June 2024 was $8,194 million. This was a $6,212 million higher deficit than projected at the time of pricing and $6,224 million higher than projected as at 30 June 2023. Underwriting deficits for all Accounts were higher than expected. The main reasons for the changes in the 2023/24 year were as follows:

- The total OCL strain under the government funding policies from the 2024 valuation was $5,868 million. This consisted of a $2,911 million strain identified as influenceable and a $2,956 million non-influenceable strain. All Accounts experienced OCL strain in 2023/24.
- Higher-than-expected cash claim payments during 2023/24, with a partial offset from lower-than-expected injury prevention costs and other operating expenses, contributed $521 million to the deficit. The higher-than-expected claim payments were largely driven by social rehabilitation costs in all Accounts and compensation-related costs primarily in the Earners' Account.

- These claim cost increases were partially offset by higher-than-expected levies collected in 2023/24, which contributed a surplus of $166 million. This was mainly from the Earners' and Work Accounts where liable earnings were higher than expected in 2023/24 due to both higher-than-expected working population and wage growth.

Claims handling expenses and investment management costs were above budget for the year, while injury prevention costs and other operating expenses were below budget

Total expenses increased from $803 million in 2022/23 to $895 million in 2023/24. They were slightly above the $890 million budget, primarily due to an overspend on claims handling expenses.

Expenses pay for handling claims, preventing injuries, investing funds, and the costs of operating the Scheme. These expenses, with Integrated Change Investment Portfolio (ICIP) expenses split out until 2022/23, are shown in Table 25.

Table 25: Expense categories with ICIP and other costs split out

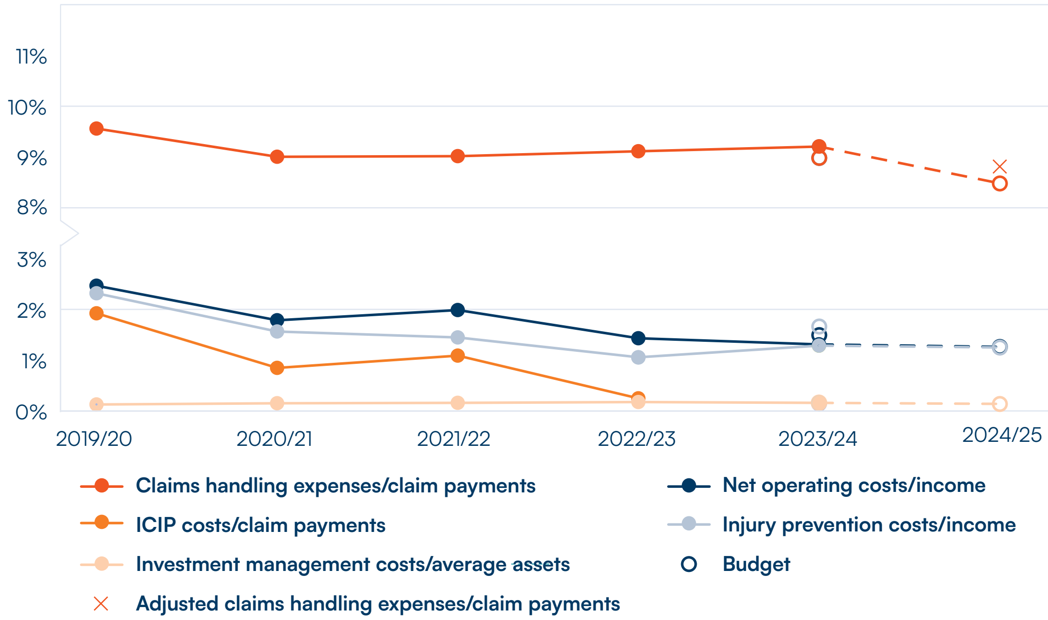
$M	Actual 2022/23	Actual 2023/24	Budget 2023/24	Budget 2024/25
Claims handling expenses	560	656	624	645
Other operating expenses	85	83	93	86
ICIP	15	0	0	0
Injury prevention costs	62	81	103	85
Investment management costs	81	74	70	70
Total	**803**	**895**	**890**	**886**

The Budget 2024/25 figure shown for claims handling expenses does not include the allowance for an additional 250 claims handling staff that ACC is planning on recruiting as part of a change in the case management approach for weekly compensation and serious injury claims. This is not reflected in the finance budget as this decision was made after the budget was finalised. However, we have made an adjustment for this in our actuarial calculations for the OCL and levy and appropriations. The 2024/25 projection for claims handling expenses shown in Table 27 and Table 28 ($671 million) below includes this extra expense and therefore will not match the number shown in Table 25 ($645 million).

Chart 6 shows expenses, as percentages of the underlying service, for the past five years, alongside the 2023/24 budget and 2024/25 projected budget in five categories:

- Claims handling expenses paid during the year compared to claim payments
- Net operating costs compared to income (from levies and appropriations)
- ICIP project costs compared to claim payments
- Injury prevention costs compared to income (from levies and appropriations)
- Investment management costs compared to funds under management.

Chart 6: Expenses as percentages of underlying service



The reasons for the movements in the expenses over the year, and differences to the budget include:

- Claims handling expenses increased significantly from last year and were above the budget. This was mainly due to an increase in forward recruitment in Service Delivery to manage high turnover and ongoing workload pressures in the front-line. As claim payments also increased significantly over the year, the claims handling expense ratio only increased marginally from 9.1% to 9.2%. The claims handling expense ratio for 2024/25 is expected to decrease slightly as the growth in claim payments is higher than the growth allowed for claims handling expenses.
- Net operating costs reduced slightly during the year and were below budget due to lower indirect levy collection costs.
- Spend on Integrated Change Investment Portfolio (ICIP) projects ended in 2022/23. Any spend from 2023/24 onwards is included in business-as-usual claims handling expenses and operating costs.
- Injury prevention costs increased from last year, but were below budget due to the timing of planned programme expenditure having changed since the budget was set and delays in the onboarding of new providers.
- Investment management costs reduced from last year due to a reduction in funds under management as a result of investment decisions to switch from global equities to domestic bonds. The costs were slightly above budget mainly due to a revised estimate of the incentive scheme for investment staff.

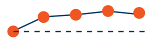
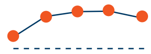
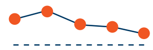
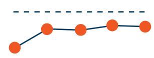
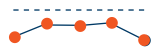
The decrease in the weighted average funding ratio of the Scheme was significantly larger than in previous years

The target funding ratio (the ratio of assets held to liabilities) for all Accounts is 100%. This means each Account should aim to hold net assets equal to the OCL excluding the risk margin.

The exception is pre-2001 claims in both the Non-Earners' Account and the non-levied portion of the Treatment Injury Account. These claims are funded under PAYG meaning the funding in any given year is equal to the amount we expect ACC to pay in that year for those claims. No additional funding needs to be held at the end of the year so the funding targets for these claims are effectively 0%.

Table 26 shows the movement in funding ratios over the past five years by Account.

Table 26: Funding ratios by Account for past five years

	As at 30 June						
	2020	2021	2022	2023	2024	Target	
Motor Vehicle Account	100%	122%	125%	131%	128%	100%	
Work Account	111%	131%	136%	137%	131%	100%	
Earners' Account	102%	112%	105%	102%	91%	100%	
Treatment Injury Account	66%	84%	81%	83%	82%		
• Levied portion	145%	159%	137%	131%	122%	100%	
• Non-levied fully funded portion	61%	83%	81%	86%	85%	100%	
Non-Earners' Account	37%	50%	50%	55%	40%		
• Fully funded portion	59%	78%	76%	81%	53%	100%	

Several key factors drive changes in the funding ratio by changing asset values, liability values or both. While ACC can influence some of these factors, others are beyond its control and include:

- what's happening in the economy
- how this affects interest rates.

Interest rates in 2020 fell to historic lows in response to the COVID-19 pandemic and resulted in most levied Accounts being at or just over their funding target. Non-levied Accounts were significantly under their funding targets. Funding ratios recovered in 2021 following significant interest rate increases.

After 30 June 2021, changes in funding ratios have varied by Account generally in response to the OCL strain and investment returns by Account. While the Motor Vehicle Account and Work Account funding ratios continued to improve through to 2022/23, the funding ratios for the Earners' Account and levied portion of the Treatment Injury Account declined. The Non-Earners' Account and non-levied portion of Treatment Injury Account declined in 2021/22 and increased in 2022/23. All Accounts saw a decline in funding ratios in 2023/24.

We expect the Scheme's overall funding position to reduce in each of the next four years

Table 27 shows the expected change in funding position for the Scheme for each of the next four years. The four-year projections are based on the following:

- the 2024/25 levy rates prescribed by Cabinet in 2021
- the June 2024 indicative levy rates for 2025/26 to 2027/28
- assumptions updated to 30 June 2024
- the 2024/25 approved appropriation for the Non-Earners' Account agreed in October 2023
- the June 2024 forecast appropriations for the Non-Earners' Account for 2025/26 to 2027/28.

Table 27: Projected movement in funding position

$M	Actual 2023/24	2024/25	2025/26	2026/27	2027/28
Income					
Total levies and appropriations	**6,339**	**6,798**	**7,396**	**8,047**	**8,706**
Expenditure					
Claims incurred					
Medical costs	2,132	2,363	2,504	2,642	2,788
Elective surgery	564	571	611	655	699
Sensitive claims	371	377	418	459	502
Social rehabilitation	1,329	1,350	1,429	1,508	1,588
Compensation-related	2,405	2,699	2,941	3,195	3,457
Other	325	248	252	257	262
Claims handling expenses	656	671	692	700	724
Total cash claim costs	**7,782**	**8,277**	**8,847**	**9,415**	**10,020**
Total change in OCL under the funding policies	**6,584**	**943**	**904**	**896**	**911**
Total claims incurred	**14,367**	**9,220**	**9,751**	**10,312**	**10,931**
Expenses					
Net operating costs	83	86	87	86	89
Injury prevention costs	81	85	90	91	91
Total expenses	**165**	**171**	**177**	**177**	**180**
Total expenditure	**14,531**	**9,391**	**9,928**	**10,489**	**11,111**
Movement in funding position from underwriting activities	**(8,193)**	**(2,593)**	**(2,532)**	**(2,442)**	**(2,405)**
Economic					
Impact of economic assumptions for the OCL higher/(lower) than expected	1,306				
Investment management costs	(74)	(70)	(71)	(73)	(74)
Unwind of risk-free interest rate	(2,337)	(2,500)	(2,263)	(2,268)	(2,444)
Investment income	3,516	2,928	2,765	2,743	2,825
Movement in funding position from economic factors	**2,411**	**358**	**431**	**402**	**307**
Total movement in funding position	**(5,781)**	**(2,236)**	**(2,102)**	**(2,040)**	**(2,099)**
Total movement in funding ratio	**(11%)**	**(3%)**	**(3%)**	**(2%)**	**(2%)**

All Accounts are expected to return deficits in 2024/25

Table 28 gives the projected movement in funding position by Account for 2024/25 compared with the projected 2024/25 movement from last year's report.

Table 28: Projected movement in funding position by Account for 2024/25

$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total projected 2024/25	Total projected 2024/25 as at 30 June 2023
Income							
Total levies and appropriations	**483**	**997**	**2,811**	**424**	**2,082**	**6,798**	**6,613**
Expenditure							
Claims incurred							
Medical costs	178	205	720	38	1,223	2,363	2,215
Elective surgery	33	81	286	49	121	571	562
Sensitive claims	0	6	165	0	206	377	341
Social rehabilitation	345	106	231	207	461	1,350	1,259
Compensation-related	276	789	1,497	119	18	2,699	2,459
Other	49	98	52	28	21	248	254
Claims handling expenses	63	137	274	57	139	671	638
Total cash claim costs	**943**	**1,421**	**3,226**	**498**	**2,189**	**8,277**	**7,728**
Total change in OCL under the funding policies	**91**	**117**	**562**	**97**	**76**	**943**	**732**
Total claims incurred	**1,034**	**1,537**	**3,788**	**595**	**2,266**	**9,220**	**8,460**
Expenses							
Net operating costs	5	60	15	1	4	86	96
Injury prevention costs	7	19	23	5	31	85	103
Total expenses	**12**	**80**	**38**	**6**	**36**	**171**	**200**
Total expenditure	**1,046**	**1,617**	**3,826**	**601**	**2,301**	**9,391**	**8,659**
Movement in funding position from underwriting activities	**(564)**	**(619)**	**(1,015)**	**(177)**	**(219)**	**(2,593)**	**(2,046)**
Economic							
Impact of economic assumptions for the OCL higher/(lower) than expected							
Investment management costs	(21)	(15)	(17)	(9)	(8)	(70)	(71)
Unwind of risk-free interest rate	(580)	(371)	(650)	(368)	(531)	(2,500)	(2,226)
Investment income	853	640	727	358	350	2,928	2,947
Movement in funding position from economic factors	**252**	**253**	**59**	**(18)**	**(189)**	**358**	**650**
Total movement in funding position	**(312)**	**(366)**	**(955)**	**(195)**	**(408)**	**(2,236)**	**(1,396)**
Total movement in funding ratio	**(4%)**	**(6%)**	**(6%)**	**(1%)**	**(0%)**	**(3%)**	**(3%)**

We are now projecting a $2,236 million deficit for 2024/25. This is $839 million higher than the $1,396 million deficit we were projecting last year for the same period. The largest drivers of this difference are:

- Cash claims $549 million higher than previously projected.
- A change in the OCL $211 million higher than previously projected.
- Risk-free interest rates increasing between the two calculation dates ($274 million).

This is partially offset by income from levies and appropriations now projected to be $185 million higher than previously projected.

ACC's weighted average funding ratio is sensitive to changes in economic factors

Table 29 shows how a 1% movement in interest rates, asset values, or inflation assumptions could have changed the OCL (excluding the risk margin), the investment portfolio, and the funding ratio as at 30 June 2024. It also shows how changes in major claim assumptions could have changed the OCL and the resulting change in the funding ratio.

Table 29: Sensitivity of weighted average funding ratio

	Change in OCL ($M)		Change in assets ($M)		Change in funding ratio (%)	
	+1%	-1%	+1%	-1%	+1%	-1%
Interest/discount rates	(5,952)	7,888	(2,626)	2,878	5.8	(7.0)
Asset values	n/a	n/a	492	(492)	0.9	(0.9)
Inflation rate	8,030	(6,166)	1,320	(1,171)	(9.7)	9.3
Serious injury care superimposed inflation	2,931	(2,217)	n/a	n/a	(4.7)	3.9
Weekly compensation continuance rates	901	(781)	n/a	n/a	(1.5)	1.3
Sensitive claims continuance rates	666	(529)	n/a	n/a	(1.1)	0.9
Elective surgery superimposed inflation	651	(489)	n/a	n/a	(1.1)	0.8
Medical superimposed inflation	260	(203)	n/a	n/a	(0.4)	0.3
Elective surgery active claims	1,040	(707)	n/a	n/a	(1.7)	1.2

Changes in interest rates alter the value of the OCL and the investment assets by different amounts. This is because ACC's liabilities can't be completely matched with investment assets, due to the long-term nature of the liabilities, as discussed in '*Appendix E — Management of investments*'. As a result, the funding ratios are highly sensitive to interest rate changes, especially when interest rates are low.

After economic assumptions, a 1% change in superimposed inflation for serious injury care would have the largest impact on the funding ratios.

Appendix C – Valuation of Outstanding Claims Liability

This appendix discusses how ACC's Outstanding Claims Liability (OCL) was valued for the year ending 30 June 2024.

This appendix contains OCL numbers calculated on an accounting basis, in line with the accounting standards. Note that they will not match those presented in other areas of this report which are on a funding policy basis. The Annual Report includes the liability for work-related gradual process (WRGP) claims that have been incurred, but not reported in a note to the financial statements and not directly in the reported OCL numbers due to accounting requirements[24].

The OCL increased by 17% between June 2023 and June 2024

ACC's OCL as at 30 June 2024 was $60,220 million, which was $5,226 million higher than the expected OCL of $54,993 million. The OCL as at 30 June 2023 was $51,537 million.

The liability for WRGP claims incurred but not reported as at 30 June 2024 was $1,042 million, which is $72 million lower than the expected liability of $1,114 million. The liability as at 30 June 2023 was $1,090 million.

We expect an increase in the OCL every year because we expect the volume of new claims to exceed claims leaving the Scheme as New Zealand's population grows over time. The expected OCL is also impacted by projected economic and claim assumptions as at the start of the year.

The higher-than-expected increase was due to both declining claim performance defined as influenceable strain and a non-influenceable strain mainly as a result of recent court decisions. These increases have outweighed a reduction in liability due to favourable economic factors (increases to risk-free interest rates partially offset by increases to inflation rates).

The OCL is an important indicator of the Scheme's performance

The OCL is the amount of money we project ACC will need to pay in the future to clients who are currently injured. The value of the assets (mainly investments) each of ACC's Accounts has available relative to the OCL then feeds into recommendations for levy rates and appropriations. The OCL also points to areas where changes in claim volumes or costs may be risks to the Scheme's sustainability and to outcomes for clients.

External valuation actuaries calculated the OCL

Alan Greenfield FNZSA FIAA and Ross Simmonds FNZSA FIA, from consulting firm Taylor Fry, valued ACC's OCL. They gave us their report, Accident Compensation Corporation — *Valuation of Outstanding Claims Liabilities* as at 30 June 2024, in August 2024.

They calculated the OCL by forecasting future cash flows for each payment type for injuries that happened before 30 June 2024. They then discounted cash flows back to 30 June 2024 using a 'risk-free' interest rate. They also included allowances for claims handling expenses and risk margins. Their calculations align with the accounting standards.

The OCL calculation complies with all professional reporting standards

The reporting standards are:

- the Public Benefit Entity International Financial Reporting Standard 4 — Insurance Contracts (PBE IFRS 4), issued by the New Zealand Accounting Standards Board of the XRB.
- Professional Standard No. 30 — Valuations of General Insurance Claims, issued by the New Zealand Society of Actuaries.

[24] For a reconciliation of the Financial Condition Report OCL strain to the Annual Report OCL strain see *Table 42*.

Favourable economic conditions were not sufficient to offset declining claim performance

Table 30 shows the breakdown of the OCL, including risk margins, and how it changed between 30 June 2023 and 30 June 2024.

Table 30: Changes in OCL from 2023 to 30 June 2024

$M	Liability as at 30 June 2023	Expected increase	Changes due to economic assumptions	Changes due to influenceable drivers	Changes due to non-influenceable drivers	Liability as at 30 June 2024
Medical costs	2,263	147	(46)	(21)	8	2,350
Elective surgery	3,818	289	(122)	83	28	4,095
Sensitive claims	4,783	429	(132)	610	138	5,828
Social rehabilitation	22,953	1,405	(869)	1,232	(437)	24,284
Compensation-related	13,361	1,053	(204)	1,324	8	15,543
Other	1,625	20	(17)	(68)	3,611	5,171
Claims handling expenses	2,734	112	(59)	161	0	2,949
Total OCL	**51,537**	**3,456**	**(1,449)**	**3,321**	**3,355**	**60,220**
WRGP incurred but not reported liability	1,090	23	(34)	(38)	0	1,042

When claim volumes or costs move above or below what's expected, and that movement occurs in areas where management might have at least partial control, the movement is considered influenceable. If the movement is fully beyond the control of ACC management, the movement is considered non-influenceable.

Assumptions used in the OCL calculation are economic- or claim-related

The key assumptions used to calculate the OCL can be broken into two groups: economic-related and claim-related.

Economic assumptions apply to all payment types. These are assumptions for future interest rates and underlying inflation rates.

Claim assumptions relate to claim volumes and severity, by type of claim, and they drive future cash flow estimates. The assumptions include rehabilitation rates, average costs per claim, superimposed inflation, and claims handling expenses.

They are set separately for each Account. Further details of the claim performance of the Scheme over recent years, and claim assumptions used in the 2023/24 valuation can be found in the '*Claim performance*' section and '*Appendix F — Claim performance details*'.

