



Te Tū o te Taha Pūtea 2022 Financial Condition Report 2022



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Te Kaporeihana Āwhina Hunga Whara
Accident Compensation Corporation

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Financial condition supports a fair and sustainable Scheme

The Accident Compensation Corporation (ACC) Scheme 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.

That's why it's important that the Scheme is sustainable and fair. 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. And 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.

Purpose

At the end of each financial year, we, the actuaries at ACC, write a formal Financial Condition Report to assess ACC's financial condition. 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 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.

In writing this report as at 30 June 2022, we've complied with the New Zealand Society of Actuaries' professional standards in a way that makes sense 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 define **fair** as achieving outcomes, in accordance with the purpose of the Scheme, that are equitable for individuals and groups of people with an interest in the Scheme.

A **sustainable** Scheme is one that can fulfil its purpose, withstand shocks and endure into the future.

Financial condition includes the financial health of those aspects of the Scheme that are relevant to ACC's ability to prevent injury, or rehabilitate and compensate people after injury.

Unlike private-sector insurers, ACC is a statutory monopoly with the right to collect levies. So we've aligned with **professional standards** to the extent that they make sense for ACC. The main departure relates to solvency, as ACC does not have the requirement for minimum capital that private insurers have. Instead, we follow the Government's funding policies for the ACC Accounts.



Nina Herries BSc (Hons) FNZSA FIA

**Appointed Actuary
Head of Actuarial Services**



Richard Korte BSc BBS FNZSA FIA

**Manager, Actuarial Monitoring
and Insight**

November 2022

Executive summary

What's needed to ensure ACC's financial condition can support a fair and sustainable Scheme for New Zealanders, now and in the future?

ACC can improve customer outcomes and aspects of its financial condition that are declining through more effective injury prevention and long-term rehabilitation

This report sets out ACC's financial condition as at 30 June, 2022. It includes:

- information on how and why ACC's financial condition has changed in the past year
- existing and future risks to the ACC Scheme
- recommendations for improving customer outcomes and ensuring a stronger financial condition for the future.

ACC's net deficit in 2021/22 was \$0.5 billion¹. This comprised a \$3.4 billion underwriting deficit, partly due to worsening rehabilitation performance, partially offset by a \$2.9 billion economic surplus.

At 30 June, the Accounts funded by levies (the Motor Vehicle, Work, and Earners' Accounts) remained above their funding targets. The Accounts not funded by levies (the Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account) remained below their funding targets.

Even though some Accounts exceeded funding targets, there is pressure on the future financial condition of the Scheme. Rehabilitation performance has deteriorated again in 2021/22, which means more people are taking longer to have their health and independence restored, at greater cost to the Scheme. The amount of income received from levies is expected to be less than the cost of new claims coming in each year. In the short term this is acceptable, as existing surpluses should be returned to levy payers. However, if the gap between levies and new year claim costs persists after existing surpluses have been returned, more of the cost of today's accidents will need to be paid by future generations.

As a result of this we're forecasting that future levies and appropriations will need to increase to help ensure that future generations don't have to pay higher levies to cover the costs of accidents happening today.

ACC can act to reduce the amount by which future levies and appropriations need to increase. It can do this by getting better outcomes from its investments in injury prevention, through its Integrated Change Investment Portfolio, and by ensuring more people are rehabilitated more effectively.

A **customer** is anyone in New Zealand who receives or funds ACC services, including clients, levy payers and taxpayers.

A **client** is a person who makes a claim under the Scheme.

The **funding target** is a funding ratio of 100%. The **funding ratio** is the ratio of the amount of 'assets' (mainly investments) each Account has available relative to the 'liabilities' (the expected costs of claims that have already happened).

¹ Throughout this report, results are stated on a basis consistent with the Government's funding policy for ACC. This means that in some cases figures differ from those in the Annual Report 2022, which are prepared on the required accounting basis.

In the past eight years rehabilitation performance has worsened

In aggregate, in the past eight years (2014/15 to 2021/22) claim volumes and costs have been higher than expected.

The outstanding claims liability (OCL) strain in this period, in areas at least partially influenceable by management, has totalled \$3.8 billion. Seven of the eight years of this period have had influenceable strains of more than \$300 million. Each of the annual strains is built into the following year's baseline OCL, meaning that each new strain is on top of what was allowed for, including previous strains. These influenceable OCL strains have contributed to funding pressure and a decline in the financial condition of the Scheme. In 2021/22 there was an influenceable strain of \$615 million.

COVID-19 restrictions and the resulting pressure on ACC's operations and on the health system have made it harder for ACC to respond to areas of deterioration in rehabilitation performance in the past few years. COVID-19 restrictions have also reduced claim volumes for some payment types, and this has led to small OCL releases, but not enough to offset the strain from other causes.

Not all areas of OCL increase can or should be fully reversed. Understanding where the increases are occurring, however, highlights areas where there may be opportunities for ACC to take action to strengthen its financial condition.

Four payment types were the main contributors to the eight years of OCL strain and present the greatest

The **outstanding claims liability** (OCL) is the expected amount of money needed to cover the cost of all the accidents that have already happened. If the OCL increases, then more funding may be needed to ensure the Scheme remains sustainable.

When the OCL has increased because actual payments are higher than expected, this is referred to as **OCL strain**. **OCL release** is when the OCL reduces because payments are lower than expected.

We define **influenceable OCL strain** as strain in areas where management action (such as injury prevention and claim management practices) could, at least partially, improve client outcomes, leading to reduced costs for levy payers and taxpayers.

ongoing claim rehabilitation risks to Scheme fairness and sustainability:

- **Weekly compensation:** Worsening rehabilitation rates have driven an OCL strain of \$2 billion in the past eight years, with a strain of \$262 million in 2021/22.
- **Sensitive claims:** A higher-than-expected number of new sensitive claims was the primary driver of an OCL strain of \$1.5 billion in the eight years following the implementation of the Integrated Services for Sensitive Claims contract in November 2014. In 2021/22 higher average payments per claim resulted in an OCL strain of \$254 million. One of the drivers of higher average payments was an increase in counselling costs. This was likely related to clients having more complex needs due to increased stress related to the impacts of COVID-19 and changes in the economic environment. Additionally, new clients have been experiencing delays in getting treatment due to longer waitlists.
- **Serious injury care:** An increase in average attendant care hours was a major driver of an OCL strain of \$1.2 billion in the eight years, with a strain of \$157 million in 2021/22. The 2021/22 strain, however, was lower than in previous years.
- **Capital payments:** Increased capital payments drove an OCL strain of \$0.6 billion in the eight years. The influenceable strain for 2021/22 was \$45 million. There is significant uncertainty about future average payments, with high inflation and international supply chain issues for certain equipment types following disruptions due to COVID-19.

We expect future funding will need to increase to meet new year claim costs and funding targets

Worsening rehabilitation performance has also affected new year claim costs. The impacts have been particularly severe for the Earners' Account, where they have increased the expected new year claim cost by 10% in the past year, primarily driven by increasing claim costs for weekly compensation. However, this negative impact has been largely offset by changes in economic conditions that are outside ACC's control.

New year claim costs are the estimated lifetime costs of new claims for accidents that occur during the year that the levies or appropriations cover.

Cabinet approved only some of the levy changes recommended by ACC for the 2022/23 to 2024/25 period. Throughout this period new year claim costs are expected to continue to exceed the income from these prescribed levies. This is forecast to generate significant underwriting deficits, which will reduce the funding positions for the levied Accounts.

Levies are the rates that employees, employers, and road users pay towards the Earners', Work and Motor Vehicle Accounts of the Scheme. They are set by the Government every three years.

For a while this can be supported by large surpluses in the levied Accounts, and funding ratios will fall towards the 100% funding target. But we forecast that, as these surpluses reduce, levies will need to increase towards new year claim costs, in line with the Government's funding policy.

Beyond 2024/25, the Work Account is the only levied Account that isn't expected to need an increase at the capped amount each year in the next levy period to 2027/28. The recommended levies for the Motor Vehicle Account and the Earners' portion of the Treatment Injury Account are expected to increase at the capped rate until at least 2037/38.

The approved appropriation for the non-levied Accounts is above the expected new year claim costs. However, the funding ratios of these Accounts are still below the 100% funding target. To move towards the target over time, in line with the funding policy, the appropriation is expected to increase at the 7.5% cap each year until 2025/26. Beyond that, appropriation increases are forecast to be below the cap, but still above new year claim costs for the foreseeable future.

The Non-Earners' Account is funded by the Government (from the general tax pool) through an annual **appropriation** rather than through levies.

If the gap between levies and new year claim costs doesn't reduce in future, this will have the effect of deferring the underlying cost of the Scheme to later levy years, and means future generations will pay higher levies to cover the costs of existing accidents. ACC can help by mitigating growth in new year claim costs through more effective investments in injury prevention and rehabilitation.

ACC has opportunities to improve its financial condition by strengthening its rehabilitation and injury prevention performance

ACC can reduce upward pressure on levies by getting better outcomes from its investments in injury prevention, through its Integrated Change Investment Portfolio (ICIP), and through improving its long-term rehabilitation performance. Injury prevention and the ICIP have required significant initial investments, with benefits not expected to emerge until future years. This creates significant risks for these investments if the expected benefits don't materialise.

To meet targets, investment in injury prevention needs to be significantly expanded and there needs to be a continuing focus on delivering benefits

The 2021/22 injury prevention portfolio results were in line with expectations. However, of the approximately 50 injury prevention programmes in delivery, five are expected to deliver more than half the expected future benefits. Only one of these programmes is currently performing well and above the initial benefits targeted.

ACC will need to enhance and significantly expand its investment in injury prevention to meet strategic injury prevention targets. Achieving these and ensuring they have meaningful impacts on future levies and appropriations will require a mix of actions, such as:

- ensuring that well performing programmes continue to deliver claim savings
- ensuring the delivery of expected future benefits for less well-performing programmes, especially programmes promising significant future claim savings
- significantly expanding existing programmes that are performing well
- ensuring the delivery of and claim savings from initiatives still in design or implementation
- developing new programmes
- taking an evidence-based approach to gauging future success and measuring outcomes.

The Integrated Change Investment Portfolio has met some of its targets, but future targets are ambitious

Since 2014 ACC has been transforming its systems to improve client outcomes and experience and to improve customer trust and confidence. The change is being delivered through the ICIP. The original claim benefit target was a net present value of \$300 million by 2030.

The benefit realisation for the ICIP is off track. Performance in 2021/22 was \$34 million below a revised target for the year of \$77.9 million (at October 2020), primarily due to challenges in the resource efficiency and weekly compensation benefit areas.

In October 2020 the overall benefit target was updated to achieve a net present value of \$300 million by 2030/31, one year later than the original projection. However, the latest forecast as at June 2022 indicates an increasing challenge in meeting this target. With 2022/23 planned as the last year of ICIP funding, unless the planned initiatives deliver the needed increases in benefits, the timeframe to meet the \$300 million net present value will need to be further extended. Should the ICIP result in improved long-term rehabilitation performance, this will likely deliver benefits to clients and to ACC's financial condition.

The Rehabilitation Performance Programme looks promising, and Phase 2 is currently in development

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 Scheme sustainability.

While not fully implemented, ACC's Rehabilitation Performance Programme (RPP) is well underway and has identified activities intended to address key areas of OCL strain, including longer-term performance for weekly compensation and social rehabilitation care services. The actions taken so far look promising and baselines have been set against which future progress will be measured.

This type of intervention, with its focus on rehabilitation pathways for longer-term clients, presents a significant opportunity that ACC should continue to pursue. Phase 2 of the RPP is in development. As part of this, it's important that specific targets are set and that the impacts of progress against these targets on the OCL, levies and appropriations are closely monitored.

A continued focus on customer outcomes will help ensure the Scheme is fair and sustainable

One of ACC's key purposes is to improve lives by providing support that helps restore people's health, independence and ability to participate in society. Doing this well will help ensure the Scheme is fair and sustainable, as preventing injuries and rehabilitating people sooner will reduce the number and severity of claims in the future.

This means that ACC's financial condition is intrinsically tied to the outcomes of its clients. Throughout this report, and in previous Financial Condition Reports, we've highlighted the need for ACC to better understand and monitor client outcomes throughout the recovery process. ACC has introduced two frameworks, the Health Outcomes Framework and Te Kāpehu Whetū (ACC's Māori Outcomes Framework) to form a comprehensive understanding of ACC customer outcomes.

It's too early to tell whether enough has been done to make a positive impact on client outcomes or ACC's financial condition. ACC should continue to ensure that it places enough emphasis on measuring client outcomes – and that it holds itself accountable when outcomes are off track.

In the future, ACC's new Enterprise Strategy and the New Zealand Income Insurance Scheme could have significant impacts on the Scheme's financial condition

Two key factors emerging in ACC's wider environment offer significant opportunities for and impose significant risks on its financial condition:

- ACC is developing a new Enterprise Strategy, due for implementation from 1 July 2023
- ACC is expected to administer the New Zealand Income Insurance Scheme if it proceeds. The Government is developing proposals for this scheme to provide temporary income support to workers who find themselves out of work due to business decisions (such as a restructure) or illness.

Both could have significant impacts on ACC's financial condition, but it is too early to know. Future Financial Condition Reports will provide more detailed analyses of the potential impacts of these factors, as more information becomes available.

ACC is making progress on previous recommendations

Despite a year of significant disruption, ACC has made progress on most of the recommendations from previous Financial Condition Reports (FCRs), with one recommendation being closed this year. We're also putting one recommendation on hold for now.

The Scheme's long-term nature means many recommendations can require several years to resolve. While some recommendations remain open, we consider that the progress made since the last FCR reflects a focus on improving outcomes for customers. However, the continued deterioration of the financial condition in some areas, suggests the focus on improving customer outcomes needs to be maintained and built on over time to ensure the Scheme remains sustainable.

Recommendations from previous FCRs

Māori access, outcomes and experience

We recommend that ACC improve Māori access, outcomes and experience by focusing on:

- understanding and responding to the drivers of the differences between Māori and non-Māori
- ensuring all services provided can be shown to deliver the right client outcomes for Māori at costs that are reasonable and sustainable for funders of the Scheme, including Māori.

[Responsibility: Te Tumu Pae Ora]

Progress update:

ACC has established the foundations for implementing this recommendation. The development, establishment and endorsement of Te Kāpehu Whetū (ACC's Māori Outcomes Framework) by the Board in May 2022 will enable ACC to deliver improved outcomes for Māori and monitor those outcomes.

A set of measures for Te Kāpehu Whetū has been identified and ACC has included monitoring and reporting

on this as part of the Service Agreement 2022-2023 to establish a baseline. This baseline will go on to inform the selection of measures for future service agreements. ACC is also planning to include new te ao Māori metrics design as part of service agreements.

Te Kāpehu Whetū has five outcome domains that are now ACC's long-term strategic outcomes for Māori and will be part of the Enterprise Strategy:

- Mana Motuhake (Autonomy and Choices)
- Rangatiratanga (Authority and Leadership)
- Puawaitanga (Thriving and Flourishing)
- Wairua me te Mauri (Spirituality, Vitality and Essence)
- Tuakiritanga (Identity and Cultural Wellbeing).

These outcomes will go on to inform organisational performance objectives and will drive performance towards achieving outcomes for Māori clients of ACC. The implementation plan includes training and upskilling to ensure a cascading of organisation-level outcomes to service and programme levels, and to enable ACC to monitor the achievement of Māori outcomes.

For us to close this recommendation, we'll need confidence that ACC has established a baseline to assess how Māori outcomes are improving. This should be supported by a plan to use data-led insights from kaupapa Māori services and engagement with Māori. These insights should either validate existing approaches or identify what needs to change.

Status: Making progress and could close in 2023. This recommendation has been edited for clarity and remains open.

Sensitive claims insights and outcomes

We recommend that ACC's work on sensitive claims:

- ensures the services provided can be shown to deliver the right client outcomes at costs that are reasonable and sustainable for funders of the Scheme
- provides a deeper understanding of the people suffering sexual abuse or assault in the community,

including what their injury and claim patterns look like, and the drivers of the growth in sensitive claim volumes and costs. This understanding needs to be translated into action, where appropriate, to provide targeted prevention and services to clients, and manage the impacts on the financial condition.

[Responsibility: Deputy Chief Executive Service Delivery]

Progress update:

ACC is making good progress on building tools and processes to respond to the two parts of this recommendation. The focus on sensitive claims has gained momentum in recent years, in part due to the wider focus on family and sexual violence across government. A work programme has been created, with key milestones identifying what will be achieved before the new sensitive claims contract goes live on 1 December 2024. Further, ACC's participation and leadership in cross-government family and sexual violence initiatives have enabled additional investment in capacity and capability, which will be used to improve outcomes for sensitive claim clients.

Reliable and useful data is required to improve ACC's insights into and understanding of sensitive claims and how its services improve survivor outcomes. As part of the sensitive claims work programme, ACC is developing outcomes measures for sensitive claim clients. These will provide an important foundation to ensure services are targeted and progress can be monitored and measured. In addition, a survivor survey and the establishment of several working groups with external parties and providers should provide some qualitative insights into the drivers of claims as well as injury and claim patterns.

The June 2022 valuation saw a \$288 million strain from increases in average payments, and the number of new sensitive claims is likely to continue to grow. It's important that ACC gains insights into and an understanding of the drivers of this growth – including how much relates to historical versus new injuries.

The next steps towards closing this recommendation include refining and implementing the outcomes measures to determine if the right outcomes are being delivered at costs that are reasonable for levy payers and taxpayers. A continued focus on understanding injury and claim patterns, alongside the drivers of claim and cost growth, will provide insights to enable ACC to ensure that investments are well targeted, client outcomes are improved and ongoing costs are managed appropriately.

Status: Making good progress and on track to close before the new contract goes live in December 2024. This recommendation has been consolidated and edited for clarity and remains open.

Performance of longer-term claims

In the past, ACC's operational emphasis has been on measuring the performance of short-term claims. An appropriate balance is needed to ensure the performance of longer-term claims is also prioritised.

ACC should increase its focus on claims that are, or have the potential to become, longer term. This should start with a focus on outcomes for clients receiving:

- weekly compensation
- social rehabilitation care and capital.

[Responsibility: Deputy Chief Executive Service Delivery]

Progress update:

While not fully implemented, ACC's Rehabilitation Performance Programme (RPP) is well underway and has identified activities intended to address key areas of outstanding claims liability (OCL) strain, including long-term performance for weekly compensation and social rehabilitation care services. At this stage, social rehabilitation capital costs have not been included in the programme.

The establishment of baseline measures is a good start and could be extended to other areas of weekly compensation payments and other payment types. The programme's focus on the rehabilitation pathways of longer-term clients and matching them with staff with the right experience should see an improvement in outcomes for these clients and reduce the overall cost to the Scheme.

The next steps towards closing this recommendation include extending the RPP beyond the initial cohorts and monitoring the impacts of the programme on the OCL. ACC also needs to consider actions to address rising social rehabilitation capital costs, particularly given the strong inflation outlook.

Status: Making good progress and could close within the next year.

Strategic outcomes framework

Develop a customer outcomes framework for defining and assessing the effectiveness of all ACC services. This should reflect ACC's role in supporting people in New Zealand and honouring Te Tiriti o Waitangi. It should also incorporate outcomes within the context of ACC's strategic outcomes:

- Reduce the incidence and severity of injury.
- Rehabilitate injured people more effectively.

- New Zealand has an affordable and sustainable Scheme.

[Responsibility: Deputy Chief Executive Strategy, Engagement & Planning]

Progress update:

ACC is utilising Te Kāpehu Whetū and its Health Outcomes Framework to form a comprehensive understanding of ACC customers' outcomes (through both a shared and a te ao Māori view). These frameworks will be supported by a suite of measures reflecting the strategic goals and outcomes of the Enterprise Strategy, and will enable ACC to measure progress against the outcomes. Focused data-collection trials on patient outcomes and experience will add more depth to the measurement approach.

Measuring how ACC services influence client outcomes is a key enabler for understanding effectiveness and informing investment decisions. Effective measures also show how services are supporting different communities, including any access or treatment gaps for Māori. The need to develop clear measures to support these frameworks forms the basis of a new recommendation.

Status: Recommendation closed, with a new recommendation to focus on developing measures.

Treatment injury

Develop a framework for aligning financial and performance incentives, in partnership with the health sector, for reducing the incidence and severity of treatment injuries, with a plan for implementation. The plan should include contracting mechanisms and other forms of incentive, such as considerations of levies.

[Responsibility: Deputy Chief Executive Prevention & Partnerships]

Progress update:

There are significant demands on the health sector, which faces constrained resources during a period of disruption – the impacts of the pandemic and the programme of change as the sector transitions to become a national service. This has made it hard for ACC to push for a system of performance and financial incentives to improve treatment safety.

This disruption and the resource constraints are likely to continue for some time, and a programme of incentives to reduce treatment injury isn't a high priority for the system.

In our view, satisfying this recommendation isn't achievable in the short to medium term, given the priorities and constraints in the health system.

Status: We're putting this recommendation on hold until the conditions for setting treatment injury incentives are more favourable.

Injury prevention

Develop a medium- to long-term target for the intended overall impact of ACC's injury prevention activities on injury reductions. Ensure the measurement of impact appropriately allows for the broader benefits of injury prevention activities.

[Responsibility: Deputy Chief Executive Prevention & Partnerships]

Progress update:

ACC has identified and is finalising a high-level, long-term target and a set of related enablers. This should satisfy the recommendation. Achieving the target will require a clear intervention logic to shape activities and investments in injury prevention in the short to medium term.

Status: Making good progress and expected to close once target has been agreed.

New recommendations

We have introduced one new recommendation in this FCR, focused on measuring customer outcomes.

Measuring customer outcomes

We recommend that ACC ensures that its ongoing work on customer outcomes measurement aligns with the Enterprise Strategy and focuses on:

- collecting and analysing data to create insights and identify opportunities
- setting targets, measures and baselines
- identifying enterprise roles and responsibilities for monitoring and meeting targets
- developing appropriate lead and lag indicators to track progress towards targets
- considering the implications of progress against targets for the OCL, levies and appropriations.

[Responsibility: Deputy Chief Executive Strategy, Engagement & Planning]

Many factors shape ACC's financial condition

The next two pages outline the key factors that can affect ACC's financial condition. Not all of these factors can be influenced by ACC and not all are significant enough to need further discussion.

This report focuses on the factors that affect the Scheme's financial condition significantly. In the next four sections we discuss:

- what's happened during the year
- the position at the end of the year
- forecasts for future years, where relevant
- resulting risks.

More detail is included in the appendices.

Where required, key judgements and observations are covered in the last section of the main report.

ACC's legislation and Te Tiriti o Waitangi

The Accident Compensation Act 2001 and Te Tiriti o Waitangi set the rules, requirements and expectations for ACC in:

- **preventing** injury (see page 22)
- **supporting** recovery (see page 32)
- **funding** the Scheme through levies and appropriations (see page 48)
- building its capability to engage with and **understand Māori perspectives, address inequities and deliver culturally appropriate services** (see page 59).

ACC is funded by people in New Zealand (see page 48)

New Zealanders fund the Scheme through **levies** and **appropriations**.

Over time, all levy and investment income must be spent on:

- paying claims, or
- administering the Scheme, or
- preventing injuries.

ACC expects to **return \$0.91** in claim payments **for every \$1 collected**.

Injuries are funded through five Accounts (see **Appendix A**):

- the Motor Vehicle Account (through vehicle licensing charges and a levy on petrol)
- the Earners' Account (collected as part of PAYE [Pay As You Earn] tax)
- the Work Account (through a levy charged to employers and the self-employed)
- the Non-Earners' Account (by taxpayers through government appropriations)
- the Treatment Injury Account (through appropriations and the Earners' Account levy).

How ACC operates

How it invests in injury prevention activities (see page 22)

Reducing the number and severity of injuries means more people participating in their communities, **and fewer people needing support** from ACC.

How it funds and delivers rehabilitation and care services (see page 32)

Choices about **how services and supports are delivered** can influence the long-term costs of the Scheme.

Investment returns and decisions (see **Appendix F**)

Investment returns can affect how much funding is required from levies and appropriations. ACC invests in a range of assets to generate returns on funding collected from levies and appropriations.

Increased returns mean ACC has more money to support clients and **improves its financial condition**.

Lower returns (or losses) mean less money to support clients and **weakens ACC's financial condition**.

How ACC manages its business (see page 54)

The way ACC manages its business can influence its financial condition, including:

- what it **prioritises**
- how it **governs** itself
- its approach to **managing and taking risks**.

Changing the role of ACC could affect its financial condition. For example, **introducing an income insurance scheme** could divert ACC's attention away from rehabilitation, which **could affect performance**.

The number and nature of injuries and how long people take to recover or return to independence

How ACC supports people to recover or return to independence (see **Appendices A.2** and **A.8**)

One in three New Zealanders **lodges a claim** with ACC each year.

Injured people receive support in several ways, including through:

- medical and surgical treatment
- weekly compensation
- carer support
- equipment.

People's rehabilitation and recovery

Most people recover quickly (90%).

A few hundred are seriously injured and require ongoing support through medical treatment and care.

Clients needing support for a longer time have greater impacts on ACC's financial condition (see page 32)

The **longer** people take to recover, the **greater** the funding required to support them.

Economic and environmental factors

Changes in economic conditions (see page 16)

ACC's financial condition is based on its ability to pay the expected lifetime costs of current claims.

Changes in the New Zealand and global economy can influence the expected lifetime costs of claims and the amount of money ACC should hold to pay for them, which **affects its financial condition**. The main economic factors are:

- discount rates (inform the current value of future costs)
- interest rates (inform how much ACC can expect to earn from its investments)
- inflation rates (help ACC to work out how much costs are likely to change over time).

Policy and contract changes (see **Appendix B.5**)

Policy changes influence ACC's financial condition. Changing **what's covered by ACC** affects people's entitlements to care and support, which **influences how much money ACC needs to hold**.

Changes in how much different sectors are paid can influence ACC's financial condition. These changes can **happen when ACC contracts providers, and through Fair Pay Agreements** negotiated between the sector and the Government.

Large external events (see **Appendix B.5**)

External events can affect ACC's financial condition, particularly large events **that result in significant injury** (like a volcanic eruption) **or disrupt care and rehabilitation supports** (like the COVID-19 restrictions).

Climate change could affect the financial condition of the Scheme, through higher medical costs from increased demand in the health system, and disruptions in economic conditions.

ACC has enough funding to withstand any significant shock **and does not require reinsurance**.

Favourable economic conditions largely offset the effects of deteriorating claim performance on ACC’s financial condition

Deteriorating claim performance is the key reason for ACC’s \$535 million net deficit in 2021/22

ACC’s annual financial result is a good indicator of the financial condition of the Scheme. When the Scheme achieves a surplus, its overall funding position improves. It means ACC is in a better position to:

- invest in injury prevention
- provide the right rehabilitation and compensation to injured people
- operate at a cost that’s fair and sustainable for the people who fund the Scheme – levy payers and taxpayers.

ACC’s annual **financial result** is the difference between income received (from levies, appropriations and investments) and costs incurred (from claims and expenses paid) during the year.

Throughout this report, results are stated on a basis consistent with the Government’s funding policy for ACC. This means that in some cases figures differ from those in the Annual Report 2022, which are prepared on the required accounting basis.

Table 1 provides a high-level reconciliation of the deficit reported through the FCR to the deficit reported in the Annual Report.

The **risk margin** allows for uncertainty in the estimate of the OCL and is required under accounting standards.

TABLE 1: RECONCILIATION OF STATEMENT OF COMPREHENSIVE INCOME

		\$M
Net surplus/(deficit) under New Zealand generally accepted accounting practice		(49)
Excluding	Accredited Employers Programme income, costs and OCL	15
	Risk margin on change in OCL	(579)
	Change in unexpired risk liability	(164)
Including	Change in value of work-related gradual process claims incurred but not reported	242
Net surplus/(deficit) under funding policy		(535)

Table 2 shows that the underwriting deficit has increased in the past three years. It also highlights the significant impacts that changes in economic conditions have had on the net surplus. A more detailed analysis of these results can be found in **Appendix E**.

TABLE 2: RESULTS FOR THE PAST THREE YEARS

§M	2019/20	2020/21	2021/22
Underwriting surplus/(deficit)	(2,413)	(3,028)	(3,416)
Economic surplus/(deficit)	(2,396)	12,588	2,881
Net surplus/(deficit)	(4,809)	9,561	(535)

The two major components of the overall Scheme result are the underwriting result and the impacts of changes in economic conditions. This year's net deficit of \$535 million is made up of an underwriting deficit of \$3,416 million, partially offset by an economic surplus of \$2,881 million.

1. The underwriting deficit of \$3,416 million can be broken down into three key components:
 - a. An expected deficit of \$1,359 million at the time of pricing (2018 for the levied Accounts – the Motor Vehicle, Work and Earners' Accounts – and 2020 for the non-levied Accounts). In accordance with the accounting standards and funding policies, the discount rates applied for pricing are different from those used to value the outstanding claims liability (OCL). This explains around 80% of the expected deficit. The second most significant contributor is approved levies and appropriations being different from the expected cost of the 2021/22 claims
 - b. Movements between the time of pricing and the start of 2020/21, which resulted in an increase in the deficit of \$879 million. Claim assumptions contributed \$635 million, changes in economic conditions in the period contributed \$157 million and lower forecast levies contributed \$88 million to the deficit. The lower forecast levies is a result of the levy rates being set when the levied Accounts were overfunded. These rates were rolled forward for an additional year in response to the impacts of the COVID-19 restrictions
 - c. The actual performance and assumptions during 2021/22, which were higher than those expected at 30 June 2021. This contributed a further \$1,177 million to the deficit. The largest contributor was the OCL strain of \$1,499 million.
2. The economic surplus of \$2,881 million in 2021/22 was driven by a reduction in the OCL. This was caused by an increase in risk-free interest rates during the year and partially offset by an increase in inflation rates. The total contribution due to changing discount and inflation rate assumptions was \$7,641 million. However, unfavourable movements in the investment markets in 2021/22 offset this surplus by more than half. In 2021/22 ACC achieved an annual investment return of -9.21%, just above the market benchmark. This resulted in a \$4,504 million deficit.

This year's deficit led to a drop of 1% in ACC's weighted average funding ratio. However, there was a variation in the change in funding ratio by Account

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-Earners' portion of the Treatment Injury Account. These claims are funded under Pay As You Go (PAYG) meaning the funding in any given year is equal to the amount we expect 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 3 shows the past five years' funding ratios based on the funding policies for all Accounts.