Assumptions for calculating the OCL are 'best estimate'

Many assumptions are needed to project future cash flows and calculate the OCL. The actuary must use 'best estimates' when making assumptions that are not deliberately conservative or optimistic. The liability produced using the best-estimate assumptions is a 'central estimate'.

We're satisfied that the claim assumptions are appropriate

The external valuation actuary reviews the number and severity of claims, by type of claim, every year by looking at actual claims made. Short-term assumptions follow recent claims quite closely. Long-term assumptions are also set to follow the actual claim volumes and costs, but these tend to be volatile, and the selected rates will generally reflect historical averages.

We're satisfied that the data, methods, and assumptions used are appropriate.

Changes to economic conditions resulted in a decrease in the OCL

PBE IFRS 4 requires interest rates used for discounting to be 'risk-free'. The Treasury prescribes the risk-free rates used in financial accounting for all Crown entities. Risk-free rates reflect the yields of New Zealand Government bonds. The long-term risk-free rate is based on long-term historical norms, which cannot be seen from New Zealand Government bond yields.

The Treasury's approach applies a smoothing methodology to transition between the last observed short-term rate and the assumed long-term rate.

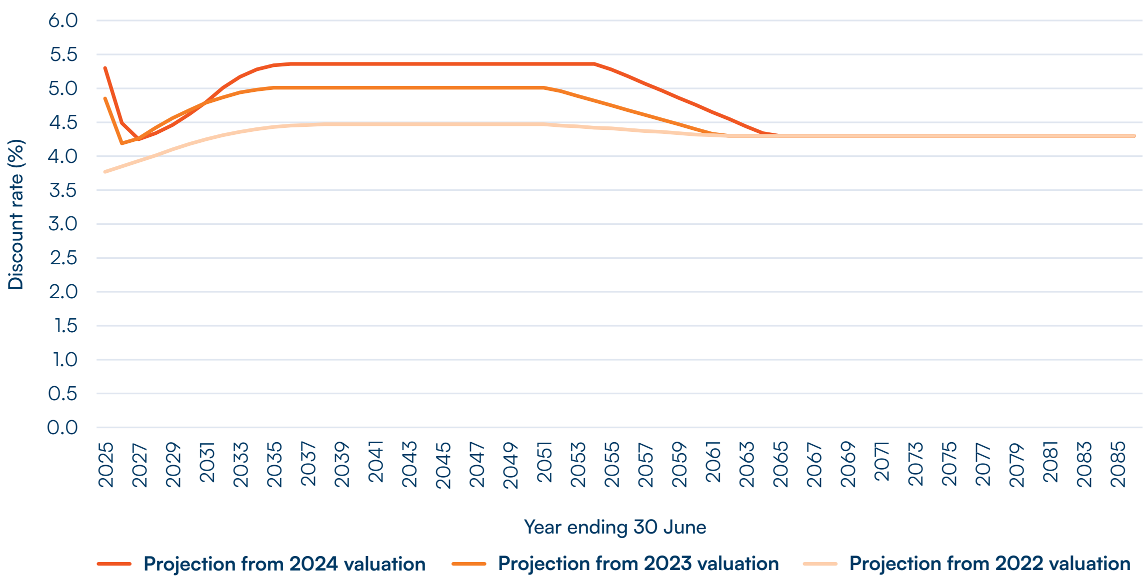
Changes due to economic assumptions decreased the OCL by $1,449 million, including the risk margin.

Changes in the economic environment cause the OCL to go up and down. The Investment team helps to manage the risks through its asset allocation strategy, as described in '*Appendix E — Management of investments*'. The $1,449 million change this year reflected:

- an increase in interest rates, resulting in a reduction of $1,801 million
- an increase in future inflation rates, resulting in an increase of $284 million
- higher-than-expected inflation during 2023/24, resulting in an increase of $68 million.

Chart 7 shows the risk-free interest rates used in the calculation of the 30 June 2024 OCL and the rates used in the two previous years.

Chart 7: Risk-free interest rates – application of the yield curve to liabilities

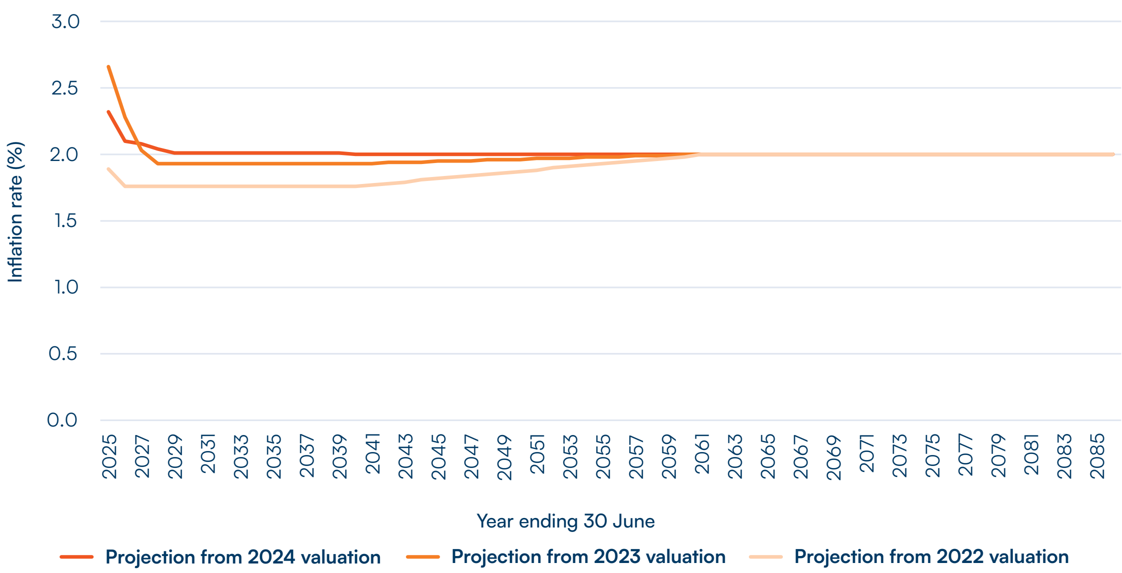


In 2023/24, interest rates increased in line with market yields available on New Zealand Government bonds.

The Treasury specifies assumptions for short-term Consumer Price Index (CPI) rates, based equally on inflation-indexed bonds and market forecasts of inflation. Assumptions for future average weekly earnings rates and the labour cost index are based on the historical differences between these two indices and the CPI.

Chart 8 shows the CPI assumptions used in the calculation of the 30 June 2024 OCL, and the rates used in the two previous years.

Chart 8: Inflation rate assumptions



The forecast short-term inflation rates have been decreased from the previous year because the expectations are for inflation to reduce to more normal levels faster than was previously expected.

The inflation indices are applied to payment types according to economic drivers of cost. Table 31 shows the inflation type used for each payment type.

Table 31: Application of inflation assumptions

Inflation type	Payment type used
Average weekly earnings 1% above CPI	The starting level of weekly compensation (non-fatal) for new claims, as the payment is based on income at the date of pre-incapacity.
Labour cost index 0.2% above CPI	Weekly compensation (non-fatal), for growth in payments for continuing claims, as the legislation indexes payments to the labour cost index. Fatal weekly compensation, medical, elective surgery, sensitive claims, vocational rehabilitation, and social rehabilitation.
CPI	Independence allowance, lump sum, and funeral grants/benefits.

The OCL includes claims handling expenses

The OCL must allow for future claims handling expenses. These are based on the assumed cost per expense driver for each expense type, drawn from budgeted expenses. The expenses are split into rehabilitation, medical treatment, serious injury, sensitive claims, and hearing loss.

They are also split by Account using an activity-based apportionment model. We have also made an allowance in the claims handling expenses for the additional (unbudgeted) 250 claims handling staff that ACC is planning on recruiting, as part of a change in the case management approach for weekly compensation and serious injury claims.

Cash flows are projected for each payment type

Table 32 shows the main payment types and how each is valued for the OCL.

Table 32: Payment types

Payment type	Description	Valuation methodology
Weekly compensation (non-fatal)	Income replacement	Full payment per active claim
Vocational rehabilitation	Rehabilitation services provided to help clients return to work	Simplified payment per active claim
Social rehabilitation — serious injury	Non-vocational rehabilitation services and assistance with capital costs provided to clients with serious injuries	Individual projection
Social rehabilitation — non-serious injury	Non-vocational rehabilitation services and assistance with capital costs provided to clients whose injuries are not serious	Full payment per active claim for rehabilitation services Simplified payment per active claim for capital costs
Sensitive claims	Rehabilitation services and income replacement provided to clients who have been victims of sexual violence	Full payment per active claim
Medical	Medical services, including general practice, physiotherapy, and radiology services	Simplified payment per active claim
Other-medical	All other medical services	Full payment per active claim
Elective surgery	Surgical procedures	Simplified payment per active claim
Fatal weekly compensation	Income support provided to surviving dependants of fatally injured clients	Simplified payment per active claim
Independence allowance	Compensation for long-term impairment	Full payment per active claim
Lump sum	Compensation for permanent impairment	Simplified payment per active claim
Asbestosis and hearing loss	Compensation and medical costs for work-related gradual process claims	Full payment per active claim

Full payment per active claim

The number of future active claims is projected based on three elements:

- the number of new claims being reported
- the number of continuing claims
- an assumed rate of claims finishing.

The future average claim cost by duration is forecast based on the starting average cost and assumed inflation. The number of active claims is multiplied by the average cost at each future point to calculate the projected cash flow.

Simplified payment per active claim

The number of future active claims is projected based on the claim durations. The future average claim cost by duration is determined based on the starting average cost and assumed inflation. The average cost and number of active claims are multiplied at each future point to calculate the projected cash flow.

Individual projection

Future cash flows are projected based on the individual characteristics of each claim, such as a client's age and the severity of their injury.

The risk margins applied follow industry standards

Applying the best-estimate assumptions gives a central estimate of the OCL, which means it's equally likely to be overstated or understated. PBE IFRS 4 states that the OCL must include a risk margin added to the central estimate to allow for the inherent uncertainty. The addition of the risk margin makes it more likely that the final OCL will be enough to meet the claims to which it relates.

PBE IFRS 4 does not specify the risk margin level, but industry practice adds a margin to increase the OCL to a 75% 'sufficiency' level. This means the reported OCL should be sufficient to meet claim payments 75% of the time. ACC follows this industry norm.

Chart 9 shows the distribution of potential OCL estimates without the risk margin. It shows the 'best estimate' of the OCL was $53.423 billion as at 30 June 2024. It also shows the variance in the OCL, with 95% of potential estimates between $38 billion and $76 billion.

Chart 9: Estimated distribution of OCL as at 30 June 2024

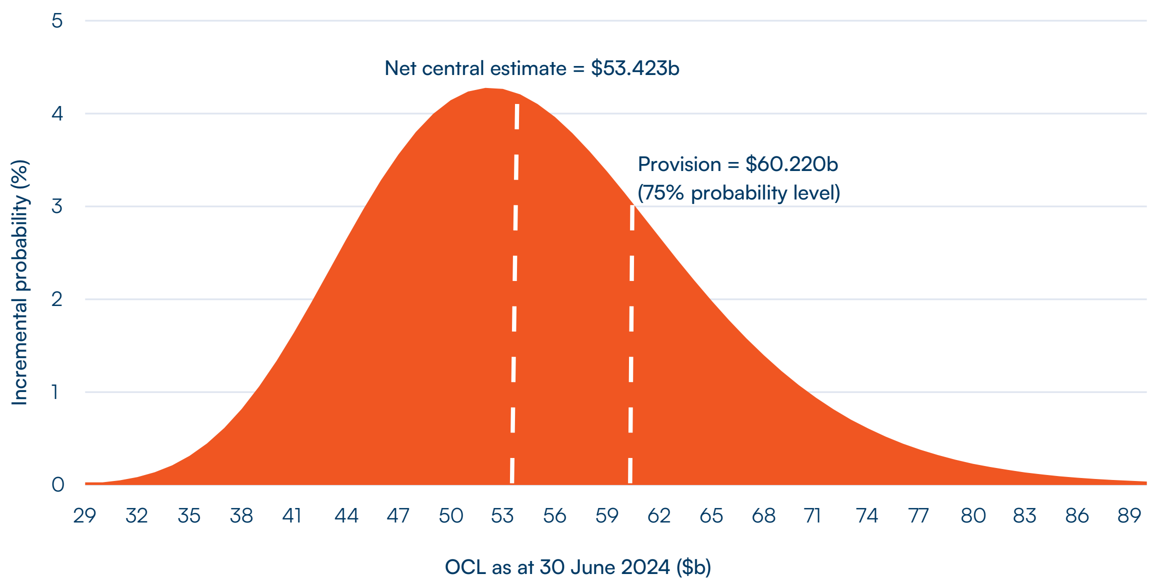


Table 33 shows the risk margins added to the central estimate to meet the 75% level.

Table 33: Risk margins

Account	2023/24
Motor Vehicle	13.2%
Work	11.0%
Earners'	11.8%
Treatment Injury	14.2%
Non-Earners'	13.4%
Weighted average risk margin	**12.7%**

The external valuation actuary has retained the assumed 2022/23 risk margins for this valuation, as they consider the current risk margins remain appropriate.

PBE IFRS 4 will be superseded by PBE IFRS 17 Insurance Contracts and is effective for financial reporting periods starting on or after 1 January 2026. This means ACC will adopt the new standard for the financial year ending 30 June 2027 with a one-year comparison to 30 June 2026. Under PBE IFRS 17 a risk adjustment is defined as "the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the entity fulfils insurance contracts".

ACC's current interpretation of PBE IFRS 17 is that, as per the government funding policies for ACC, they do not seek compensation for non-financial risk in their levies and therefore they are not required to hold a risk adjustment on their insurance reserves. This would mean that under PBE IFRS 17 the OCL will be held at the central estimate. This decision as to whether a risk adjustment is required under PBE IFRS 17 is being assessed and will be agreed by ACC's auditors as part of the implementation of PBE IFRS 17.

Appendix D – Funding details

This appendix provides more detail to supplement the discussion in the main report on the future funding requirements and sustainability of each of ACC's five Accounts. Economic conditions and deteriorating claim performance have affected indicative levies and appropriations.

Funding requirements for levied Accounts have increased since last year

Table 34 shows the changes in the indicative 2025/26 levy rates between the June 2023 and June 2024 bases. In the 2024 levy consultation, 2025/26 is the first year of the levy-setting cycle, and the recommended levy rates have been calculated on the June 2024 basis.

Table 34: Change in indicative 2025/26 levy rates from June 2023 to June 2024

$	Motor Vehicle Account	Work Account	Earners' Account	Levied portion of Treatment Injury
2025/26 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2023	**130.28**	**0.70**	**1.68**	**0.10**
Reduction due to ICIP and injury prevention	(11.53)	(0.03)	(0.04)	(0.00)
Limitation due to capping	0.00	(0.01)	(0.25)	(0.04)
2025/26 indicative capped levies as at 30 June 2023	**118.75**	**0.66**	**1.39**	**0.06**
New year rates				
New year rate as at 30 June 2023	206.83	0.87	1.63	0.12
Change from:				
Claim frequency	0.52	0.01	0.03	0.00
Claim severity	18.78	0.09	0.16	0.00
Investment forecasts	5.96	0.00	0.03	0.00
Base inflation	0.09	(0.01)	0.00	0.00
Other	0.98	(0.03)	(0.10)	(0.01)
New year rate as at 30 June 2024	**233.17**	**0.93**	**1.75**	**0.13**
Funding adjustment				
Funding adjustment as at 30 June 2023	(76.55)	(0.17)	0.05	(0.02)
Change from:				
Claim frequency	(0.56)	0.01	0.00	0.00
Claim severity	13.02	0.06	0.07	0.00
Investment forecasts	6.08	0.00	0.01	0.00
Discount rates	(13.96)	(0.02)	(0.02)	(0.00)
Base inflation	(1.39)	(0.03)	0.00	(0.00)
Other	(1.46)	(0.01)	(0.02)	(0.00)
Funding adjustment as at 30 June 2024	**(74.82)**	**(0.15)**	**0.09**	**(0.02)**
2025/26 indicative uncapped levies as at 30 June 2024	**158.35**	**0.79**	**1.84**	**0.11**
Limitation due to capping	(35.51)	(0.13)	(0.45)	(0.05)
2025/26 indicative capped levies as at 30 June 2024	**122.84**	**0.66**	**1.39**	**0.06**

The indicative uncapped levy rate for 2025/26 is higher than that estimated in June 2023 for all levied Accounts, but further increases to the recommended levies are limited due to capping. New year rates have increased for all Accounts, mainly driven by changes in claim frequency and severity and lower investment forecasts. For the Work and Earners' Accounts, this has been partially offset by higher-than-expected liable earnings, included in 'Other' factors.

Changes in funding adjustments have also contributed to higher forecast levies for most Accounts, mainly driven by changes in claim severity. This has been partially offset by increased discount rates and lower-than-expected inflation.

Funding requirements for non-levied Accounts have increased since last year

Last year, the Government approved ACC's 2024/25 recommended appropriation and pre-approved capped increases for the 2025/26 Non-Earners' appropriation. This year ACC has carried out calculations for the 2025/26 appropriation. Table 35 shows the changes in the indicative 2025/26 appropriation between those calculated using the June 2023 basis and those calculated using the June 2024 basis.

Table 35: Change in indicative for 2025/26 Non-Earners' appropriation from June 2023 to June 2024

$M	Non-Earners' Account	Non-levied portion of Treatment Injury Account	Total Non-Earners' appropriation
Estimated 2025/26 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2023	**2,346.2**	**358.6**	**2,704.8**
Reduction due to ICIP and injury prevention	(42.0)	(7.1)	(49.1)
Limitation due to capping	(82.4)	(24.7)	(107.1)
Additional funding outside the cap	14.0	0.0	14.0
2025/26 approved funding	**2,235.8**	**326.8**	**2,562.3**
New year costs			
New year costs as at 30 June 2023	2,202.7	290.9	2,493.6
Change from:			
Claim frequency	25.2	5.4	30.6
Claim severity	120.2	5.3	125.5
Investment forecasts	39.0	17.2	56.2
Base inflation	(5.9)	(2.3)	(8.1)
Legal cases	(28.5)	6.7	(21.7)
Other	46.3	4.3	50.6
New year costs as at 30 June 2024	**2,399.1**	**327.7**	**2,726.7**
Funding adjustment			
Funding adjustment as at 30 June 2023	143.5	67.7	211.2
Change from:			
Claim frequency	(4.8)	6.8	2.0
Claim severity	91.9	8.1	100.0
Investment forecasts	14.0	(22.1)	(8.1)
Discount rates	(42.3)	0.0	(42.3)
Base inflation	1.3	(4.4)	(3.2)
Legal cases	325.6	11.9	337.5
Other	93.9	13.5	107.4
Funding adjustment as at 30 June 2024	**623.1**	**81.5**	**704.6**
Estimated 2025/26 uncapped appropriation as at 30 June 2024	**3,022.2**	**409.1**	**3,431.3**
Limitation due to capping	(800.4)	(82.3)	(882.7)
Additional funding outside the cap	14.0	0.0	14.0
2025/26 indicative appropriation as at 30 June 2024	**2,235.8**	**326.8**	**2,562.6**

Since last year, the new year costs and funding adjustment have both increased for the non-levied Accounts, but further increases to the recommended appropriation are limited due to capping. As with the levied Accounts, increasing claim frequency and severity and decreases in the forecast investment returns have increased the new year costs. In addition, the higher projected unemployment rate has increased the new year costs. The higher new year costs are partially offset by the increases in the projected discount rates increasing the negative funding adjustment. Compared to last year, we now expect appropriation increases to be capped for longer, for at least the next 10 years.

Detailed changes to indicative levies and appropriations are described below.

Deteriorating claim performance mostly increased funding requirements

Claim frequency refers to the number of claims per unit of exposure. We expect the total number of claims ACC receives to increase over time, but if the increase is faster than the increases expected in population or number of vehicles then levy rates will increase. Below are some areas where claim frequency impacted the expected funding requirements:

- weekly compensation claim frequency has increased for all levied Accounts except the Motor Vehicle Account
- social rehabilitation and elective surgery claim frequencies have both increased for all Accounts.

For the projected 2025/26 levies and appropriations, the funding adjustment component is based on the projected OCL at the start of the levy year — either 1 April or 1 July 2025. If the claim frequency assumptions to this date differ to what we expected last year, this will impact the funding adjustment component. Changes to the claim frequencies since 2022/23 are discussed in more detail in claim frequency projections.

Claim severity refers to the average lifetime cost of a claim, a combination of the average annual cost of services and the length of time a claim is paid for. We expect claim costs to increase each year, but when we see the cost increase by more than expected it results in changes to the projected new year costs. Below are some areas where claim severity impacted the expected funding requirements:

- The duration of weekly compensation claims increased the new year costs for all levied Accounts. As a result, the new year costs have increased by 6-9% for the Work, Earners', and Motor Vehicle Accounts.
- Longer duration of sensitive claims for the Earners' and Non-Earners' Accounts.
- Higher average care hours for seriously injured claims.

Costs for Public Health Acute Services (PHAS) and ambulances have increased substantially in recent years. They are now expected to be $164 million (15%) higher than previously expected in 2025/26 and impacted all Accounts differently. This is most significant for the Non-Earners' Account as nearly half of the increase ($80 million) is attributable to non-earner claims. While these services have little impact on the OCL, they can be a significant component of new year costs.

Changes in claim performance for existing claims have increased the OCL, reduced the funding position and increased funding requirements for all Accounts. If claim performance continues to deteriorate, it will further increase the funding pressure on levies and appropriations.

Increased risk-free interest rates reduced expected funding requirements

Risk-free interest rate forecasts increased in the year to 30 June 2024. On average, short-to-medium term interest rates are about 0.2% higher than the previous forecast. This reduced the OCL, leading to an improved funding position, which then reduced the forecast levies and appropriations through funding adjustments.

Decreased investment forecasts increased expected funding requirements

Forecasts of investment returns decreased for all Accounts in the year to 30 June 2024. This increased the funding now required to meet the expected lifetime cost of future claims — by up to 6%, depending on the Account. The largest increases were for the non-levied portion of the Treatment Injury Account. This is the Account with the largest changes in investment forecast and with the largest proportion of long-term claims.

Forecast inflation had mixed impact on different Accounts

Compared to the previous projections at 30 June 2023, forecast inflation rates are lower in the short term and higher in the medium-to-long term.

A large reduction in short-term inflation decreased the OCL and reduced funding requirements through funding adjustments. However, higher medium-to-long-term inflation increased the funding required now to meet the expected lifetime cost of future claims.

Extending cover and entitlements to a wider group of people as a result of legal case decisions increased expected funding requirements

The rulings of two legal cases, TN and AZ, extended cover and entitlements to a wider group of people, impacting the non-levied Accounts. The TN ruling changes ACC's understanding of the accident date for affected claims, bringing it forward in time. The expected appropriation increased significantly through funding adjustments due to new claims in future years being reclassified as existing claims. This was slightly offset by a small reduction in new year costs, as the earlier accident date now means claim payments are expected to occur later in the claim, increasing the impact of discounting.

For the non-levied portion of the Treatment Injury Account, the expected appropriation increased due to higher new year costs and funding adjustments related to AZ.

The legal cases are discussed in the '*Future risks and opportunities*' section.

Higher liable earnings reduced the levy rates required for the Work and Earners' Accounts

Another key element of the 'other' change was the increase in forecast liable earnings. Liable earnings represent the total income earned by New Zealanders on which levy payers can be charged. The forecast liable earnings are higher than previously assumed, leading to a reduction in the new year rate for the Earners' and Work Accounts.

Indicative levies and appropriations are sensitive to many factors

Table 36 and Table 37 show the expected impacts on indicative uncapped 2025/26 levies and 2024/25 appropriations of a 1% increase or decrease in key assumptions. The movements don't indicate the upper or lower levels of all possible outcomes. These sensitivities are calculated independently of each other.

Table 36: Sensitivity of levy rates

Impact on levy rates ($)	Motor Vehicle Account +1%	Motor Vehicle Account -1%	Work Account +1%	Work Account -1%	Earners' Account +1%	Earners' Account -1%	Treatment Injury Account (levied) +1%	Treatment Injury Account (levied) -1%
Risk-free discount rates and investment returns	(45.84)	62.85	(0.07)	0.08	(0.10)	0.12	(0.01)	0.01
Asset values	(3.84)	3.84	(0.01)	0.00	(0.01)	0.00	(0.00)	0.00
Inflation rates	81.22	(62.08)	0.13	(0.10)	0.17	(0.14)	0.02	(0.02)
Number of new weekly compensation claims	1.04	(1.05)	0.00	(0.01)	0.01	(0.01)	0.00	(0.00)
Weekly compensation continuance rates	13.73	(11.38)	0.03	(0.03)	0.02	(0.02)	0.00	(0.00)
Sensitive claim continuance rates	n/a	n/a	n/a	n/a	0.02	(0.02)	n/a	n/a
Elective surgery superimposed inflation	5.42	(3.90)	0.01	(0.01)	0.02	(0.02)	(0.02)	(0.00)
Medical superimposed inflation	3.03	(2.32)	0.00	(0.01)	0.01	(0.01)	0.00	(0.00)
Care superimposed inflation	48.03	(35.41)	0.01	(0.01)	0.03	(0.03)	0.01	(0.01)
Elective surgery active claims	6.62	(4.44)	0.02	(0.01)	0.02	(0.02)	0.00	(0.00)

Table 37: Sensitivity of Non-Earners' appropriation

Impact on Non-Earners' appropriation ($M)	Non-Earners' Account +1%	Non-Earners' Account -1%	Treatment Injury Account (non-levied) +1%	Treatment Injury Account (non-levied) -1%	Total Non-Earners' appropriation +1%	Total Non-Earners' appropriation -1%
Risk-free discount rates and investment returns	(244.05)	348.71	(113.64)	167.63	(357.68)	516.34
Asset values	(6.32)	6.32	(4.15)	4.15	(10.47)	10.47
Inflation rates	417.17	(314.55)	188.95	(159.22)	606.13	(473.77)
Number of new weekly compensation claims	n/a	n/a	n/a	n/a	n/a	n/a
Weekly compensation continuance rates	n/a	n/a	n/a	n/a	n/a	n/a
Sensitive claim continuance rates	90.70	(69.71)	n/a	n/a	90.70	(69.71)
Elective surgery superimposed inflation	19.29	(14.14)	7.04	(5.30)	26.33	(19.44)
Medical superimposed inflation	15.86	(13.47)	1.70	(1.47)	17.57	(14.94)
Care superimposed inflation	136.10	(93.66)	154.35	(105.03)	290.45	(198.69)
Elective surgery active claims	19.91	(13.74)	6.30	(4.54)	26.21	(18.28)
Number of non-earners	25.41	(25.41)	3.51	(3.51)	28.91	(28.91)

No sensitivities have been calculated for weekly compensation scenarios for the Non-Earners' Account, as non-earners are not eligible[25] for weekly compensation payments.

Various possible future scenarios for economic factors and claim performance generate a range of potential pathways for the levies and appropriations

Our forecast levies and appropriations are calculated by applying the government funding policies with best-estimate assumptions, which means it's equally likely that they're too high or too low. Our forecasts vary over time with changes in the underlying assumptions, such as those indicated in the sensitivities above. To understand more, we simulate future examples of these variations.

The simulations allow for:

- the funding position as at 30 June 2024
- variations in economic factors, including the earned rates of investment return, inflation rates, and risk-free interest rates
- changes in the number of claims, rehabilitation rates, average costs, and superimposed inflation.

We've generated funding ratios, along with levy rates and appropriations based on the government funding policies for each simulation. Charts 10, 12, 14 and 16 show the distribution of possible funding ratios for each Account in future years, with levy rates and the appropriations calculated according to the funding policies. The central 80% of simulations fall within this range (the 10th to 90th percentile).

New year costs vary with changes in economic assumptions and claim trends, which results in a range of possible pathways for levies and appropriations. Charts 11, 13, 15 and 17 show, for each Account, the distribution of future uncapped and capped levy and appropriation paths.

The distribution of capped levy paths is much narrower than the uncapped levy paths, showing the effect the cap has on stabilising levy rates.

The assumptions for each simulation can change each year. The simulated levies and appropriations are then re-calculated by applying the applicable funding policy. The ability to revise the assumptions for the simulations every three years creates a wide range of possible levy rates for each of the future years, and this variance increases the further we project.

Continued capped funding increases make it more likely that ACC's Accounts will be underfunded

The funding policy for levied Accounts stipulates that the maximum increase in levies is 5% per annum. However, it allows the Motor Vehicle Account to adjust for inflation on top of this 5% cap. The funding policies don't have a limit on the size of funding reductions. For example, a simulated pathway could see a 25% drop in levies one year followed by capped increases in the next five years to restore the funding level.

The combination of capped funding increases and unrestricted decreases results in a higher likelihood of significant underfunding (less than 80% funding ratio) in each Account. If this happens, the underfunding is likely to be passed on to future levy payers and taxpayers in the form of higher levies and appropriations.

The forecast funding ratio path maintains the economic and claim assumptions as at 30 June 2024 into the future. However, for each simulation, the assumptions can change each year.

The levies and appropriations are then re-calculated by applying the applicable funding policy. If these assumptions deteriorate, the funding policy (both capping and the funding adjustment) will deliberately slow any increases in funding. This means that the simulated funding ratio is likely to be lower than the indicative funding ratio path.

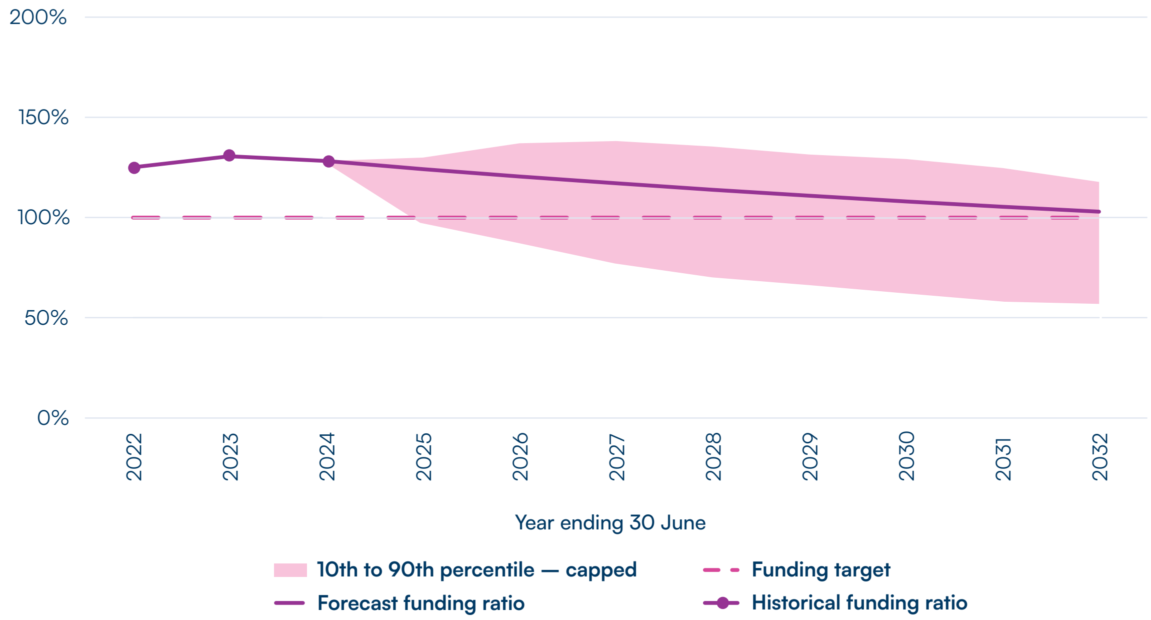
[25] There's a small number of scenarios where non-earners' are eligible for weekly compensation, but the volume of claims is too small to consider them in this scenario.

Motor Vehicle Account: Future levy increases, capped at 5% plus inflation, likely required for 20+ years despite the strong funding ratio to better align with new year rates

As at 30 June 2024, the Motor Vehicle Account had a funding ratio of 128%, a decrease from 131% in the previous year. The forecast funding ratio, shown as the blue line in Chart 10, reduces over time.

This is because the funding surplus is returned to levy payers in the form of lower levies in line with the funding policy. The simulations imply a 42% probability of being under the 100% target in 2028 and a 17% probability that the funding ratio will be lower than 80%.

Chart 10: Motor Vehicle Account projected funding ratio



Despite the strong funding ratio, we expect levy increases will be needed in the future. This is because the 2024/25 levy ($113.94) is well below the 2025/26 new year rate ($233.17). In the 2024 levy consultation, the recommended three-year period starts with 2025/26. We forecast levies will increase at the cap for the next 22 years.

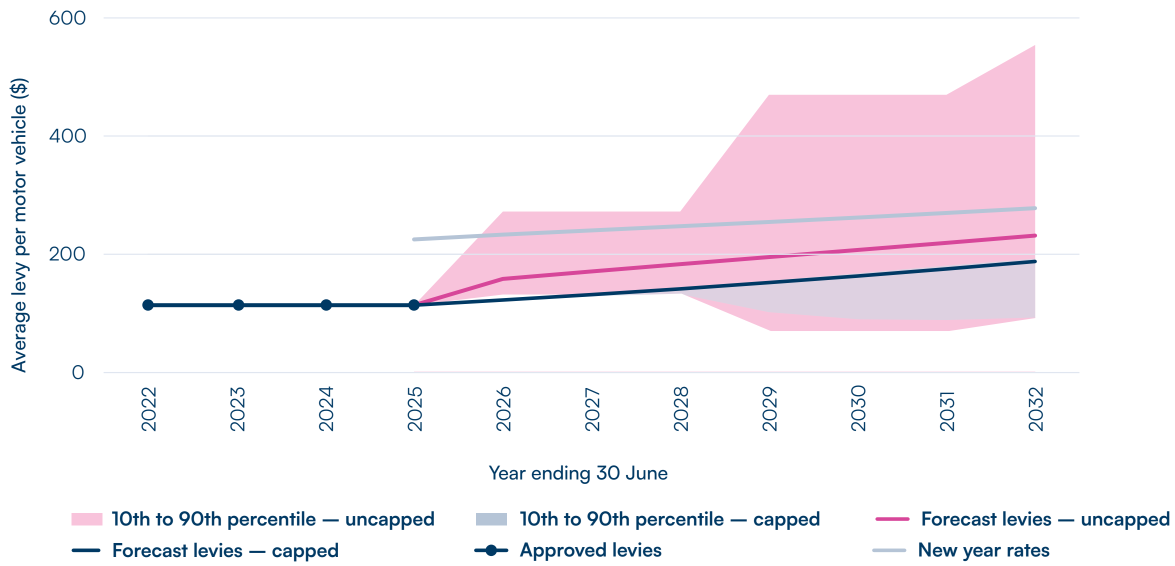
The distribution of the Motor Vehicle Account's simulated uncapped levy path, shown in Chart 11, is the widest of the levied Accounts. For example, by 2029/30 the simulated levy rate could range from 33% to 227% of the indicative uncapped levy rate. The long-term nature of claims in this Account means it's the most sensitive to changes in economic and claim trends.

Even with capped levy increases the range of possible levies is wide, between $90.25 and $168.10 in 2029/30.

The upper range is still well below the expected 2029/30 new year rate ($262.08).

The volatility in levy paths is mostly caused by the funding adjustment, rather than the new year costs. The $90.25 levy scenario described above could occur in situations where a combination of high risk-free interest rates, low inflation rates, and high equity returns creates a very strong funding ratio (over 140%). A significant negative funding adjustment (discount) is then applied to move the levy rate towards the funding target over time in accordance with the funding policy.

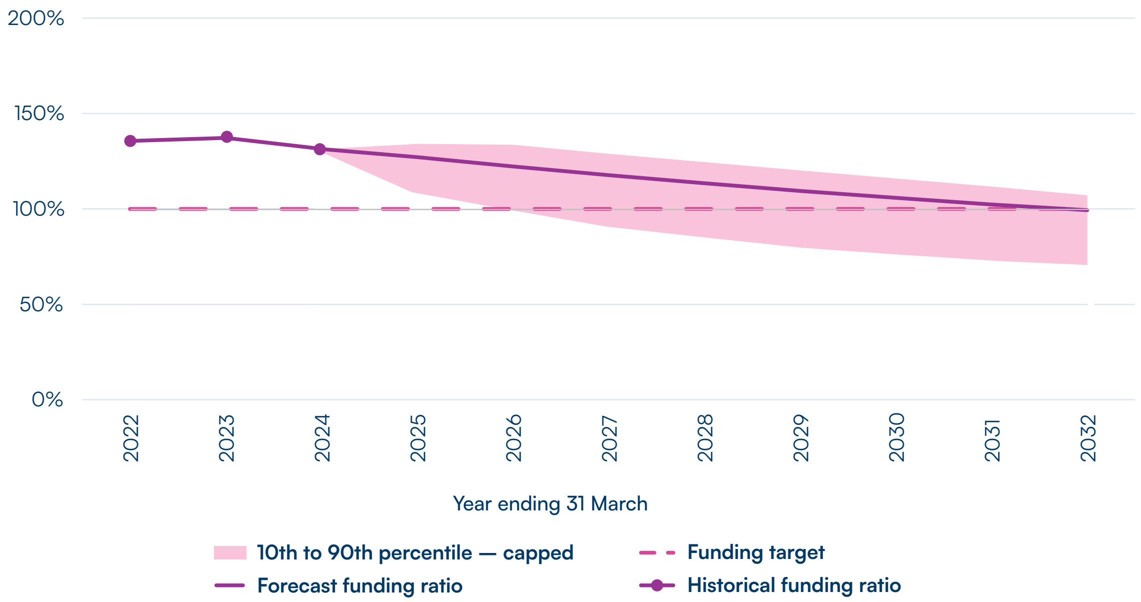
Chart 11: Motor Vehicle Account distribution of future levy paths



Work Account: Future levy increases, capped at 5%, likely required for 12 consecutive years despite the strong funding ratio to better align with new year rates

The Work Account had the strongest funding ratio, as at 30 June 2024, of 131.5%. It's the least likely to be below the 100% funding target in 2028, with a probability of 32% and only a 6% probability of a funding ratio lower than 80%, as seen in Chart 12.

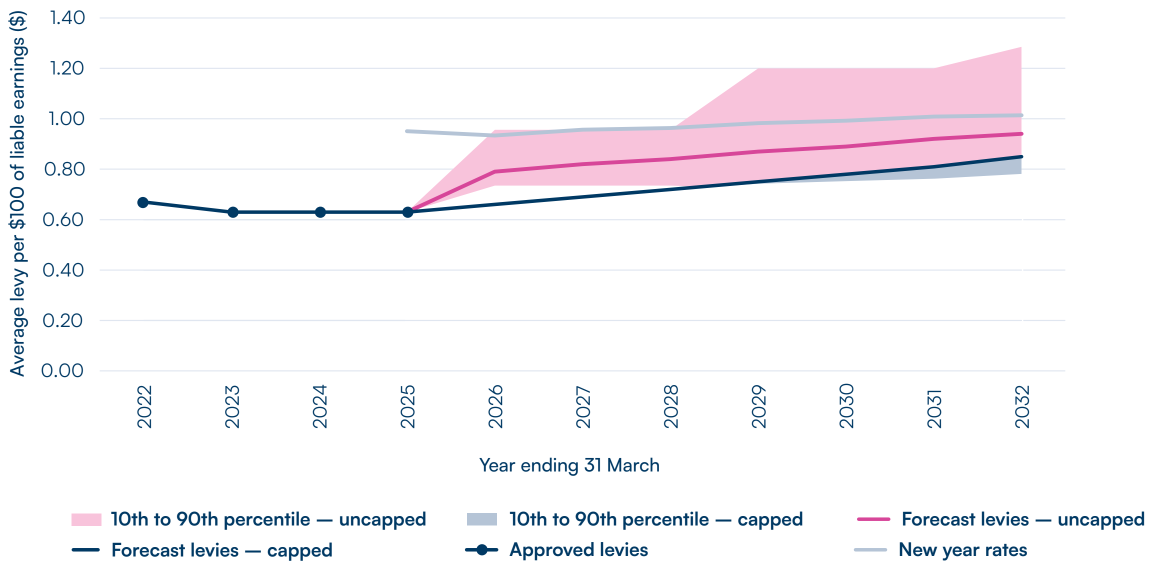
Chart 12: Work Account projected funding ratio



The new year rate for 2025/26 is $0.93 per $100 liable earnings, significantly higher than the 2024/25 levy of $0.63. The forecast capped increases are expected to remain below the 10th percentile of uncapped levy path until the 2028 levy year. Therefore, levy increases are forecast to be at the 5% maximum cap for 12 consecutive years.