TABLE 3: FUNDING RATIOS IN PAST FIVE YEARS UNDER FUNDING POLICIES

	As at 30 June					Target	
	2018	2019	2020	2021	2022		
Motor Vehicle Account	127%	107%	100%	122%	125%	100%	
Non-Earners' Account	49%	41%	37%	50%	50%		
Fully funded portion	86%	68%	59%	78%	76%	100%	
Earners' Account	131%	112%	102%	112%	105%	100%	
Work Account	131%	119%	111%	131%	136%	100%	
Treatment Injury Account	90%	75%	66%	84%	81%		
Earners' portion	166%	165%	145%	159%	137%	100%	
Non-Earners' fully funded portion	92%	69%	61%	83%	81%	100%	
Weighted average	108%	91%	84%	101%	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.

Between 2018 and 2021, funding ratios showed similar patterns for most Accounts, with economic conditions having significant impacts. Interest rate reductions in 2019 and 2020 led to corresponding reductions in funding ratios. The funding ratios recovered in 2021 following interest rate increases.

The weighted average funding ratio dropped by 1% after 30 June 2021, to 100% as at 30 June 2022. Changes in funding ratios varied by Account. While the Motor Vehicle Account and Work Account funding ratios continued to improve in 2021/22, the funding ratios for the Earners' Account and the Treatment Injury Accounts declined. The Non-Earners' Account remained relatively unchanged during the year.

The decrease of 1% in the weighted average funding ratio in the year was primarily driven by the following:

- an expected decrease of 1.8% in the weighted average funding ratio in 2021/22

When levies for 2021/22 were set in 2018, all three levied Accounts had funding ratios above their targets. The levies set were lower than the expected lifetime costs of new claims. When the appropriation for 2021/22 was approved in 2021, the non-levied Accounts were in deficit. The approved funding was close to the expected lifetime costs of new claims in the 2021/22 year.

This meant that at the start of the 2021/22 year, the funding ratio for all the levied Accounts was expected to reduce, while the funding ratios for the Non-Earners' Account and Non-Earners' portion of the Treatment Injury Account were expected to improve slightly. Of all the Accounts, the Earners' Account was the most affected with an expected reduction of nearly 5% in its funding ratio.

- the OCL strain in 2021/22 reducing the weighted average funding ratio by 2.5%

Increases in the rates paid to care providers resulted in uninfluenceable OCL strain in 2021/22. Further influenceable OCL strain was primarily a result of a deterioration in rehabilitation performance for weekly compensation claims and higher sensitive-claim average costs. All Accounts, except the Work Account, experienced reductions in their funding ratios, with the Earners' and Non-Earners' Accounts particularly affected.

The Work Account was the only Account to produce an OCL release in 2021/22. This increased the funding ratio for the Work Account, slightly offsetting the expected reduction.

When the OCL is increased because actual payments are higher than expected, this is referred to as **OCL strain**. **OCL release** is when the OCL reduces because payments are lower than expected.

- economic assumption changes in 2021/22 increased the weighted average funding ratio by 2.7%

Increases in interest rates in 2021/22 significantly reduced the OCL; however, the negative annual return on ACC's investment portfolio meant asset values also fell. The net impacts for most Accounts were increases in the funding ratios.

The Motor Vehicle Account was particularly affected, with a 5.3% increase in the funding ratio. The long-term nature of claims in this Account means that it's particularly sensitive to economic assumption changes. In contrast the Earners' Account includes many short-term claims, so was least affected by economic assumption changes with a 0.5% decrease.

We expect deficits in each of the next four years

We expect ACC to return large underwriting deficits in each of the next four years.

The projected deficits assume that levies and appropriations will increase in line with the funding policy. Despite these funding increases, we expect to see significant deficits in the coming years. The forecast underwriting results, and the net deficit, for the next four years are shown in Table 4.

TABLE 4: PROJECTED NET DEFICIT

§M	2022/23	2023/24	2024/25	2025/26
Underwriting surplus/(deficit)	(1,976)	(2,071)	(2,156)	(2,168)
Economic surplus/(deficit)	918	843	838	827
Net surplus/(deficit)	(1,058)	(1,228)	(1,318)	(1,341)

The main contributors to the 2022/23 forecast underwriting deficit of \$1,976 million are:

- an expected deficit of \$1,899 million at the time of pricing (2021 for all Accounts). In accordance with the accounting standards and funding policies, the discount rates applied for pricing are different from those used to value the OCL. This explains around 54% of the expected deficit. Most of the remaining expected deficit is due to approved levies being set below the expected cost of 2022/23 claims
- actual performance and assumptions during 2021/22, which contributed a further \$77 million to the deficit. Higher claim assumptions in the 2021/22 valuation led to an increase of \$593 million. However, this was largely offset by changes in economic assumptions (\$425 million) and higher-than-expected levies and appropriations (\$91 million).

A more detailed analysis of these results can be found in **Appendix E**. The future funding ratios are expected to reduce for the levied Accounts but increase for the non-levied Accounts.

Table 5 shows the forecast funding ratios presented both by Account and in total.

TABLE 5: FORECAST FUNDING RATIOS

	As at 30 June					Target	
	2022	2023	2024	2025	2026		
Motor Vehicle Account	125%	123%	121%	118%	116%	100%	
Non-Earners' Account	50%	52%	54%	56%	59%		
Fully funded portion	76%	77%	77%	79%	81%	100%	
Earners' Account	105%	101%	97%	93%	91%	100%	
Work Account	136%	134%	132%	129%	127%	100%	
Treatment Injury Account	81%	81%	80%	80%	80%		
Earners' portion	137%	132%	126%	120%	114%	100%	
Non-Earners' fully funded portion	81%	82%	83%	84%	85%	100%	
Weighted average	100%	99%	97%	95%	94%		

ACC recommends levies and appropriations with the aim of each Account moving towards a 100% funding ratio over time, as detailed in the funding policies.

The levies for the 2022/23 to 2024/25 years have been set below the new year cost of claims. This is in part due to the surpluses in all levied Accounts. We expect the funding ratios for these Accounts to decrease gradually as the surplus is returned to levy payers in the form of lower levies. The Earners' Account funding ratio is expected to be below the 100% target by 2024, then continue to fall as a result of capping on levy increases. The funding ratios for all other levied Accounts are expected to remain well above the 100% target.

The Non-Earners' Account and Non-Earners' portion of the Treatment Injury Account are both in deficit. We expect funding increases for these Accounts in the future to return them to the target funding ratio of 100%. Capped appropriation increases will limit how quickly these Accounts reach the target (see page 49 for more detail).

There were mixed results for injury prevention and the outlook is uncertain

Under the Accident Compensation Act 2001, ACC invests in injury prevention activities through levies and through government appropriations for the Non-Earners' Account. ACC can only invest in those activities, however, if they're likely to result in cost-effective reductions in levies or appropriations through reduced claim costs. The Government can also allocate money to ACC for injury prevention. ACC partners with many organisations to deliver injury prevention programmes.

The injury prevention portfolio aims to:

- reduce the incidence and severity of injuries to reduce the economic, social and personal impacts of injuries on individuals
- achieve a cost-effective reduction in levy rates or government appropriations.

To ensure the achievement of these objectives, the organisation assesses programme benefits with the help of the following measures:

- Return on investment (ROI):** This measures the actual and expected claim benefits from injury prevention against the investments made to achieve them. Claim benefits are a good proxy for the harm prevented through avoiding or reducing the severity of injuries to New Zealanders. ACC uses this measure to assess the cost-effectiveness of its injury prevention programmes
- Rate of fatal and serious injuries:** This is the number of fatal and serious injury claims (in areas where there are injury prevention programmes) as a rate per 100,000 of the New Zealand population; it's presented as a rolling 12-month result
- Number of injuries prevented:** This is the number of injuries that were prevented as a result of the programmes
- Investment in kaupapa Māori programmes:** This is a new measure from 2021/22.

The injury prevention portfolio is split into five portfolios, which are slightly collapsed for ROI and rates of fatal and serious injury measurement into:

- **0- to 20-year:** Programmes of less than 20 years' duration, including:
 - **Targeted:** Short-term (1-10 years) programmes targeting specific injuries
 - **Treatment Safety:** Focused on improving patient safety in the course of treatment
- **Strategic:** Programmes aiming for longer-term, larger-scale, sustainable impacts through societal and behavioural changes
- **Workplace:** Focused on reducing the severity and incidence of work-related injuries
- **Māori:** Focused on reducing injuries among Māori. These programmes can span all categories above.

An injury prevention programme goes through the following stages:

1. **Design or implementation:** The programme is under development and not yet in delivery
2. **Delivery:** The programme is in delivery and producing claim benefits
3. **Exit:** The programme is no longer active and has ended.

During the design stage, targets and measures are still being formed and the programme is not yet delivering claim benefits. For the first two years in design, programme costs are excluded from the ROI calculation. If a programme spends more than two years in design, costs older than two years are included in the ROI calculation. Once a programme goes into delivery, all costs and benefits are included in the ROI calculation.

The injury prevention portfolios had mixed results

Table 6 shows key performance indicators for the highest portfolio levels, 0- to 20-year, Workplace and Māori. Targeted and Treatment Safety are sub-portfolios within the 0- to 20-year portfolio, so are integrated with the 0- to 20-year results.

Strategic targets are not in the table as they're still being developed.

TABLE 6: INJURY PREVENTION PORTFOLIO RESULTS

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Return on investment							
0- to 20-year programmes	Target	n/a	n/a	\$2.05	\$2.08	\$2.12	\$2.15
	Achieved	\$2.11	\$1.99	\$2.19	\$2.18		
Workplace programmes (excluding WorkSafe)	Target	n/a	n/a	n/a	\$1.60	\$1.65	\$1.70
	Achieved	\$1.63	\$1.43	\$1.73	\$1.74		
Rate of fatal and serious injury							
0- to 20-year programmes	Target	n/a	n/a	<9.3	<9.1	8.9	8.7
	Achieved	8.9	9.3	9.4	9.3		
Workplace programmes (excluding WorkSafe)	Target	n/a	n/a	<0.22	<0.20	0.18	0.16
	Achieved	0.35	0.16	0.20	0.25		
Number of claims saved							
	Target	11,000	12,100	13,310	14,641	16,105	23,000
	Achieved	12,353	15,314	14,240	12,353		
Investment in kaupapa Māori programmes (\$M)							
	Target				\$7	\$8	\$12
	Achieved				\$7		

Return on investment

The ROI targets for the 0- to 20-year and Workplace portfolios were achieved, while the target rates of fatal and serious injury were not.

Programmes starting or exiting the portfolio, or those altering or deferring benefits for the year, are major contributors to the injury prevention portfolio ROI. Only four programmes exited during the year. These programmes had no future benefits associated with them, so had no impact on the ROI. There were some benefit updates in the year, but these did not result in a significant change in the ROI.

The main drivers of net changes in ROI between 30 June 2021 and 30 June 2022 were as follows:

1. **o- to 20-year:** ROI of \$2.18 in 2021/22 compared to \$2.19 in 2020/21:
 - \$0.07 due to the total actual benefits delivered by the programmes being lower than projected and offset by a combined:
 - + \$0.04 due to negative investment returns in the year that had positive impacts on the ROI
 - + \$0.01 due to actual spending on programmes being lower than expected in the year
 - + \$0.01 due to updated lifetime cost estimates (the monetary value placed on claims saved) resulting in slightly higher future savings for the portfolio.
2. **Workplace:** ROI of \$1.74 in 2021/22 compared to \$1.73 in 2020/21:
 - \$0.11 due to the total actual benefits delivered from the programmes being lower than projected and offset by:
 - + \$0.11 due to negative investment returns in the year that had positive impacts on the ROI
 - + \$0.02 due to actual spending on programmes being lower than expected in the year
 - - \$0.01 due to updated lifetime cost estimates resulting in slightly lower total savings for the portfolio.

Other measures

The rate of fatal and serious injury in the o- to 20-year portfolio only includes areas where a programme, which must be in delivery, targets fatal or serious injuries. The Treatment Safety portfolio programmes in delivery, as at this stage, generally do not target fatal or serious injuries and are therefore excluded. This may change from 2022/23 with the expectation that one Treatment Safety programme targeting fatal and serious injuries will start delivering benefits.

In the 2021/22 year, the o- to 20-year portfolio had a 9.3 rate of fatal and serious injury per 100,000 of population compared to the target of <9.1 (477 actual claims instead of 466). The Workplace portfolio had a 0.25 rate of fatal and serious injury per 100,000 of population compared to the target of <0.20 claims for the 2021/22 year (13 claims instead of the target of 10). The rate of fatal and serious injury for the Workplace portfolio is very small and the gap between the target and the actual rate represents very few claims.

The target investment of \$7 million for kaupapa Māori programmes was met. This amount includes programmes in their first two years in design. Other targets, such as those for returns on investment, are still being developed for kaupapa Māori programmes.

The number of claims saved in all the injury prevention programmes was 12,353 compared to the target of 14,641. The main driver for this was a shortfall in the claims avoided by the Falls programme (1,270 claim savings instead of 4,441 expected).

Investments have been made, but most benefits have yet to be realised

There are 81 programmes, split over the five investment portfolios mentioned above, in the stages of design, implementation or delivery. Fifty of these programmes are in delivery.

Table 7 shows investments and claim benefits since 2006/07 broken down into past and future-projected benefits. The ratio of claim benefit to investment produces the return on investment of a programme, also shown in the table. The higher the ratio, the greater the benefits to the funders of the Scheme (levy payers and taxpayers).

TABLE 7: INJURY PREVENTION PORTFOLIO PAST AND FUTURE INVESTMENTS AND BENEFITS AS AT 30 JUNE 2022

Portfolio (\$M)	Year ending 30 June 2022				ROI Total
	Past		Projected		
	Benefit	Investment	Benefit	Investment	
Targeted	326.9	311.9	498.8	56.4	\$2.24
Treatment Safety	0.0	49.7	100.3	2.0	\$1.94
Workplace (excludes WorkSafe)	54.3	61.5	90.8	21.9	\$1.74
WorkSafe	3.5	33.1	4.8	0.0	\$0.25
Strategic	0.0	81.2	16.8	0.0	\$0.21
Māori	0.0	4.7	0.0	0.0	\$0.00
Total	384.7	542.1	711.4	80.3	\$1.76

The investments made in the Targeted portfolio to date amount to \$311.9 million, with a further \$56.4 million projected investments to be made. The claims avoided to date are estimated at \$326.9 million, with a further \$498.8 million in projected benefits. The ratio of total benefits to total investments for the Targeted portfolio produces an ROI of \$2.24 – the highest among the five portfolios shown in the table. As at 30 June 2022, only benefits realised under the Targeted portfolio exceed investments made to date.

Three Māori programmes are in their first two years of design, meaning the investments are not yet part of the ROI calculation. Another is in its third year of design, so only the investments made in its first year are included in the ROI. Māori investments, which span all other portfolios, have been counted once under the Māori portfolio to remove overlaps with other portfolios.

Investment generally occurs at the beginning of a programme’s lifespan, while benefits occur over a longer period. As a portfolio matures, the gap between the benefits saved and investments made is expected to reduce. Table 8 shows the gap between investments and benefits in the past five years.

TABLE 8: GAP BETWEEN INJURY PREVENTION BENEFITS AND INVESTMENTS AS AT 30 JUNE 2022

§M	Year ending 30 June				
	2018	2019	2020	2021	2022
Targeted					
Cumulative benefits	189.1	215.6	248.2	285.2	326.9
Cumulative investments	179.4	215.7	269.1	290.5	311.9
Gap	-9.7	0.1	20.9	5.3	-15.0
Treatment Safety					
Cumulative benefits	0.0	0.0	0.0	0.0	-0.0
Cumulative investments	19.8	29.7	39.5	45.0	49.7
Gap	19.8	29.7	39.5	45.0	49.7
Workplace					
Cumulative benefits	11.5	24.2	32.7	44.6	54.3
Cumulative investments	33.8	41.5	47.4	53.3	61.5
Gap	22.3	17.3	14.8	8.7	7.2
WorkSafe					
Cumulative benefits	0.0	0.6	1.5	2.9	3.5
Cumulative investments	5.1	17.6	33.0	33.1	33.1
Gap	5.1	16.9	31.5	30.1	29.5
Strategic					
Cumulative benefits	0.0	0.0	0.0	0.0	0.0
Cumulative investments	39.9	51.4	63.5	73.3	81.2
Gap	39.9	51.4	63.5	73.3	81.2
Māori					
Cumulative benefits	0.0	0.0	0.0	0.0	0.0
Cumulative investments	2.1	3.9	4.5	4.7	4.7
Gap	2.1	3.9	4.5	4.7	4.7

The gaps between investments to date and benefits to date have been increasing for the Strategic, Māori and Treatment Safety portfolios. That's because no benefits have been delivered for these portfolios yet, while programme investments were incurred between 2017/18 and 2021/22. Both the Treatment Safety and the Māori investments go back only as far as 2015/16.

Workplace investments started in 2010/11 and were met with claim savings from the portfolio in the same year. Although benefits to date (\$54.3 million) have yet to exceed investments to date (\$61.5 million), the gap between spending and claim savings in the past five years of the portfolio has started to narrow at an increasing rate. For WorkSafe, the gap between investments and benefits has been \$30.4 million on average in the past three years.

The Targeted portfolio has had programmes in delivery since 2006/07. As at 30 June 2022, the portfolio benefits are valued at \$326.9 million, which exceeds the \$311.9 million in investments to date.

Further discussions on the portfolio results are provided under the portfolio sections.

Five programmes are expected to deliver over half the future claim benefits

The expected value of future benefits as at 30 June 2022 is \$711.4 million. The total benefits realised since 2007 are valued at \$384.7 million.

Investments in programmes since 2006/07 totalled about \$542.1 million as at 30 June 2022. At the end of 2021/22, planned future investments in existing programmes were estimated at \$80.3 million. This amount excludes future unplanned reinvestments, which could drive the ROI down if made without the expectation of additional benefits.

Five programmes are expected to deliver more than half the total expected future injury prevention benefits. Of these five, only one is achieving its targets. Table 9 shows the expected future claim benefits and the status of these programmes.

TABLE 9: INJURY PREVENTION PROGRAMMES WITH THE TOP FIVE EXPECTED FUTURE CLAIM BENEFITS AS AT 30 JUNE 2022

Injury prevention programme	Expected claim benefits (\$M)	Actual claim benefits (\$M)	Projected benefits (\$M)	Percentage of total future benefits	Delivery status
Falls and Fractures	29.8	21.6	121.1	17%	Benefit targets not achieved to date
Gun Violence	6.7	4.7	81.2	11%	Benefit targets not achieved to date
Ride Forever	53.8	52.5	76.4	11%	Performing well
Neonatal	0.0	0.0	62.7	9%	Nil benefits to date
Grants and Subsidies	1.6	0.8	42.9	6%	Benefit targets not achieved to date
Total	91.8	79.5	384.3	54%	

Each of the five programmes is discussed under the corresponding portfolio sections.

The Targeted and Workplace portfolios' performance has been mixed, and the performance of others has yet to produce results

There is uncertainty with the largest Targeted programmes, but Sport and Road continue to deliver

With investments in Targeted programmes since 2006/07, this portfolio makes up more than half the \$542.1 million in total investments to date. About 70% (\$498.8 million) of the \$711.4 million total projected benefits is expected to be delivered by Targeted programmes. Half of the 50 programmes in delivery are in the Targeted portfolio.

Among Targeted programmes, Sport and Road programmes continue to perform well. Falls and Fractures and Gun Violence are two of the five largest injury prevention programmes based on projected benefits and are not meeting benefit targets.

The Targeted portfolio ROI increased from \$2.21 in 2020/21 to \$2.24 in 2021/22 (excluding Māori investments). The updated estimates of lifetime claim costs increased the ROI by \$0.02. Market movements resulted in a \$0.05 ROI increase that was partially offset by a \$0.04 ROI reduction due to actual claims saved being less than expected.

The Falls and Fractures programme has yet to achieve targets

The Falls and Fractures programme targets people at risk of falling and those at risk of fragility fractures. These injuries make up a significant proportion of claims from the over-65 age group, costing more than \$200 million per annum.

Falls and Fractures investment includes Fracture Liaison Services (FLS) and Strength and Balance programmes. The overall programme is currently underperforming. Work is underway to review specific underperforming components to make improvements and inform any future investment.

As at 30 June 2022, there is a projected \$25.8 million investment in Falls and Fractures between 2022/23 and 2029/30 in addition to the total \$67.9 million investment to date. The programme is expected to provide claim savings of \$121.2 million in the same period. Much (85%) of the Falls and Fractures benefits will be delivered in the future, whereas 72% of the total investments have already been made.

Falls and Fractures was expected to save \$11.2 million worth of claims in 2021/22. However, the actual saving is estimated at \$3 million. Projected benefits in 2022/23 have been reduced, with another review scheduled before 30 June 2023. It's unlikely that the \$121.2 million of future benefits will be realised by 30 June 2024. However, international evidence suggests that embedding a national FLS within Te Whata Ora will, in the long term, deliver material and sustainable reductions in older adult fractures. Work has commenced to sustainably embed FLS as an all-of-population and prevention-oriented intervention that will reduce demand on New Zealand's healthcare system.

The ROI for Falls and Fractures is \$1.52. If only half the expected claim savings were realised, the ROI for this programme would fall to \$0.88.

While the Falls and Fractures programme has yet to achieve its ROI and claim savings targets, it's anticipated that a shift to a performance-based engagement model will significantly improve the delivery of independently accredited FLS within New Zealand's public hospitals. A national Fragility Fracture Registry has also been established to enable ACC to support people at risk of falls and fractures more effectively, and close the care gap evidenced by the Australian and New Zealand Hip Fracture Registry.

Gun Violence benefits were not achieved for the second year in a row

Gun Violence is a buyback scheme introduced by the Government to remove military-style semi-automatic firearms from circulation following the mosque attacks in Christchurch. A \$24.3 million investment was made in the programme in 2019/20, with benefit delivery starting in 2020/21. However, the programme has not reached its set targets in its first two years.

Forty-six individual firearm claims were expected to be prevented, with a lifetime claim cost of \$4.6 million in 2021/22. The actual number of claims prevented is estimated at 18, with a lifetime claim cost of \$2.7 million.

There can be significant variations in the number of claims saved each year given the low number involved. The expected benefits of this programme are attributed, in part, to also preventing a significant event during its 20-year period. As at 30 June 2022, the projected claim savings from the Gun Violence programme between 2022/23 and 2039/40 is \$81.2 million.

The ROI for this programme is \$3.44 as at 30 June 2022. If Gun Violence projected benefits were reduced to half, the ROI would drop to \$1.81.

Two road programmes continue to beat targets

Two road programmes, Drive for young driver safety and Ride Forever for motorcycle safety, have outperformed expectations since their inception, and continue to do so.

Drive, a joint programme with Waka Kotahi NZ Transport Agency, helps young drivers to build up their skills and confidence and gives them the knowledge needed to stay safe on the road. As at 30 June 2022, \$33.4 million has been invested in the programme. A further \$7.6 million investment is planned for between 2022/23 and 2023/24. In 2021/22, the cost of claims avoided was estimated at around \$12.8 million, more than double the expected amount of \$5.3 million. The programme delivered \$84.9 million in total claim cost savings, with a further \$51 million expected in future claim cost savings. Drive has an ROI of \$3.32 as at 30 June 2022.

Ride Forever is one of the five programmes expected to deliver over half the future claim benefits. It is a motorcycle training programme that delivers practical riding skills through online and on-road coaching. Over the next 12 months the programme will develop a strategy to reduce the impacts of injury on young riders in response to the rise in claim incidence and severity in this group. It is also investigating a harm-reduction programme for the up to 8,000 newly licensed riders, who will be completing licence tests in the coming year.

As at 30 June 2022 \$36.7 million has been invested in the programme, with a further \$4.5 million of planned investment in 2022/23. Ride Forever met its target 441 claims avoided (worth about \$11.7 million) during the 2021/22 year. The programme has helped avoid an estimated \$52.5 million in claim costs since 2014/15. It is expected to save an estimated \$16.5 million in claim costs in 2022/23. The programme has an ROI of \$3.12 as at 30 June 2022.

Sport programmes with good track records continue to perform well

Three long-term, proven Sport programmes have continued to perform well. These are Rugby Union, Netball and Touch Rugby (with the last being a smaller programme than the other two).

The cost of claims for rugby union injuries is about \$11 million a year. In 2021/22 the Rugby Union programme helped ACC to avoid an estimated \$4.6 million worth of injuries, which exceeded the \$4.3 million expectation. Rugby Union has consistently performed well in the past and holds an ROI of \$3.65.

Netball outperformed expectations, with actual claim cost savings of \$4 million (2,797 claims) in 2021/22 compared to the expected \$1.1 million. The Netball ROI stands at \$3.87 as at 30 June 2022.

The Treatment Safety portfolio has yet to deliver any benefits despite large investments to date

The Treatment Safety portfolio faces some challenges owing to the complexities of having to work within a multi-disciplinary healthcare system, as well as delays in medical assessments, claim submissions and medical note requests/reviews caused by the COVID-19 restrictions in the past couple of years. Since 2016, \$49.7 million has been invested in the Treatment Safety portfolio, but benefits have yet to be realised. Of the \$49.7 million, \$5.4 million has been invested in programmes that have since been exited and delivered nil benefits, and \$9.4 million has been invested in programmes still in design or implementation. The rest of the investment is in programmes that are in delivery but with no claim benefits yet.

In 2021/22 the Treatment Safety portfolio was expected to deliver \$5.3 million in claim cost savings. This was not realised, and the ROI fell from \$2.24 to \$1.94. There is an estimated \$100.3 million in expected future claim cost savings for this portfolio, while the projected future investment at this stage is \$2 million.

Benefits for Neonatal Encephalopathy were delayed

Neonatal encephalopathy (NE) is a major cause of brain trauma in new-born babies and can result in injuries for life. The NE programme aims to reduce the incidence and severity of NE. There are 10–20 NE claims each year.

The investment to date (since 2015/16) in the NE programme has been \$7.5 million, while the benefits to date are nil. The programme is expected to deliver \$7.2 million in claim cost savings in 2022/23.

The NE programme is a collection of interventions and is expected to deliver \$62.7 million of expected future claim savings due to the long-term nature of the injury. Some of the interventions explored to date are not showing the desired results. At this stage it is uncertain if the expected future claim savings will be delivered as projected. The organisation is considering alternative treatment injury pathways, as well as appropriate ways to monitor and measure them. The conclusion of this work will provide a clearer indication of the level of confidence in the programme delivering projected benefits.

The NE ROI stands at \$8.33, but this relies on it delivering \$62.7 million in projected benefits. If projected benefits were halved, the ROI for this programme would drop to \$4.16 and the overall Treatment Safety ROI would reduce from \$1.94 to \$1.33.

MORSIM has not delivered benefits yet

MORSIM is an operating room simulation training programme for surgical teams. Its aim is to prevent treatment injuries associated with surgery and improve patient safety.

As at 30 June 2022, \$11.9 million has been invested in the programme, with no further investment planned at this stage. In 2021/22 the programme delivered none of the expected \$3.9 million in benefits. In the annual programme review, the expected future benefits of MORSIM were halved from \$16.8 million to \$8.4 million based on programme performance to date. This is the main reason for its ROI dropping to \$0.71 as at 30 June 2022, from \$1.51 as at 30 June 2021.

Pressure Injuries, Infections and ICNet are expected to deliver benefits from 2022/23

Pressure injuries can result in months of bedrest and hospitalisation for affected individuals. They are most common among those who lie or sit for sustained periods or use wheelchairs, and in situations where medical equipment comes into contact with skin. The Pressure Injuries programme partners with public health providers with the aim of preventing pressure injuries. Investments in the programme to date have totalled \$7.5 million, and a further \$2 million is planned for 2022/23. It is expected to deliver approximately \$1 million in benefits in 2022/23 and another \$15.1 million in benefits between 2023/24 and 2031/32. As at 30 June 2022 the ROI for Pressure Injuries is \$1.70.

Infection-related injuries account for about \$43 million in annual claim costs. The Infections programme aims to reduce the occurrence and severity of healthcare-associated infections while clients are receiving treatment for surgical or medical conditions. Actual investments in Infections are valued at \$2.2 million as at 30 June 2022. The projected benefits of the programme are estimated at \$4.6 million and are expected to be delivered from 2022/23 to 2027/28. The programme ROI sits at \$2.06, with all benefits projected into the future.

ICNet is another programme that targets infections resulting from procedures delivered in hospital settings (mostly public). As at 30 June 2022, \$3.8 million has been invested in the programme. The programme has yet to deliver benefits. ICNet is expected to deliver \$8.6 million

in claim savings between 2022/23 and 2028/29. The ICNet ROI sits at \$2.26, with all benefits projected into the future.

The Workplace portfolio delivered benefit targets mainly due to the Farming programme

Workplace programmes have delivered more benefits than expected, mainly due to the performance in the farming sector. As at 30 June 2022 Workplace investments (excluding Māori Workplace programmes) have achieved a total \$54.3 million in benefits compared to the \$53.1 million expected for a \$61.9 million investment between 2010/11 and 2021/22. With a further \$21.9 million investment planned as at 30 June 2022 and a projected benefit of \$90.8 million, the Workplace ROI is \$1.74.

Grants and Subsidies didn't meet the benefit target for the year

Grants and Subsidies, formerly Targeted Financial Incentives, is one of the five programmes expected to deliver over half the future claim benefits. The programme aims to use non-levy-based economic incentives to reduce the incidence and severity of injury in the workplace. Examples of incentivised actions range from investing in health and safety knowledge and delivery to purchasing crush-protection devices for quadbikes.

The investment in Grants and Subsidies since 2018/19 has been \$15.6 million, with a further \$14.7 million planned between 2022/23 and 2025/26. The programme delivered \$0.71 million in benefits compared to the \$1.6 million expected in 2021/22. This was despite the benefits being pushed out by a year in early 2020/21 due to it taking longer than expected to co-design and take programmes to delivery with partners. The programme started delivering benefits in 2020/21. As at 30 June 2022, Grants and Subsidies has delivered \$0.79 million in claim cost savings.

The programme is expected to deliver another \$42.9 million in benefits from 2022/23 to 2034/35. The ROI for the programme was reduced from \$1.95 to \$1.44 after a revaluation in 2021/22. This was mainly due to the mix of grant and subsidy applications being different from anticipated and lower-than-expected benefits for the subsidy component.

If the projected benefits delivered in the future were halved, the ROI for the programme would drop further to \$0.73. This would result in the Workplace portfolio ROI dropping from \$1.74 to \$1.48.

Farming continued to perform well

The lifetime investment in Farming since 2015/16 has been about \$5.3 million, with a further \$1.9 million of investment planned between 2022/23 and 2024/25. Farming delivered \$8.5 million in claim savings in 2021/22, \$7.4 million more than expected. Since 2019 the programme has consistently helped New Zealanders to avoid claims each year, with benefits returned to date of \$31 million. The Farming ROI increased from \$3.32 to \$4.29 in 2021/22, mostly due to the benefits being \$7.4 million higher than anticipated.

Construction has performed consistently well in the past

The construction industry is the largest-claiming workplace sector in terms of claim volume and lifetime costs. ACC supported Construction Health and Safety New Zealand (CHASNZ) in launching Work Should Not Hurt in April 2022, so the Construction programme now falls within that programme. Work Should Not Hurt was established to address the rising rate of injuries in the construction sector by offering guidance and practical resources to tradespeople to help reduce sprains and strains, the industry's most common injuries.

A total of \$8.2 million has been invested in Construction as at 30 June 2022. The total benefit delivered by Construction from 2010/11 to 2020/21, just before the shift, was \$17.8 million. In 2021/22 the claim cost savings from the programme were estimated at \$0.2 million, below the expected \$1.3 million. COVID-19 restrictions have affected the implementation of the programme and benefit realisation, so it's too soon to say if it's working. ACC expects performance to pick up in 2022/23. The new Construction (CHASNZ) programme is expected to deliver \$33.4 million in future benefits.

The expected ROI in the new set-up of Construction within CHASNZ (from 2021/22 onwards) is now \$3.90 compared to \$3.71 prior to the shift.

Investments in WorkSafe programmes haven't delivered the expected benefits

ACC and WorkSafe have been collaborating on workplace injury prevention since 2018. WorkSafe has interventions targeting the forestry and construction sectors and a health and safety programme called SafePlus. WorkSafe started targeting the forestry sector through the Forestry programme in 2021/22. It committed to an ROI of \$1.10 for an investment of \$150 million (\$15 million a year for 10 years) from September 2018 to September 2028. To date WorkSafe has provided about \$3.5 million in claim cost savings in return for a total investment of \$33.1 million.

There's a further \$4.8 million projected benefit from this investment, which gives WorkSafe an ROI of \$0.25.

In September 2021 there was a \$12.5 million investment in WorkSafe as part of a nine-month transitional contract to confirm WorkSafe could deliver and measure benefits for the remainder of the contract. In that time WorkSafe was expected to demonstrate that it could generate an ROI of \$1.10 from the full amount invested by 30 June 2022. WorkSafe was unable to demonstrate this.

ACC and WorkSafe are now negotiating a further funding schedule for 2022/23 for an additional amount, up to \$15 million, that's part of the transitional funding arrangements. If this amount is factored into the ROI calculation for WorkSafe, the resulting ROI will reduce from \$0.25 to \$0.18.

ACC continues to explore alternative funding mechanisms with WorkSafe to support a sustainable harm-prevention system and capability.

Strategic investments will start delivering benefits from next year through the new sexual violence prevention programme

The Strategic portfolio is still maturing, with most programmes still in the design phase.

Excluding strategic Māori programmes, a total \$81.2 million has been invested in strategic programmes since 2015/16, with \$16.8 million of projected benefits identified. The Strategic portfolio ROI as at 30 June 2022 is \$0.21, with all claim savings lying in the future.

Mates and Dates is a sexual violence prevention programme that teaches young people healthy relationship skills and behaviours. In its seven years of delivery, the programme has only been taught to approximately 150,000 school students. Survey statistics from participants show that more than 70% of the survey respondents are NZ European and 76% are from schools that are decile 6 and above. ACC is clear that this type of consent education should be provided to all young people rather than the narrow cohort engaged in Mates and Dates. ACC has committed to support this programme through to 31 December 2022. This is to ensure that the importance of consent and healthy relationships continues to be taught in schools while the design phase for the new sexual violence prevention whole-of-system approach is underway.

The total investment since 2018/19 as at 30 June 2022 is valued at \$21.9 million. The benefits of this investment have not yet been determined but some benefit measurement is expected to be available from 2022/23

using the collected school participation data as at the end of the programme run.

Healthy Consensual Relationships is a new programme that will see the establishment of a sexual violence primary prevention system. It is part of efforts to take a more sustainable approach to sexual violence prevention with broader impacts. The new sexual violence prevention programme will be designed and implemented with other government agencies, as well as providers, specialist services, iwi and communities. ACC will be investing \$44.9 million in the next four years to support Te Aorerekura, the 25-year national (whole-of-government) strategy to eliminate family and sexual violence. See page 61 for more information.

Māori investments are still under development

The investment target of \$7 million in kaupapa Māori programmes was reached in the 2021/22 year. This amount was spent on programmes still in the design stage and not factored into the ROI calculations. The portfolio is still under development, with the first investment made in 2016, and has no claim cost savings or ROI targets at this stage. This should change as the portfolio matures.

The programmes under this portfolio in the design stage are:

1. **Tūārai:** An iwi-driven, kaupapa Māori approach to injury prevention that includes a kāinga-based programme addressing family harm, self-harm and sexual violence
2. **Ngā Tini Whetū:** A whānau-centred, cross-agency programme that focuses on early support for whānau Māori and their tamariki
3. **Oranga Whakapapa:** A programme that supports the establishment of a Tiriti-led primary prevention system and the transition from one-off programmes to a more sustainable sexual violence prevention system.

Tūārai is in phase 3, which involves beginning to scale the Tūārai model across all hapū and iwi in the Te Tairāwhiti region. Oranga Whakapapa is in the design stage along with Healthy Consensual Relationships. The work underway includes engaging with whānau, hapū, iwi, hāpori Māori and Māori providers in the development stage and developing the internal capability to deliver the programme. Of the investment in Healthy Consensual Relationships, \$11.7 million is for kaupapa Māori approaches.

In the past eight years rehabilitation performance has worsened

Deteriorating rehabilitation performance resulted in an influenceable \$615 million OCL strain in 2021/22

When claim volumes and costs move above or below what's expected, and we can link the movements to areas over which management has at least partial influence or control, we categorise those movements as influenceable. If the movements are fully beyond the control of ACC management, they're categorised as non-influenceable.

In the 2021/22 the OCL strain had a direct effect on the funding position. The claim performance also flowed into the expected new year claim costs. Both of these can affect the Scheme's sustainability.

The total OCL strain in 2021/22 was \$1.5 billion on a funding basis. It included a \$615 million influenceable strain and \$885 million non-influenceable strain. It took the total strain in the eight-year period (2014/15 to 2021/22) to \$4.5 billion, of which \$3.8 billion was influenceable. Seven of the eight years in this period had influenceable strains of over \$300 million. Each of the annual strains are built into the following year's baseline OCL meaning that each new strain is on top of what was allowed for in previous strains. These ongoing increases have contributed to funding pressure and a deterioration in the financial condition of the Scheme.

Table 10 provides a high-level reconciliation of the funding basis strain reported in this FCR to the strain reported in the Annual Report.

TABLE 10: RECONCILIATION OF OCL STRAIN WITH THE ANNUAL REPORT

		\$M	\$M
Annual Report OCL strain			1,791
Excluding	Accredited Employers Programme release	(9)	
	Risk margin on OCL strain	214	(205)
Including	Change in value of work-related gradual process claims incurred but not reported	(87)	(87)
FCR OCL strain			1,499
	Influenceable OCL strain		615
	Non-influenceable OCL strain		885

Table 11 has a breakdown of the OCL movements in the past eight years. The largest contributors to these were weekly compensation, sensitive claims and serious injury non-capital payments.

TABLE 11: CONTRIBUTORS TO OCL MOVEMENTS IN THE PAST EIGHT YEARS

\$M	Influenceable	Non-influenceable	Total
Weekly compensation	2,001	237	2,238
Sensitive claims	1,473	39	1,512
Serious injury non-capital	1,204	380	1,584
Non-serious injury non-capital	290	89	379
Serious injury capital	356	(12)	344
Non-serious injury capital	213	42	255
Elective surgery	(1,235)	29	(1,205)
Medical	(399)	(34)	(432)
Other*	(81)	(63)	(144)
Total OCL strain/(release)	3,822	708	4,530

*Other includes a number of smaller payment types and the claims handling expenses.

Where we've categorised strain or release as influenceable, it does not necessarily mean that we believe it's fully caused by management actions, or that it can and should be fully reversed. Strain is identified as influenceable to highlight that ACC should consider what action, if any, is appropriate to take in response. ACC should make deliberate choices on how much of the strain can and should be reversed.

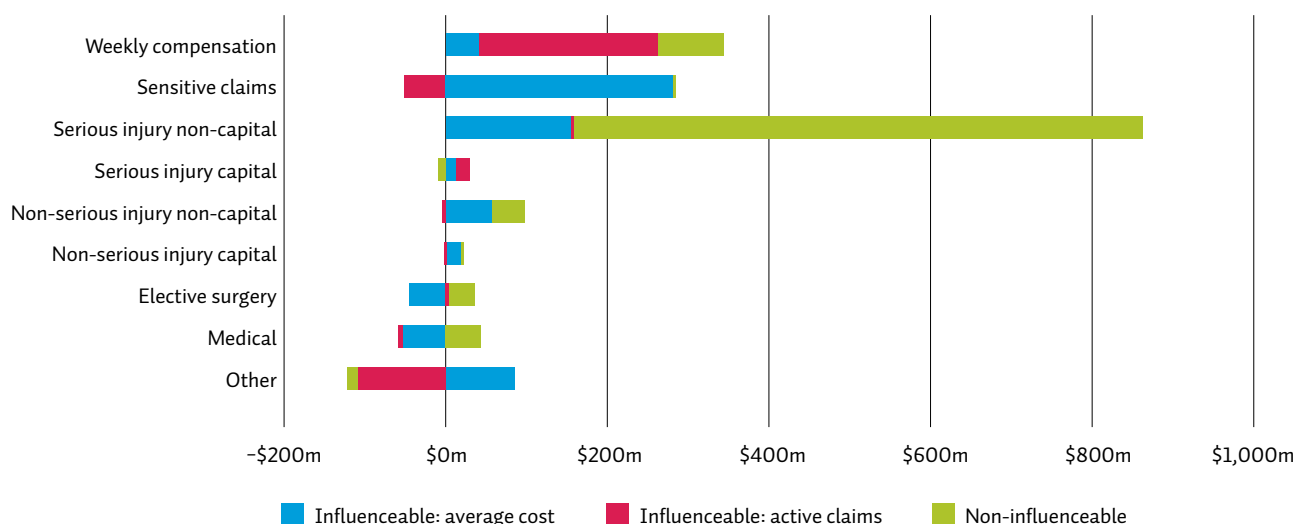
This year's \$615 million influenceable OCL strain can be broken down into two main drivers that affect estimates of future claim volumes and costs:

- **Active claims:** Increases in how long clients were receiving assistance resulted in a \$67 million OCL strain.
- **Average cost of claims:** Overall, the average amount paid per claim was higher than expected, resulting in a \$548 million OCL strain.

The influenceable OCL strain was heavily affected by the weekly compensation and sensitive claim payment types

Graph 1 shows how each claim payment type contributed to the \$1.5 billion total OCL strain. In the following analysis, the OCL impacts are influenceable unless indicated otherwise. For a description of each payment type and the services it includes, see Table 18 in **Appendix A.2**.

GRAPH 1: COMPOSITION OF THE 2021/22 OCL STRAIN BY CLAIM PAYMENT TYPE



Most of the active claim strain related to weekly compensation, with a strain of \$221 million. As in previous years, 2021/22 saw a deterioration in rehabilitation performance for weekly compensation claims. This led to a higher number of claims staying on the Scheme and a change in the future rehabilitation rate assumptions. While various COVID-19 restrictions in the past few years have had some impact on claim performance, rehabilitation rates started deteriorating before the pandemic.

The \$548 million average cost of claims strain arose mostly from sensitive claims and serious injury claims. For sensitive claims there has been significant growth in average payments in the past year, particularly in the Non-Earners' Account. For serious injury claims, in the past ten years care hours for moderate traumatic brain injuries have grown at a faster rate than expected.

During 2021/22 a number of non-influenceable factors caused an OCL strain of \$885 million. These were:

- changes in the rates paid to providers to reflect the new Matariki public holiday, additional sick leave allowances, more qualified skill mix among carers, higher rates for in-between travel and increased minimum wage (\$1.1 billion strain), which are discussed later in this section
- an increase in the number of future 'loss of potential earning' weekly compensation claims in the Non-Earners' portion of the Treatment Injury Account (\$53 million strain) as delayed claims emerge from the 2006 change in the definition of treatment injury
- a higher-than-expected number of deaths for high-level tetraplegic serious injury claims (a \$53 million release)
- COVID-19 restrictions resulting in fewer accidents during the year (\$180 million release).

In addition, in response to an audit recommendation, ACC made changes to the methodology for projecting future claims handling expenses. Claims handling expenses are now estimated separately for sensitive claims. This has resulted in no movement in the overall OCL, but a significant OCL movement between Accounts.

Lower rehabilitation rates for clients receiving weekly compensation resulted in a \$262 million influenceable OCL strain

The OCL for weekly compensation at 30 June 2022 was \$10.9 billion, including an OCL strain of \$343 million for 2021/22. During the year, weekly compensation payments were \$1.7 billion, 2% higher than expected. In the previous eight years to 30 June 2022 the OCL strain was \$2.2 billion in total.

The breakdown for the 2021/22 OCL is shown below.

Active claims: \$221 million OCL strain



The rehabilitation rates for weekly compensation claims continued to deteriorate during 2021/22. The rehabilitation rates for the Earners and Motor Vehicle Accounts were lower than expected, and this contributed to the OCL strains of \$174 million and \$62 million respectively. They were mostly from the accidents in the previous eight years. If rehabilitation performance continues to deteriorate over the next year, this may result in a further OCL strain in the next valuation (in the order of \$200 million to \$400 million). Higher-than-expected active claim numbers receiving weekly compensation at 31 March 2022 resulted in a \$41 million strain.

Average cost of claims: \$40 million OCL strain



Higher backdated payments resulted in higher average costs of weekly compensation claims in 2021/22. The OCL assumptions are set based on the average experience in the past two to three years, reflecting the average level of backdated payments as the amounts paid for backdated payments can be volatile. This created a small overall OCL strain.

Non-influenceable change: \$82 million OCL strain due to:



- a \$53 million strain due to a higher-than-expected number of 'loss of potential earning' claims in the Non-Earners' portion of the Treatment Injury Account as experience emerged from the 2006 change in the definition of treatment injury
- a \$58 million strain due to rate changes, largely due to the increase in the minimum wage at 1 April 2022
- a \$30 million release due to fewer new accidents as a result of COVID-19 restrictions.

Clients have been remaining on the Scheme for longer every year in the past eight years, from June 2014 to 2022. During this period, ACC's short-term 70-day rehabilitation performance measure has deteriorated from 67.2% to 63.7%. The medium-term 273-day measure has also declined, from 93.4% to 90.9%. The long-term claims pool, which includes claims that have received more than 365 days' cumulative weekly compensation, has grown from 10,849 to 19,240 (77% or around 7.5% per annum). This is significantly higher than the assumed growth in long-duration claims in the valuation, which is typically between 1% and 3% per annum. Of concern is the growing proportion of the pool comprising non-seriously injured clients.

ACC has identified several factors relating to rehabilitation performance. Some are external, eg claim growth, the ageing working population and COVID-19 restrictions, and some are internal eg capacity and capability issues. ACC has launched the Rehabilitation Performance Programme (RPP) within its claims management model to support better rehabilitation outcomes (see page 58 for more detail).

Sensitive claim average costs per claim were much higher than expected

The OCL for sensitive claims was \$4.1 billion at 30 June 2022, including an OCL strain of \$233 million for 2021/22. During the year, sensitive claim payments totalled \$231 million, 6% higher than expected, mainly driven by the higher average costs per claim. In the eight years to 30 June 2022 the strain was \$1.5 billion in total.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$51 million OCL release



The number of active claims in the Non-Earners' Account was lower than expected, and this contributed to a \$96 million OCL release. It was partially offset by the higher-than-expected active claims in the Earners' Account that led to a \$46 million OCL strain. This was mainly driven by claims made within the past three years.

Average cost of claims: \$280 million OCL strain



Average payments per claim were significantly higher than expected in 2021/22, particularly for the Non-Earners' Account. This resulted in a \$254 million OCL strain. It was driven by an increase in average counselling costs per client and high levels of backdated weekly compensation payments. The increase in average counselling costs related to clients spending longer than expected on the Scheme, which was linked to the longer time taken to access the services due to waitlists and client complexity when they began treatment.

Non-influenceable changes: \$4 million OCL strain

This comprised:



- a \$42 million strain due to rate changes largely the result of additional provider payments for the Matariki public holiday and additional sick leave allowances
- a \$38 million release due to fewer new accidents as a result of COVID-19 restrictions.

Uncertainty remains around the growth in sensitive claim costs and volumes. In previous years, new claim growth was consistently higher than expected, even though each year expectations were increased. The 2021/22 year saw lower-than-expected new claim volumes. This was (at least in part) driven by provider capacity constraints and new sensitive claim clients not being able to begin receiving help during the COVID-19 restrictions. A small number of suppliers held waitlists to manage capacity constraints; for those who held them, the average reported estimated wait time grew from nine weeks to 14 weeks nationwide during the year.

It can take several years for victims of sexual violence to seek help. Capacity constraints are likely adding further delays to the time it takes for these clients to receive the help they need. A longer time taken in receiving help can lengthen the time needed for rehabilitation. ACC is continuing to work with professional bodies and cross-agency workforce groups to improve workforce capacity and reduce barriers for those seeking help. Actions are now underway as part of the Integrated Services for Sensitive Claims (ISSC) Evolution work.

In December 2021 ACC and nine other government agencies formed Te Puna Aonui and launched Te Aorerekura, a 25-year national strategy to eliminate family and sexual violence. Action plans, including the establishment of a sexual violence prevention system, are underway (see page 61 for more detail).

Care hours for some serious injuries have been growing at a faster rate than expected

The OCL for serious injury non-capital was \$16.1 billion at 30 June 2022, including an OCL strain of \$861 million for 2021/22. During the year, serious injury non-capital payments were \$507 million, 2% below expected. This was driven by significantly lower travel costs and timing differences for expected care rate changes. The main driver of the liability, total attendant care hours, was slightly higher than expected. In the previous eight years to 30 June 2022, the strain was \$1.6 billion in total.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$1 million OCL strain



There were fewer new serious injury claims profiled than expected in 2021/22 even after allowing for fewer accidents due to COVID-19 restrictions. However, we've assumed that the ultimate number of new serious injury claims will be in line with that expected from the previous valuation. The low number of new claims was due primarily to delays in identifying claims that could be serious injuries.

Average cost of claims: \$156 million OCL strain



Total care hours were higher than expected in 2021/22, and this resulted in a small OCL strain. The annual growth in hours for moderate traumatic brain injury claims has been higher than expected in the past six years. This resulted in a \$216 million strain. Offsetting this was a release of \$107 million due to lower travel payment costs.

Non-influenceable changes: A \$704 million OCL strain, which comprised:



- a \$784 million strain due to care rate changes
- a \$52 million release due to mortality being higher than expected
- a \$27 million release due to fewer new accidents as a result of COVID-19 restrictions.

The average attendant care hours for existing claims has been growing since the end of 2019, just prior to the initial COVID-19 lockdown. During the COVID-19 restrictions, clients who were more vulnerable required additional support and this increased the care hour growth. Care hours began to stabilise once restrictions were lifted and have since returned to pre-COVID-19 levels. The key for ACC is to ensure that the hours of care provided are appropriate to each client.

Travel costs were significantly lower than expected during the year. While it's likely that COVID-19 restrictions were a factor, it's not clear if travel will remain low or if it will return to previous levels in the future. Because of this uncertainty, ACC's valuation actuaries have given only partial credit to the reduced travel during 2021/22, resulting in a \$107 million OCL release.

Care rate increases in 2021/22 accounted for a non-influenceable \$784 million OCL strain. The increases added significant pressure to the Scheme's financial position, but were outside ACC's control. Recent care rate negotiations for carers came to an end and resulted in a pay increase effective on 1 July 2022. This was within the allowance included in the June 2022 OCL valuation. However, further care rate negotiations are likely in the next few years. The valuation makes some allowance for care rate increases in future years, but agreed care rate increases above this may result in further strain.

Average care costs for non-seriously injured clients were higher than expected

The OCL for non-serious injury non-capital at 30 June 2022 was \$1.2 billion, including an OCL strain of \$92 million for 2021/22. During the year, non-serious injury non-capital payments totalled \$307 million, 16% higher than expected. The total OCL strain in the eight years to 30 June 2022 was \$379 million.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$5 million OCL release



The number of active claims was higher than expected in 2021/22 mostly due to backdated non-acute inpatient rehabilitation (NAR) claims. NAR payments are not long term and have little impact on the OCL. New claim volumes were slightly lower than expected, which led to a slight OCL release.

Average cost of claims: \$57 million OCL strain



In 2021/22 the average cost for non-serious injury non-capital claims was higher than expected. This was due to clients receiving more hours of care and at higher rates.

Non-influenceable changes: \$40 million OCL strain, which comprised:



- a \$51 million strain due to care rate changes
- an \$11 million release due to fewer new accidents as a result of COVID-19 restrictions.

The average attendant care hours for non-serious injuries has grown significantly since March 2020 and is a large driver of the growth in average claim costs. The annual growth in care hours in the three years to March 2020 was relatively stable at about 2% per annum. Between March 2020 and June 2021 average care hours grew by 9% and between June 2021 and June 2022 they grew by a further 19%.

There was significant growth in the number of non-seriously injured clients receiving training for independence payments up to June 2021. In the year to 30 June 2022 the number of clients receiving training for independence declined. During the year contract changes were made regarding entry criteria, the suitability of the service for various cohorts of clients, and outcome measures. The changes made should result in this service being offered only to clients who qualify for and will benefit from it.

Capital costs for seriously injured clients were slightly higher than expected, although there were significant supply issues

The OCL for serious injury capital at 30 June 2022 was \$2.1 billion, including an OCL strain of \$20 million for 2021/22. During the year serious injury capital payments were \$93 million, 0.2% higher than expected. In the previous eight years to 30 June 2022 the strain was \$344 million in total.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$19 million OCL strain

- ↑ The active claim movement reflects the changes made to new claims in serious injury non-capital. This resulted in a slight change in the assumed mix of future reported serious injury claims and a small OCL strain.

Average cost of claims: \$11 million OCL strain

- ↑ Average capital payments per claim were slightly lower than expected for the year. However, the March 2022 quarter had payments much lower than expected due to supply constraints. These were treated as one-offs for the purpose of setting assumptions. The primary driver of the OCL strain was higher-than-expected equipment payments up to the end of 2021. The number of serious injury clients receiving equipment was similar to that in prior years, but the cost increased faster than the rate of inflation.

Non-influenceable changes: \$9 million OCL release

- ↓ This comprised:
 - an \$8 million release due to fewer new accidents as a result of COVID-19 restrictions.
 - a \$1 million release due to mortality being higher than expected.

There was a capital equipment supply issue during the year due to international supply chain issues for certain equipment types. The average costs were increased further by high inflation and a tight construction market.

While the OCL strain in 2021/22 wasn't large, it should be viewed in the context of continuing liability increases in the past few years. Capital purchasing decisions are often made to improve clients' independence, with some expectation that the number of care hours clients need will reduce. However, higher-than-expected capital payment growth is happening at the same time as higher-than-expected attendant care hour growth.

Non-serious injury capital payments were higher than expected, although there were significant supply issues

The OCL for non-serious injury capital at 30 June 2022 was \$562 million, including an OCL strain of \$17 million for 2021/22. During the year, non-serious injury capital payments were \$66 million, 9% higher than expected. The total OCL strain has been \$255 million in the past eight years to 30 June 2022.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$3 million OCL release



The number of active claims receiving capital was 8% lower than expected during 2021/22. However, this was largely due to the number of new claims during 2021/22, which was influenced by COVID-19 restrictions and supply constraints and didn't influence the future OCL assumptions. Otherwise, active claims were relatively close to expected and this resulted in a small OCL release.

Average cost of claims: \$19 million OCL strain



The average cost per claim was significantly higher than expected in 2021/22. Most of this was due to equipment supply constraints that resulted in less choice and higher costs.

Non-influenceable changes: \$2 million OCL strain

This comprised:



- a \$5 million strain due to rate changes relating to sick leave entitlements and the new Matariki public holiday.
- a \$4 million release due to fewer new accidents as a result of COVID-19 restrictions.

Non-serious injury clients requiring capital are affected in a similar way as serious injury clients. The equipment supply issue affecting the serious injury clients has also affected the non-serious injury clients.

The average cost of elective surgery claims continued to be lower than expected

The OCL for elective surgery was \$3.3 billion at 30 June 2022, including an OCL release of \$12 million in 2021/22. During the year, elective surgery payments were \$413 million, 6% lower than expected, mainly driven by lower-than-expected claim volumes. In the eight years to 30 June 2022 there was an OCL release of \$1.2 billion.

The breakdown of the 2021/22 OCL strain is shown below.

Active claims: \$2 million OCL strain



The overall number of elective surgery claims was lower than expected during the year. This was mainly caused by a lower-than-expected number of claims in the past two accident years partly as a result of capacity constraints. It was offset by older accidents where higher-than-expected claim numbers resulted in a small overall OCL strain.

Average cost of claims: \$46 million OCL release



The average cost per claim was lower than expected in 2021/22. Superimposed inflation was -2% compared to the 3% expected in 2021/22. This was after two years of it being higher than expected. Part of the reason for the low superimposed inflation was a reduction in the proportion of ACC surgeries performed by public health providers. A combination of a backlog in public health surgeries and ensuring capacity was available through the COVID-19 restrictions meant that fewer surgeries were performed by public health providers. These providers generally perform the more complex surgeries with a higher average cost compared to that of private providers.

Superimposed inflation is the increase in average claim costs greater than normal (economic) inflation. It's common to observe a level of superimposed inflation in health care and medical services.

Non-influenceable changes: \$32 million OCL strain

This comprised:



- a \$44 million strain due to rate changes relating to sick leave entitlements and the new Matariki public holiday.
- a \$12 million release due to fewer new accidents as a result of COVID-19 restrictions.

Capacity constraints in the sector have kept volumes lower and are adding to delays. The elective surgery waitlist grew from 11,200 to 13,700 in 2021/22.

The Escalated Care Pathway is a programme designed to improve the client experience and outcomes for patients with non-acute knee, shoulder and lower-back injuries by providing integrated, patient-centred pathways to recovery. It aims to generate savings in weekly compensation through faster recoveries, avoiding the costs associated with re-injury and avoiding unnecessary surgery (see page 58 for more detail). While the programme is being expanded to cover more regions and body injury sites, the volumes are not yet enough to determine how this would affect the OCL.

Lower average costs for other-medical claims led to an OCL release

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

- General practice
- Radiology
- Physiotherapy
- Other-medical, which includes specialist consultancy, acupuncture and dental treatment.

The OCL for all medical claims at 30 June 2022 was \$2.1 billion, including an OCL release of \$17 million for 2021/22. During the year, medical payments were \$820 million, 12% lower than expected, mainly driven by lower-than-expected active claim volumes, particularly for accidents occurring in 2021/22. In the eight years to 30 June 2022, the release was \$432 million in total.

The breakdown of the 2021/22 OCL release is shown below.

Active claims: \$8 million OCL release



The number of medical claims was lower than expected in 2021/22. All medical payments were significantly affected by the COVID-19 restrictions in 2021/22. That experience has been ignored in setting active claim assumptions as it's not expected to continue.

Average cost of claims: \$53 million OCL release



The key driver was lower-than-expected average payments for other-medical in the past year. This was due to slightly lower average costs for counselling and nursing payments as a result of fewer visits per client per quarter. The mix of other-medical payments remained relatively unchanged.

Non-influenceable changes: \$44 million OCL strain

This comprised:



- a \$79 million strain due to rate changes primarily due to increases in cost-of-treatment regulations
- a \$35 million release due to fewer new accidents as a result of COVID-19 restrictions.

Telehealth volumes have increased significantly during the COVID-19 restrictions. ACC has reacted flexibly with its telehealth services during the two and a half years of the pandemic as its understanding, context and clinical practice has evolved. Volumes have been scaled up when required and services added or removed from the programme as necessary. This has helped customer outcomes by facilitating access to safe and appropriate health care that might otherwise not have been available.

There was a small net OCL release from other payment types

The OCL for all other payment types (including work-related gradual process claims) at 30 June 2022 was \$4.8 billion, including a total OCL release of \$38 million for 2021/22. The payment types included in this category are vocational rehabilitation, fatal weekly compensations, independence allowance, lump sums, hearing loss, asbestosis, ambulance, public health acute services, claims handling expenses and provisions. Payments from these payment types totalled \$262 million in 2021/22, 11% lower than expected. In the eight years to 30 June 2022 there was an OCL release of \$144 million.

The breakdown of the 2021/22 OCL release is shown below.

Active claims: \$110 million OCL release



This was primarily driven by the work-related gradual process hearing loss claims, where the incurred-but-not-reported claims gave rise to a \$64 million OCL release and the reported claims gave rise to a \$27 million OCL release. This was due to the rate of claims continuing past the first year having a continued downward trend since 2015.

Average cost of claims: \$84 million OCL strain



The main contributor to the strain was the higher-than-expected reported work-related gradual process hearing loss claims, which added \$79 million to the OCL. This followed an increase in average payments for claims at their first refit of hearing aids. This strain was partly offset by a decrease in the claims handling expense assumption for incurred-but-not-reported claims, releasing \$41 million of the OCL.