The Work Account is more exposed to future variability in interest rates than the Earners' Account. This means the simulated uncapped levy path in Chart 13 is slightly more volatile than in the Earners' Account.

Chart 13: Work Account distribution of future levy paths



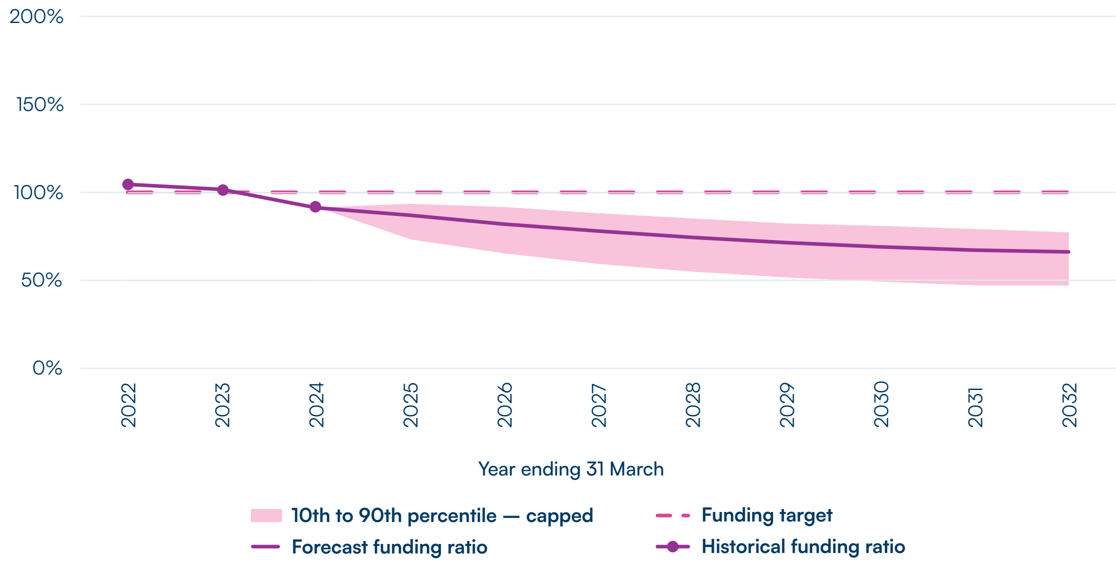
Earners' Account: Future levy increases, capped at 5%, required for 11 consecutive years to address funding deficits and better align to new year rates

The Earners' Account (excluding the levied portion of the Treatment Injury Account) had an opening funding ratio of 91.3%, a decrease from 102% the previous year. Despite the Government approving the capped levy increases for 2023/24 and 2024/25, a funding deficit persists as these rates remain below new year rates.

We forecast that the funding ratios will further deteriorate as the year progresses, as illustrated in Chart 14. Capped levy increases will limit how quickly the funding position can be restored. As stated above, the funding policy deliberately slows any funding increases as a response to deteriorating economic and claim assumptions in the simulations.

Our simulations indicate there's a 99% probability that the funding ratio will be below 100% in 2028 and a 79% probability that it will be below 80%. Chart 14 shows that funding ratios are highly likely to remain below the funding target, even with approved increases.

Chart 14: Earners' Account projected funding ratio (excluding the levied portion of the Treatment Injury Account)

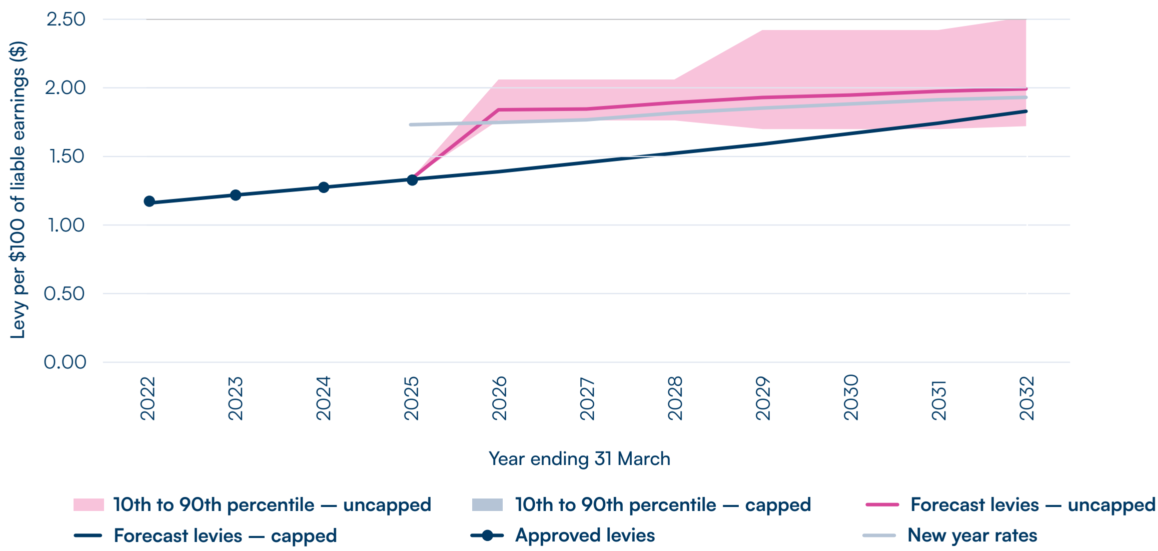


Levies are forecast to increase close to the 5% cap for the next 11 years. This is due to the funding deficit and the gap between the 2024/25 levy rate ($1.33) and the new year rate for 2025/26 ($1.75).

Our simulations also show the strong likelihood of capped increases. As shown in Chart 15, the range of possible capped levies is identical to the forecast capped levies, which follows the maximum 5% increase per annum. This indicates that it's very unlikely that levy increases in line with the funding policy will be below the maximum 5%.

In 98% of simulations, the levy for the Earners' Account (excluding the levied portion of the Treatment Injury Account) for the levy year 2029/30 is capped at $1.67, which is higher than the 2024/25 levy of $1.33. This shows that, even in the more favourable scenarios, the Earners' levy is expected to need to increase. Without the cap the range of possible levies in the same period widens, from $1.70 to $2.42 with 80% confidence.

Chart 15: Earners' Account distribution of future levy paths (excluding the levied portion of the Treatment Injury Account)



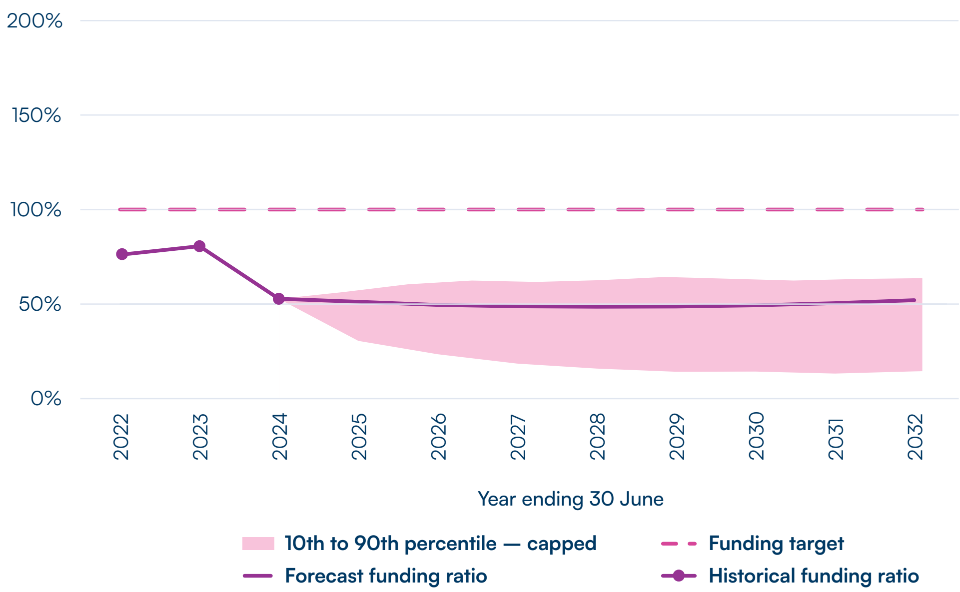
Non-Earners' Account: Future appropriation increases, capped at 7.5%, likely required for next 10 years to address the significant funding deficit

The fully funded portion of the Non-Earners' Account (excluding the non-levied portion of the Treatment Injury Account) was already in deficit as at 30 June 2024. The funding ratio had deteriorated to 53%, down from 81% the previous year mainly due to provisions made following Court decisions.

As with the levied Accounts, capping slows the Non-Earners' Account's approach towards the funding target.

The cap in this case is 7.5%, rather than the 5% applied to the levied Accounts. As shown in Chart 16, even under favourable scenarios the simulations imply that the Non-Earners' Account is highly likely to be below a funding ratio of 80% at 2027/28. This is due to the significant existing deficit and the capping limit on increases, which slows the deficit recovery.

Chart 16: Non-Earners' Account projected funding ratio (fully funded portion excluding the non-levied portion of the Treatment Injury Account)



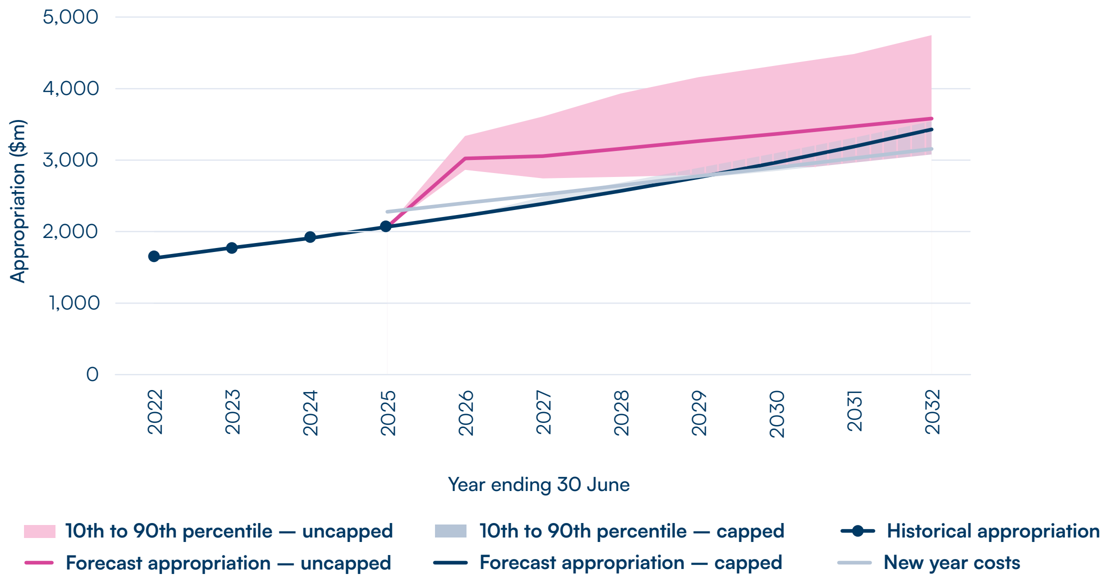
Appropriation increases are expected due to the deficit in the Non-Earners' Account. The 2024 calculated appropriations suggest that the combined appropriation will increase at the 7.5% cap for the 10 consecutive years from 2024/25.

The government funding policy for the Non-Earners' Account states that claims before July 2001 should be funded on a Pay As You Go (PAYG) basis. This means that included in the appropriation in any given year is the amount we expect ACC to pay in that year for those claims. The PAYG portion of the appropriation is very stable, at around $200 million per year. As it represents only a year's worth of payments, it's not as affected by changes in economic assumptions. Also, there's more certainty around claim numbers and payments as it only covers claims from before 2001.

As shown in Chart 17, the distribution of the simulated uncapped appropriations is wide, with a projected range of $2.9 billion to $4.3 billion in 2029/30 with 80% confidence. The long-term nature of claims in this Account means that it's very sensitive to changes in economic and claim trends.

With capped increases, the projected range of the Non-Earners' Account appropriation is from $2.8 billion to $3.1 billion in 2029/30.

Chart 17: Non-Earners' distribution of future appropriation paths (excluding the non-levied portion of the Treatment Injury Account)



Claim frequency projections

Claim frequency is a measure of the number of claims as a proportion of the population covered. Any increase (or decrease) reflects growth in the claim numbers above (or below) the growth in the relevant population.

The historical claim frequencies in this section include estimates of the number of claims for injuries that have happened in each year but haven't yet been reported.

Future claim frequencies have been projected using a combination of past claim number trends and the Treasury's Budget Economic and Fiscal Update (BEFU) 2024.

Some claims receive support through bulk-funded Public Health Acute Services (PHAS). Most of these claims aren't counted in our frequency calculations, as they don't require any further treatment or support from ACC. Those who do go on to receive further treatment or support are counted when that treatment or support is provided. We refer to claims that receive compensation and/or rehabilitation support in addition to medical treatment as entitlement claims.

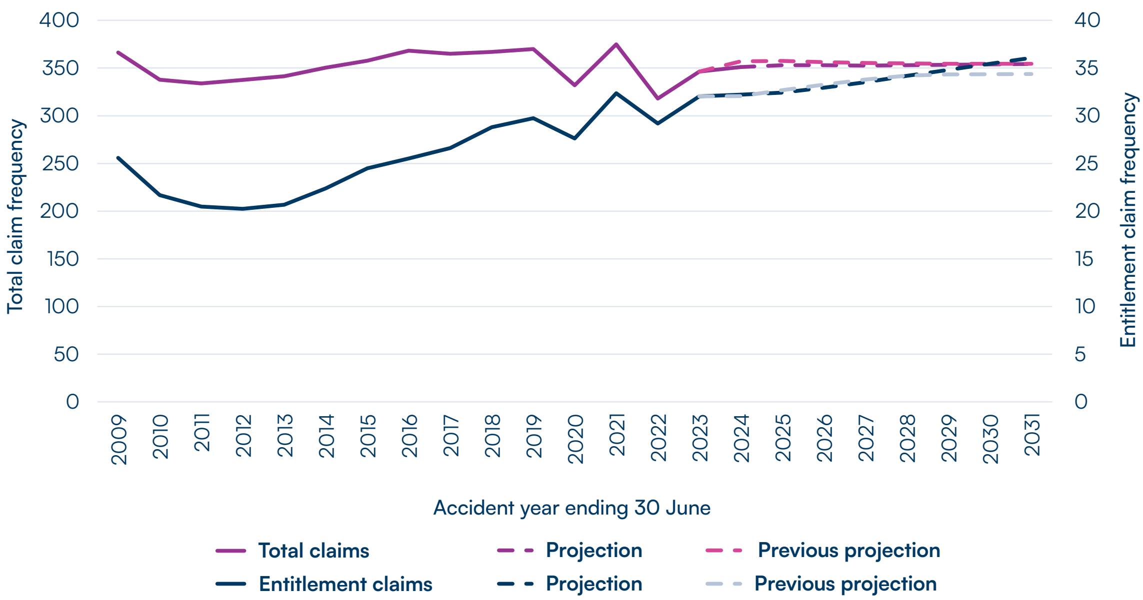
We exclude work-related claims from employers in the AEP, as they're not covered by the levies set for the Work Account, but rather are paid for directly by the employers.

Work-related gradual process (WRGP) claims are also excluded, where applicable, from the following charts as exposure to a gradual process injury occurs over a number of years.

For the total Scheme, we're projecting entitlement claim frequency to increase faster than total claim frequency

Chart 18 shows the total historical and projected claim frequencies for ACC's five Accounts.

Chart 18: Total Scheme estimated claim frequency rates per 1,000 people



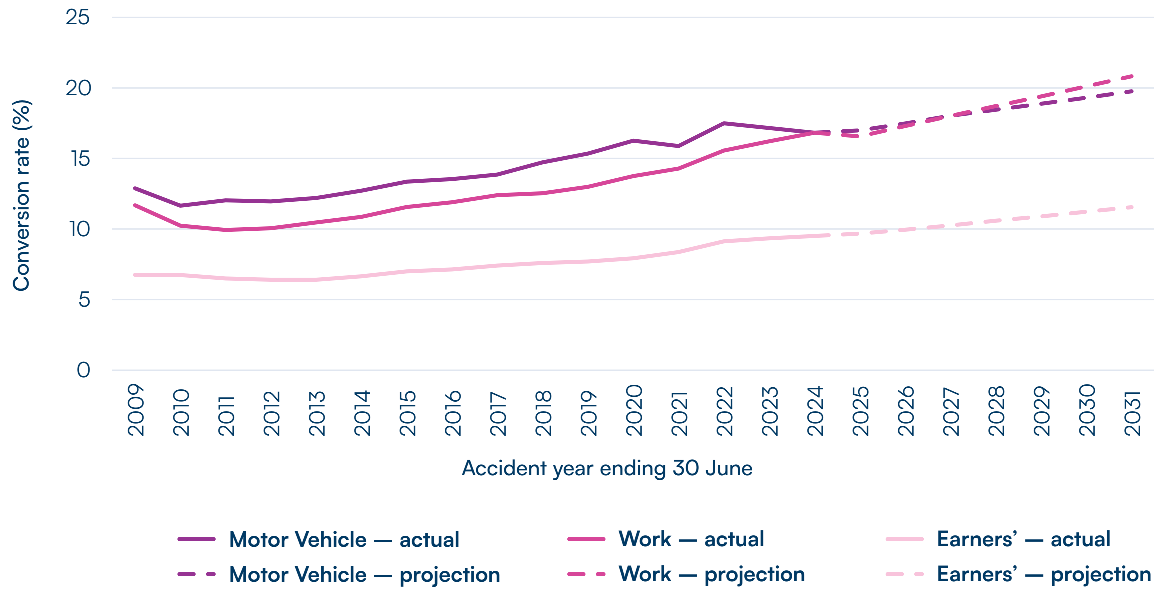
The COVID-19 restrictions led to reductions in both total claims and entitlement claims in 2019/20 and 2021/22, affecting all Accounts. We saw a quick recovery of claims in 2020/21 following the removal of restrictions. We expected a similar recovery to pre-pandemic levels in 2022, but this didn't eventuate for total claims. We've ignored the claim experience from periods of the COVID-19 restrictions for projecting future claim frequencies. We project total claim frequencies to remain close to the current level for the foreseeable future.

We'd generally expect entitlement and total claim frequencies to trend at similar rates. However, entitlement claim frequency increased at an average 4% per annum between 2013/14 and 2023/24, compared to 1% per annum for total claims frequency over the same period.

Approximately 80% of the entitlement claims in the levied Accounts receive weekly compensation. Consequently, the growth in entitlement claims relative to total claims is strongly correlated to a rise in the proportion of claims receiving weekly compensation. The proportion of claims receiving weekly compensation is known as the weekly compensation conversion rate.

Chart 19 shows the past and projected weekly compensation conversion rates for the levied Accounts. These Accounts hold the bulk of weekly compensation claims.

Chart 19: Weekly compensation conversion rate



The Motor Vehicle and Work Accounts generally have more severe injuries, so the weekly compensation conversion rates are higher for these two Accounts. All three levied Accounts have experienced steady growth in the weekly compensation conversion rates in the past 10 years.

Over this time, people have moved to getting weekly compensation payments earlier in their recovery journey and for longer periods. While short-term weekly compensation claims are growing faster than long-term weekly compensation claims, both types of claims have grown significantly over time.

The increase in weekly compensation conversion rates is consistent when examined by the following factors beyond our control:

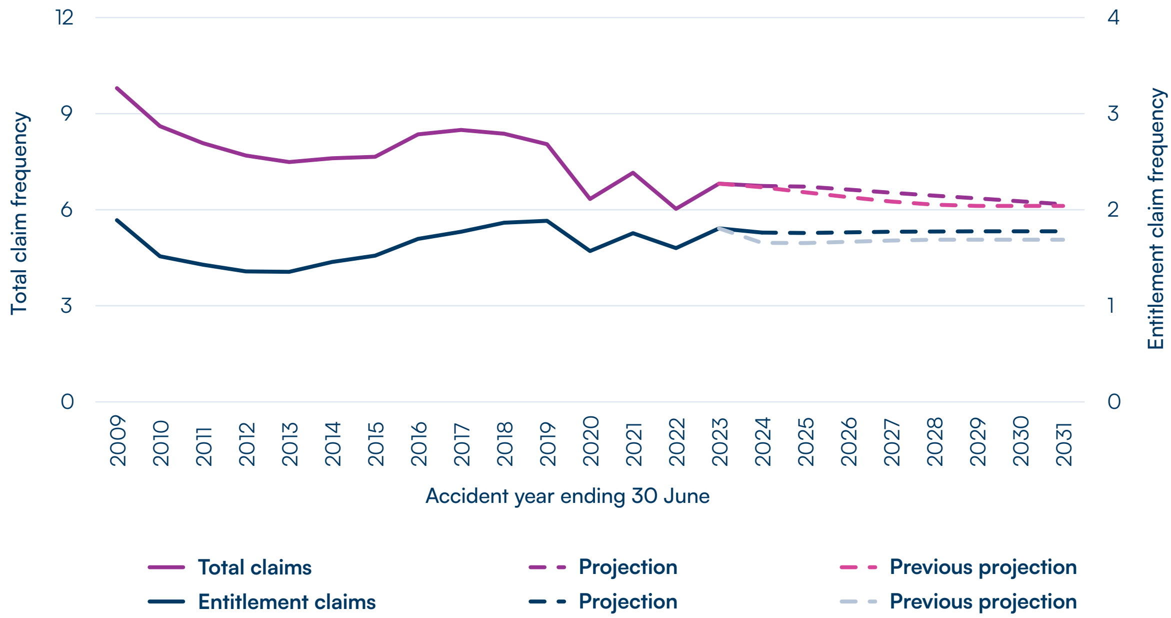
- gender
- age
- region
- injury site
- injury complexity
- industry type
- occupation
- activity type.

So far, we haven't been able to explain the growth in conversion rates. While we can continue our investigative work, the growth may be the result of something not captured by data (for example, behavioural changes in clients, or medical service providers, or ACC operational changes). As such, it may be difficult to uncover the reasons for this growth.

Motor Vehicle Account total claim frequency is expected to reduce

Chart 20 shows the annual historical and projected claim frequencies for the Motor Vehicle Account.

Chart 20: Motor Vehicle Account estimated claim frequency rates per 1,000 motor vehicles



The Motor Vehicle Account total claim frequency, measured per 1,000 registered motor vehicles, has been decreasing over time. We expect total claim frequency to continue to reduce, in line with the historic trends.

Over the period shown on the chart, total claim frequency has been decreasing. The decreasing trend might be due to more people working from home, better roading infrastructure, improved car safety, and greater awareness of safe driving.

In addition, the number of cars per person in New Zealand has been gradually increasing, by around 15% since 2006. In the same period the distance travelled per person has decreased by 6%.

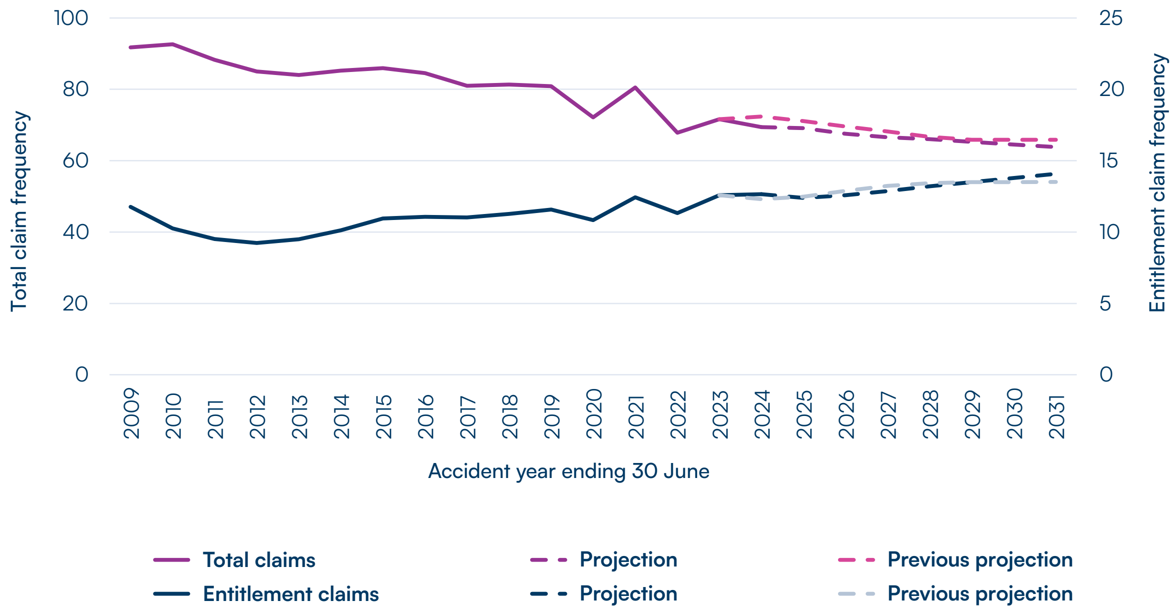
The combination of more cars and shorter distance travelled per person has likely contributed to a decrease in the claim rates per car. As people drive shorter distances and less often, the number of claims will decrease, and this will also affect the frequency.

Last year, we forecast entitlement claim frequency would remain steady, despite projecting a reduction in total claim frequency. This year we're maintaining our expectations for stability, but at a slightly higher level due to actual entitlement claim frequency in 2023/24 being higher than expected. A stable projection for entitlement claims, despite a reducing total claim frequency, is consistent with the growth seen in the weekly compensation conversion rate.

Total claim frequency for the Work Account is expected to reduce, but entitlement claim frequency is expected to increase

Chart 21 shows the annual claim frequencies, including projections, for the Work Account.

Chart 21: Work Account estimated claim frequency [26] rates per 1,000 employed people



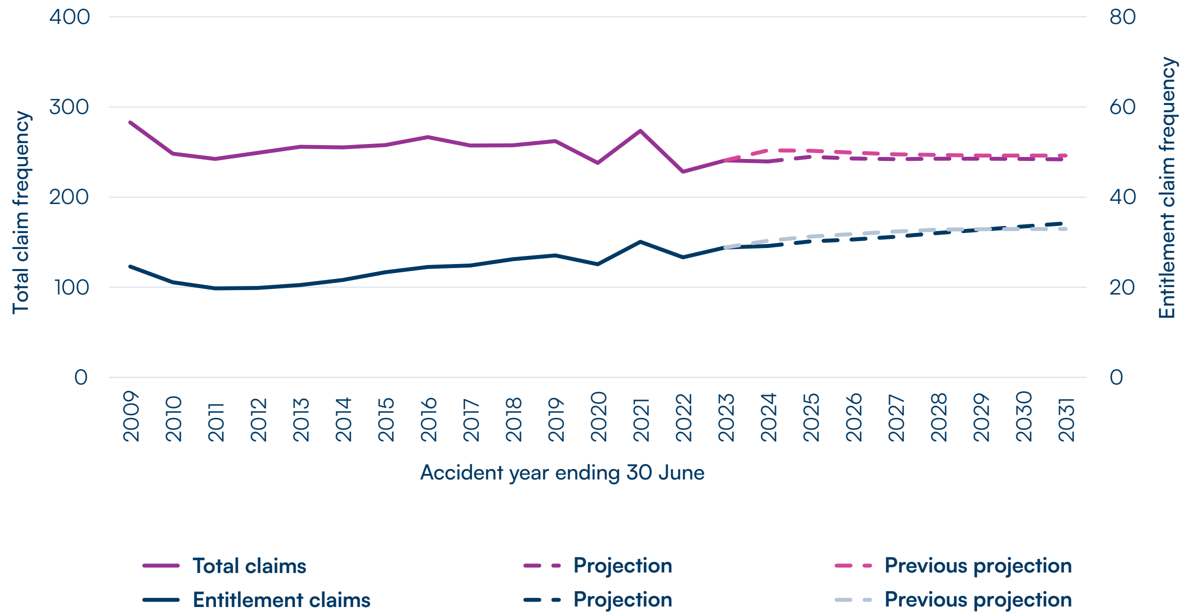
Total claim frequency for the Work Account has been reducing and we expect this trend to continue. The number of claims reported in 2034/24 was lower than expected. This has been reflected in a reduction in total claim frequency projections compared to last time. We don't know what's driving the decreasing total claim frequency in the Work Account.

Entitlement claim frequency has been gradually increasing since 2011/12, in line with the increasing weekly compensation conversion rate. Going forward we expect entitlement claims to continue to increase in line with the current weekly compensation conversion rate trend.

Earners' Account claim frequencies are largely in line with previous projections

Chart 22 shows the annual claim frequencies, including projections, for the Earners' Account.

Chart 22: Earners' Account estimated claim frequency rates per 1,000 earners



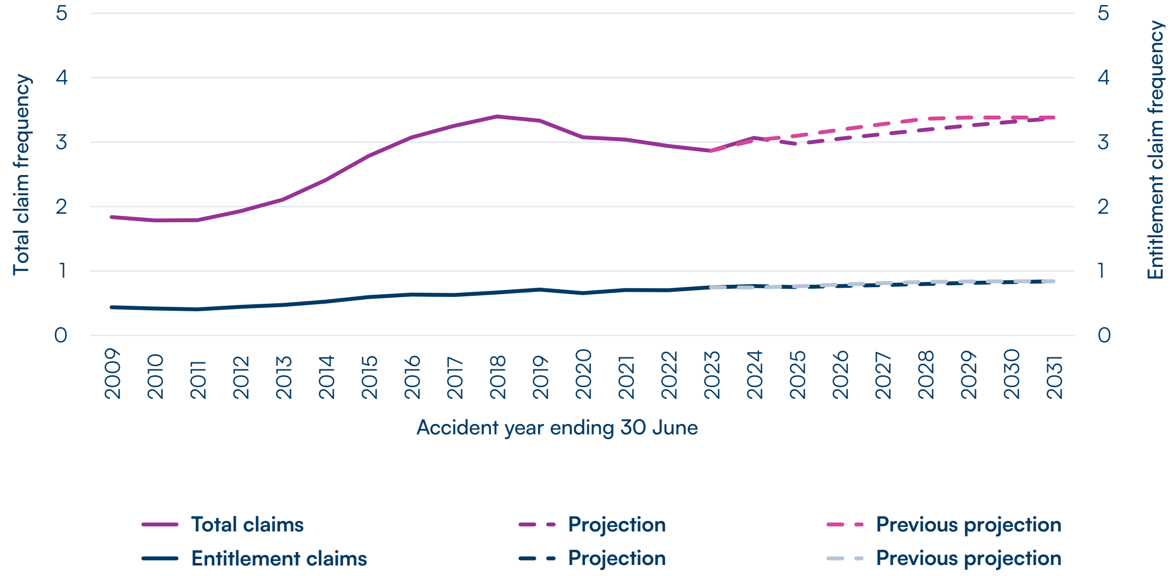
The total claim frequency in 2023/24 was slightly lower than expected, which has reduced the projections for the coming two to three years. From 2027/28, the projected frequency of future claims is expected to remain at levels comparable to those in 2023/24.

The frequency of entitlement claims is projected to continue growing at a similar rate to that observed in the past 10 years. This growth can also be seen in the weekly compensation conversion rate (see *Chart 19*), and as previously noted we don't know what's driving the increasing trend.

Treatment Injury Account claim frequencies are expected to increase slowly over time

Chart 23 shows the annual historical and projected claim frequencies for the Treatment Injury Account.

Chart 23: Treatment Injury Account estimated claim frequency rates per 1,000 people



Surgery is a major source of treatment injury claims, and there were reductions/delays in that activity during the periods of COVID-19 restrictions. As a result, there were fewer claims for treatment injuries in those periods. Prior to 2017/18, the total claim frequency increased significantly. It's thought that this was related to medical providers submitting more treatment injury claims to ACC due to an increasing awareness of the change to treatment injury from medical misadventure.

We expect the total claim frequency to gradually increase over time, returning to pre-COVID-19 pandemic levels by 2030/31.

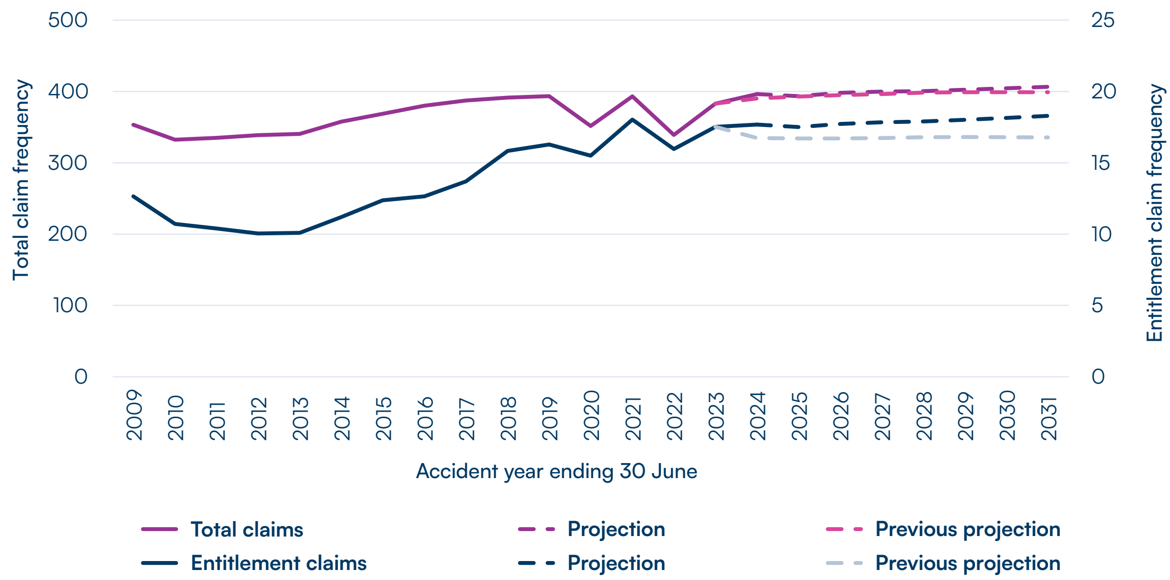
Through the COVID-19 lockdowns ACC saw a noticeable reduction in total claims, but not in entitlement claims. It may be that entitlement claims often relate to injuries that are more severe, so medical treatment and support can't be delayed easily. We expect the entitlement claims to grow, consistent with the total claims.

[26] Excludes WRGP claims.

Non-Earners' Account claim frequencies are expected to increase gradually

Chart 24 shows the annual historical and projected claim frequencies for the Non-Earners' Account. It excludes claims receiving support solely through bulk-funded PHAS, which are a large portion of the new year costs in this Account.

Chart 24: Non-Earners' Account estimated claim frequency rates per 1,000 non-earners



Total claim frequency in 2023/24 was close to expected. Projected total claims frequency is projected to increase gradually, consistent with last year's projections.

The historical growth in entitlement claims relative to total claims was largely due to the increase in the number of sensitive claims. We're projecting entitlement claim frequency growth in line with total claims frequency growth, albeit at a higher level, as actual claims were higher than expected last year.

Appendix E – Management of investments

This appendix discusses the performance of ACC's investment portfolio and how this is managed and governed.

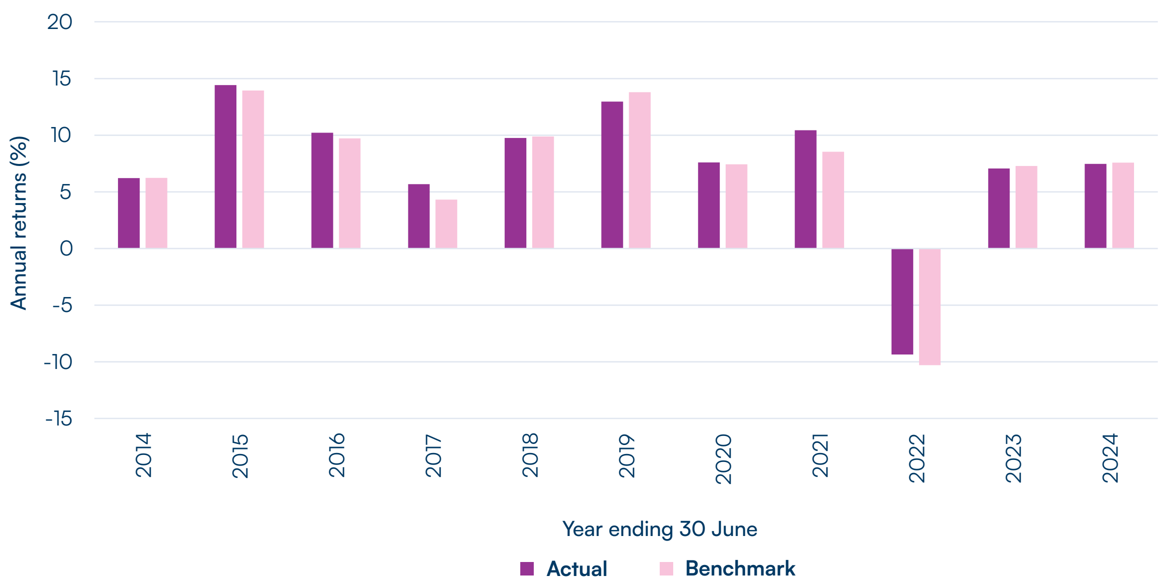
ACC's investment philosophy and approach to asset management and allocation are appropriate for the profile and nature of the liabilities of the Scheme. The methods applied for valuing ACC's assets and non-insurance liabilities, as described in its annual financial statements, are appropriate for determining ACC's funding positions.

The 2023/24 investment return after costs was 7.46%

ACC's investment assets had a market value of $48.6 billion as at 30 June 24, up from $46.7 billion the previous year. These assets and their associated future investment returns are held to fund the OCL.

In 2023/24, the actual investment return after costs was 7.46% (7.62% before costs), falling 0.12% short of the benchmark. This marks the second consecutive year of underperformance relative to the benchmark after factoring in the year-to-date investment management costs. Chart 25 illustrates the Scheme's annual investment returns after costs compared to the benchmark since 2014, when ACC first achieved full funding with assets equalling the OCL. Historically, actual investment returns have closely tracked the benchmark.

Chart 25: Comparison of investment returns after costs with benchmark



During 2023/24, there were gains in most asset types, as shown in Table 38. Investment returns before costs were highest for global equities. Around half of the asset classes beat their benchmarks, with global bonds, listed infrastructure/property and New Zealand long bonds benchmarks being beaten by the highest margins.