Non-influenceable changes: \$13 million OCL release



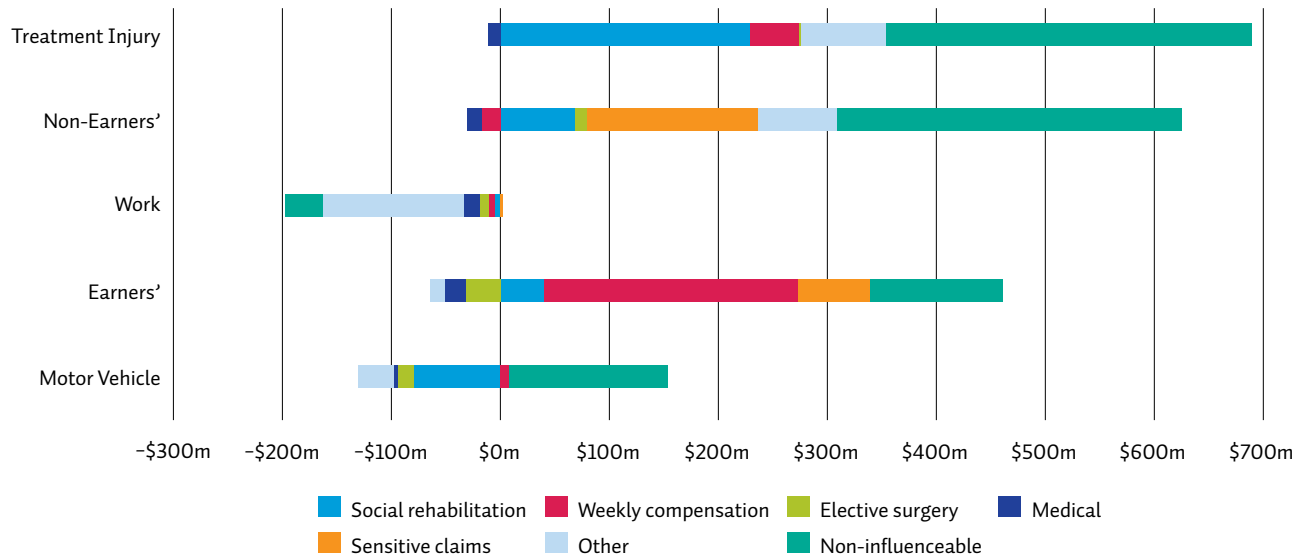
This comprised:

- a \$3 million strain due to rate changes affecting only vocational rehabilitation
- a \$16 million release due to fewer new accidents as a result of COVID-19 restrictions.

The influenceable OCL strain was concentrated in the Treatment Injury and Non-Earners' Accounts

Graph 2 shows the \$615 million influenceable OCL strain by Account and main payment type, and the \$885 million non-influenceable OCL release by Account.

GRAPH 2: COMPOSITION OF THE 2021/22 OCL STRAIN BY ACCOUNT



The OCL strain in the Treatment Injury Account was mainly driven by serious injury care hours

The Treatment Injury Account had a \$680 million total OCL strain during the year, with an influenceable strain of \$343 million. The influenceable strain was driven by a combination of high serious injury care hours for treatment injury claims and an assumption change following consistently higher-than-expected growth in care hours for those serious injuries profiled as moderate brain injuries. These accounted for a \$234 million strain. Changes to claims handling expenses reflected the higher number of treatment injury claims as a proportion of all ACC injuries, which contributed \$78 million.

The non-influenceable OCL strain was \$337 million, mainly driven by care rate changes (\$225 million) and a change in the assumed future number of new loss-of-potential-earnings claims (\$53 million).

Increases in average costs for sensitive claims led to a large OCL strain in the Non-Earners' Account

The Non-Earners' Account OCL strain was \$596 million in 2021/22, with an influenceable strain of \$279 million. The influenceable strain was largely driven by an increase in average sensitive claim payments assumed for older accident periods (\$254 million). Higher-than-expected growth in care hours for serious injuries profiled as moderate brain injuries (\$75 million) also contributed to the influenceable strain.

The non-influenceable OCL strain was \$317 million. This was driven by the care rate changes (\$273 million) and a change in methodology to allow separately for claims handling expenses for sensitive claims (\$139 million).

A reduction in the expected claims handling expenses was the main driver of the OCL release in the Work Account

The total Work Account OCL release was \$195 million in 2021/22. \$160 million of the release was influenceable. The largest driver of the influenceable release (\$94 million) was lower budgeted claims handling expenses in 2022/23 as a result of there being fewer Work Account claims relative to other Accounts. Changes in short-duration continuance rate assumptions to reflect a better-than-expected rehabilitation performance for new and recent hearing loss claims resulted in a \$90 million release.

The non-influenceable OCL release was \$35 million. There was a \$94 million release driven by lower-than-expected claims handling expenses partially offset by an \$82 million strain due to care rate changes.

A deterioration in weekly compensation rehabilitation rates had a significant effect on the Earners' Account OCL

The OCL strain in the Earners' Account was \$396 million for the year, with \$275 million being influenceable. \$231 million of this was in weekly compensation, mainly due to a deterioration in rehabilitation performance. Higher volumes of active claims and average payments for sensitive claims added a \$68 million influenceable OCL strain. This was partially offset by lower-than-expected average costs for elective surgery payments, which led to a \$27 million OCL release.

The non-influenceable OCL strain was \$121 million, mainly driven by care rate changes (a \$170 million strain) but offset by impacts due to COVID-19 restrictions (a \$44 million release).

Lower contracted care hours for serious injury clients led to an OCL release in the Motor Vehicle Account

The total Motor Vehicle Account OCL strain was \$22 million for 2021/22, with an influenceable OCL release of \$123 million. The largest driver of the release was lower-than-expected contracted attendant care hours for existing serious injuries (\$78 million).

The non-influenceable OCL strain was \$145 million. The largest component was care rate changes (\$288 million), which was offset by an OCL release due to fewer new claims during the COVID-19 restrictions (\$66 million) and higher-than-expected mortality rates for serious injury claims (\$54 million).

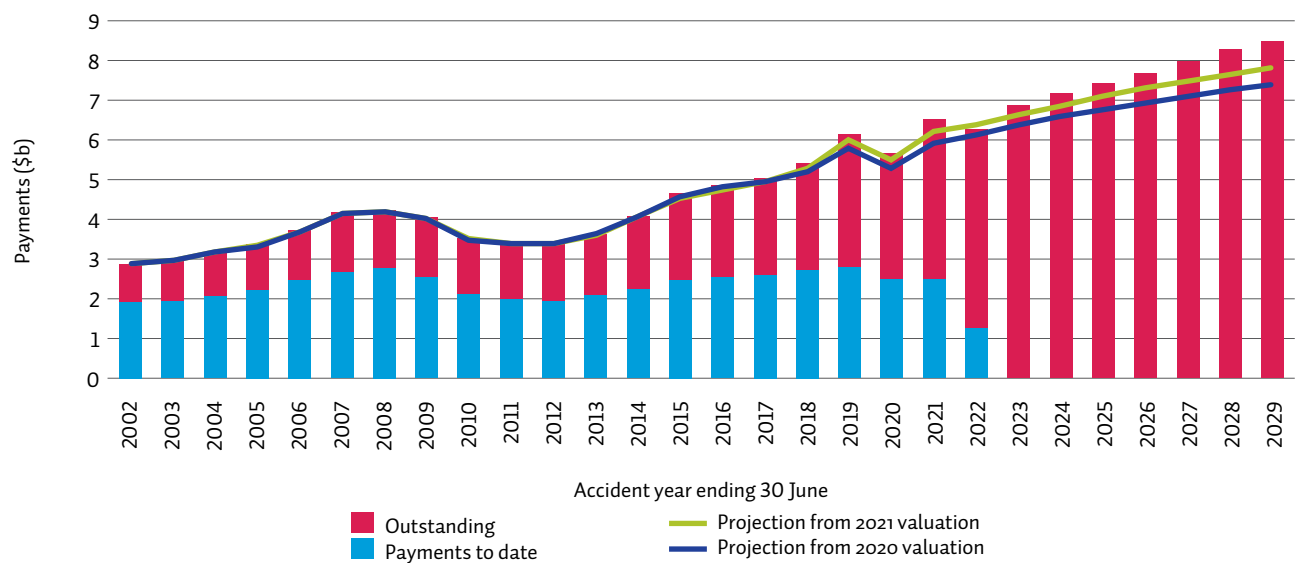
The influenceable OCL strain was primarily from recent accidents

Of the \$615 million influenceable OCL strain incurred in 2021/22, \$580 million arose from accidents incurred in the past five years (from 2017/18 to 2021/22). The primary driver of the strain for these accident years was the lower-than-expected weekly compensation rehabilitation rates (\$261 million). Other major influenceable strain items from these accident years include serious injury care and average costs for sensitive claims (\$86 million and \$65 million respectively).

Graph 3 shows the projected total cost of all claims by accident year. It compares the incurred cost from the 2022 valuation with projections from the previous two valuations. These costs are expressed in 2022 dollar values and exclude:

- Accredited Employer Programme claims
- bulk-billed medical costs (a consolidated payment ACC makes to the Crown to cover the treatment in public hospitals of injuries during the acute phase)
- claims handling expenses (the costs, other than the actual cost of claims, involved in paying claims)
- risk margins (amounts added to the OCL to ensure it's sufficient to meet claim payments 75% of the time).

GRAPH 3: INCURRED COST BY ACCIDENT YEAR



The expected total incurred cost for most accident years increased relative to the previous valuation. The notable exception was the 2021/22 accident year from which fewer claims are expected as a result of COVID-19 restrictions. The accidents in the past eight years have experienced a 2.7% cost increase, which is significantly higher than the 1.1% increase from earlier accident periods. The estimated costs of recent claims are more volatile than older claims. This is because we know less about their behaviour and they're more affected by assumption changes over time.

We expect future funding will need to increase to meet new year claim costs and funding targets

Cabinet approved only some of the levy changes recommended by ACC

ACC recommends levies and appropriations in line with the Government’s funding policies, described in **Appendix A.6**. The recommendations are a combination of new year claim costs and the funding adjustment, with capping to limit annual increases in funding. For the levied Accounts the new year rate is defined as the new year claim cost per unit of exposure (such as liable earnings).

In September 2021 ACC consulted on its recommended levies for the 2022/23 to 2024/25 period. The recommended levies were calculated in accordance with the funding policy and were detailed in the 2021 FCR.

The final prescribed levy rates are set by Cabinet.

TABLE 12: RECOMMENDED VS PRESCRIBED LEVY RATES

§		2021/22	Consultation period		
			2022/23	2023/24	2024/25
Earners’ Account (including the Earners’ portion of the Treatment Injury Account)	Recommended		1.27	1.33	1.39
	Prescribed	1.21	1.27	1.33	1.39
Work Account	Recommended		0.63	0.65	0.67
	Prescribed	0.67	0.63	0.63	0.63
Motor Vehicle Account	Recommended		120.20	128.83	138.08
	Prescribed	113.94	113.94	113.94	113.94

ACC recommended capped increases in the levy for the Earners’ Account (including the Earners’ portion of the Treatment Injury Account) for each of the three years. These rates were approved by Cabinet.

ACC recommended a decrease in the Work Account levy to \$0.63 per \$100 in liable earnings in 2022/23 and then gradual increases to \$0.67 by 2024/25. Cabinet approved the decrease to \$0.63 in 2022/23 but did not approve levy increases for the later years.

ACC recommended an increase in the Motor Vehicle Account levy, capped for 2023/24 and 2024/25. Cabinet did not approve this increase, keeping the levy at the existing \$113.94 for the 2022/23 to 2024/25 period.

Recommended increases in the appropriation below the cap for the 2023/24 to 2025/26 period were pre-approved by the Government last year.

Economic conditions and deteriorating claim performance have affected underlying funding requirements

June 2021 indicative levies and appropriations formed the basis for the levy consultation and the 2021 recommended appropriation. ACC offsets the indicative uncapped levies and appropriations with the expected net financial benefits of injury prevention and the Integrated Change Investment Portfolio (ICIP). Capping is then applied to calculate the indicative capped levies and appropriations. More detail on these items can be found in **Appendix G.1**.

Table 13 shows the changes in the indicative uncapped 2023/24 levy rates between June 2021 and June 2022. The 2023/24 levies have already been prescribed, but the June 2022 basis shows how the effect of changed assumptions since the levy consultation.

Indicative 2023/24 uncapped levies have increased for the Earners' Account and the Earners' portion of the Treatment Injury Account and decreased for the Motor Vehicle and Work Accounts. This corresponds with the movement in new year rates. All levied Accounts have funding ratios above the funding target. Under the funding policy, indicative levies are set below new year rates through the funding adjustment to reduce these surpluses over time. The funding adjustment has reduced since last year for all levied Accounts.

TABLE 13: CHANGE IN INDICATIVE UNCAPPED 2023/24 LEVY RATES FROM JUNE 2021 TO JUNE 2022

	Motor Vehicle \$	Earners' \$	Earners' portion of Treatment Injury \$	Work \$
30 June 2021 basis				
New year rate	224.34	1.56	0.12	0.91
Funding adjustment	(85.87)	(0.10)	(0.05)	(0.23)
Indicative uncapped levies before ICIP and injury prevention benefits	138.48	1.47	0.07	0.68
30 June 2022 basis				
New year rate	203.17	1.59	0.12	0.86
Funding adjustment	(76.96)	(0.01)	(0.03)	(0.22)
Indicative uncapped levies before ICIP and injury prevention benefits	126.21	1.57	0.09	0.64

Note – the rounding of totals means the new year rate plus funding adjustment may not exactly equal the levies.

Table 14 shows the changes in the indicative 2023/24 appropriation for the Non-Earners' Account between those calculated using the June 2021 basis and those calculated using the June 2022 basis. The fully-funded portions of the Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account have funding ratios below the funding target. Under the funding policy, indicative appropriations are set above new year claim costs through the funding adjustment to reduce these deficits over time. Both new year claim costs and the funding adjustment have increased since last year for both Accounts.

TABLE 14: CHANGE IN CALCULATIONS FOR 2023/24 NON-EARNERS' UNCAPPED APPROPRIATION FROM JUNE 2021 TO JUNE 2022

	Non-Earners' Account only \$M	Non-Earners' portion of Treatment Injury Account \$M	Non-Earners' combined Accounts \$M
30 June 2021 basis			
New year claim costs	1,850.6	288.1	2,138.8
Funding adjustment	85.1	30.0	115.1
Indicative uncapped appropriation before ICIP and injury prevention benefits	1,935.8	318.1	2,253.8
30 June 2022 basis			
New year claim costs	1,944.3	261.9	2,206.2
Funding adjustment	183.9	84.3	268.2
Indicative uncapped appropriation before ICIP and injury prevention benefits	2,128.2	346.2	2,474.4

Note – the rounding of totals means the new year claim costs plus funding adjustment may not exactly equal the appropriation.

Further detail on these changes can be found in **Appendix G.1**.

Deteriorating claim frequency and severity forecasts have increased the funding pressure

Increases in 2021/22 in claim frequency and severity forecasts have increased the new year claim costs. This is consistent across all Accounts. The impact is particularly severe for the Earners' Account (including the Earners' portion of the Treatment Injury Account), where the new year claim cost has increased by 10%, primarily driven by increasing claim costs for weekly compensation. Changes to the claim frequencies since 2020/21 are discussed in more detail in **Appendix C.10**.

Costs for public health acute services have increased by 10% since last year. While these services have little impact on the OCL, they are a significant component of new year claim costs for the Non-Earners' Account.

Increases in claim severity for existing claims have also increased the funding required for all Accounts.

If claim performance continues to deteriorate, it will increase further the funding pressure on indicative levies and appropriations.

This has been offset to varying extents by economic conditions

Forecasts of risk-free interest rates and investment returns have increased in the past year. This has significantly reduced new year claim costs for all Accounts. It has been only partially offset by higher short-term inflation rates.

Higher forecasts of interest rates have also reduced both the OCL and asset values. This has had varied effects on the funding ratios for different Accounts, and on the resulting funding adjustment. More detail on these changes can be found in **Appendix G.1**.

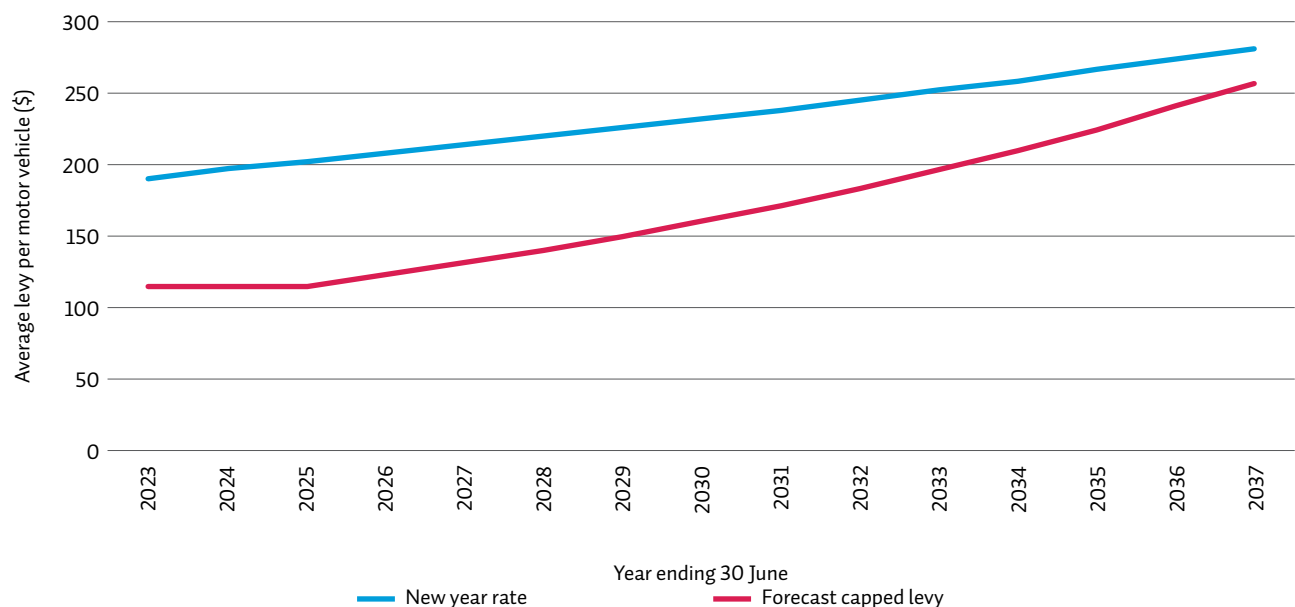
We expect increases in future funding will be needed for all Accounts

Despite the surpluses, we expect levies will need to increase towards the new year cost of claims

The expected income from levies in the 2021/22 year was below the estimated new year claim costs for all Accounts. The 2022/23 to 2024/25 prescribed levy increases for the Earners' Account will gradually reduce the gap between levy income and new year claim costs (including the Earners' portion of the Treatment Injury Account). The non-approval of the 2022/23 to 2024/25 recommended levy increases for the Motor Vehicle and Work Accounts is expected to increase this gap.

The gap is particularly large for the Motor Vehicle Account, as shown in Graph 4. The 2022/23 levy is 60% of the new year rate (a 40% gap). Holding the levy flat for the next three years is expected to increase this gap to 44% by 2024/25. The new year rate is expected to increase at a faster rate than the other levied Accounts, which will make it more difficult to reduce this gap.

GRAPH 4: FORECAST LEVY AND NEW YEAR RATE FOR THE MOTOR VEHICLE ACCOUNT



If the gap between levies and new year claim costs doesn't reduce in future, this will have the effect of deferring the underlying costs of the Scheme to later levy years, and mean future generations will pay higher levies to cover existing accidents. ACC can help by mitigating growth in new year claim costs, through more effective investments in injury prevention and rehabilitation.

Large surpluses in most of the levied Accounts reduce their underlying funding requirements

The funding ratios for the Work Account, the Motor Vehicle Account and the Earners' portion of the Treatment Injury Accounts are greater than 120%. These surpluses are expected to reduce gradually over time due to prescribed levies being lower than new year rates.

If funding in later years does not increase toward new year claim costs, in line with the funding policy, the surplus will reduce more quickly than expected. This could lead to Accounts falling into deficit in the future. It also implies that increases in levies will be at cap for longer in order to move them towards new year rates.

The funding position has eroded for the Earners' Account

Unlike the situation for the other levied Accounts, the funding ratio for the Earners' Account (excluding the Earners' portion of the Treatment Injury Account) is projected to be below the 100% funding target next year. The funding adjustment will now increase the indicative Earners' levy unlike in previous years where it reduced it. Levy increases are also required so that funding covers new year claim costs. In the short term, capping rules will limit the extent of levy increases and how quickly the Account can return to the funding target.

Appropriation increases to restore the funding positions of the non-levied Accounts are expected

The approved appropriation for the non-levied Accounts is above the new year claim cost. However, the funding ratios of these Accounts are still below the 100% funding target. To move them towards the target over 10 years, in line with the funding policy, appropriations are expected to increase.

From 1 October 2022, ACC will cover a specific list of maternal birth injuries. Funding of \$13 million per year has been approved in the appropriation for these injuries. However, updated estimates suggest that the new year claim costs will be \$70 million per year. If this eventuates, the difference between claim costs and approved funding will add more funding pressure to the appropriation.

Capping will limit most levy and appropriation increases in the short-term

Table 15 shows the forecast levies and appropriations for the six years to 2027/28, the last year of the next levy-setting cycle. Levies and appropriations shaded in grey have already been prescribed by the Government and cannot change. Those shaded in blue are capped at the maximum increases allowed under the funding policy.

TABLE 15: FORECAST LEVIES AND APPROPRIATIONS BY ACCOUNT

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Motor Vehicle Account (\$ per vehicle)	113.94	113.94	113.94	122.13	130.74	139.96
Earners' Account (\$ per \$100 of liable earnings)	1.22	1.27	1.33	1.39	1.46	1.52
Earners' portion of the Treatment Injury Account (\$ per \$100 of liable earnings)	0.05	0.06	0.06	0.06	0.06	0.07
Work Account (\$ per \$100 of liable earnings)	0.63	0.63	0.63	0.64	0.66	0.68
Non-Earners' Account (\$M)	1,773	1,906	2,049	2,203	2,333	2,438
Non-Earners' portion of Treatment Injury Account (\$M)	263	283	304	327	351	365

Levies have already been prescribed for the 2022/23 to 2024/25 period. Beyond this, the Work Account is the only Account that's not expected to require an increase at the capped amount. The levies for the Motor Vehicle Account and the Earners' portion of the Treatment Injury Account are expected to be capped until at least 2037/2038.

The appropriations for both non-levied Accounts are expected to increase at the 7.5% cap until 2025/26. Last year the Non-Earners' Account wasn't expected to increase at the cap after 2022/23.

Funding increases are likely to be required even in more favourable conditions

Our forecast levies and appropriations are calculated by applying the funding policy with best-estimate assumptions; this means it's equally likely that they'll be too high or too low. Our forecasts will vary over time with changes in the underlying assumptions.

Given the uncertainty in each of the assumptions, instead of there being one possible levy for each future year, there's a range of possible outcomes. To understand the possible variability in the forecast levy rates and appropriations, we've simulated future funding pathways by varying the model assumptions, as shown in **Appendix G.3**.

The simulations show that, even in the more favourable scenarios, funding increases are expected.

The final year for which levies have been prescribed is 2024/25. The probability that the forecast levy will be higher in 2027/28 (the last year of the next levy-setting cycle) is:

- 99% for the Earners' Account (including the Earners' portion of the Treatment Injury Account)
- 70% for the Motor Vehicle Account
- 68% for the Work Account.

The likelihood that the levies will need to increase at the capped amount for each year in the 2025/26 to 2027/28 period is:

- 87% for the Earners' Account (including the Earners' portion of the Treatment Injury Account)
- 61% for the Motor Vehicle Account
- 47% for the Work Account.

The Non-Earners' appropriation has been approved for 2022/23. Beyond then, there's:

- an 86% probability that the 2026/27 appropriation will be higher
- a 40% probability that the appropriation will increase at the capped amount for each of the next four years.

The full results, including charts, can be found in **Appendix G.3**.

ACC has increased its focus on changes to improve customer and financial outcomes, but there's more to do

As at 30 June 2022, ACC's risk profile is 'high'. This has increased since 30 June 2021 when it was 'medium'. Eight out of the 20 individual enterprise risks are rated high, including:

- Māori access and outcomes
- customer outcomes
- claim cost management
- benefits from the ICIP investment
- injury prevention impact.

The first four of these enterprise risks have rated high for more than a year, indicating that ACC hasn't yet mitigated them effectively. They are closely tied to our open recommendations.

Five open recommendations made in previous FCRs, plus a new recommendation made this year, cover many of these areas. As discussed earlier in this report, good progress has been made on many of these, with one of the recommendations closing this year, and two expected to close during 2022/23.

ACC needs to give continued priority to the areas in which we have open recommendations in order to strengthen the Scheme's fairness and sustainability.

ACC has opportunities to improve its financial condition by strengthening rehabilitation and injury prevention performance

Claim performance can be a good proxy for how well ACC delivers customer outcomes. Although favourable economic conditions have lessened the impact, declining claim performance during 2021/22 has contributed to aspects of ACC's financial condition deteriorating in 2021/22. One of the main drivers of this was a deteriorating rehabilitation performance for weekly compensation claims. There are also signs that the delivery of planned injury prevention and ICIP benefits is at risk.

In order to improve its financial condition, and influence future levy and appropriation requests downwards, ACC needs to improve claim performance and its delivery of client outcomes, particularly for longer-term claims. It must also deliver on the planned benefits from the injury prevention portfolio and the ICIP, which are factored in when recommending levies.

To meet targets, investment in injury prevention needs to be significantly expanded and there needs to be a continuing focus on delivering benefits

An engagement with an external party has reached its final stages in helping ACC to address the recommendation made in the 2016 FCR to "develop medium- to long-term targets to help determine the contribution injury prevention is making to mitigate claim growth".

ACC is working on its injury prevention strategy to scale up its impact on injury incidence and severity, so that it reduces Scheme costs significantly. Achieving this and making meaningful impacts on future levies and appropriations will require a mix of actions, such as:

- ensuring that well performing programmes continue to deliver claim savings
- ensuring the delivery of expected future benefits for less well-performing programmes, especially programmes promising significant future claim savings
- significantly expanding existing programmes that are performing well
- ensuring the delivery of and claim savings from initiatives still in design or implementation
- developing new programmes
- taking an evidence-based approach to gauging future success and measuring outcomes.

A new way of using data to better target programmes just went live

An evidence- and data-based (internal and external) prevention approach will improve the effectiveness of existing programmes. It will help to target programmes better, identify the audiences reached and show whether programmes are working as intended.

Injury Prevention to the Frontline (IP2FL) went live in June 2022 and is using advanced analytics to target people at risk of re-injury. IP2FL is being delivered first to New Zealanders aged 65 and over to reduce their risk of falls. An analytical model assesses the claim histories of the clients upon their lodging claims and generates risk ratings. Those who are at a high risk of falls are assessed further and directed to a fall prevention programme. It is a fast and affordable means of delivering injury prevention programmes. A randomised control trial will take place to help measure the effectiveness of the programme. At this stage, it's too early to see results.

Nymbly, the Falls subprogramme, which is delivered digitally to participants also uses data analytics to improve the effectiveness of programmes. ACC is looking into the feasibility of an Online Community Strength and Balance sub-programme, which has a similar potential to draw on data through a web-based approach that utilises live streaming and online videos.

A new primary prevention approach is underway

The sexual violence prevention approach is designed towards a more effective, sustainable primary prevention system. It addresses broader issues, such as community, systematic structural and social issues, that allow violence to occur. It will help mobilise communities and provide culturally appropriate solutions. It's promising that a proportion of the investment in sexual violence primary prevention is dedicated to the establishment of a monitoring and evaluation framework. We're pleased that this work has started to set up an evidence-based approach to the primary prevention system.

The Integrated Change Investment Portfolio has met some of its targets, but future targets are ambitious

The ICIP is a large-scale change programme that has been underway since 2014/15, with an initial expected total cost of \$669 million. This cost has since been reduced to \$619 million in response to the challenges presented by COVID-19 restrictions. The original benefit target was a net present value of \$300 million by 2030.

In October 2020, the overall benefit target was updated to achieve a net present value of \$300 million by 2031, one year later than originally projected. However, the latest forecast indicates an increasing challenge to meet this target. With 2022/23 being the last year of ICIP funding, unless the planned initiatives deliver the increases in benefits needed, the timeframe to meet the target will be further delayed.

Since 2014, ACC has been transforming its systems to improve client outcomes and experience and improve customer trust and confidence. The change is being delivered through the **Integrated Change Investment Portfolio (ICIP)**.

TABLE 16: ICIP BENEFIT REALISATION – FUTURE PROJECTIONS (\$MILLION)

Category	2021/22	Life to date	Projected ¹ to		Net present value to	
			2029/30	2030/31	2029/30	2030/31
Original ICIP targets	141.2	296.8	1,096		300	
Oct 2020 forecast update	77.9	86.6	1,018	1,119	272	364
Actuals then projected	43.9	80.8	840	938	77	163

¹ Present value of the projected benefit

ACC has now implemented and is working to embed all major ICIP initiatives. Its focus has moved to delivering the Health Sector Strategy (HSS) it developed as part of the ICIP, completing the remaining ICIP initiatives aimed at enhancing the client experience, and improving or replacing systems for better management of the organisation's needs. The implementation of these remaining ICIP initiatives is due to be completed in 2022/23.

The net return of the ICIP is at the bottom of the investment/benefit cycle, with most of the investment complete. As at 30 June 2022, \$583 million has been spent of the \$619 million management forecast. This year was originally to be the last year of investment in the ICIP investment cycle. However, this has been extended to next year as some of the deliverables took longer than planned to deliver, due in part to COVID-19 restrictions.

Benefit realisation for the 2021/22 financial year performed \$34 million below the revised October 2020 update target of \$77.9 million, primarily due to challenges in the resource efficiency and weekly compensation benefit areas. Future targets are more ambitious, so ACC will need to increase benefit realisation markedly over the next three years to meet the updated forecast for net present value.

TABLE 17: ICIP BENEFIT REALISATION – 2021/22 ACTUAL AGAINST TARGET (\$MILLION)

Category	Actual	Target (Oct 2020 update)	Variance
Reduce operational costs	25.9	20.9	5.1
Reduce fraud, waste and abuse	26.0	22.0	4.0
Reduce vocational rehabilitation referrals	32.3	16.2	16.1
Optimise levy processes	5.5	3.8	1.7
HSS claim cost savings	24.2	17.3	6.9
Resource efficiency	(26.2)	18.1	(44.3)
Reduce cost of average weekly compensation days paid	(43.9)	(20.4)	(23.5)
Total	43.9	77.9	(34.0)

ACC is performing well against some targets by better tailoring vocational rehabilitation for clients, optimising levy processes, reducing fraud, waste and abuse, and reducing operational costs. However, resource efficiency and reducing time spent on weekly compensation remain a challenge.