Table 38: Market value and investment return before costs by asset type

	Market value 30 June 2024 ($M)	2023/24 return (%)	Benchmark return (%)	Relative performance (%)
Cash reserves	1,360	6.08	5.77	0.31
New Zealand inflation-indexed bonds	13,902	5.71	5.80	(0.09)
New Zealand long bonds	14,270	6.55	4.90	1.66
New Zealand equities	3,598	(4.65)	(4.02)	(0.63)
Listed infrastructure and property	1,188	(2.85)	(4.50)	1.65
Private markets*	2,314	3.07	2.72	0.35
Australian equities (unhedged)	1,195	7.24	9.74	(2.50)
Global bonds (unhedged)	1,169	7.30	5.06	2.24
Global equities (unhedged)	9,726	18.05	20.86	(2.81)
Interest rate overlay	(217)	(0.05)	(0.05)	(0.01)
Global equity futures overlay	37	0.04	0.00	0.04
Global bond futures overlay	9	0.00	0.00	0.00
Foreign currency overlay	17	0.05	0.18	(0.12)
Total reserves	**48,568**	**7.62**	**7.58**	**0.04**

As shown in Table 39, investment returns before costs were highest for the Non-Earners' Account portfolio, followed by the Earners' Account. Performance by Account was above benchmark for the Motor Vehicle and Work Accounts.

Table 39: Market value and investment return before costs by Account

Account	Market value 30 June 2024 ($M)	2023/24 return (%)	Benchmark return (%)	Relative performance (%)
Motor Vehicle	14,437	6.48	6.15	0.33
Work	10,638	8.01	7.75	0.26
Earners'	12,419	8.20	8.29	(0.09)
Treatment Injury	5,530	7.10	7.19	(0.09)
Non-Earners'	5,544	9.12	9.82	(0.70)
Total reserves	**48,568**	**7.62**	**7.58**	**0.04**

ACC actively manages its portfolios with oversight from the Investment Committee

ACC manages investments actively to gain better risk-adjusted returns than it would under a passive regime. A passive investment management approach is a strategy that mechanically tracks representative market benchmarks. Under an active investment management approach, the manager actively seeks opportunities to make short-term returns by taking calculated risks.

ACC develops the overall investment strategy and manages a significant proportion of the investment portfolio, including equities, fixed interest securities, and direct markets. External fund management companies manage most investments outside of Australasia.

The Board Investment Committee (BIC) provides oversight of ACC's investment management and investment performance against established benchmarks. They approve asset allocation benchmarks and set the default allocation between investment markets for each Account, including asset classes, risk tolerances, and exposure limits. The BIC appoints or removes external fund managers and investment advisors.

The investment strategy considers the nature of liabilities and available assets

The liability profile varies by Account

Long-term liabilities, which are mainly serious injury claims, are primarily in the Motor Vehicle, Non-Earners', and Treatment Injury Accounts. The liability profile for these serious claims is lengthy, with payments subject to general price inflation and superimposed inflation.

There are also medium-term claims, such as in the case of weekly compensation. Entitlement to weekly compensation ends when a client is able to return to work or reaches the age of eligibility for New Zealand Superannuation. These claims are subject to wage-related inflation. Most weekly compensation claims are in the Work and Earners' Accounts.

The investment strategy considers the nature of liabilities

Accounts with low funding ratios and long claim liabilities generally have asset allocations that are more heavily weighted towards equities. This is because equity volatility is less material relative to liability volatility for these Accounts.

The Accounts with the lowest total equity weightings are the Work and Motor Vehicle Accounts. For the Work Account, this is due to its comparatively short duration liabilities and higher funding ratio.

In the case of the Motor Vehicle Account, there's less cushion to absorb fluctuations in equity prices without them significantly impacting levy rates. That's because of the low annual cash flow from levy income and claim payments in relation to the size of assets and liabilities.

The relatively high total equity weighting for the Non-Earners' Account is due to its relatively low funding ratio.

There is some mismatch between assets and liabilities

In a closely matched portfolio, asset and liability values respond similarly to economic stresses and mostly offset each other, which results in net assets that are relatively immune to external pressures.

In practice, it's not possible to match Scheme assets to total claim liabilities completely or even closely. The available securities with suitable characteristics are of a much shorter term than the liabilities with long durations that make up most of the OCL.

So, an increase in the OCL due to a fall in interest rates is likely to be only partially offset by an increase in investment asset values, resulting in a decrease in the funding ratio. Likewise, a decrease in the OCL due to rising interest rates will be partially offset by a corresponding decrease in investment asset values, leading to an increase in the funding ratio.

The Strategic Asset Allocation (SAA) sets the basis for the investment portfolios for each Account

The SAA is the process of setting benchmark investment allocations by asset class for each Account. Investment portfolio performance is measured against these benchmark allocations. A composite benchmark is used to measure overall investment return.

Table 40 shows the strategic asset allocations with benchmark holdings and actual allocations by Account. Separate asset allocation weightings are set for each Account.

Actual asset allocations may differ from benchmark allocations, which reflects a combination of deliberate and temporary market deviations. Deliberate deviations are permitted by discretion given to the Investment team under their Investment Guidelines. Temporary deviations arise from the impact of market movements on asset weightings. Strategic asset allocations vary from year-to-year, depending on SAA reviews.

In October 2023 and April 2024, ACC reviewed and updated the SAA percentages for individual Accounts. The changes were implemented by December 2023 for the full review and May 2024 for the interim review, with generally smaller adjustments in the latter. The cumulative changes included:

- a decrease in global equity weight and an increase in nominal bonds due to lower expected equity risk premiums
- a slight increase in inflation-indexed bonds due to new issuances
- a shift from cash to greater interest rate exposure through derivatives for the Work Account to better match interest rate needs.

There is no strategic asset allocation for private markets, which include unlisted property, infrastructure and private equity holdings because the SAA is restricted to listed assets. Actual asset allocation in the private markets was 4.8% at the end of 2023/24. This explains why the actual asset allocations for New Zealand property and infrastructure are lower than their strategic allocations, as some of the exposure has been obtained instead through private markets.

Table 40: Strategic asset allocations by Account

Asset class	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total strategic asset allocation 2024	Actual asset allocation 2024	Total strategic asset allocation 2023
New Zealand cash	2.0%	3.5%	3.0%	2.0%	4.0%	2.8%	2.8%	4.8%
New Zealand long bonds	38.0%	39.0%	26.5%	26.0%	9.0%	30.6%	29.4%	24.7%
New Zealand inflation-indexed bonds	34.5%	20.5%	24.0%	36.0%	31.5%	28.6%	28.6%	27.3%
Global bonds	1.0%	4.5%	4.5%	0.5%	0.5%	2.5%	2.4%	2.6%
New Zealand property and infrastructure	3.5%	4.0%	4.0%	3.5%	3.5%	3.7%	2.4%	3.8%
Private markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.8%	0.0%
New Zealand equities	7.5%	7.5%	9.0%	10.0%	11.0%	8.6%	7.4%	8.7%
Australian equities	2.0%	2.0%	3.5%	3.0%	4.5%	2.8%	2.5%	2.8%
Global equities	11.5%	19.0%	25.5%	19.0%	36.0%	20.4%	20.1%	25.5%
Foreign currency contracts overlay	n/a	n/a	n/a	n/a	n/a	n/a	0.0%	n/a
Other	n/a	n/a	n/a	n/a	n/a	n/a	-0.4%	n/a
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Interest rate derivative asset allocation overlay	9.5%	5.0%	11.0%	12.5%	15.0%	9.9%	8.6%	8.9%
Total equity weight (treating New Zealand property and infrastructure as 'half equities')	**22.8%**	**30.5%**	**40.0%**	**33.8%**	**53.3%**	**33.6%**	**31.1%**	**38.8%**

ACC considers Ethical, Social, and Governance implications

ACC follows an Ethical Investment Policy, which requires consideration of:

- its fiduciary responsibilities
- the ethical implications of its investments.

Ethical implications include those impacting the environment, as well as health, safety, and wellbeing.

The BIC governs compliance with the Ethical Investment Policy, which conforms with New Zealand legislation and UN international conventions.

In managing climate risks, both physical and transitional, ACC:

- measures the carbon intensity of investee companies
- sets long-term carbon intensity reduction targets
- seeks to invest in companies that provide emission reductions.

The organisation manages various investment risks

Many factors can influence investment performance and the net value of assets. Several of these factors can move simultaneously in the same direction (for example, both interest rates and equity markets can decline during a financial crisis).

Table 41 shows the risks that ACC faces and how it manages them.

Table 41: Investment risks and management strategy

Risk	Description	Management
Interest rate	When long-term interest rates fall, the value of fixed interest assets doesn't tend to rise as much as the OCL increases. Also, not all investments will move up or down in value.	ACC uses interest rate derivatives, such as interest rate swaps, to hedge against declines in long-term observed market interest rates. This helps generate revaluation gains when long-term interest rates decline.
Inflation	Price and wage inflation result in higher future claim costs. Interest rates also rise due to higher inflation expectations, which results in lower asset market values.	Real assets like property, equity, and inflation-linked securities tend to increase in value when real interest rates fall. They provide some protection from inflation when held to maturity.
Credit	ACC is exposed to counterparties with a risk of default.	The BIC limits this risk exposure by approving credit and portfolio limits. ACC monitors counterparty credit ratings, only allowing investment with certain New Zealand banks. Investment Guidelines constrain investment in unrated debt.
Currency	The New Zealand dollar tends to fall when equity markets decline, resulting in a decline in the value of assets in the local currency. Exchange rate movements alter the market value of offshore investments.	The portfolio's foreign currency exposure helps offset the risk of a decline in equity markets.
Liquidity	There's a low risk of ACC being unable to pay immediate or uncertain expenses as they arise.	ACC keeps a high proportion of investments in cash and bonds, with levies and appropriations providing a regular income. Scenario modelling is part of ACC's liquidity planning and management.
Extreme or rare events	Extreme events, such as natural disasters and pandemics, are difficult to monitor and predict. This makes hedging more challenging.	Managers of each sub-portfolio respond to the impacts of extreme events according to their risk allocations.

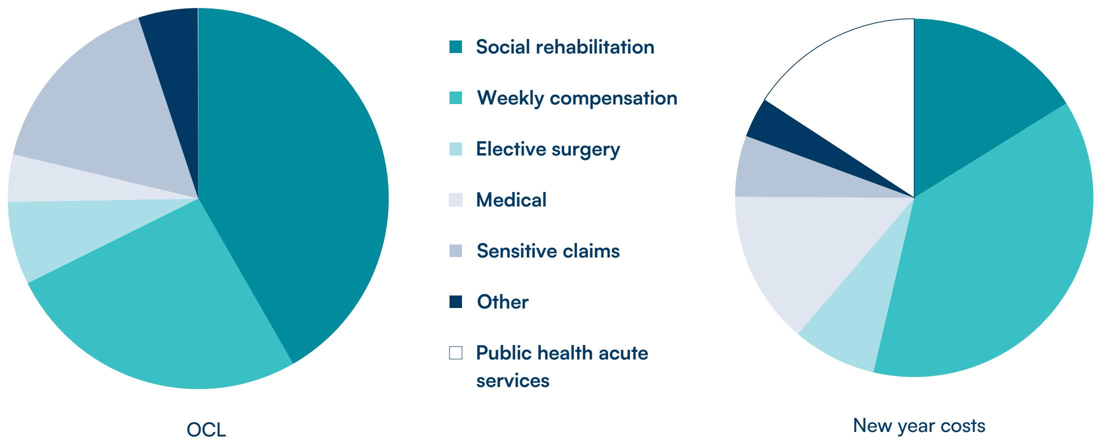
Appendix F – Claim performance details

This appendix provides more detail to supplement the discussion in the main report on the claim and rehabilitation performance at ACC and the impact it's having on financial sustainability.

Main payment types contribution to the OCL and new year costs

Claim volumes, types, and costs affect the OCL, levy rates, and appropriations. Chart 26 shows the contribution of the main payment types to this year's OCL as at 30 June 2024, compared to the new year costs in 2024/25.

Chart 26: Comparison of claim types' contribution to OCL and new year costs



The three largest claim payment types (social rehabilitation, weekly compensation, and sensitive claims) make up 84% of the 30 June 2024 OCL, but only 59% of the costs for new year claims in 2024/25.

Social rehabilitation includes capital purchases and non-capital services provided to serious injury and non-serious injury clients. It makes up almost half of the OCL because much of the support is long term, but it makes up a smaller proportion of the new year costs. The largest contributor to the costs for new year claims is weekly compensation. Many of these claims are short term, but some weekly compensation claims require support for the medium-to-long term, which contributes to the OCL.

Medical and Public Health Acute Services (PHAS) payments make up a small proportion of the OCL but a larger component of the new year costs. This is because while the claim volumes are high, most of these are short term. In most cases, the costs of the injuries are covered immediately so there's no need to hold additional funds for future treatments.

The total OCL strain in 2023/24 was $5,868 million

The OCL strain numbers and results we present in this appendix align with the government funding policies for ACC and reflect the impact it has on the funding position. They differ from the figures in the Annual Report, which are prepared in line with generally accepted accounting practice (GAAP). Table 42 provides a high-level reconciliation of the strain reported in the Annual Report to the funding basis strain reported here.

Table 42: OCL change – Annual Report vs Financial Condition Report

		$M
Annual Report OCL strain		**6,676**
Excluding	AEP OCL strain	(8)
	Risk margin on OCL strain	(766)
Including	Change in value of work-related gradual process (WRGP) claims incurred but not reported (excluding risk margin)	(34)
Financial Condition Report OCL strain		**5,868**
	Influenceable OCL strain	2,911
	Non-influenceable OCL strain	2,956

The total influenceable OCL strain in 2023/24 was $2,911 million

Table 43 breaks down the largest payment types driving influenceable OCL strain in 2023/24 by Account.

Table 43: Influence OCL movement in 2023/24 by Account and payment type

OCL movements ($M)	Motor Vehicle	Work	Earners'	Treatment Injury	Non-Earners'	Total
Weekly compensation	78	316	743	61	(9)	**1,189**
Sensitive claims	0	(5)	73	0	471	**539**
Serious injury non-capital	242	39	82	194	207	**764**
Other	26	3	157	108	125	**420**
Total	**347**	**353**	**1,055**	**363**	**794**	**2,911**

The Earners' and Non-Earners' Accounts were the largest drivers of influenceable OCL strain in 2023/24, with $1,055 million and $794 million, respectively.

For the Earners' Account, this was largely due to people spending longer receiving weekly compensation, increasing continuance rates of claims and driving $743 million of strain.

For the Non-Earners Account, increasing average cost per sensitive claim resulted in $471 million of OCL strain. This is likely the result of increased claims for backdated loss of potential earnings (LoPE) payments after the TN court case decisions. It is not possible to separate the impact of the TN court case on the increase in average cost. If it was, some of this observed strain may be classed as non-influenceable.

However, a steady increase in counselling costs, alongside the backdated LoPE, indicates influenceable strain would be present regardless.

The Non-Earners' Account also had considerable strain due to increased care hours for seriously injured clients, driving $207 million.

In the following sections, we discuss mainly the influenceable OCL strain by the key payment types of concern.

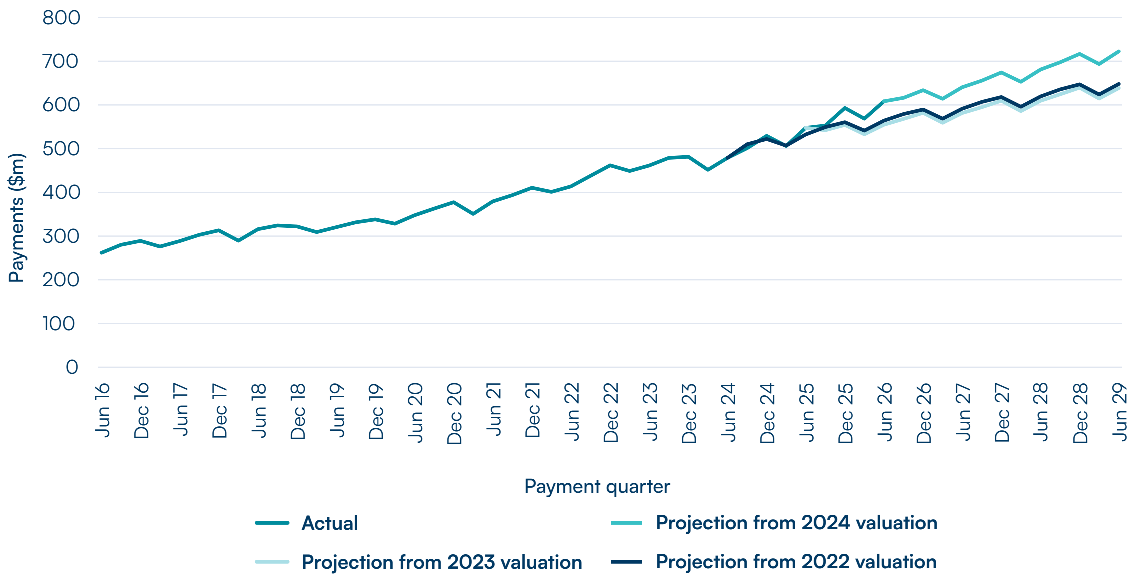
Weekly compensation

Weekly compensation payments were significantly higher than expected in 2023/24

Weekly compensation payments have been 5% higher than expected in 2023/24, primarily due to deteriorating rehabilitation rates. Chart 27 shows the actual and projected quarterly weekly compensation payments in the June 2024 and the two previous June valuations.

The projections include expected payments from future injuries. The chart shows that the total payments during 2023/24 were higher than what they were projected to be at the 2023 valuation.

Chart 27: Actual and projected weekly compensation payments



Deteriorating rehabilitation rates, particularly in the Earners' and Work Accounts, were the largest driver of $1,189 million of influenceable OCL strain

ACC measures rehabilitation rates as the proportion of clients receiving weekly compensation who return to work within the specified number of days. When rehabilitation rates are lower than expected, proportionally fewer clients are expected to return to work, and more clients are expected to continue receiving weekly compensation. This causes strain on the Scheme.

Continuance rates are similar to rehabilitation rates. They are the measure used for modelling the OCL to estimate the proportion of claims in one quarter that continue to the next, including an allowance for any old claims that reactivate in that quarter.

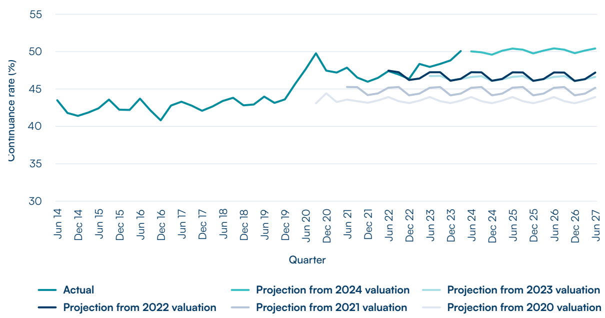
This allows an estimate of how long clients are likely to continue receiving weekly compensation, on average, in the OCL valuation. This relationship between rehabilitation rates and continuance rates means that if rehabilitation rates decrease during the year then this will likely lead to continuance rates increasing and result in OCL strain. Similarly, if rehabilitation rates increase during the year then this will likely lead to continuance rates decreasing and an OCL release.

In 2023/24, the primary driver of strain was higher-than-expected active claims caused by existing claims staying on the Scheme for longer than expected. ACC also expects claims likely to take longer to return to work over the next year and this resulted in significant increases to continuance rates assumptions. The combined impact of higher active claims and increasing the continuance rate assumptions resulted in $1,408 million of OCL influenceable strain.

The Earners' and Work Account were the largest contributors to this, with $743 million and $316 million in OCL influenceable strain due to continuing claims, respectively.

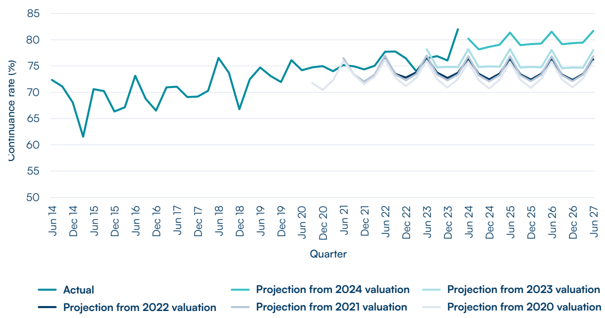
Over the past five years, we have seen continued deterioration in continuance rate assumptions, resulting in $2,410 million of cumulative OCL strain. As the largest contributor to the cumulative OCL strain, we discuss the Earners' Account result in more detail below, but similar patterns have been observed in the Work Account.