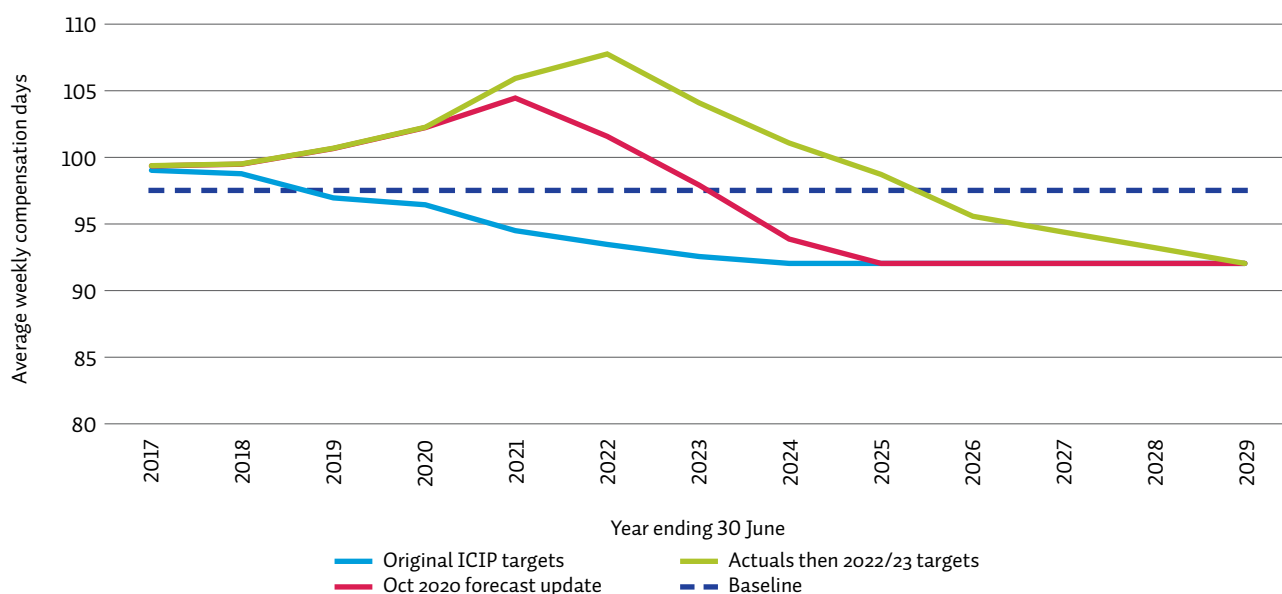
ACC is working to mitigate these challenges through a range of strategies, including actively managing staff numbers, further refining its case-management model, and working collaboratively with providers on solutions to issues such as short-term rehabilitation performance.

Average weekly compensation days paid benefits are below target and even further behind schedule

Average weekly compensation days is one of the main claim benefits expected to be delivered by the ICIP. Average weekly compensation days have been steadily increasing in the past few years, from a base of 97.4 days in 2014/15 to 107.7 days in 2021/22 (vs the target of 101.6 days). ACC's ultimate ICIP target is returning injured people to work in an average of 5.5 days sooner than the 2014/15 base. The timeframe to achieve this has been moved from 2024/25 to 2028/29, with large improvements being required over the coming years to meet this target.

Graph 5 shows how average weekly compensation days' targets have changed over time.

GRAPH 5: TARGET OF AVERAGE WEEKLY COMPENSATION DAYS



These results partly reflect the impacts of COVID-19 restrictions:

- A decrease in new weekly compensation claim volumes due to fewer claim lodgements resulted in a larger proportion of long-term weekly compensation claims compared to short-term claims.
- Delays in surgery or treatment during lockdowns resulted in claims remaining on weekly compensation for longer.

However, as can be seen in the graph above, weekly compensation performance was deteriorating prior to the COVID-19 pandemic. While ACC is prioritising improving performance, its being this far behind schedule presents a risk that targets won't be met.

The Health Sector Strategy met its targets for the 2022 year, but a strong focus will be required to meet ambitious future targets

The HSS plans to deliver a substantial part of the ICIP benefits. Of the \$938 million in benefits (present value) projected to be delivered by 2031, \$406 million is expected to be delivered by the HSS. The HSS benefits are delivered through a number of initiatives, both existing and new this year, with further initiatives in development for future years.

The HSS benefits realisation lagged behind targets for the first three-quarters of the year. A strong performance by the Training for Independence initiative in the fourth quarter resulted in a year-to-date total of \$24.2 million against a revised target of \$17.3 million. Future benefit targets are \$43.7 million for 2022/23 and \$60 million for 2023/24, so a strong performance will be required in all HSS initiatives to meet them.

Escalated Care Pathways aims to improve the client experience and outcomes for patients with non-acute knee, shoulder and lower-back injuries by providing integrated, patient-centred pathways to recovery. ACC has been working in partnership with five groups of healthcare providers to create new, integrated, interdisciplinary pathways.

Escalated Care Pathways aims to generate savings in weekly compensation through faster recoveries, avoiding the costs associated with re-injury and avoiding unnecessary surgery. Referral volumes were 28.4% of target in the financial year, with a full-year result of -\$1.2 million against a 2021/22 target of -\$11.1 million. Results are negative as an upfront investment is expected in the early years, with expected benefits in later years. The smaller negative number seen is due to lower-than-expected referral volumes.

Escalated Care Pathways has delivered significant reductions in the costs associated with re-injury, secondary surgery and long-term dependency. Of the 3,577 clients who have progressed through the pathway (as of the end of August 2022), ACC has seen claim benefits of \$4.5 million. ACC is therefore looking to scale up the services within this pathway through expansion to other locations within New Zealand, and to body injury sites other than knee, shoulder and lower-back. The funding model is also being redesigned to make it more sustainable, after experience from the initial trials found some of the costs to be higher than necessary.

Training for Independence realised an end-of-year result of \$11.3 million against a target of \$10.1 million. This was achieved through improved clinical criteria referral into the service.

Regularisation realised an end of year result of \$11.1 million against a target of \$8.3 million.

Regularisation was agreed in April 2017. It allows most of the care and support workforce to be paid wages based on a regular employment model including guaranteed hours.

A temporary price uplift was put in place, intended to meet short-term increased costs during the transition to a regularised workforce. This was subsequently removed in 2018 due to the expected efficiencies realised within the sector, which is the benefit reported.

This benefit could be at risk if price increases are re-instated at any time.

The remaining HSS benefits were realised through a range of smaller initiatives.

A number of initiatives are being profiled to deliver future benefits. Some are well progressed and have had expected targets assigned, whereas others are early in the development phase. It's important that the benefits are achieved against all or most of these HSS initiatives or the ICIP won't meet its expected benefit target.

ACC is seeing benefits through less fraud, waste and abuse

The October 2020 expected benefit from data-led interventions to reduce fraud, waste and abuse was \$22 million for 2021/22. There were no original expected benefits for this benefit area. The actual benefit achieved was \$26 million. The future targets for data-led interventions are \$23 million in 2022/23 and \$24 million in each of the subsequent years.

The Rehabilitation Performance Programme looks promising, and Phase 2 is currently in development

ACC has seen deteriorating rehabilitation performance in the past eight years, with increases in average care costs and weekly compensation rehabilitation rates being below target. Both of these are placing significant pressure on ACC's financial condition and contributed to our long-term performance recommendation introduced in 2020.

In response to these concerns, ACC has developed the Rehabilitation Performance Programme (RPP), implemented in May 2022. Working within the parameters of ACC's claims management model, the programme is focusing on:

- freeing up capacity for recovery teams to support rehabilitation outcomes, by increasing administrative efficiencies
- improving the effectiveness of services by implementing capability streaming, which matches clients to staff with the right skill sets
- increasing the capability of recovery teams to support better rehabilitation outcomes.

The RPP has developed a number of lead and lag indicators related to the three focus areas above, with improved outcomes expected in:

- rates of return to work within 10 weeks/nine months
- long-term claims pool
- average weekly compensation days paid
- average care hours for serious injury claims
- the influenceable OCL (weekly compensation and serious injury care hours).

The intent of the RPP is to achieve a sustained turn-around in performance of these metrics and to help support the targets in the 2022/23 Service Agreement.

While not fully implemented, the RPP is well underway. The actions taken look promising, with leading indicator improvements seen in the targeted high-risk, high-value cohorts of claims. Baseline information has been finalised for the leading indicators against which progress will be measured.

Phase 2 of the RPP is in development. As part of this, specific targets relative to the baseline will be set for each of the core leading indicators. It is important that these targets are developed and that the impact on the OCL, levies and appropriations is closely monitored in order to address our recommendation.

A continued focus on client outcomes will help ensure the Scheme is fair and sustainable

Throughout this report, and in previous FCRs, we've highlighted the need for ACC to better understand and measure client outcomes. ACC aims to support an appropriate quality of life for clients through the

provision of entitlements that restore, to the maximum practicable extent, their health, independence and participation in society. To know if it's achieving this goal, ACC must measure these outcomes throughout the client recovery process.

ACC also needs to deliver more effective services to key customer groups (such as Māori) and people with more complex needs (such as those with serious injuries or sensitive claims).

It's important that the Scheme is accessible to everyone. An accessible Scheme is one where:

- people can access injury prevention initiatives that help them have fewer, or less severe, injuries
- injured people can easily get ACC's support at the right time and in the right way to achieve rehabilitation outcomes and receive compensation where appropriate.

ACC can only fulfil its purpose properly if people entitled to its services can access them in the right ways and at the right times. Improved access can result in higher overall Scheme costs in the short term as more people are supported by ACC. However, there should be long-term client and financial benefits if ACC reaches people earlier and can improve injury prevention and long-term rehabilitation outcomes.

Customer outcomes frameworks have been developed, and ACC needs to ensure that they measure progress comprehensively

The Health Outcomes Framework (HOFW) was established in August 2020 to address the recommendation made in the 2019 FCR to develop a framework for defining and assessing the effectiveness of all ACC services. Part of this recommendation included fulfilling ACC's obligations under Te Tiriti o Waitangi.

Te Kāpehu Whetū ('Star Compass' – ACC's Māori Outcomes Framework) was developed to understand what 'good' looks like from a te ao Māori perspective and articulate broader client wellbeing outcomes as defined by ACC Māori clients and their whānau.

The HOFW and Te Kāpehu Whetū are complementary, partner frameworks designed to enable ACC to deliver to Te Tiriti o Waitangi-inspired outcomes for the people it serves. The conceptual outcomes for Te Kāpehu Whetū are underpinned by Te Tiriti and whānau capability and

take a strength-based and solutions-focused approach. The framework prioritises te ao Māori, mātauranga Māori and kaupapa Māori where whānau needs, goals, preferences and voices are respected and fulfilled.

Te Kāpehu Whetū has commenced a three-year programme of work to enable ACC to gain evidence that it enables te ao Māori-inspired outcomes to be delivered and/or achieved by Māori whānau.

It is anticipated that, if Māori outcomes are improved, this will also contribute to achieving ACC's financial sustainability and strategic intent. Objectives of the work programme include:

- **transforming** ACC into an organisation that's relentless in its focus on achieving improved and equitable whānau outcomes, aligned with the intent of te Tiriti o Waitangi
- **developing** an evidence-base that measures and monitors progress of Māori outcomes
- **building** ACC's internal capability and capacity to achieve Te Kāpehu Whetū
- **building** ACC's external partner and provider capability to achieve Te Kāpehu Whetū
- **monitoring** implementation to adopt and adapt ACC performance by using data to drive decision-making and performance improvement
- **communicating and showcasing** internal and external progress, opportunities for rapid learning, and successes
- **supporting** a fair and sustainable Scheme.

The HOFW is designed to enable ACC to work with the health sector to design care around clients and achieve priority outcomes in rehabilitation, care and injury prevention. It should also provide a suite of measures and benchmarks against which ACC can evaluate services, to ensure investment in those that achieve the best outcomes for clients. The focus is now on how to put the HOFW into operation, starting with measuring outcomes for clients with moderate- to high-complexity injuries across pathways.

ACC is considering how specific measures, including external data and ACC claims data, can be collected and analysed to support the HOFW. Streams of work include:

- a series of trials to collect and use health outcome measures in specific groups of moderate to high complexity clients
- matching externally sourced large datasets with ACC claim data to build insights using predictive analytics

- ensuring the collection of measures is included in the design of wrap-around health service contracts.

Lessons learned from these work programmes will be used to scale a collection of measures that support the HOFW. Outputs will be used to understand:

- the measures, including Patient Report Outcome Measures, that are most useful
- the advantages and feasibility of different methods of collection
- the technical and governance considerations for acquiring and storing data.

With the frameworks now developed, ACC needs to ensure that they provide a comprehensive suite of measures that enable an understanding of how its services influence customer outcomes. With the inclusion of this outcome-measurement work as part of the new Enterprise Strategy implementation, we expect to see good progress in this space over the next year. It's important that the focus in this area continues to be maintained. It's fundamental to ACC's financial condition that the right client outcomes are delivered at a cost that's reasonable and sustainable for funders of the Scheme.

ACC has put considerable effort into developing strategies and frameworks for Māori access, outcomes and experience

We have reported in previous FCRs that the overall claim rate for Māori has been consistently lower than that for non-Māori for many years, with the exception of serious injury and sensitive claims, where it's higher. We know from past analysis that individuals who self-declare as Māori in the New Zealand Census don't always self-declare as Māori when interacting with ACC. This is partially offset by individuals who self-declare as Māori with ACC but not in the Census. What this means for claim rates needs further work on understanding any disparities for Māori.

We have started this investigation using additional data from the Integrated Data Infrastructure, a large research database curated by Stats NZ.

The **Integrated Data Infrastructure** contains matched, de-identified data on people and households in New Zealand collected by government agencies, Stats NZ surveys and non-governmental organisations. It contains longitudinal data on more than nine million individuals, spanning accident compensation, crime, education, health, medical, social welfare, tax data and others.

This will allow us to use both Census and ACC data to get a better representation of the ethnicity of ACC clients.

Understanding and acting on the drivers of the differences between Māori and non-Māori claim rates is important to ensuring fairness in the Scheme. It may be that there are good reasons for some differences between Māori and non-Māori claim rates. ACC needs to understand and address where there are differences that are due to equity or access issues.

In response to a recommendation in the 2020 FCR to understand and act on the drivers of the differences between Māori and non-Māori, ACC has put a lot of work during the year into developing strategies and frameworks for Māori access and experience. This has included:

- initiating strategic iwi partnerships
- initiating mātauranga Māori and tikanga Māori panels
- developing a Māori engagement framework (that is near completion)
- elevating Kōkiri Whakamua (ACC's Whāia te Tika Action Plan) to an organisation-wide monitoring and reporting tool for all strategic initiatives that affect equitable outcomes and improved access and experience for Māori
- completing the procurement process for the first tranche of designing and establishing kaupapa Māori health services, and kaupapa Māori navigation services for clients
- commissioning a Māori data sovereignty maturity assessment to enable a coherent approach to embedding Māori data sovereignty principles throughout the Scheme
- the Raranga project – creating a new standard of cultural safety across services that will culminate in a new ACC cultural safety policy
- piloting a Māori-centric case-management approach to improve the client experience and recovery (hāpai)
- continuing to improve and expand its offering of rongoā Māori services.

It's too soon for all expected outcomes to be measured

It's important to ensure that the desired outcomes are well-defined so ACC can measure the initiatives' success. Most of the initiatives above are still in the development phase, so it's too soon to determine if their desired outcomes will be achieved.

The main exception to this is the rongoā services which are already being delivered. In the 2021/22 period ACC funded more than 8,800 rongoā sessions in 1,723 claims. Of the rongoā Māori clients, about 20% had accessed very few ACC services prior to accessing the new pathway. About 33% of those utilising rongoā Māori services overall are sensitive claim clients, while about 2.9% have serious injuries. Rongoā Māori services are not only reaching Māori; non-Māori made up about 38% of the clients accessing the service in the 2022 financial year. Once the outcomes frameworks discussed above are fully operational, ACC will be able to better measure whether these services are improving outcomes for clients, at a sustainable cost.

Rongoā Māori is traditional Māori care and healing.

Kaupapa Māori services are indigenous, localised and whānau-centred solutions designed by Māori, with Māori, and delivered by providers who identify as Māori.

Rongoā and **kaupapa Māori** services are primarily for Māori but available to all.

While ACC has put significant effort into delivering against Whāia te Tika in the past 12 months, there is still a lot to do. A continued focus and work are required to make a real difference in terms of achieving equitable and measurable outcomes for Māori at a reasonable cost.

ACC is working both internally and with external parties to improve the services provided for people who experience sexual abuse or assault

ACC is one of 10 government agencies included in Te Puna Aonui (previously the Joint Venture for Family Violence and Sexual Violence). In December 2021 the joint venture launched Te Aorerekura: the national strategy for the elimination of family violence and sexual violence. ACC is playing a leading or supporting role in 21 of the 40 projects laid out in Te Aorerekura, including a \$44.9 million investment to establish a sexual violence prevention system in the next four years. This investment includes

\$11.7 million for kaupapa Māori approaches. While Te Aorerekura guides cross-agency efforts to prevent family violence and sexual violence from happening in the first place, ACC is also evolving and expanding its role in New Zealand's support system for survivors of sexual abuse and assault.

Historically, people who experienced sexual abuse or assault faced barriers to accessing ACC services. The introduction of the Integrated Services for Sensitive Claims (ISSC) contract in November 2014 was a move to a supplier/provider-led model. Through this, ACC aimed to address access barriers and equity, supplier and consistency issues. Since November 2014 the ISSC has introduced positive change to address priority areas. However, many external factors have meant there is an increasing demand for services, resulting in some of these issues deteriorating further.

The number of providers available to support clients with sensitive claims has increased significantly since 2014, when providers numbered just over 700. This number more than doubled by 2018 and more than tripled by 2022. Despite this, the ongoing growth in sensitive claims means capacity pressures are being felt across the service, with an average wait of 14 weeks to see a provider.

With the current ISSC contract expiring in November 2024, a work programme is underway to develop and commission a new contract to go live in December 2024. The eight priority goals of this Sensitive Claims Evolution programme are:

- improve the experience of clients before they come to ACC
- streamline the assessment process
- ensure there are services available for everyone who needs them
- increase the capacity of the workforce to meet the growing demand
- raise awareness of the support and entitlements that ACC offers
- develop effective measures for client outcomes
- use technology effectively to support clients
- create greater integration across the health and social system.

Progress on this programme is on track to address the recommendation made in the 2020 FCR to gain a better understanding of sensitive claim clients and ensure services are delivering the right outcomes.

In the future, ACC's new Enterprise Strategy and the New Zealand Income Insurance Scheme could have significant impacts on the Scheme's financial condition

Two key factors emerging in ACC's wider environment offer significant opportunities for and impose significant risks on its financial condition:

- ACC is developing a new Enterprise Strategy, due for implementation from 1 July 2023
- ACC is expected to administer the New Zealand Income Insurance Scheme if it proceeds. The Government is developing proposals for this scheme to provide temporary income support to workers who find themselves out of work due to business decisions (such as a restructure) or illness.

Both could have significant impacts on ACC's financial condition, but it is too early to know.

Glossary of key terms

ACC Accounts:

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment and compensation claim that ACC pays. For information on the coverage and funding for each Account, see **Appendix A.3**.

Appropriation:

Money received from the Government (from the general tax pool) to cover costs arising from the Non-Earners' Account.

Claim frequency:

The number of claims in a given period as a proportion of the population covered.

Claim payment types:

Types of payment ACC makes to provide compensation and rehabilitation to clients, shown in **Appendix A.2**.

Claim severity:

The average lifetime cost of a claim.

Client:

A person who makes a claim under the Scheme.

Continuance rates:

The proportion of claims in one quarter that continue to the next, including an allowance for any old claims that reactivate in that quarter.

Customer:

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

Deficit:

An excess of expenditure over income.

Enterprise Risk Management/ Enterprise Risk Management Framework:

Outlines the responsibilities, processes and practices that enable staff to manage risk as part of their day-to-day decision-making.

Forecast levy/appropriation:

The levy/appropriation ACC would recommend, incorporating any levy/appropriation already prescribed by the Government. This is calculated using best-estimate assumptions and applies the relevant funding policy.

Full funding:

The assets held to cover estimated claim liabilities are equal to those liabilities.

Funding adjustment:

A negative (positive) adjustment made to the levy rate to return (recover) any surplus (deficit) assets over time.

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 amount of 'assets' (mainly investments) each Account has available to cover the 'liabilities' (the expected costs of claims that have already happened).

Funding ratio:

The ratio of assets held to liabilities.

Health Outcomes Framework (HOFW):

Defines what ACC wants to achieve through investment in injury prevention, care and rehabilitation services at an organisational level.

Health Sector Strategy (HSS):

A strategy focused on collaborating with providers to support clients to recover more quickly and effectively from injury.

Indicative levy/appropriation:

The levy/appropriation ACC would recommend, were it not already prescribed by the Government. This is calculated using best-estimate assumptions and applies the relevant funding policy.

Influenceable strain/release:

The OCL strain or release in areas where management action could improve client outcomes, leading to reduced costs for levy payers and taxpayers.

Integrated Change Investment Portfolio (ICIP):

The ICIP encompasses a large range of initiatives intended to improve performance and deliver better outcomes for customers including:

- Next Generation Case Management (NGCM) – see **Appendix A.8** for detail
- Health Sector Strategy (HSS) – see page 58 for detail.

Kaupapa Māori:

Services that are indigenous, localised and whānau-centred, designed by Māori, with Māori, and delivered by providers who identify as Māori.

Levied Accounts:

The three levied Accounts are the Motor Vehicle, Work and Earners' Accounts.

Levies/Levy:

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

Levy payers:

Funders of the levied Accounts. See **Appendix A.4**.

Long-term claims pool:

A pool comprising claims that have received more than 365 days' cumulative weekly compensation.

Net present value:

The value of all future cash flows (positive and negative), over the entire life of an investment, discounted to the present.

New year claim costs:

The estimated lifetime costs of new claims for accidents that occur during the year that the levies or appropriations cover.

New year claims:

Accidents that occur during the year that the levies or appropriations cover.

New year rate:

The new year claim costs per unit of exposure (eg per \$100 of liable earnings). The levy rate is the combination of the new year rate and the funding adjustment.

Non-levied Accounts:

The Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account.

Non-serious injury:

An injury that isn't classified as a serious injury.

OCL strain/release:

When the OCL is increased because actual payments are higher than expected, this is referred to as OCL strain. OCL release is when the OCL is reduced because payments are lower than expected.

Outstanding claims liability (OCL):

The expected amount of money needed to cover the cost of claims that have already happened.

Pay As You Go (PAYG):

Claims are funded as costs arise.

Risk-free rate:

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.

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.

Rongoā Māori:

Traditional Māori care and healing, which uses techniques such as mirimiri (bodywork), rākau rongoā (native flora herbal preparations) and karakia (prayers).

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.

Service agreement:

ACC's annual agreement with the Minister for ACC, setting out the services it will deliver and the expected performance standards. This agreement is required under the Accident Compensation Act 2001.

Superimposed inflation:

The increase in average claim costs greater than normal (economic) inflation.

Surplus:

An excess of income over expenditure.

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.

Acronyms

AEP:

Accredited Employers Programme

CPI:

Consumer price index

FCR:

Financial Condition Report

FLS:

Fracture Liaison Services

GP:

General practitioner

HOFW:

Health Outcomes Framework

HSS:

Health Sector Strategy

ICIP:

Integrated Change Investment Portfolio

IP₂FL:

Injury Prevention to the Frontline

ISSC:

Integrated Services for Sensitive Claims

NAR:

Non-acute inpatient rehabilitation

NGCM:

Next Generation Case Management

NZ IFRS 4 (PBE):

The New Zealand equivalent to the International Financial Reporting Standard No.4 – Insurance Contracts for Public Benefit Entities

OCL:

Outstanding claims liability

PAYE:

Pay As You Earn

PAYG:

Pay As You Go

ROI:

Return on investment

RPP:

Rehabilitation Performance Programme

SAA:

Strategic asset allocation

Appendix A – Additional background information

A.1 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 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).

A.2 Types of payment ACC makes to rehabilitate and compensate clients

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 (eg X-ray) and high-tech (eg 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 (eg 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' returns 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.

A.3 ACC's five Accounts

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment and compensation claim that ACC pays. The funding of each Account is matched with where injury risks happen. Table 19 summarises the coverage and levies/funding of each Account.

TABLE 19: ACCOUNT DESCRIPTION

Account	Environment where injury occurs	Funded through
Motor Vehicle	Involves a motor vehicle on a public road	Vehicle licensing charge plus levy on petrol (not diesel).
Work	At work or work-related	Levy charged to employers as a percentage of payroll and the self-employed as a percentage of taxable earnings.
Treatment Injury	When receiving medical treatment in the healthcare system	Paid from the Non-Earners' and Earners' Accounts.
Non-Earners' Earners'	All other locations and activities	Government taxation. Levy as a percentage of salary collected as part of PAYE tax.

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.

A.4 Exposure and funding base

Exposure is the number of people with the potential to claim. The funding base refers to those with the ability to pay levies and appropriations. Although the two are usually linked, they're not 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. For example, an economic downturn tends to be associated with a reduction in physical injuries due to a decline in the number of people participating in leisure activities.

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.

Each Account has its own measure of exposure, because each covers its own claim type and people. The way exposure is used to measure those with the potential to claim is explained below, by Account:

- **Earners' Account:** the number of people working and earning in New Zealand (including those not working but receiving weekly compensation payments). 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. We call this population the Earners' Account population or the earner population.
- **Work Account:** the number of people working and earning in New Zealand, estimated as for the Earners' Account. 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.
- **Non-Earners' Account:** the remaining 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.
- **Motor Vehicle Account:** the estimated number of vehicles on the road is 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.
- **Treatment Injury Account:** this Account covers the whole New Zealand population. It's split between the earner population and the non-earner population.

Funding base

New Zealand levy payers and taxpayers fund ACC in a different way 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. For example, motor vehicle owners and drivers fund the Motor Vehicle Account through vehicle registrations and a levy on petrol. So changes in the amount of petrol consumed or the number and types of vehicles registered affect the levy base and the levy for the Account.

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. For example, an increase in the number of electric vehicles on New Zealand's roads will decrease the levy available from petrol consumption, but won't necessarily decrease the number of claims from motor vehicle accidents.

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. For example, a significant and unexpected increase in unemployment will mean more claims need to be funded by the Non-Earners' appropriation than we allowed for in our calculations.

The funding bases for each Account are:

- **Earners' Account:** ACC uses total liable earnings paid to workers. This includes liable earnings for self-employed people, shareholder employees and people receiving weekly compensation payments from ACC. The liable earnings are limited to a specified maximum amount each year, in 2021/22 it was \$130,911. 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 from Treasury forecasts
- **Work Account:** ACC uses liable earnings as per the Earners' Account, less liable earnings paid to those employed by Accredited Employers (AEs). It doesn't include weekly compensation paid to ACC's clients
- **Non-Earners' Account:** ACC receives an annual appropriation from the Government, which comes from the general tax pool
- **Motor Vehicle Account:** ACC 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 the Ministry of Business, Innovation and Employment, to project future consumption. Levies are paid alongside the registration of vehicles and a petrol levy is collected as oil enters the country

- **Treatment Injury Account:** Funding for this Account is split between the Earners' and the Non-Earners' Accounts. The Earners' portion uses the same liable earnings as the Earners' Account to determine the levy rate. The Non-Earners' portion forms part of the appropriation funded annually by the Government.

A.5 The funding ACC needs from New Zealanders is determined in a fair and transparent way

There are two main components to the funding. First, the **new year claim costs** represent the lifetime costs of ACC rehabilitating and supporting people injured during the year. New year claim 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, the forecast net benefits from investments in injury prevention and the Integrated Change Investment Portfolio lower the amount ACC needs to raise through levies and appropriations.

Any annual increase in the recommended levy or appropriation is then capped at 5%² 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. The Board then reviews the feedback and recommends levy rates to the Minister for ACC. The final levy rates are set by Cabinet. The latest levy consultation occurred during 2021/22.

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 October Baseline Update.

ACC's funding position is a key measure of the Scheme's sustainability

Each of ACC's five Accounts has a target funding position set through its funding policy. If a fund is at target, it means we're estimating that sufficient funds are being held to cover the future lifetime cost of claims that have already occurred.

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.

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

Managing towards the funding targets helps ensure that the Scheme remains fair and sustainable. Looking at changes in the funding positions and the reasons for them is a key way to assess the financial condition of the Scheme.

² The Motor Vehicle Account is capped at 5% plus inflation.

A.6 Funding policies

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

Funding policy for the levied Accounts

The Government's 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). The policy, as worded in the gazette, is outlined below.

Consistent with the principles of financial responsibility, ACC must recommend levies for each levied Account according to the following requirements:

- a. ACC must base the aggregate levy rate for a year on the expected lifetime cost of claims in relation to injuries occurring in that year ("expected lifetime cost of claims in the levy year").
- b. Each Account must target a funding ratio of 100%. The funding ratio is calculated by dividing the assets by the liabilities.

The assets are defined as the total assets reported in the annual report less:

- payables
- accrued liabilities
- investment liabilities
- provisions
- unearned levy liability
- and any assets for the accredited employers programme (AEP)

The liabilities are defined as the balance sheet Outstanding Claims Liability (OCL) but:

including:

- off balance sheet work-related gradual process claims not yet made

and excluding:

- liability for the AEP
 - the OCL risk margin
- c. ACC must include an adjustment to the aggregate rate that takes the Account's funding ratio to the target defined in b. smoothly over a ten-year horizon. This is to be achieved by setting the adjustment at a fixed proportion of expected lifetime injury costs in the levy year, and for each year over a ten-year horizon.
 - d. Any annual increase to the aggregate levy rate for each Account must not exceed 5% (in addition to inflation adjustments for the Motor Vehicle Account).
 - e. Steps a. to d. are repeated for each levy period in the period for which ACC is recommending levies.

Funding policy for the Non-Earners' Account

The Non-Earners' Account's funding policy was updated in 2019/20.

TABLE 20: NON-EARNERS' ACCOUNT FUNDING POLICY FROM 2019/20

Pre-1 July 2001 claims	Post-1 July 2001 claims
<ul style="list-style-type: none">• Pay As You Go basis• One-year funding horizon• Funding position target of 0%	<ul style="list-style-type: none">• 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%.

A.7 Products available to business 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 three products – the AEP, CoverPlus Extra (CPX) and Experience Rating. 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.

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.

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.

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

Full Self Cover

Around 73% of all AEs have full self-cover. 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.

The average discount on the standard Work Account levy for AEs on the Full Self Cover plan is around 93%.

Partnership Discount Plan

The remaining 27% of AEs are on the PDP. Each employer selects a claim-management period of one or two years. 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 discount on the standard Work Account levy for AEs on the PDP is between 50% and 60%, depending on the durations they select to manage claims.

CoverPlus Extra

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 accident 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 is able to 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 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 claims 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 will receive a 10% discount.
- Businesses with more than 70 weekly compensation days paid or with any accidental death claims will get a 10% loading.
- All other businesses will pay the standard Work Account levy for their classification units.

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.