Chart 28: Weekly compensation Earners' Account – continuance rates for claims less than one year old



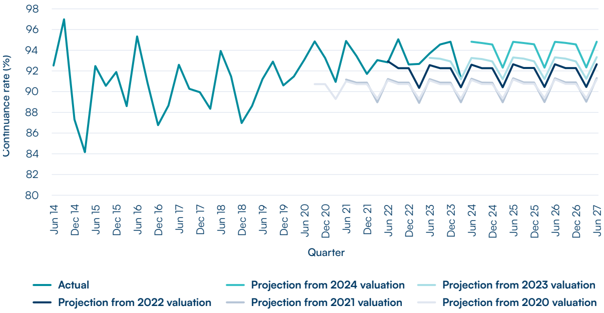
The average continuance rates for claims where the injury is less than a year old have deteriorated significantly over the past five years, as shown in Chart 28, increasing from 44.0% in June 2019 to 50.0% in June 2024. This year, the average continuance rates have worsened to a level last seen during the initial COVID-19 lockdowns in 2020, resulting in $47 million strain in 2023/24.

Chart 29: Weekly compensation Earners' Account – continuance rates for claims 1-4 years old



As shown in Chart 29, the medium-term (one-to-four years) average continuance rates have continued to deteriorate over the past few years, increasing from 74.7% in June 2019 to 80.2% in June 2024. The changes to continuance rate assumptions this year resulted in $422 million of OCL strain. There was a one-off spike in reactivations for claims three-to-four years old in March 2024, potentially linked to an increase in elective surgeries. This is after relatively stable numbers of surgeries from 2020 to 2023 due to the impact of the COVID-19 pandemic on the health system in New Zealand.

Chart 30: Weekly compensation Earners' Account – continuance rates for claims 5-7 years old



The medium-to-long-term (five-to-seven years) average continuance rates have been increasing year-on-year, as shown in Chart 30, increasing from 91.2% in June 2019 to 94.8% in June 2024. Although the difference in continuance rates is relatively small, the financial impact is significant ($198 million). The longer a claim is away from work while receiving weekly compensation, the more likely they are to remain on the Scheme. Adjusting our model for this likelihood drives the large OCL strain.

Long-term (over seven years since accident) continuance rates remain stable.

The portion of non-seriously injured clients entering the LTCP continues to grow

ACC defines the Long-Term Claims Pool (LTCP) as claims that have received more than 365 days of cumulative weekly compensation. Deteriorating short-term rehabilitation rates have increased the number of clients entering the LTCP in the past few years, while deteriorating medium-to-long-term rehabilitation has seen the number leaving the pool falling below the number of new entrants.

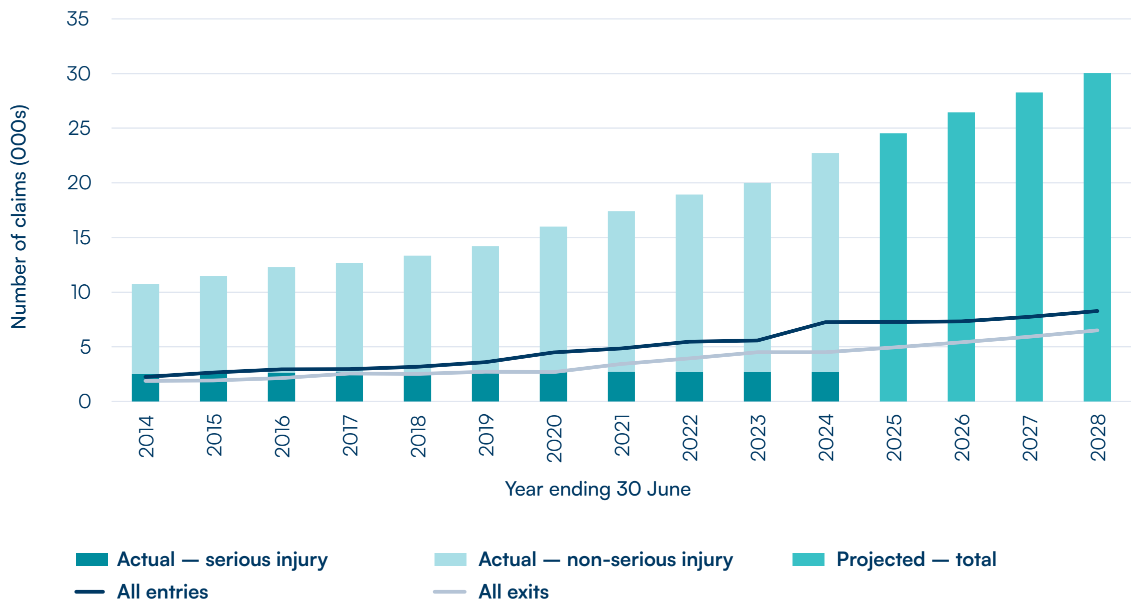
The overall growth in the LTCP for the 12 months to June 2024 was 13.7%. This is significantly higher than the annual average growth in the past five years of 9.9% and was entirely due to growth in non-serious injury claims entering the LTCP. The number of entries into the LTCP has increased significantly year-on-year, with 30% growth between June 2023 and June 2024, while the number of exits year-on-year has remained steady.

Chart 31 shows the historical and projected numbers of long-term weekly compensation claims.

ACC's own performance measures indicate that the LTCP is expected to grow at a much faster rate over the next three years than was previously expected. For example, the growth rate for the 2024/25 year is now expected to be 10.5%, well exceeding the target set in ACC's service agreement for 2023/24 of 5.4%. As shown in Chart 31[27], ACC expects the growth rate of the LTCP to slow down over time, settling at 6.5% by 2027/28 as the initiatives to improve rehabilitation performance take effect.

[27] The projected total and projected entries into the LTCP are based on the targets outlined in ACC's Service Agreement for 2024/25. Exits have been projected to continue at the average rate of the past three years. Past entries and exits are recorded on an annual basis and therefore counts may differ from sources reporting monthly.

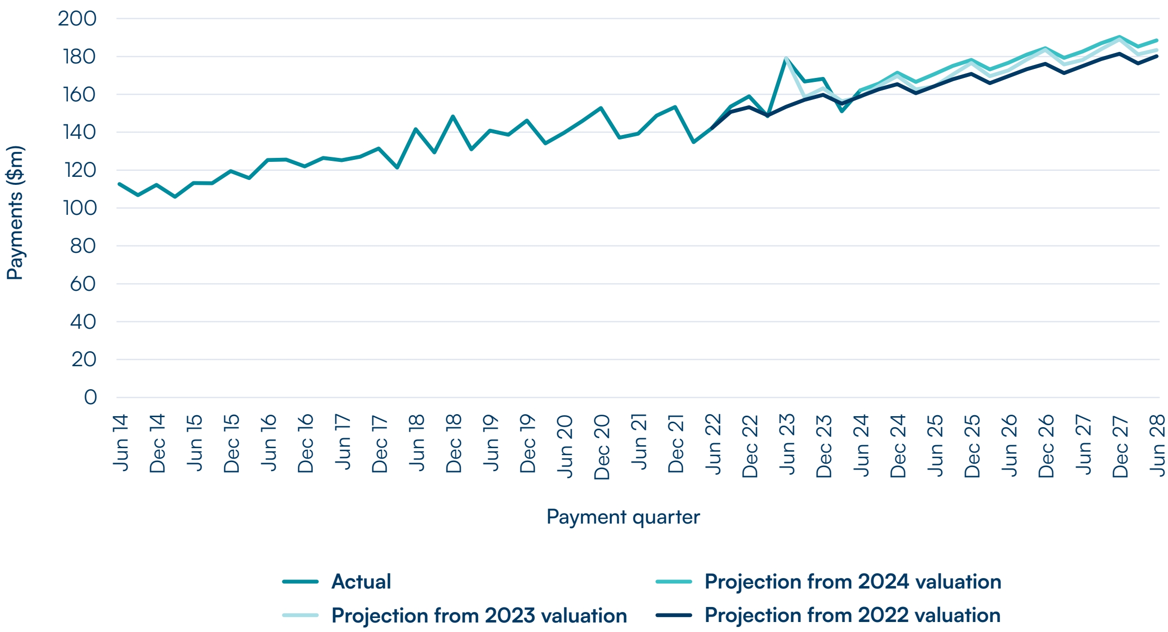
Chart 31: Historical and projected numbers of long-term weekly compensation claims



Serious injury care

Chart 32 shows the actual and projected serious injury care payments in the June 2024 and the previous June valuations. In 2023/24, there was a significant influenceable OCL strain ($764 million). This was offset by a non-influenceable release of $408 million, with care rates not increasing as much as expected.

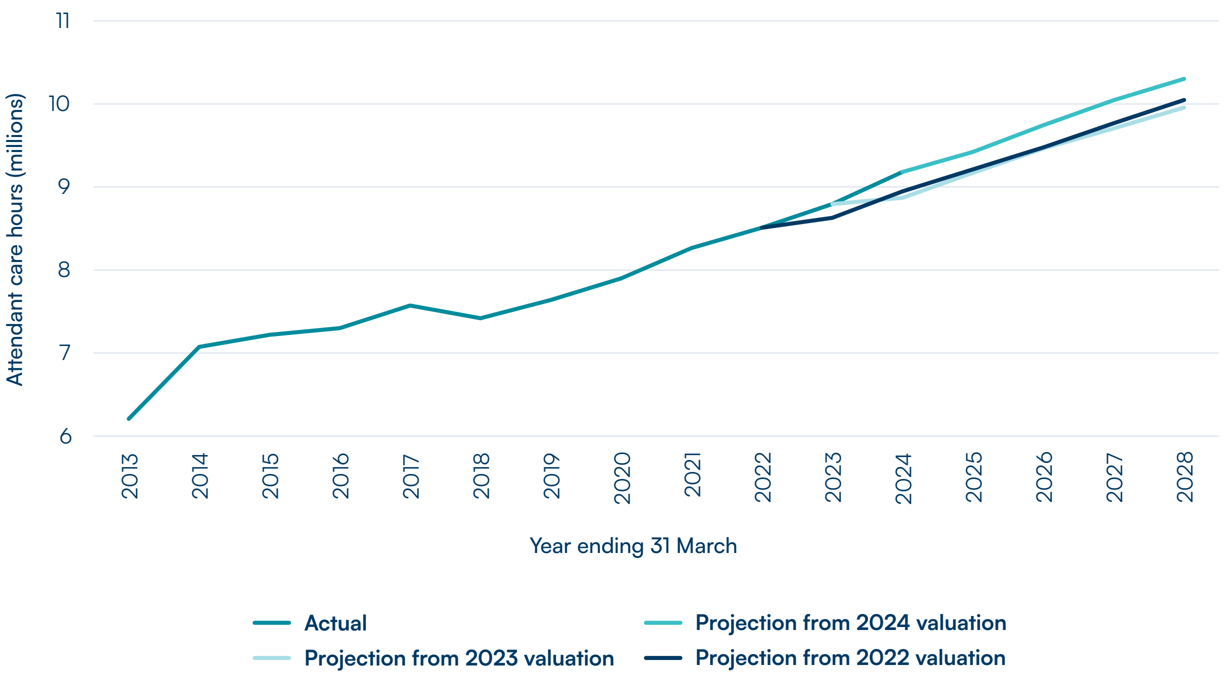
Chart 32: Serious injury care claim payments



Higher-than-expected attendant care hours resulted in $472 million of influenceable strain

Care hours were higher-than-expected across both contracted and non-contracted care, all injury profiles and Accounts. The highest increases were seen in the Non-Earners' Account. Chart 33 shows the actual and projected total attendant care hours per year per claim this June 2024 and in the previous two June valuations. Higher-than-expected care hours have resulted in us having to increase our assumptions of future care hours, driving the $472 million of influenceable OCL strain.

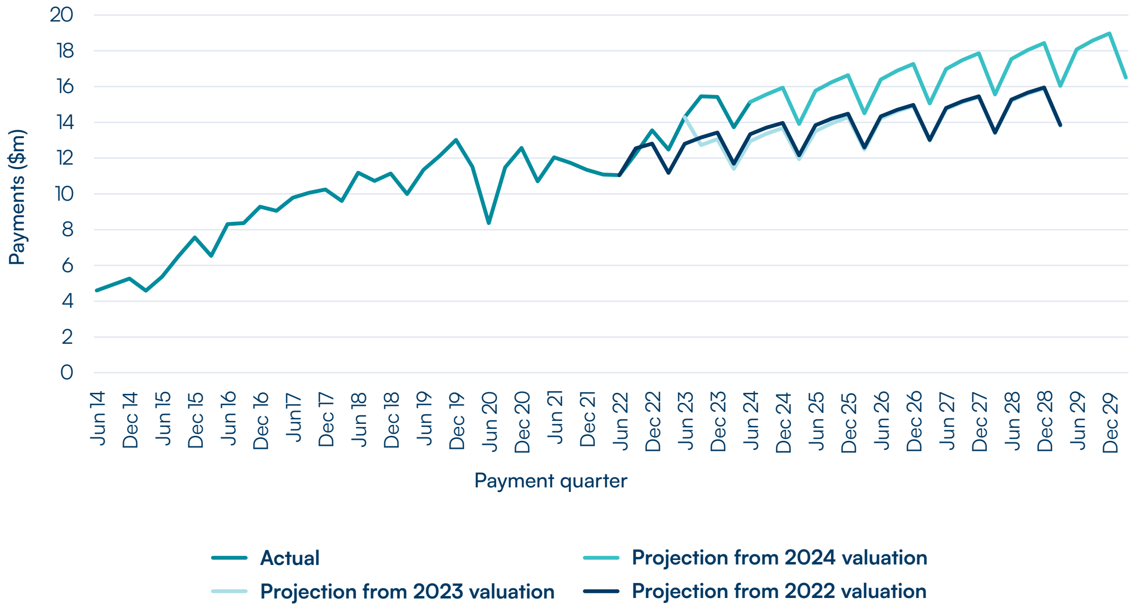
Chart 33: Total attendant care hours for claims more than four years post accident date



Increasing serious injury travel payments resulted in $217 million of influenceable OCL strain

Over the past year, there has been a significant increase in travel care payments due to a combination of increases in rates and greater utilisation, particularly for journeys greater than 15 km. Chart 34 shows the actual and projected serious injury travel payments in the June 2024 valuation and the previous two valuations.

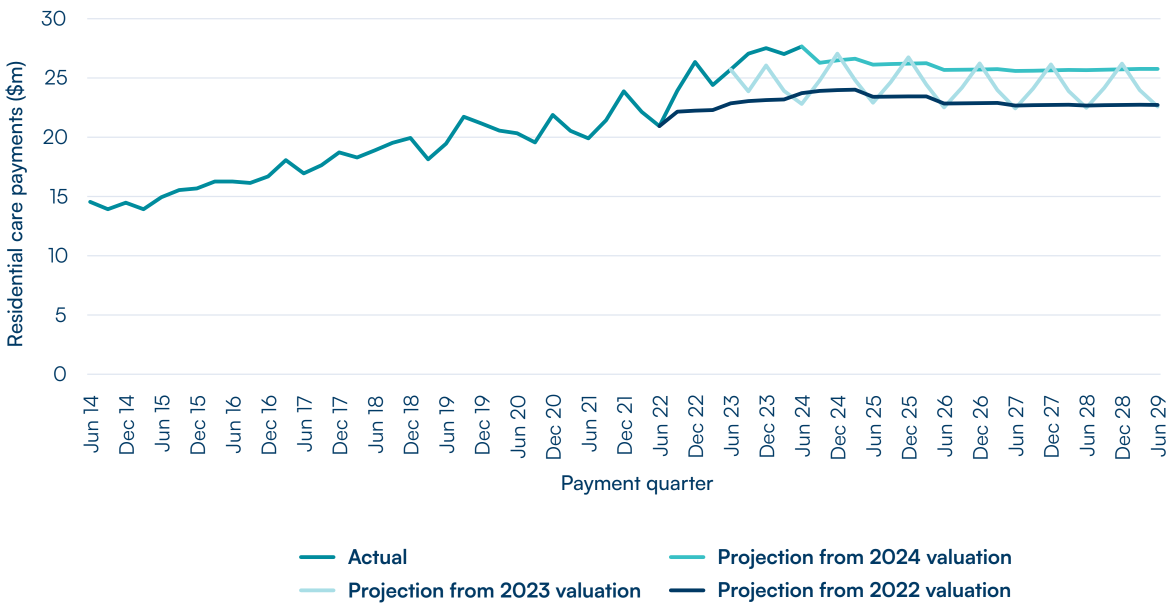
Chart 34: Serious injury travel payments



Higher utilisation of residential care resulted in $64 million of influenceable OCL strain

In 2023, we highlighted an increase in the volume of serious injury clients transitioning to residential care providers. This has continued to increase in 2024, potentially as a result of continuing care worker capacity constraints, earlier hospital discharges, and client co-morbidities. Chart 35 shows the actual residential care payments versus those expected this valuation and in the previous two valuations. Last year, the external actuary included an allowance for seasonality in future projections to reflect greater observed seasonality over the three years prior. Payments in 2023/24 were not only considerably above projections from the 2023 valuation, but also showed no indication of seasonality in the upwards trend, so no seasonality allowance has been made in this year's projections.

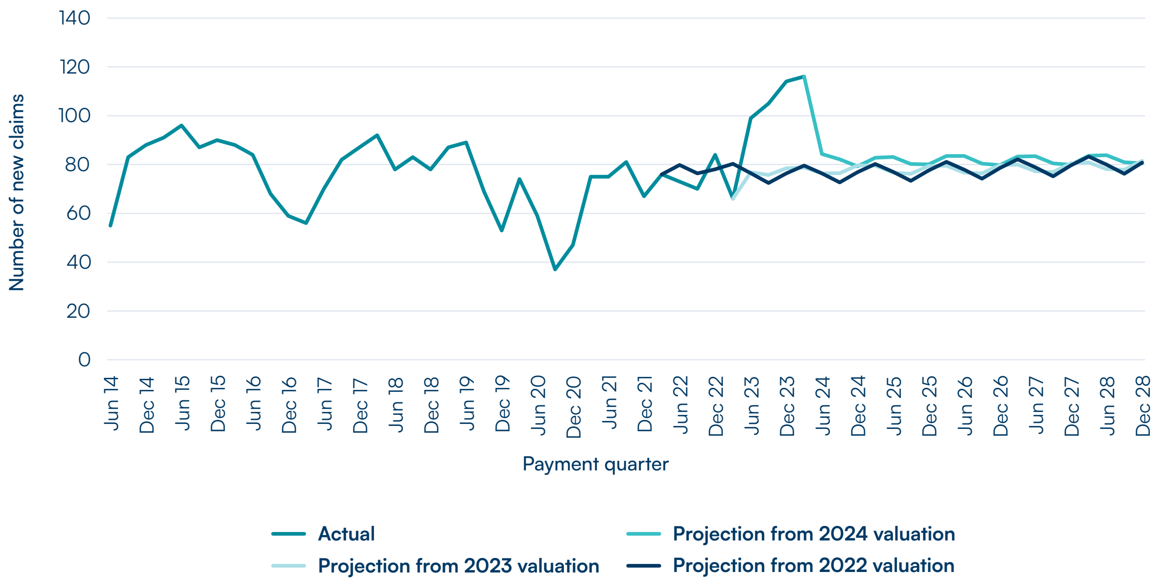
Chart 35: Current value residential care payments for accident dates prior to 30 June 2024



Higher-than-expected new claims resulted in $163 million of OCL strain

There was an increase in new claims being profiled as serious injuries in 2024, which is believed to be a catch-up due to several years of low numbers being profiled. This increase is thought to be due to profiling delays following the introduction of Next Generation Case Management and capacity constraints in the health system since 2020. This increase has only been partially reflected in the assumed future serious injury claim numbers as this trend is not expected to continue. Chart 36 shows the actual number of new serious injury claims reported versus that expected of the previous two valuations.

Chart 36: New serious injury claims



There was a non-influenceable OCL release of $408 million in 2023/24

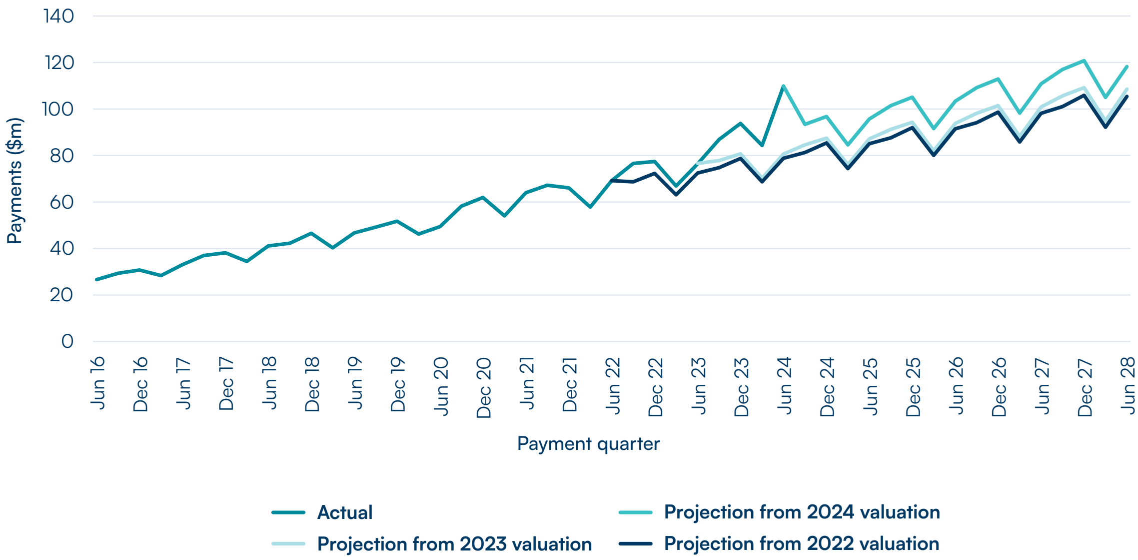
This release was largely due to the previously assumed care and support workers' pay equity uplifts not materialising during the year. Pay equity negotiations between support care workers and Te Whatu Ora, which also apply to ACC care providers, have stalled and are expected to take some time to complete. However, we are aware of demands for increases up to 30%, which could have a significant impact on the OCL for serious injury claims in future years if implemented.

Sensitive claims

Chart 37 shows the actual and projected quarterly sensitive claim payments in the June 2024 and the two previous June valuations. The projections include projected payments for future injuries.

The chart shows that total payments during 2023/24 were 13% higher than expected and resulted in an OCL strain. The primary driver of this was higher-than-expected backdated LoPE payments, particularly in the Non-Earners' Account.

Chart 37: Sensitive claims payments

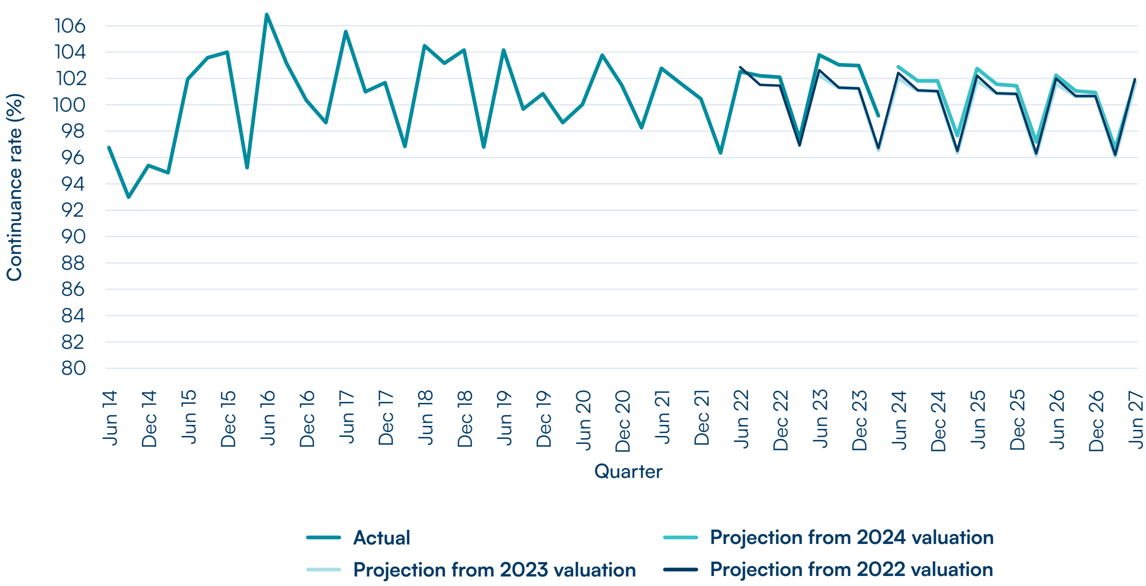


Higher-than-expected claim reactivations in the Non-Earners' Account resulted in $308 million of influenceable OCL strain

This was driven by an increase in the reactivation of claims that were first reported before the introduction of ISSC in 2015. The continuance rates for these periods are currently above 100%. This is likely driven by the TN court decision, which is discussed in more detail in the '*Future risks and opportunities*' section. As discussed earlier, the amount of this strain that is potentially non-influenceable is not possible to quantify from our data. However, increasing payments for counselling services as well indicates it is reasonable to consider the upwards trend is influenceable.

Chart 38 shows the growth in continuance rate for sensitive claims in the Non-Earners' Account. The continuance rates in 2023/24 were above expectations of the last valuation in 2023.

Chart 38: Continuance rates for sensitive claims in Non-Earners' Account – accident periods 2014 and earlier

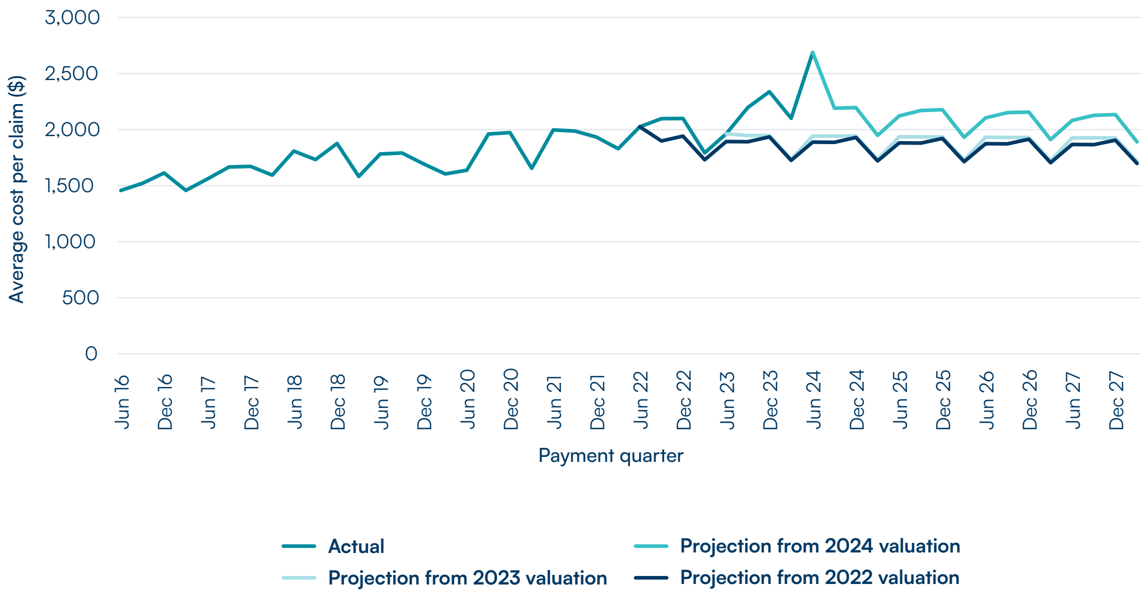


Higher-than-expected backdated LoPE payments were the key driver of strain due to increasing average payment per quarter per active claim

In 2023/24, the average payment per quarter per active claim was 11% higher than expected and resulted in $114 million OCL strain. Increasing average payment per claim has been a primary driver of strain over several years, particularly in the Non-Earners' Account, with $756 million in cumulative strain over the past five years.

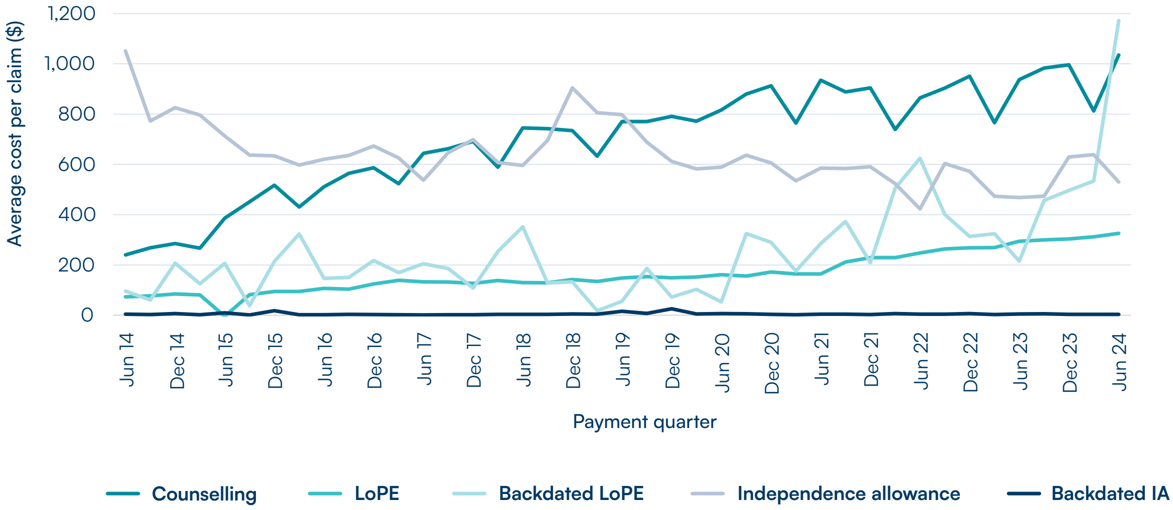
Chart 39 shows the actual average payment per quarter per active sensitive claim in the Non-Earners' Account, along with the projections from June 2024 valuation and the previous two valuations. The chart highlights the trend of increasing average payments with a significant increase in 2023/24.

Chart 39: Average payment per quarter per active sensitive claim in the Non-Earners' Account



Average payments for claims more than five years after the accident date have been higher over the past three years due to higher-than-expected backdated weekly compensation payments in the Non-Earners' Account. Chart 40 shows the average cost by payment type for sensitive claims in the Non-Earners' Account. The chart shows a clear increase in backdated weekly compensation paid — with spikes in June 2022 and December 2023 around the time of the court decisions in the TN case.

Chart 40: Average costs for sensitive claims more than five years from date of first treatment in the Non-Earners' Account



Other payment types

The influenceable OCL strain from all other payment types was $420 million. Table 44 summarises the OCL movement and key drivers in remaining payment types in 2023/24.

Table 44: Influenceable OCL strain (release) by remaining payment types

Payment type	Influenceable OCL strain/(release) in 2023/24 ($M) Active claims	Average cost	Key drivers of change in 2024
Non-serious injury care	123	(4)	An increase in care hours, particularly for the Earners' and Non-Earners' Accounts. This is a continuing area of concern, with average attendant care hours for non-seriously injured claims increasing 38% over the past five years.
Serious injury capital	43	123	Higher-than-expected spending on large capital purchases, particularly housing modifications. Some of this increase has been due to processing delays arising from invoicing issues with ACC's new capital supplier who was engaged in December 2021. Treatment Injury Account had the highest increase in payments, while the OCL increase was largest in the Motor Vehicle Account due to the higher claim volume.
Elective surgery	117	(43)	The number of elective surgeries has increased over the past year, after low numbers of surgeries between 2020 and 2023, due to the impact of the COVID-19 pandemic on the health system in New Zealand. This increase in surgeries is expected to continue in the future, resulting in OCL strain.
Non-serious injury capital	12	27	Higher-than-expected average payments per claim, particularly for claims from accident year period 2019-2022. Some of this is potentially a result of delays in billings from the capital equipment supplier to ACC, but some is likely due to inflationary cost pressures. The average payment assumptions have increased, resulting in OCL strain.
Medical — (GPs, radiology, and physiotherapy)	27	(22)	Lower average cost per claim for all short-term medical services drove the $33 million OCL release. This was partially offset by the higher-than-expected number of active medical imaging claims for the Earners' and Non-Earners' Accounts, along with a slightly higher volume of active claims for general practice and physiotherapy services.
Other medical	(13)	(12)	Lower-than-expected new claims, particularly in the Earners', Work, and Non-Earners' Accounts drove the OCL release.
Hearing loss	(124)	23	Last year, the new claims assumptions for hearing loss claims were revised. This was to account for a change in the way claims are lodged, implemented from 1 July 2022, allowing audiologists to lodge new claims without specialist approval. However, the number of active claims has been lower than expected over the past year, particularly for claims incurred in the 2023 and 2024 accident years, resulting in an OCL release.
Other: vocational rehabilitation fatal weekly compensation independence allowance and lump sums ambulance and PHAS payments	2	(6)	There was an increase in independence allowance commutation payments for older accident periods (prior to 1 April 2002) in 2023/24. This was more than offset by lower-than-expected active claims for vocational rehabilitation and fatal weekly compensation.
Claims handling expenses	0	143	The approval of hiring 250 new claims handling staff to improve frontline capacity constraints drove OCL strain in 2023/24. It will likely take a further year to hire and properly train these new staff. The aim of this investment is to drive OCL release in future years. The investment was above e xpected spend therefore this is reported as strain.

Appendix G – Risk management

Taking appropriate risks to achieve strategic objectives is a normal and necessary part of doing business. Embedding risk management practices in all areas gives decision-makers the confidence to make more informed and better decisions.

This appendix outlines, at a high level, the risks ACC faces and the associated risk frameworks it uses to achieve its objectives. The operational risks stated, and the process to identify the management actions to mitigate these risks (including conduct risks), are appropriate. We will review these actions when they are confirmed.

The financial risks ACC faces, how they're identified and managed, and how they affect ACC's balance sheet and influence funding recommendations, are discussed in more detail elsewhere in this report.

ACC's risk management framework and processes

ACC's refreshed Enterprise Risk Management Framework was approved by the Board on 29 August 2024. It outlines the responsibilities, processes, and practices that enable staff to manage risk as part of their day-to-day decision-making. The framework is aligned with AS/NZ ISO31000:2018 Risk Management — Guidelines.

The objective of the framework is to enable ACC to deliver value and successfully achieve its strategic and performance objectives. Appropriate risk management enhances informed decision-making and enables the right kinds of risks to be taken. It does this by helping to ensure:

- effective and efficient continuity of operations
- safeguarding of assets
- the preservation and enhancement of reputation
- reliability of internal and external reporting
- compliance with applicable laws and regulations
- a culture consistent with ACC's risk tolerance.

The Executive and the Board's Risk Assurance and Audit Committee monitor and evaluate ACC's framework, maturity, and internal control environment. ACC's Assurance function and external co-source partner independently advise on the:

- risk and controls environment
- effectiveness of risk management.

ACC Risk Appetite Statement

ACC's risk appetite is defined by its Risk Appetite Statement (RAS). The RAS describes ACC's philosophy, approach, and tolerance to taking risks to achieve its objectives. The RAS also provides a framework for ACC to:

- be innovative and pursue opportunities based on potentially high benefits, despite greater risk
- accept uncertain outcomes or variability
- trade-off against the achievement of other objectives.

Conversely, in areas where ACC's appetite is averse, ACC will take the lowest risk options. By ensuring that its material decisions are made in a manner consistent with the RAS, ACC maintains its risk profile within the tolerances set by the Board.

The Three Lines Model

Effective risk management depends on clearly defined governance, roles, and responsibilities. The refreshed Enterprise Risk Management and Compliance Policy was approved by the Board on 29 August 2024. It establishes roles and responsibilities for how we manage risk across ACC, including risk governance and oversight, and aligns with the 'Three Lines Model'. As described in

Table 45, the model allocates clear accountabilities and responsibilities for the management of risk, ensures clear separation of duties between first- and second-line risk activities, and supports the independence of internal and external assurance.

Table 45: Three lines model

Line of defence	Role
First line	ACC's business groups have the primary responsibility to identify and manage risks relevant to day-to-day business operations for example, staff and management. The value of the first line comes from those who know the business, its culture, and day-to-day challenges to provide assurance to management and the second line that risks are being managed and that controls are operating effectively.
Second line	Specialist functions set ACC-wide expectations for specific areas of risk, such as Privacy, Health Safety & Wellbeing, Integrity, and Enterprise Risk. The value of the second line comes from the insights and assurance it provides to management and governance committees on how well the first line is managing risks and that controls are operating effectively.
Third line	Internal Assurance, External Audit and other external assurance providers provide independent assurance and advice on ACC's organisational governance, risk management, and internal control processes. The value of the third line comes from the level of independence and objectivity brought by specialist assurance providers. For the Internal Audit function this is achieved through primary accountability to the Chair of the ACC Board Risk, Assurance and Audit Committee (RAAC).

ACC's enterprise risks

Table 46 shows the Board and Executive's enterprise risks for ACC for 2023/24. The Executive and Board are in the process of refreshing ACC's suite of enterprise risks and the RAS in line with Huakina Te Rā. This process is expected to identify a revised set of management actions to manage these risks.

Table 46: ACC's enterprise risks for 2023/24

Investment performance	**Asset/liability mismatch**
Risk that the market value of the investment portfolio decreases as a result of changes in financial market variables, on a long-term basis, leading to financial loss and liquidity constraints.	Risk of an unexpected mismatch between investment income and growth in the OCL on a long-term basis, leading to levy and funding ratio volatility.
Claim management efficiency and effectiveness	**Scheme boundary and scope**
Risk that ACC does not adequately understand, anticipate, monitor, and respond to claims cost performance trends, resulting in increased cost and/or rehabilitation duration, leading to strain on Scheme resources and sub-optimal outcomes for clients.	Risk that decisions made to, or decisions made by, the Court of Appeal that expand or change what is covered by the ACC Scheme result in strain on operational workloads, Scheme performance and costs due to the three-year levy-setting cycle.
Injury prevention impact	**Rehabilitation system performance**
Risk that prevention efforts are not effective in minimising the incidence and severity of injuries, leading to ongoing increase in claim volumes and strain on Scheme costs.	Risk that ACC does not understand and manage the end-to-end rehabilitation system effectively, leading to increased rehabilitation durations, strain on Scheme costs, and sub-optimal outcomes for clients.
Equity in access, experience and outcomes	**Mana Taurite/Māori customer access and outcomes**
Risk that injured New Zealanders who are entitled to ACC support do not receive it, leading to inequities in injury outcomes and longer-term health and a lack of fairness.	ACC fails to make progress in implementing initiatives that are meaningful, scalable or timely enough to improve Scheme engagement, access, experience, and outcomes with Māori.
Climate change response	**Health and safety**
ACC's response to climate change fails to satisfy legislative or other requirements related to New Zealand's climate change policies or is perceived as inadequate/socially unacceptable.	Risk that ACC does not ensure the health, safety, and wellbeing of staff or provide them with a safe and respectful working environment.
Cyber and information security	**Privacy**
Risk that ACC fails to take all reasonable steps to protect systems and information from cyber security threats.	Risk that ACC's actions or decisions involving personal information are (or are perceived to be) unlawful, unethical, and/or do not maintain the trust and confidence of New Zealanders.
Key person risk	**Organisational resilience**
Risk that ACC fails to create and implement succession plans for critical managerial and/or technical positions.	Risk that ACC is unable to respond to and/or recover from a disruption impacting priority activities and/or critical systems, resulting in strain on ACC's workforce and the Scheme.
Fraud	
Risk that ACC experiences fraud, resulting in financial loss, reduced trust and confidence in ACC, and/or significant organisational capacity is needed to respond.	

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Te Kāwanatanga o Aotearoa
New Zealand Government

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