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 kilograms each, 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 kilograms. Only 8.4% of these vehicles are part of the Fleet Saver incentive programme.

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.

A.8 Claim-management process

Claim management is the function of providing rehabilitative support to injured people to return them to work and/or independent living where possible. 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.

In 2019/20 ACC delivered Next Generation Case Management (NGCM) nationwide. NGCM is a fundamental redesign of the ACC case-management model. It's designed to allow ACC to respond to the changing environment in which it operates, with shifts in client expectations, the healthcare ecosystem and technology. The model has been designed to deliver more effective case management, to help injured workers recover faster and return to work or independence sooner. System and process improvements aim to result in workflow efficiency and allow ACC staff to spend more time on improving outcomes for clients.

Under the NGCM model, four recovery teams provide different levels of support, depending on client needs. The recovery teams are:

- **Enabled recovery** (approximately 15% of claims): Clients primarily manage their own recovery using an online portal to select services and regularly check in.
Example: An office worker with a wrist fracture who's still able to work most of the time
- **Assisted recovery** (approximately 53% of claims): Clients primarily manage their own recovery. Members of the ACC team contact them if there's something specific to discuss.
Example: A teacher with a dislocated shoulder who requires additional services to assist with their recovery
- **Supported recovery** (approximately 14% of claims): Clients have dedicated ACC contacts who work with them on their recovery.
Example: A farmer with a disc prolapse. Coordination by ACC will help manage the multiple providers, challenging work environments, and additional services that may be needed throughout the farmer's recovery
- **Partnered recovery** (approximately 18% of claims): Clients build relationships with dedicated ACC contacts who support them in managing their injuries and recovery.
Example: A client with paraplegia who needs expert support to coordinate specialised services. This support may continue for an indefinite period.

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.

A.9 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 regarding 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 elective surgery.

Before involving an external party, ACC investigates a claim for which a review request has been lodged. Around two-thirds of all review requests are resolved without the need for external review providers and 40% are resolved before review hearings. 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 21 shows that 8,189 reviews were lodged in 2021/22, down from 9,329 in 2020/21. These accounted for about 7.7% of ACC’s decisions to decline support in the same period. Increased access to and awareness of dispute and resolution services is likely helping to drive the increase in the number of reviews lodged as a proportion of decline decisions since 2019.

TABLE 21: REVIEW LODGEMENTS AND OUTCOMES

	Year ending 30 June							
	2015	2016	2017	2018	2019	2020	2021	2022
Number of reviews lodged	6,514	6,534	7,228	7,582	8,082	8,641	9,329	8,189
% of decline decisions	6.8%	7.0%	7.2%	7.0%	7.2%	8.1%	8.5%	7.7%
Number of reviews completed	6,874	6,398	6,446	7,806	8,378	9,544	9,346	9,294
Number resolved without external review providers	2,892	2,893	2,799	3,457	4,192	5,796	6,344	6,157
% resolved without external review providers	42%	45%	43%	44%	50%	61%	68%	66%
Number found in favour of clients at formal hearings	1,084	1,003	1,156	1,424	1,464	1,216	873	897
% found in favour of clients	16%	16%	18%	18%	17%	13%	9%	10%
Number found in favour of ACC at formal hearings	2,872	2,469	2,451	2,885	2,696	2,478	2,110	2,197
% found in favour of ACC	42%	39%	38%	37%	32%	26%	23%	24%

Of the reviews completed, the proportion resolved without the need for external review providers has been rising since 2018. 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.

The number of reviews that were resolved at formal hearings was 3,094 in 2021/22, slightly more than the 2,983 reviews in 2020/21 (the lowest since 2012). The proportion found in favour of ACC has generally been at least twice that found in favour of clients since 2012.

Appendix B – Risk management

This appendix outlines the risks ACC faces and the associated risk frameworks it uses to achieve its objectives. The governance of these risk frameworks will be reviewed in 2022/23 and adapted to reflect the organisation's new strategy.

B.1 ACC's risk management framework and processes

ACC's Enterprise Risk Management Framework outlines the responsibilities, processes and practices that enable staff to manage risks as part of their day-to-day decision-making. The framework is aligned with ISO 31000:2018 Risk management – Guidelines.

The objective of the framework is to enable ACC to achieve its objectives successfully by enhancing informed decision-making and enabling the right kinds of risk to be taken in pursuit of value and the achievement of strategic and performance objectives. It does this by helping to ensure:

- the effective and efficient continuity of operations
- a safeguarding of assets
- the preservation and enhancement of reputation
- reliability in 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.

B.2 ACC's risk appetite statement

ACC's risk appetite is defined by its Risk Appetite Statement (RAS). The RAS describes ACC's risk philosophy and its approach to and tolerance of taking risks to achieve its objectives. The RAS also provides a framework for ACC to:

- be innovative and pursue opportunities based on potentially significant benefits, despite their greater risks
- 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 low-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.

B.3 The Five Lines of Assurance risk model

The Five Lines of Assurance risk model, implemented during 2017/18, is now part of ACC's everyday ways of working.

The model:

- focuses attention on strategic objectives to better support the enterprise
- identifies value creation treatments (the upside/performance aspect) and value protection treatments (downside/minimising harm)
- improves links between strategy/planning and risk management
- defines specific accountabilities for the Board, the Chief Executive and the Executive to identify, challenge and monitor residual risks
- defines an active role for the Board in assessing the effectiveness of risk management processes
- elevates the role and importance of internal assurance over risk management.

The Five Lines of Assurance are described in Table 22.

TABLE 22: FIVE LINES OF ASSURANCE

Assurance line	Role
First Line of Assurance – The people	People need to be in control of their day-to-day business activities to recognise and respond proactively to risks. Managers are responsible for managing risks that relate to the business objectives of their business units and groups.
Second Line of Assurance – Enabling (specialist) functions	These functions oversee and provide specialist subject-matter expertise across ACC. Examples are Enterprise Risk Management, Health and Safety, Privacy, Cyber Security, Integrity, Communications and Legal Services.
Third Line of Assurance – Assurance Services and external assurance providers	Assurance Services and its assurance providers independently review the reliability of ACC's risk management processes and performance. Other independent external providers (external auditors, other government agencies and consultants) may also provide specific and limited scope assessments.
Fourth Line of Assurance – Chief Executive and the Executive	The Chief Executive and the Executive are responsible for building and maintaining a robust risk management process.
Fifth Line of Assurance – The ACC Board	The Board has overall responsibility for ensuring robust risk management.

B.4 The eight priority risks for ACC

Table 23 shows ACC's eight highest-priority enterprise risks during 2021/22. It also includes actions as at 30 June 2022 that management is taking in response.

TABLE 23: ACC'S HIGH-PRIORITY ENTERPRISE RISKS AS AT 30 JUNE 2022

Risk	Management actions include
<p>Benefits ACC fails to identify and/or realise effectively the short- and long-term outcomes and benefits of its Transformation investment</p>	<ul style="list-style-type: none"> • Through the Recovery at Work campaign, educate customers in key industries on the benefits of their employees recovering at work. • Review ACC's organisational position on non-contracted care and wider policy settings. • Scale the Escalated Care Pathways programme to help improve weekly compensation measures. • Uplift the capabilities of dedicated weekly compensation teams. • Review the potential known impacts of the New Zealand Income Insurance Scheme (NZIIS) on the Enterprise Change Authority and/or Enterprise Change Portfolio. • Review resource rationalisation opportunities as NZIIS gains momentum.
<p>Claim-cost management ACC doesn't adequately anticipate, monitor and respond to claim-cost performance trends</p>	<ul style="list-style-type: none"> • Initiatives to optimise expenditure on capital items to ensure that the expenditure is as efficient as practicable. • Initiatives to optimise the number of serious injury care hours provided. • Improve client rehabilitation performance through a programme that focuses on ACC's capability and capacity to support clients to achieve better rehabilitation outcomes. • Through the Recovery at Work campaign, educate customers in key industries on the benefits of their employees recovering at work.
<p>Customer outcomes If ACC doesn't define and measure outcomes effectively, it may not fulfil its obligations under Te Tiriti o Waitangi and may fail to meet the current and future needs of customers in the context of ACC's strategic outcomes</p>	<ul style="list-style-type: none"> • Develop and implement a health outcomes framework as a tool for identifying and structuring the health outcomes that matter for ACC's customers. • Develop a suite of measures that reflect customer outcomes and experience, and that are adopted as core ACC metrics. • Develop a strategy and frameworks to support Māori data collection and reporting to drive performance for Māori.
<p>Injury prevention impact If ACC doesn't make informed strategic decisions and deliver effectively, it won't be able to sustainably scale its injury prevention activities to reduce the incidence and severity of injuries among people in Aotearoa. This will continue to result in preventable deaths and losses of wellbeing and have wider economic, social and funding impacts</p>	<ul style="list-style-type: none"> • Develop and agree, in conjunction with WorkSafe, priority focus areas and an associated programme to inform a workplace injury prevention commitment, as part of the Harm Reduction Programme review. • Investigate ways to demonstrate and measure Māori injury prevention. • Develop a communications plan for internal and external stakeholders. • Set a long-term strategic direction for injury prevention as part of ACC's overall strategic goals. • Develop, prioritise, and implement investments designed to deliver injury prevention outcomes and maximise ACC's return on investment.
<p>Māori customer access and outcomes ACC fails to make progress in implementing initiatives that are meaningful, scalable and timely enough to materially improve Māori engagement with the Scheme, access, outcomes and experience</p>	<ul style="list-style-type: none"> • Increase the number and range of kaupapa Māori services available to communities and injured clients. • Increase cultural intelligence and capability across ACC. • Create a Māori-specific injury prevention investment portfolio. • Kōkiri Whakamua: Monitor and champion organisation-wide activities that contribute to Māori outcomes and support ACC to deliver on its Whāia Te Tika priorities. • Develop a strategy and frameworks to support Māori data collection and reporting to drive performance for Māori.
<p>New Zealand Income Insurance Scheme implementation and impact on the ACC Scheme</p>	<ul style="list-style-type: none"> • A comprehensive review of this entity risk is underway. The risk and its associated management actions will be defined during the 2022/23 financial year.

Continued...

Risk	Management actions include
<p>People and culture</p> <p>ACC doesn't have the organisational leadership, capability or capacity in its workforce to deliver business performance and transformative change effectively</p>	<ul style="list-style-type: none"> • Inclusive leadership programme. • Review of job sizing of roles that require Māori cultural capability. • Implement parental leave changes. • Implement progression framework. • Confirm and formalise current hybrid working practices. • Develop collateral that clearly sets out employee benefits and ensure visibility of ACC's benefits package. • Develop a remuneration and benefits approach that's fit for purpose to attract the right talent/capabilities in the right markets to achieve ACC's organisational performance outcomes.
<p>Privacy</p> <p>ACC fails to protect personal information</p>	<ul style="list-style-type: none"> • Improve systems and processes for secure access to and use of personal information. • Update policies to reflect best practices and expectations for staff to strengthen the protection of personal information. • Uplift the privacy culture by improving privacy awareness/training and resources, privacy assessment activities and practices for the detection and management of breaches.

B.5 Changes to the environment in which ACC operates can pose risks to its financial condition

There are factors outside the organisation's control that affect its financial condition, and some of their effects can be significant. Here we describe some of the changing environmental factors we're aware of that are not discussed elsewhere in this report. Where appropriate, we comment on how ACC has been mitigating these risks to date.

Large external events can have an impact

Large events external to ACC can affect the financial condition. We define large events as generally catastrophic incidents involving large numbers of high-cost claims, with implications for claim behaviour, ACC's operations and the ability for New Zealanders to fund the Scheme.

Reinsurance can be used as a means of protecting insurers from large claim risks. In 2021/22 a scenario analysis was undertaken to assess the need for reinsurance as a way to reduce risk to ACC's funding position. The analysis considered the financial impacts of various catastrophic events. Based on the findings of the report, the Board agreed that reinsurance wasn't required. This is because:

- very long-term individual claims aren't large enough to affect the Scheme's net assets materially
- the most extreme catastrophes and resulting claims wouldn't threaten ACC's ability to pay claims in the short term. The Scheme can also post-fund claims for these events.

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. Any reasonably foreseeable call on funding could be rebuilt over time through increased levies and appropriations, in line with the funding policy.

Unless there's a significant change in Scheme circumstances, the need for reinsurance should be reviewed again in five years.

The COVID-19 pandemic is ongoing and we expect to see its effects for at least the next year

The impacts of COVID-19 continue to be felt across the economy, with both positive and negative effects on ACC's financial condition.

Changes in how and where people work influence how people experience accidents and injuries. The increase in people working from home following the pandemic, for example, means fewer injuries during travel to and from work. In addition, restricted activity or movement due to lockdowns (such as the extended lockdown in Auckland) can have significant impacts on the number of accidents and therefore claims to ACC.

The changing economic conditions as a result of the pandemic's impact on the domestic and global economies also affect ACC's financial condition. In normal circumstances, higher inflation and interest and discount rates would reduce the amount of money ACC needs to hold to pay current claims, as the business can expect greater returns on its investments. However, when the rate of inflation is higher than the expected investment returns, as has been observed recently, the funding needs increase.

The significant increase in illness in the community following the Omicron variant placed pressure on providers through a combination of fewer people available to provide services and tighter contact restrictions on clients, making it harder for them to access care. As care became scarce, the cost of delivering these services increased – particularly among people providing care services to those receiving rehabilitation support. These increased costs will affect ACC's financial condition, especially if they are expected to remain at the higher levels for the foreseeable future.

The flow-on effects of the pandemic, such as global supply and labour shortages, continue to place pressure on health systems (and economies more broadly), and New Zealand is no exception. Illness has disrupted health providers and clients, and people are taking longer to access rehabilitation and recover from their injuries. In addition, pandemic pressures are contributing to increases in the costs of providing care for clients. The combined impact of these factors is higher long-term costs to the Scheme.

Many countries, including New Zealand, are now moving to strategies for managing endemic COVID-19.

External policy changes can have implications for ACC's financial condition

Legislation and regulation changes can lead to changes in the injuries that are covered by the Scheme, the treatment services that are offered, how ACC delivers those services and/or the costs involved. Such changes can affect both the financial condition of the Scheme and outcomes for clients.

There are some changes on the horizon that may materially affect ACC's financial condition. These include:

- recent decisions to extend cover to certain maternal birthing injuries. This is expected to affect the Non-Earners' Account appropriation, as signalled on page 52
- a proposed increase in the mileage rate for support workers to 79 cents per kilometre, to align with the rate allowed as a deduction by Inland Revenue, could add \$77 million to the OCL. The funding impacts are low, and mainly in the Motor Vehicle and Non-Earners' Accounts.

Court cases can affect the cover ACC provides

Clients sometimes challenge ACC decisions in court, particularly in situations where the Accident Compensation Act 2001 can be interpreted in different ways. The court process and resulting decisions provide clarity and certainty on the cover and support that ACC can provide.

There were a number of appeal court cases in progress at 30 June 2022, and only two are expected to have any material impact on the financial condition of the Scheme at this point.

In *AZ v ACC*, the High Court allowed treatment injury cover for a spina bifida condition, because a 20-week scan had been misdiagnosed and the evidence was that the mother would have elected a termination had the scan been read correctly. This ruling could have implications for Scheme costs because it would extend the boundary for cover, although its extent isn't yet known. ACC has appealed to the Court of Appeal and a hearing has been set down for March 2023.

In *TN v ACC* the High Court departed from previous authority and held that a claim's statutory date of injury should not have the effect of depriving a client of weekly compensation. TN was diagnosed with post-traumatic stress disorder after seeking medical help in her 30s. Her ACC claim was accepted but her claim for weekly compensation for loss of potential earning capacity was declined. This was because weekly compensation for loss of potential earnings is only available to persons 18 years or younger at their date of injury, and for TN, section 36 of the Accident Compensation Act meant her date of injury was when she first sought treatment in her 30s. The High Court disagreed with ACC, the reviewer and the District Court, and held that the date of injury for weekly compensation purposes was when the trauma was suffered.

This judgement could have significant implications for scheme costs. If this judgement were extended to all sensitive claims satisfying these conditions (including past claims), the estimated impact on the OCL would be between \$70 million and \$420 million.

ACC is considering whether to appeal.

ACC has taken steps to respond to climate change

To date, ACC has seen few direct impacts on the Scheme of climate change. However, it's difficult to pinpoint past claims or costs specifically affected by climate change.

There's a risk that climate change will affect the future financial condition of the Scheme. We expect the largest contributor to be the secondary effects of the increasing demand on the health system, resulting in higher medical care costs or disruptions in economic conditions. In the context of the impacts of changing economic conditions that ACC faces generally, we believe climate change poses no greater risk to ACC's financial condition than other external events.

Changes to the health and disability system may change how ACC operates in the future

The Government's reforms of the health and disability system took effect on 1 July 2022. These reforms consolidated district health boards into one national entity (across four regions) and created new agencies responsible for purchasing and commissioning health and disability services, including a specific Māori Health Authority.

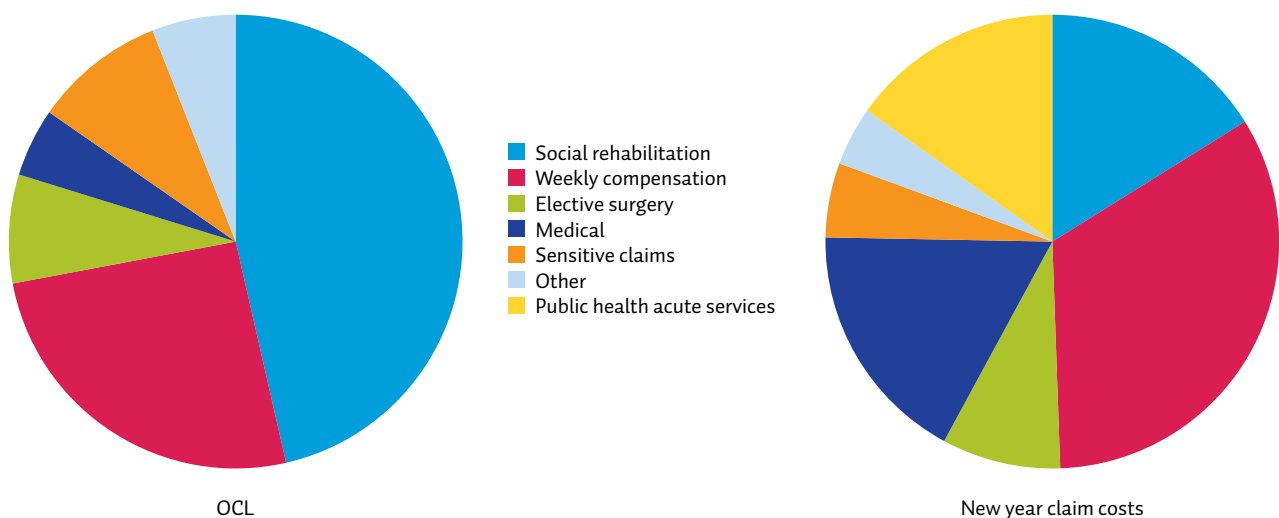
It's too early to say exactly how the health system reforms will affect ACC. However, as it's a key funder and commissioner of health services, system changes such as growing the workforce, the service redesign and the increase in kaupapa Māori programmes would influence the services that ACC is able to access and provide. Fewer health entities also means fewer contracts to negotiate and administer, reducing the burden and cost to ACC of purchasing services from the health system.

Appendix C – Claim volumes, types and costs

C.1 Main payment types' contribution to the outstanding claims liability and new year claim costs

Claim volumes, types and costs affect the outstanding claims liability (OCL), levy rates and government appropriations. Graph 6 shows the contribution of the main payment types to this year's OCL at 30 June 2022, compared to the new year claim costs in 2022/23.

GRAPH 6: COMPARISON OF CLAIM TYPES' CONTRIBUTION TO OCL AND NEW YEAR CLAIM COSTS



The five largest claim payment types (social rehabilitation, weekly compensation, elective surgery, medical and sensitive claims) made up 94% of the 30 June 2022 OCL and 81% of the new year claim costs in 2022/23.

Social rehabilitation includes capital purchases and non-capital services provided to serious injury and non-serious injury claims. It makes up almost half of the OCL because the support is long term. But it makes up a smaller proportion of the new year claim costs, where the largest contributor is weekly compensation. On the other hand, the medical payment type makes up a small proportion of the OCL but a larger component of the new year claim costs. This is because claim volumes are high, but in most cases the costs of the injuries are covered immediately so there's no need to hold additional funds for future treatments.

Table 24 shows the influenceable and non-influenceable changes in the OCL by payment type during the 2021/22 financial year, excluding economic changes. These changes in OCL exclude expected OCL movements and movements due to changes in economic assumptions. The total OCL balance is also included to provide an indication of the materiality of the OCL change for each payment type.

TABLE 24: CHANGE IN OCL BY PAYMENT TYPE DURING THE 2021/22 FINANCIAL YEAR

§M	OCL balance as at 30 June 2022	Influenceable change in OCL during 2021/22	Non-influenceable change in OCL during 2021/22	Total change in OCL during 2021/22
Weekly compensation – non-fatal	10,880	262	82	343
Sensitive claims	4,060	229	4	233
Serious injury non-capital	16,088	157	704	861
Serious injury capital	2,092	29	(9)	20
Non-serious injury non-capital	1,233	52	40	92
Non-serious injury capital	562	15	2	17
Elective surgery	3,343	(44)	32	(12)
Medical	2,101	(61)	44	(17)
Other	4,832	(25)	(13)	(38)
Total	45,192	615	885	1,499

C.2 Weekly compensation

Weekly compensation is a loss-of-earnings payment to employees and self-employed people who can't work due to injury. Children who are injured before they turn 18 and are prevented from entering the workforce due to their injuries are compensated for their loss of potential earnings (most receive this after turning 18).

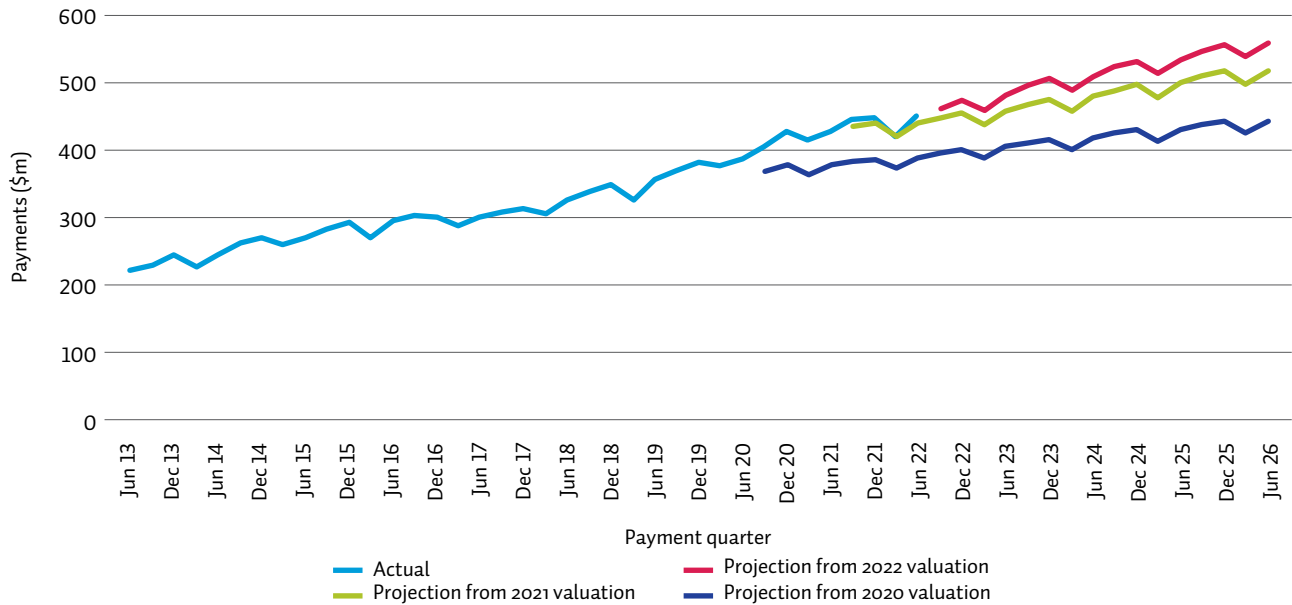
The OCL for weekly compensation at 30 June 2022 was \$10.9 billion. Of this, \$4.8 billion was for claims incurred in the previous five years and \$6.1 billion was for claims incurred more than five years earlier.

The breakdown for the 2021/22 OCL movements is shown below.

- **Active claims:** \$221 million OCL strain.
- **Average cost of claims:** \$40 million OCL strain.
- **Non-influenceable changes:** \$82 million OCL strain.

Graph 7 shows the actual and projected quarterly weekly compensation payments in the June 2022 and the two previous June valuations. The projections include expected claims from future accidents. The graph shows that total payments during 2021/22 were slightly higher than those projected in 2021. Projected payments are approximately 25% higher than they were in the 2020 valuation.

GRAPH 7: NON-FATAL WEEKLY COMPENSATION CLAIM PAYMENTS



The influenceable OCL strain in weekly compensation was \$262 million

The OCL strain in weekly compensation has totalled \$2.2 billion in the past eight years. This year’s \$262 million influenceable strain in weekly compensation followed the past seven years of influenceable strain, totalling just over \$2 billion.

The main driver of the OCL strain was lower-than-expected rehabilitation rates, which increased the OCL in 2021/22 by \$205 million. The increase in the OCL in the past eight years has come mostly from claims in the Earners’ and Motor Vehicle Accounts.

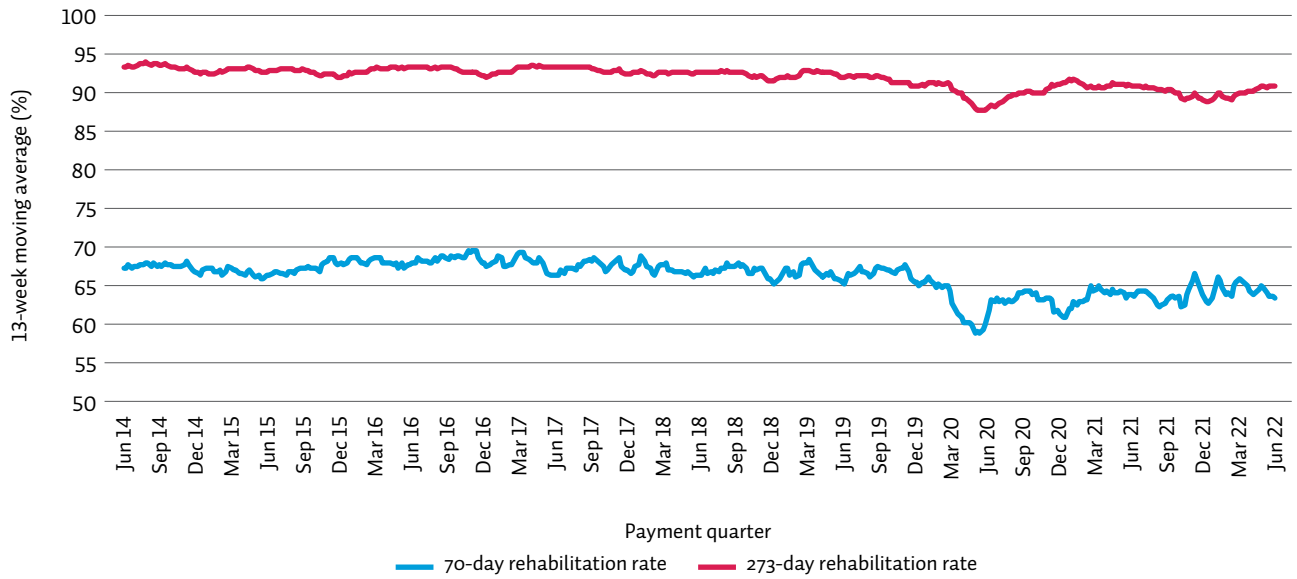
The short-term rehabilitation performance is deteriorating

High new claim volumes and the deterioration in the rehabilitation performance for claims are putting pressure on frontline claim management.

Graph 8 shows the 70-day and 273-day rehabilitation rates in the past eight years. The 70-day rehabilitation rate deteriorated from 67.2% in June 2014 to 63.7% in June 2022. It has been relatively stable at this level for the past two years, well below the pre-COVID-19 levels. The 273-day rehabilitation rate has fallen from 93.4% to 90.9% in the same eight-year period.

‘n’-day rehabilitation rates measure the proportion of clients receiving **weekly compensation** who return to work within ‘n’ days. A client is considered to have returned to work five weeks after the cessation of weekly compensation payments. This is presented as a 13-week rolling average result.

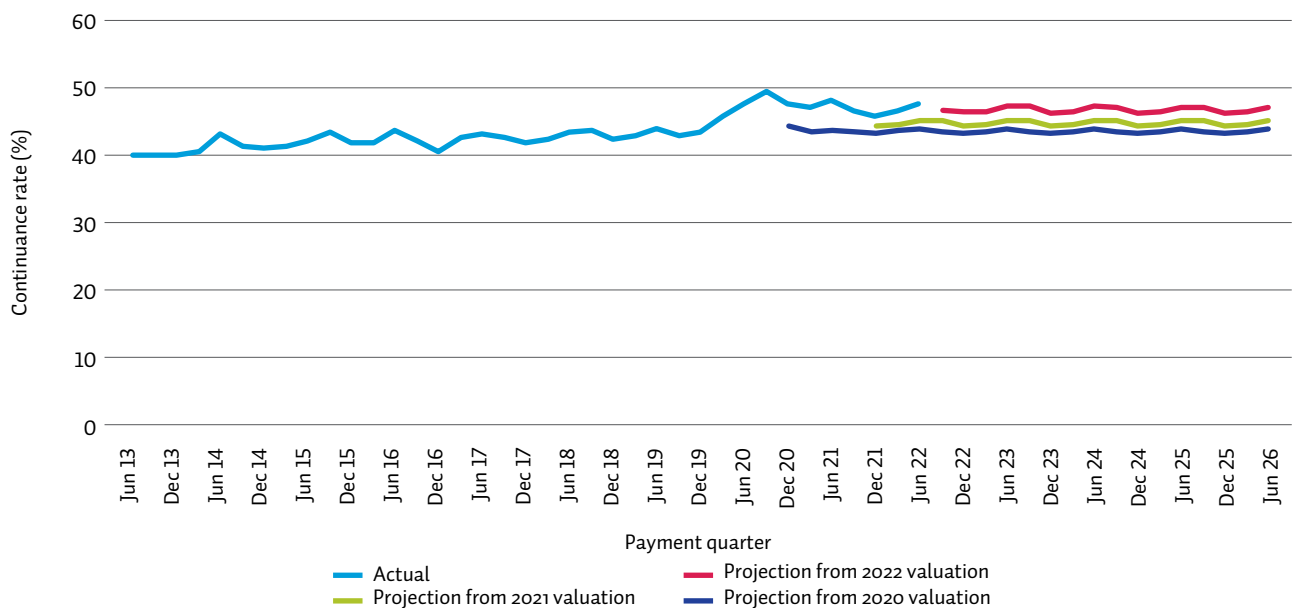
GRAPH 8: SHORT-TERM REHABILITATION RATES



The rehabilitation performance for the short-term claims was worse than expected in 2021/22. The inverse of continuance rates for a claim can be used as a proxy for rehabilitation performance. Therefore, higher continuance rates reflect worse rehabilitation rates and vice versa.

Graph 9 shows the short-term continuance rates for claims in the Earners’ Account within a year of accident. It shows continuance rates have been increasing for some time. On top of that, the June 2020 lockdown triggered a spike in continuance rates (and hence worse rehabilitation rates). Since then the rehabilitation rates have remained at this higher level.

GRAPH 9: EARNERS’ ACCOUNT CONTINUANCE RATES FOR CLAIMS WITHIN ONE YEAR OF ACCIDENT

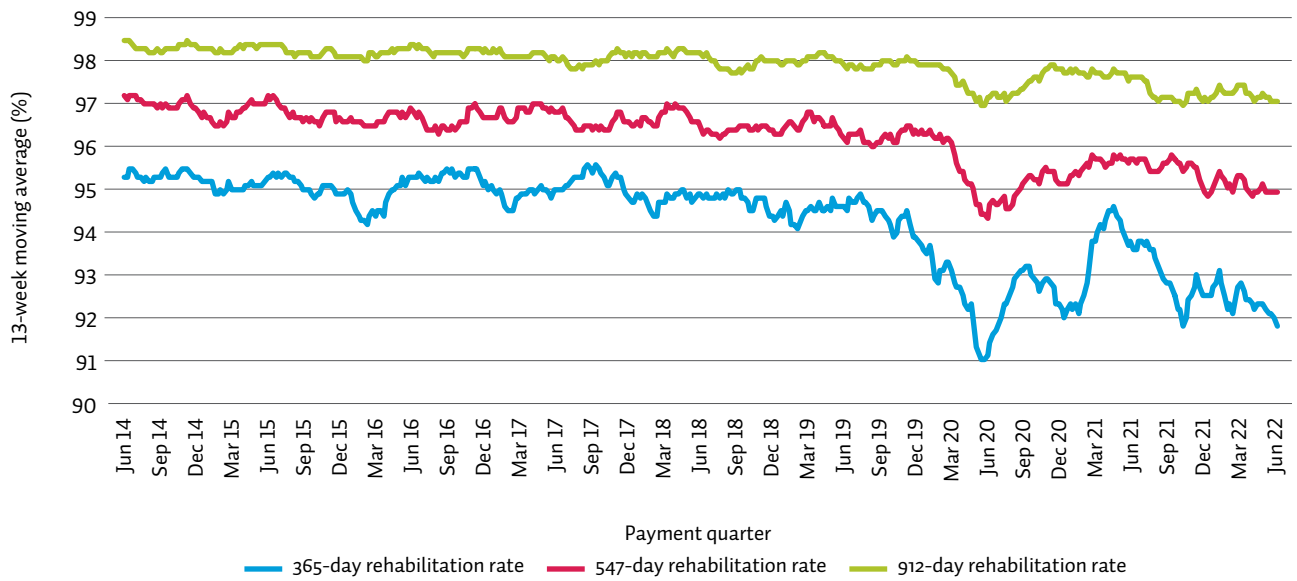


Medium- to long-term rehabilitation performance is under pressure

The longer the weekly compensation claims stay with the Scheme, the more difficult it becomes to rehabilitate them. As a result, the OCL is larger for older claims. 17% of weekly compensation claims are older than five years, yet they make up almost 56% of the weekly compensation OCL.

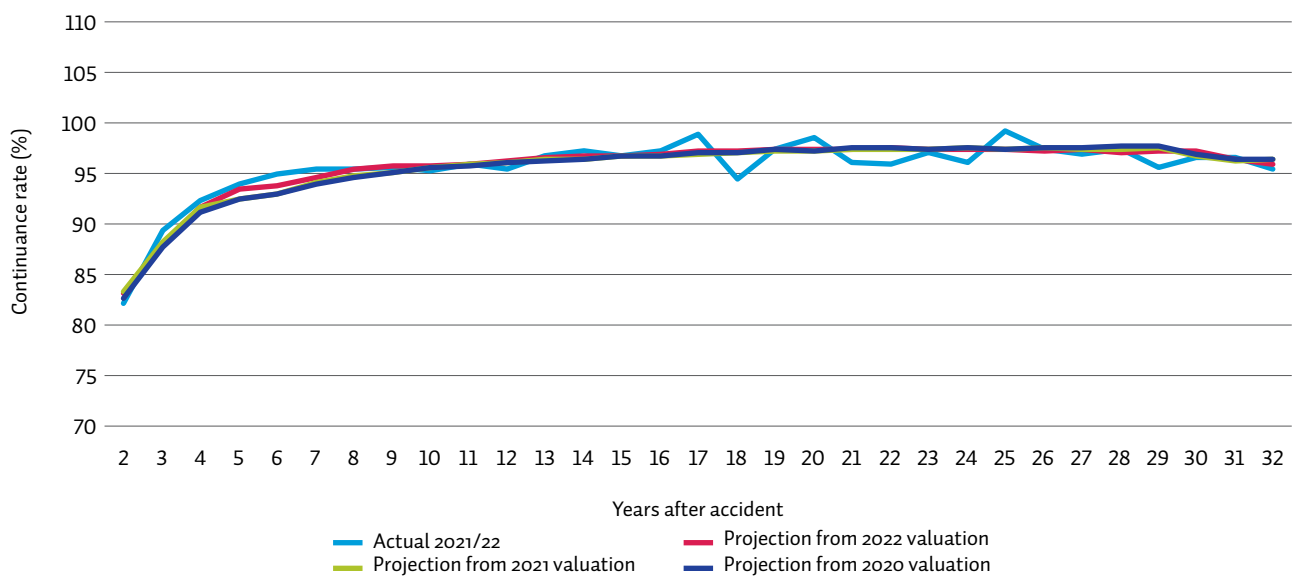
Graph 10 shows 365-day, 547-day and 912-day rehabilitation rate measures in the past eight years. Like short durations, these longer-duration rehabilitation rates have all deteriorated in the past eight years and remain below their pre-COVID-19 levels.

GRAPH 10: MEDIUM- TO LONG-TERM REHABILITATION RATES



Graph 11 shows the actual continuance rates at different durations in comparison to valuation assumptions in the past three years.

GRAPH 11: CONTINUANCE RATES FOR WEEKLY COMPENSATION



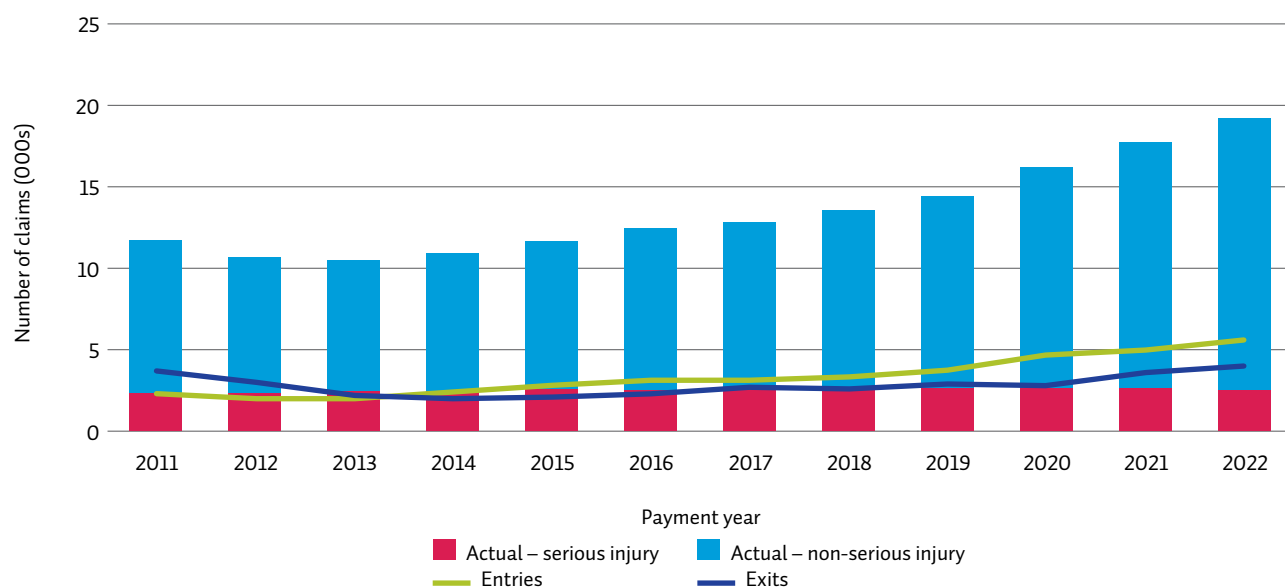
The actual continuance rates for claims with accidents incurred within five to seven years were worse than expected in the 2021 and 2022 valuations. The valuation actuary responded to this by increasing the continuance rate assumptions for these durations in the 2022 valuation. If rehabilitation performance continues to deteriorate in the next year, it may result in a further OCL increase in the next valuation (in the order of \$200 million to \$400 million).

The number of long-term weekly compensation claims continues to grow

The long-term claims pool refers to 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 long-term claims pool in the past few years, while deteriorating longer-term rehabilitation has seen the numbers leaving the pool falling below the number of new entrants.

Graph 12 shows the historical numbers of long-term weekly compensation claims. The growth in the long-term claims pool for the 12 months to June 2022 was 8.9%. It's growing at a rate faster than the annual average growth rate of 7.5% in the past eight years. During the past three years the number of new entries to the pool has been much higher than the number of exits. Some of this can be attributed to an active decision made during the COVID-19 restrictions to suspend entitlement and vocational independence decisions. It is also a product of a decline in both short- and long-term rehabilitation performance. Of concern is the growing proportion of the pool comprising non-seriously injured clients.

GRAPH 12: LONG-TERM WEEKLY COMPENSATION CLAIMS



C.3 Sensitive claims

Sensitive claims are claims for physical and/or mental injury suffered as a result of sexual abuse or sexual assault. Sensitive claim clients receive six main types of payment:

- Weekly compensation payments
- Other-medical counselling services
- Independence allowance
- Lump sums

- Vocational rehabilitation
- Non-serious-injury care.

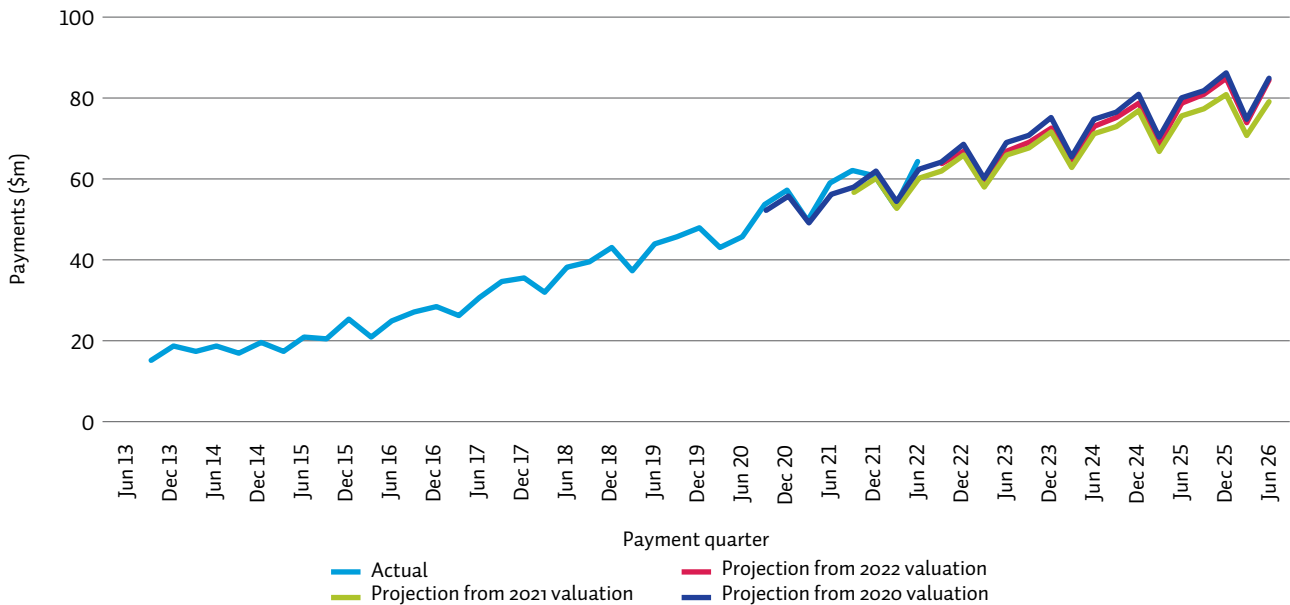
The OCL for sensitive claims at 30 June 2022 was \$4.1 billion. The OCL strain in the past eight years has been \$1.5 billion in total, and mostly influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$51 million OCL release.
- **Average cost of claims:** \$280 million OCL strain.
- **Non-influenceable changes:** \$4 million OCL strain.

Graph 13 shows the actual and projected quarterly sensitive claim payments in the June 2022 and the two previous June valuations. The projections include projected claims from future periods. The graph shows that total payments during 2021/22 were higher than previously projected and resulted in an OCL strain. The primary driver of this was the higher average cost assumptions from the June 2022 valuation.

GRAPH 13: SENSITIVE CLAIM PAYMENTS

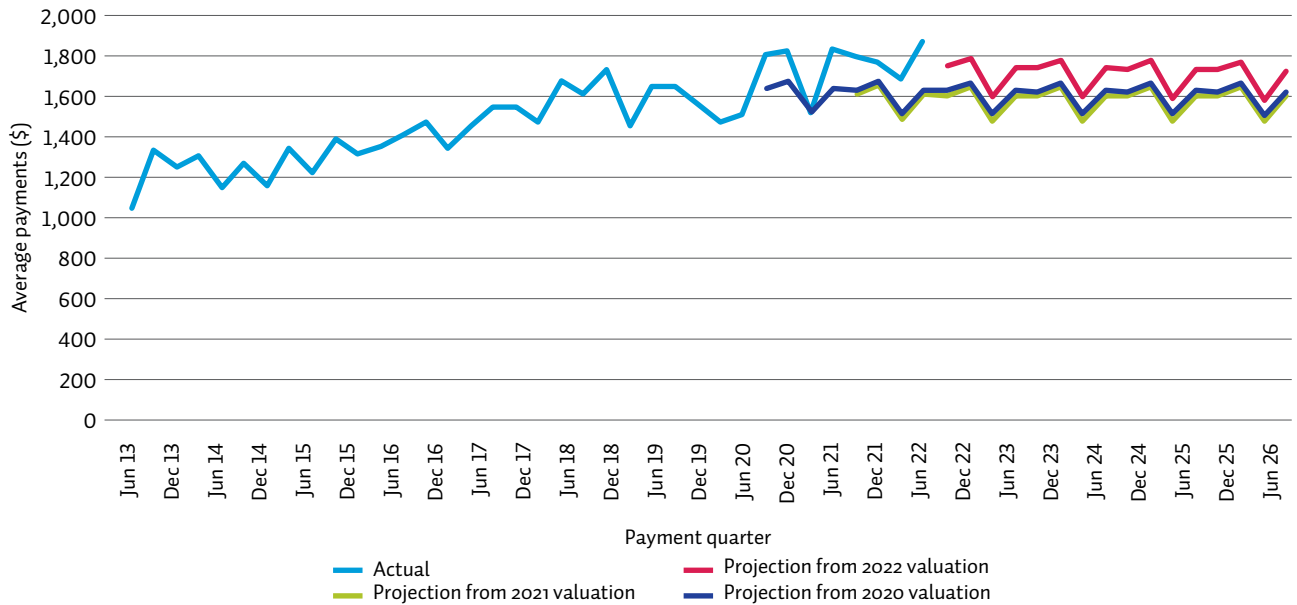


The influenceable OCL strain in sensitive claims was \$229 million

There has been significant growth in the average payments for sensitive claims in the past year, particularly in the Non-Earners' Account. This has resulted in an OCL strain of \$254 million. The OCL release due to lower claim volumes is \$51 million, mainly driven by accidents in the past three years.

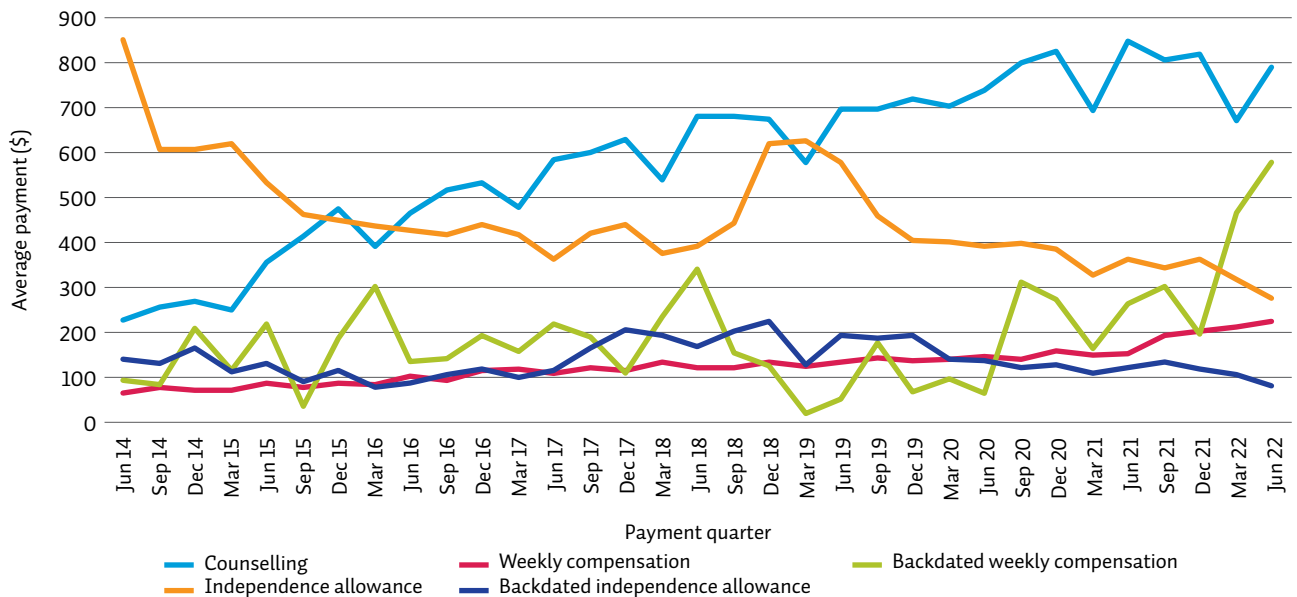
Graph 14 shows the average claim cost for sensitive claims in the Non-Earners' Account.

GRAPH 14: SENSITIVE CLAIMS AVERAGE PAYMENTS FOR THE NON-EARNERS' ACCOUNT



The average claim costs have been growing since September 2020. These higher costs have been driven by a combination of an increase in counselling costs and large backdated weekly compensation payments paid for claims more than five years from their first treatments, as shown in Graph 15. These costs have been higher than expected and have resulted in a significant OCL strain.

GRAPH 15: SENSITIVE CLAIMS: AVERAGE PAYMENTS FOR CLAIMS MORE THAN FIVE YEARS FROM DATE OF FIRST TREATMENT



C.4 Serious injury non-capital

Social rehabilitation non-capital payments are for care support (attendant care, home help, childcare and residential care) and non-care support (active rehabilitation, training for independence, supported activities, assessments and travel). Attendant care support accounts for two-thirds of the serious injury social rehabilitation non-capital OCL.

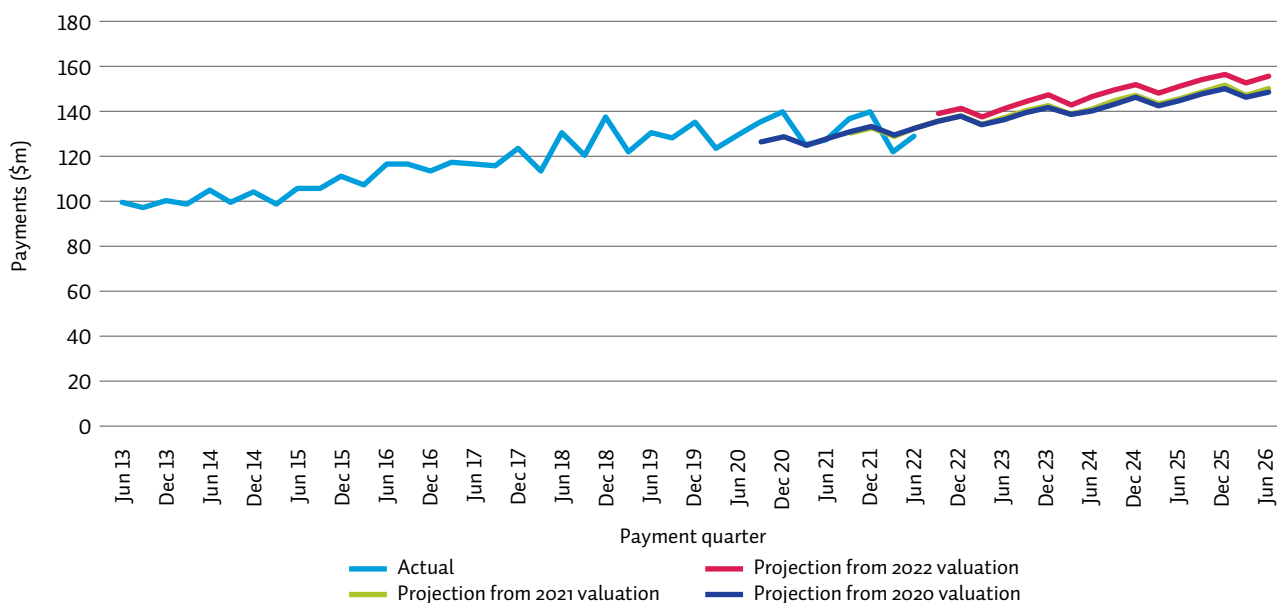
The OCL for serious injury non-capital at 30 June 2022 was \$16.1 billion. The OCL strain in the past eight years has been \$1.6 billion in total, and \$1.2 billion of this has been influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$1 million OCL strain.
- **Average cost of claims:** \$156 million OCL strain.
- **Non-influenceable changes:** \$704 million OCL strain.

Graph 16 shows the actual and projected quarterly serious injury non-capital payments in the June 2022 and the two previous June valuations. In 2021/22, non-capital claim payments were above those expected in the first half of the year and below those expected in the second half of the year. Due to the lifelong nature of the support provided, even a small change can have a significant impact on the OCL.

GRAPH 16: SERIOUS INJURY NON-CAPITAL CLAIM PAYMENTS

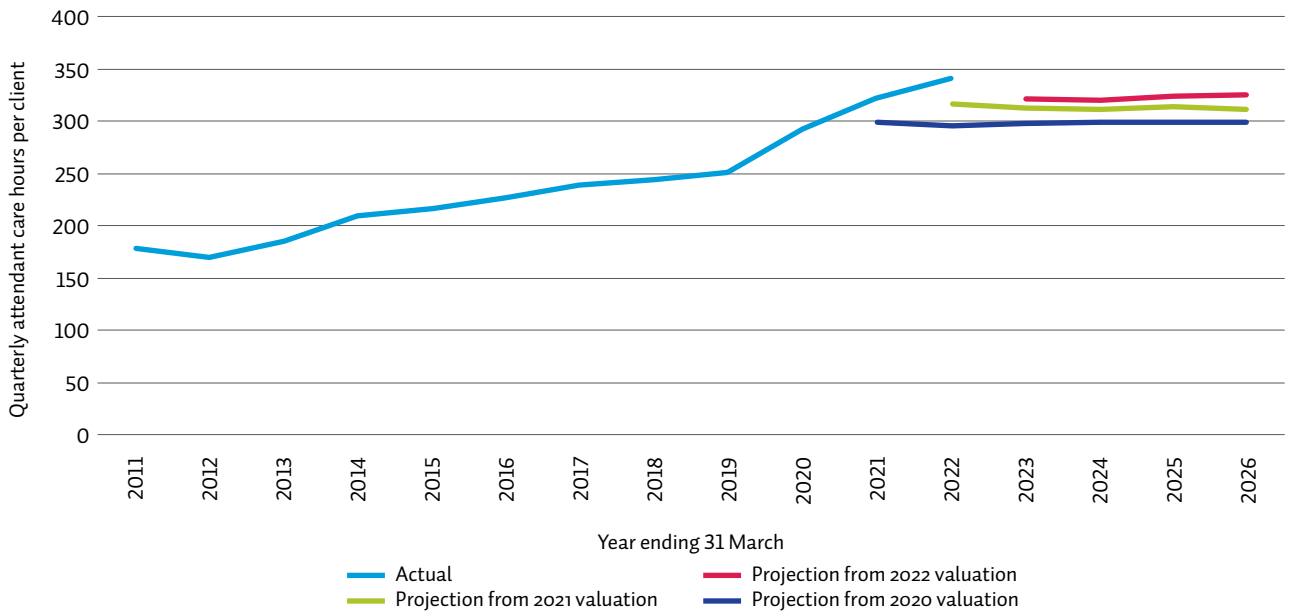


The influenceable OCL strain in serious injury non-capital was \$157 million

The major driver for the strain was an increase in the care-hour growth assumption for moderate traumatic brain injuries. This resulted in an OCL strain of \$216 million. It was partially offset by a release of \$107 million due to lower travel payments. Fewer-than-expected new serious injury claims in the past year were partially offset by an increase in new claim assumptions that resulted in an overall OCL strain of \$1 million.

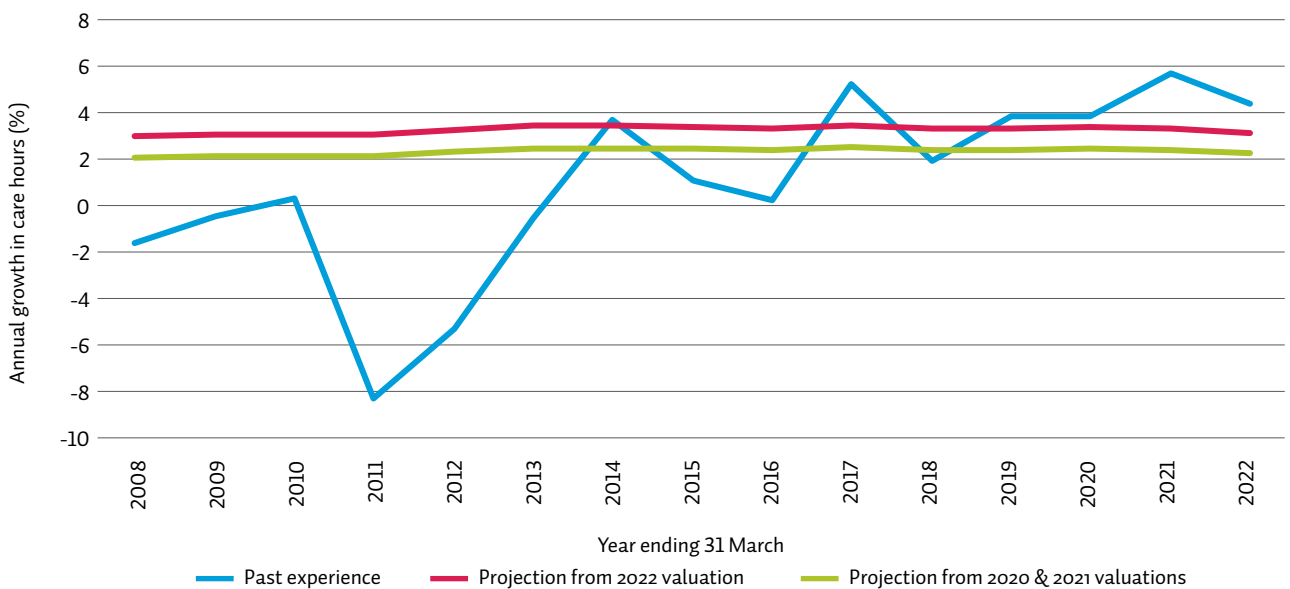
There was a \$20 million influenceable strain due to slightly higher average care hours, largely for recent accidents. Graph 17 shows that the care hours for serious injury claims less than four years old were higher than previously projected.

GRAPH 17: SOCIAL REHABILITATION: SERIOUS INJURY CARE HOURS LESS THAN FOUR YEARS POST-ACCIDENT



The increase in the assumed care hour growth rate for moderate traumatic brain injuries came as a result of high growth in care hours for these claims in the previous six years. This is shown in Graph 18.

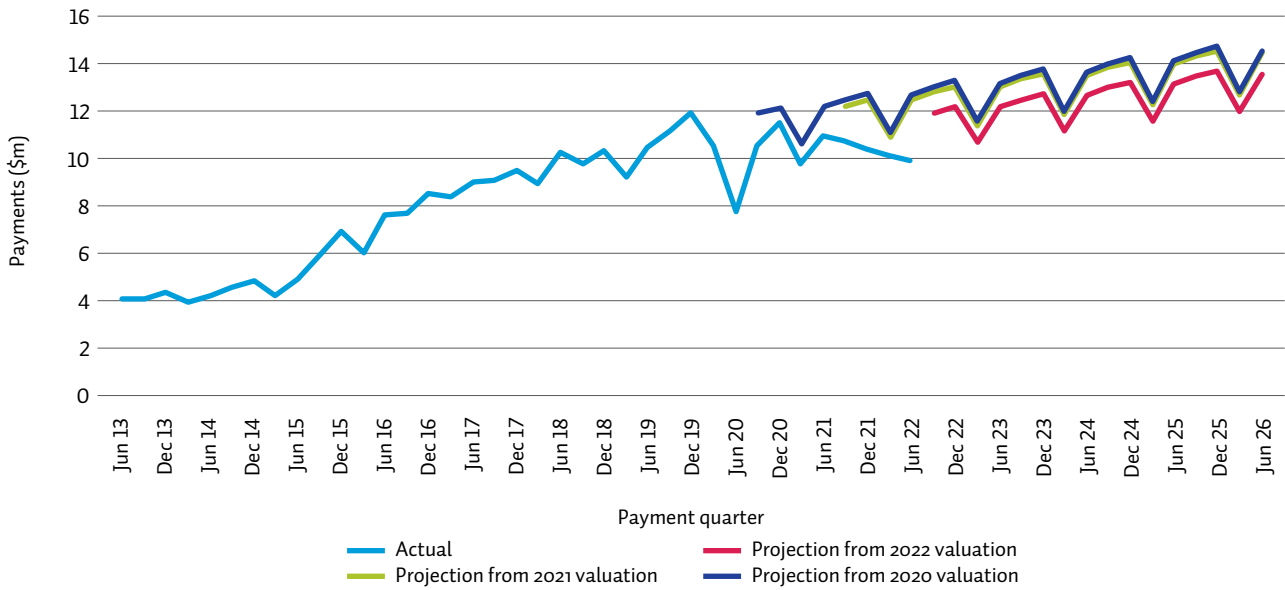
GRAPH 18: SERIOUS INJURY CARE HOUR GROWTH FOR MODERATE TRAUMATIC BRAIN INJURY CLAIMS



Significantly lower-than-expected travel costs incurred during the year led to a reduction in travel costs and reduced the OCL by \$107 million. This reduction only partially reflects the actual claim performance during the year, as there is uncertainty as to whether the low cost will continue indefinitely or if it was (at least in part) driven by temporary behaviour changes during the pandemic period. Had the full travel claim performance been reflected, there would have been a further \$100 million OCL release.

Graph 19 shows a lower-than-projected travel costs during the 2021/22 year.

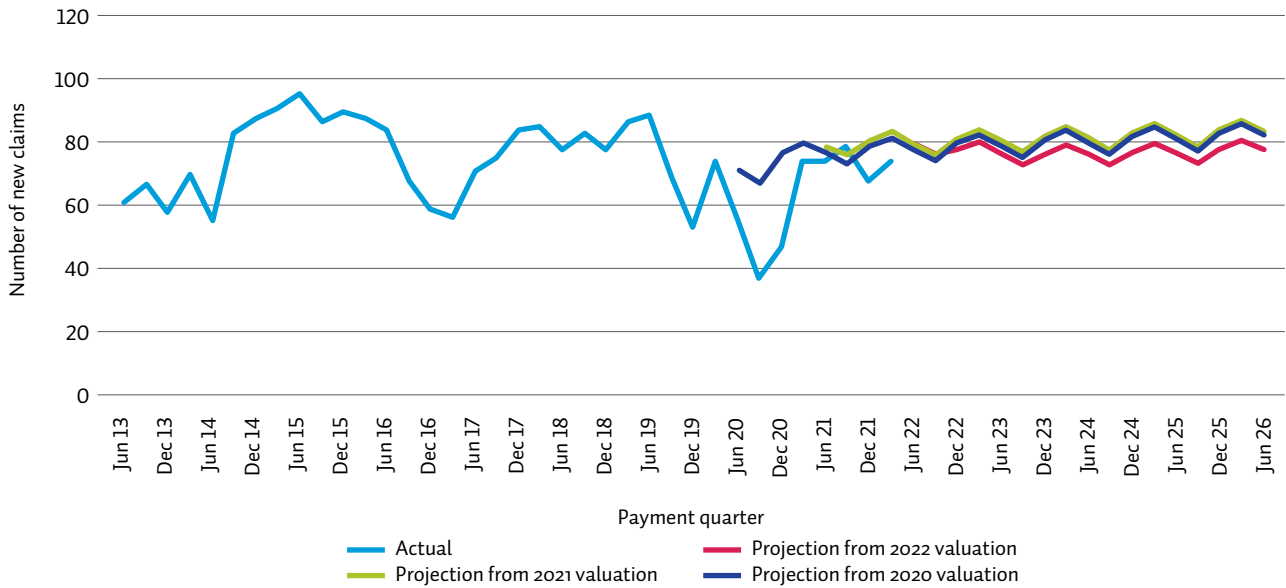
GRAPH 19: SERIOUS INJURY NON-CAPITAL CLAIM TRAVEL PAYMENTS



The number of new serious injury claims reported this year was 274, significantly lower than the 369 expected. Some of this was due to the COVID-19 restrictions during the year limiting travel and activities. The remainder was likely due to process changes and an increase in the time taken to identify and profile serious injury claims. The number of claims incurred but not reported was increased to account for the delay in serious injury profiling. The ultimate number of claims was assumed to be consistent with previous valuations. The overall result from new claims was an OCL strain of \$1 million.

Graph 20 shows the number of new serious injury claims. The projections for 2022 are slightly lower than those for 2021 and 2020 as the smaller number of claims from the latest COVID-19 restrictions emerges.

GRAPH 20: SERIOUS INJURY: NUMBER OF NEW CLAIMS



C.5 Serious injury capital

Social rehabilitation capital payments for seriously injured clients include payments for medical consumables, rehabilitation equipment, artificial limbs, housing modifications and motor vehicle purchases and modifications.

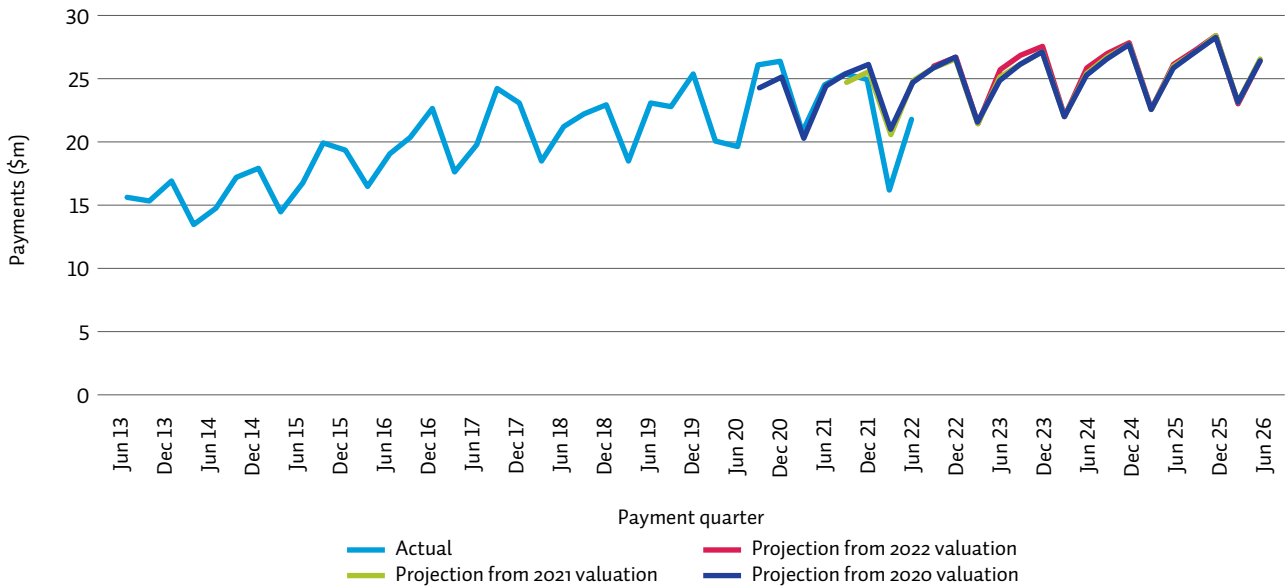
The OCL for serious injury capital at 30 June 2022 was \$2.1 billion. The total OCL strain in the past eight years has been \$344 million, where \$356 million has been influenceable. This has mainly been driven by increases in spend on large capital items, such as housing and vehicle modifications. In some cases capital items have been supplied to increase clients’ independence, and it’s to be reasonably expected that this increase in capital spending should result in a decrease in the amount of care needed. However, during the past eight years increases in capital spending have generally been accompanied by increases in average attendant care hours.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$19 million OCL strain.
- **Average cost of claims:** \$11 million OCL strain.
- **Non-influenceable changes:** \$9 million OCL release.

Capital payments for seriously injured clients during 2021/22 were lower than expected due to supply constraints for capital equipment. This is shown in Graph 21.

GRAPH 21: SERIOUS INJURY: CAPITAL CLAIM PAYMENTS



The influenceable OCL strain in serious injury capital was \$29 million

The average capital payments per claim have been slightly lower than expected in the past year due to the supply constraints in the March 2022 quarter. The primary driver of the OCL strain of \$11 million resulted from the higher-than-expected average payments in the first half of 2021. Adjustments in the new claims assumptions resulted in an OCL strain of \$19 million.

C.6 Non-serious injury non-capital

Non-serious injury social rehabilitation claims relate to people who require extra help for rehabilitation but aren't expected to be on claim for the rest of their lives.

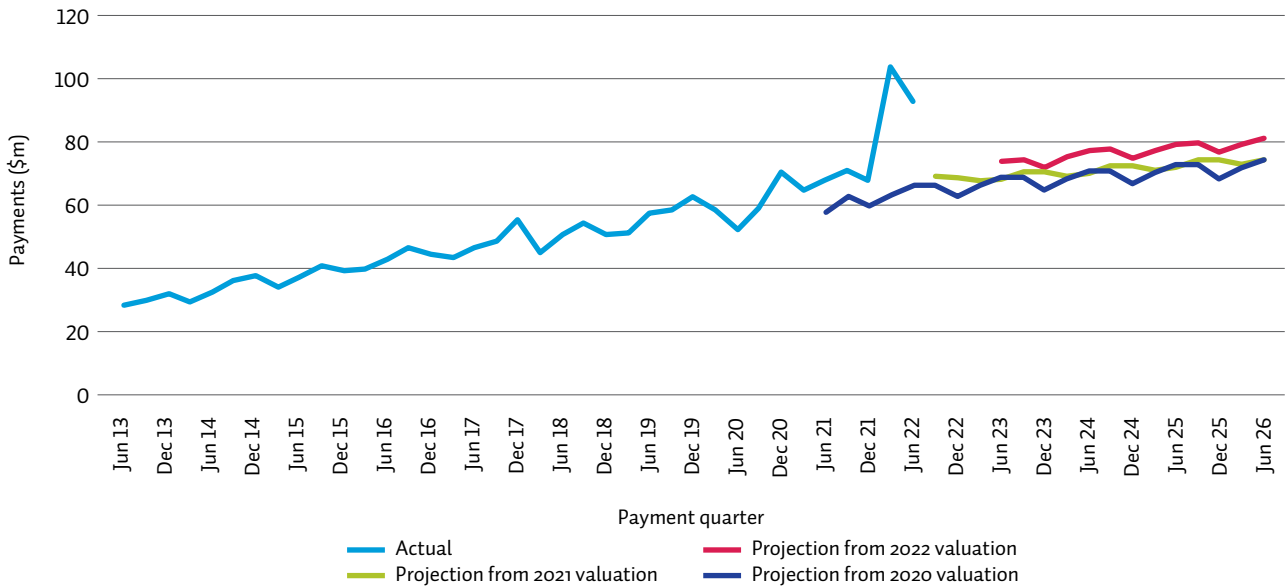
The OCL for non-serious injury non-capital claims at 30 June 2022 was \$1.2 billion. The OCL strain in the past eight years has been \$379 million in total, and \$290 million of this has been influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$5 million OCL release.
- **Average cost of claims:** \$57 million OCL strain.
- **Non-influenceable changes:** \$40 million OCL strain.

Graph 22 shows that payments for non-seriously injured clients receiving non-capital services were significantly higher than expected in 2021/22. This was a result of large back-dated payments relating to non-acute inpatient rehabilitation (NAR) claims made in the March 2022 quarter. It's expected that the high payment levels for NAR claims will continue for the next two quarters. Due to the short-tailed nature of NAR claims, no changes were made to the projections as a result of the higher payments. The primary reason for the increase in the 2022 valuation was an increase in average costs.

GRAPH 22: NON-SERIOUS INJURY NON-CAPITAL PAYMENTS

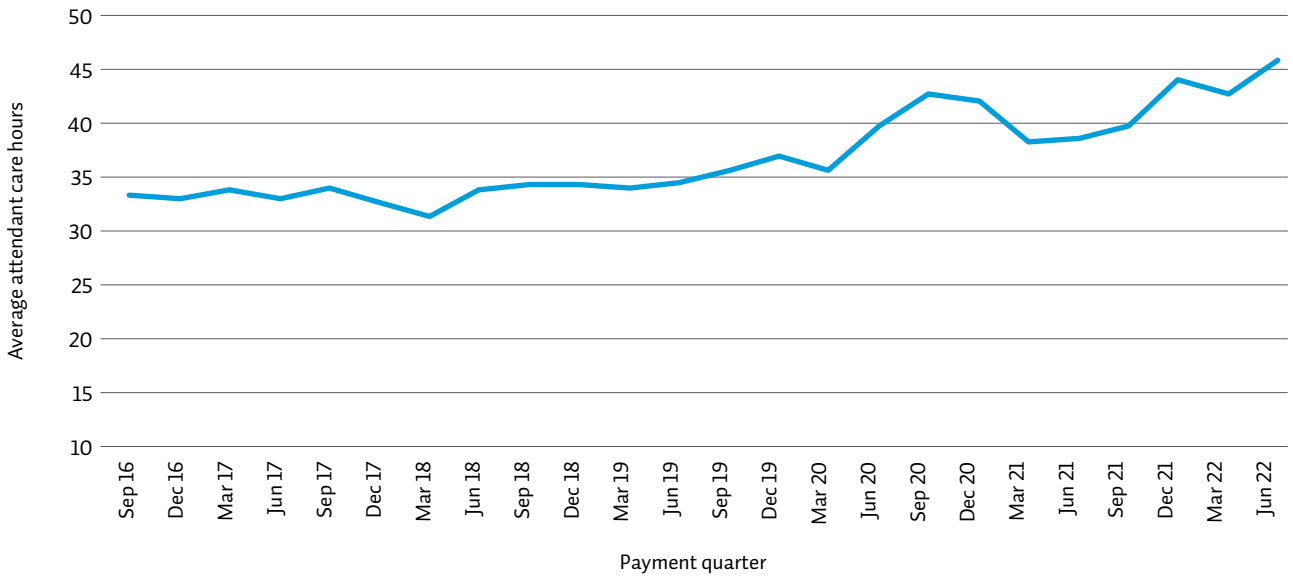


The influenceable OCL strain in non-serious injury non-capital was \$52 million

The OCL valuation assumes that the level of care support will return to pre-COVID-19 levels. Average cost assumptions for claims older than five years are set with a long-term view, as changes in these assumptions can result in a large OCL movements. The average cost assumptions for claims older than five years were increased as a result of the increases in the average care hours. This resulted in an OCL strain of \$57 million. Lower-than-expected claim numbers offset this with a \$5 million OCL release.

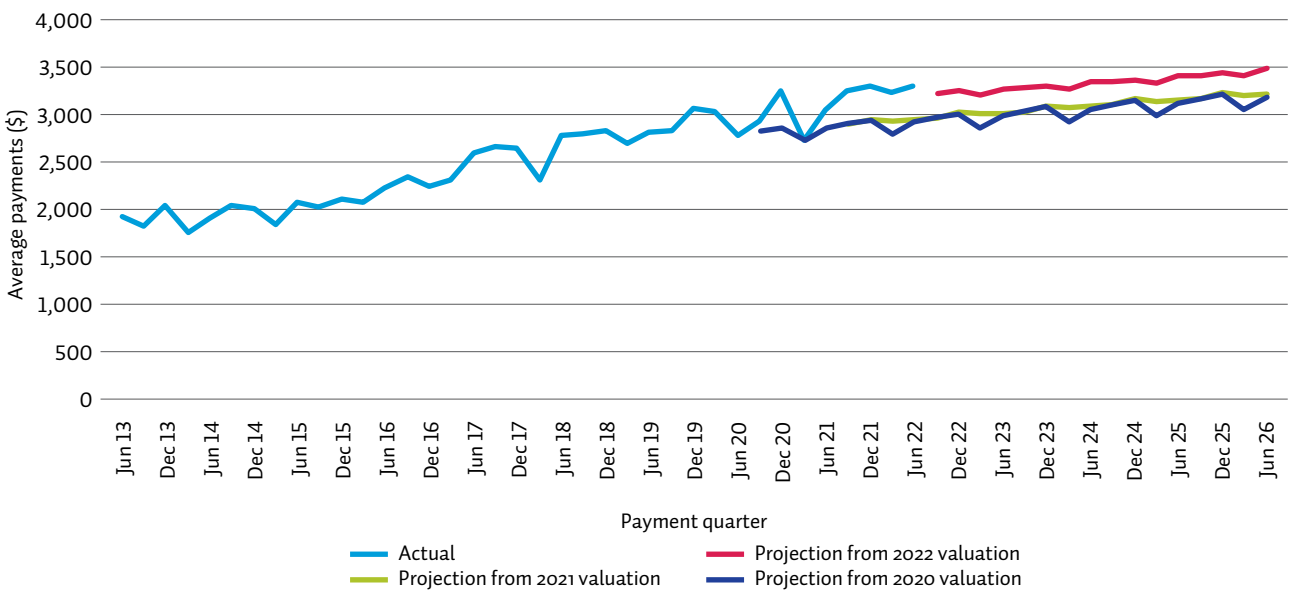
Graph 23 shows the average care hours for non-serious injury claims per quarter. The average attendant care hours for non-serious injuries has grown significantly since March 2020 and is a large driver of the growth in average claim costs.

GRAPH 23: NON-SERIOUS INJURY AVERAGE ATTENDANT CARE HOURS



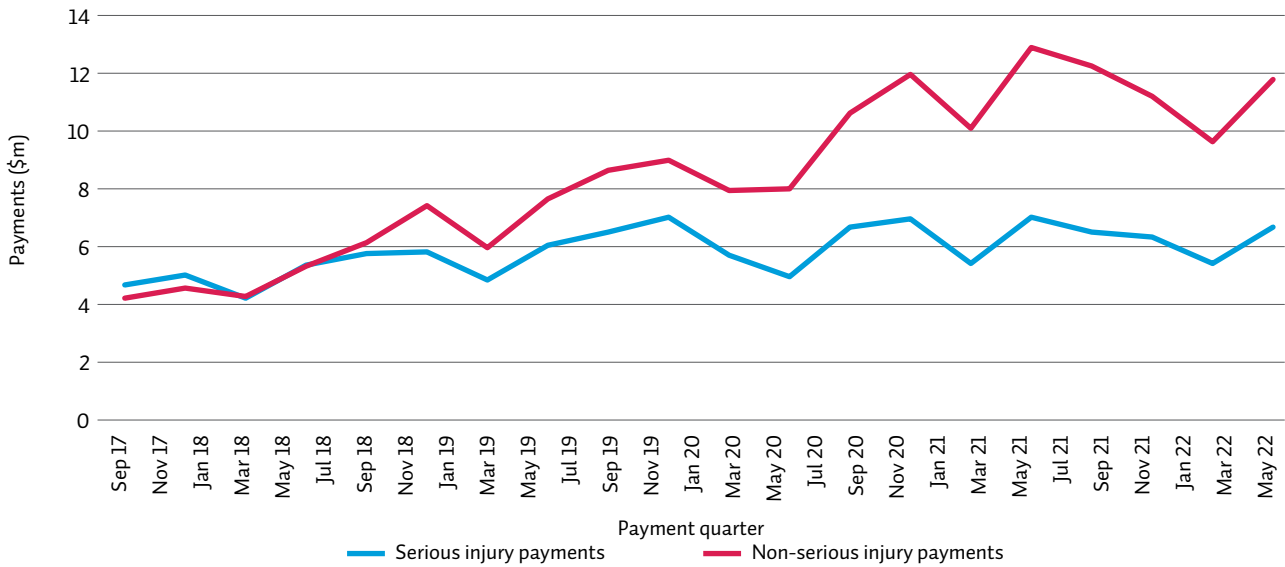
Graph 24 shows the past and projected average costs of non-serious injury care claims per quarter. The higher average attendant care hours are the main contributor to the higher average payments in the past two years and the increases in projected average costs.

GRAPH 24: NON-SERIOUS INJURY CARE: AVERAGE PAYMENTS FOR CLAIMS MORE THAN FIVE YEARS AFTER ACCIDENT



Graph 25 shows the payments made for training for independence programmes by serious injury and non-serious injury claims. The growth in payments for non-serious injury claims was significant up to June 2021. This trend has slowed in 2021/22 and we're starting to see the spend in this service reduced.

GRAPH 25: PAYMENTS FOR TRAINING FOR INDEPENDENCE PROGRAMMES



C.7 Non-serious injury capital

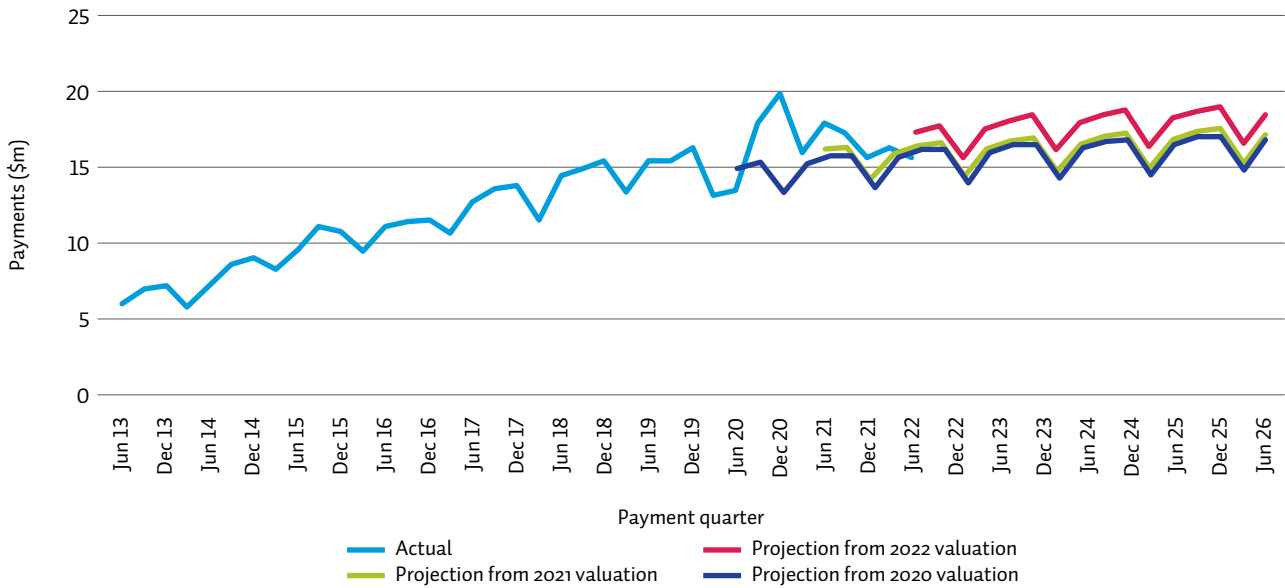
The OCL for non-serious injury capital claims at 30 June 2022 was \$562 million. The OCL strain in the past eight years has been \$255 million in total, with \$213 million of this being influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$3 million OCL release.
- **Average cost of claims:** \$19 million OCL strain.
- **Non-influenceable changes:** \$2 million OCL strain.

Graph 26 shows that non-serious injury capital payments continued to be higher than expected this year. This was mainly driven by the higher-than-expected average claim cost. However, the payments in the 2022 accident year were lower than expected due to the COVID-19 restrictions.

GRAPH 26: NON-SERIOUS INJURY CAPITAL CLAIM PAYMENTS



The influenceable OCL strain in non-serious injury capital was \$15 million

The number of claims was 8% lower than expected in 2021/22, with most of it being in the 2022 accident year, when it was influenced by COVID-19 restrictions and supply chain constraints. The number of claims in the previous accident years were relatively close to expected, and this resulted in a small OCL release of \$3 million. The average claim cost was significantly higher than expected in 2021/22. This resulted in an OCL strain of \$19 million.

C.8 Elective surgery

Elective surgery is an important entry point to the Scheme. The timing of an elective surgery procedure can vary from soon after an accident to many years later, especially if further surgery is required. Clients often also require other support (such as weekly compensation, social rehabilitation and medical services) while recovering from surgery.

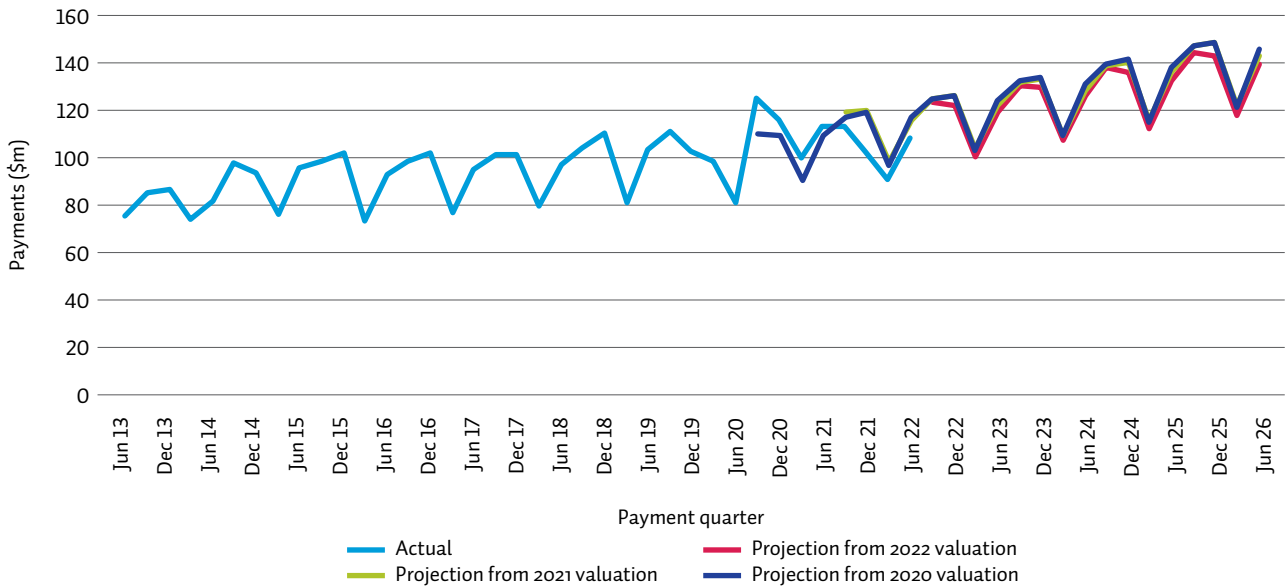
The OCL for elective surgery claims at 30 June 2022 was \$3.3 billion. The OCL release in the past eight years has been \$1.2 billion in total, with most of it being influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$2 million OCL strain.
- **Average cost of claims:** \$46 million OCL release.
- **Non-influenceable changes:** \$32 million OCL strain.

Graph 27 shows that elective surgery payments in 2021/22 were, on average, around 6% lower than expected. In contrast, the 2020/21 payments were higher than expected. This is a return to the previous trend of payments being lower than expected, and is mainly driven by the lower-than-expected claim volumes due to COVID-19 restrictions in the past year and lower-than-expected superimposed inflation. Moreover, there continue to be capacity constraints in the sector that have kept the volumes lower and are adding delays to surgeries.

GRAPH 27: ELECTIVE SURGERY CLAIM PAYMENTS

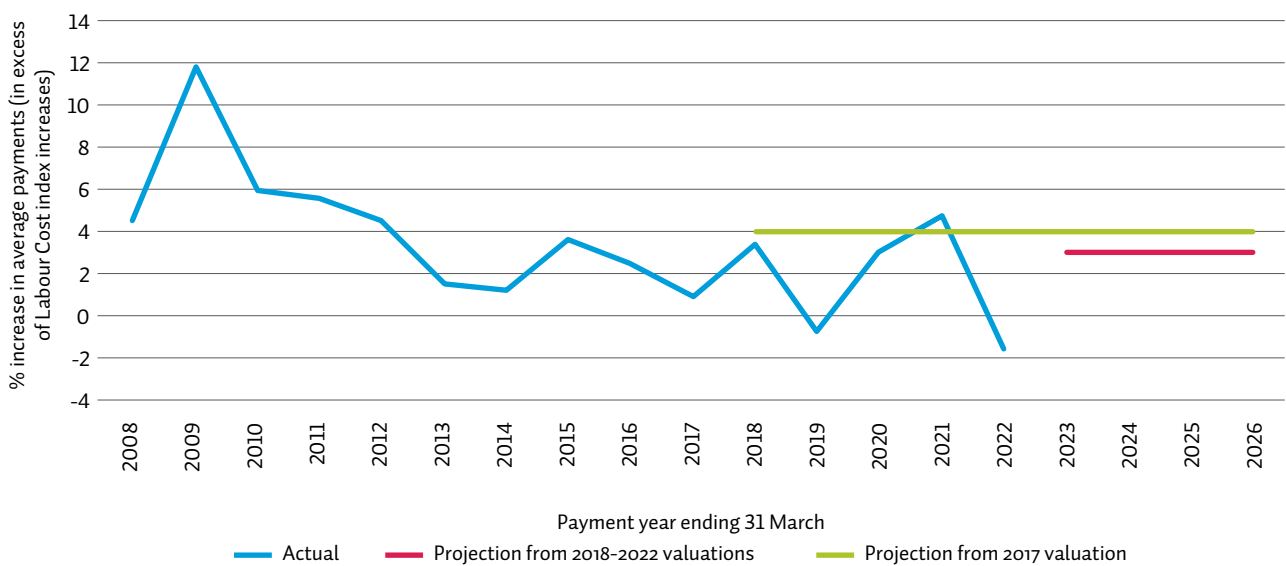


The influenceable OCL release in elective surgery was \$44 million

The average claim cost has been lower than expected in the past year due to lower-than-expected superimposed inflation. This has resulted in an OCL release of \$46 million. The number of claims in the past year has also been lower than expected. This has been driven by low claim numbers in the 2021 and 2022 accident years, which have had a small impact on the OCL. Claim numbers were higher than expected in earlier accident years, and this resulted in a small influenceable OCL strain of \$2 million.

Graph 28 shows the superimposed inflation, which is the rate at which claim payments are increasing over and above price inflation.

GRAPH 28: ELECTIVE SURGERY SUPERIMPOSED INFLATION



The actual superimposed inflation for elective surgery payments was lower than expected in 2021/22. This suggests that the future elective surgeries were increasing at a lower-than-expected rate than the assumed 3%, which resulted in an OCL release.

C.9 Medical

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

1. General practice
2. Radiology
3. Physiotherapy
4. Other-medical, which includes specialist consultancy, acupuncture and dental treatment.

These payments are in addition to those provided under bulk funding to the Ministry of Health for public health acute services.

Payments for medical services are typically short term (less than one year). The impacts they have on the OCL are less significant than their impacts on levy rates and government appropriations.

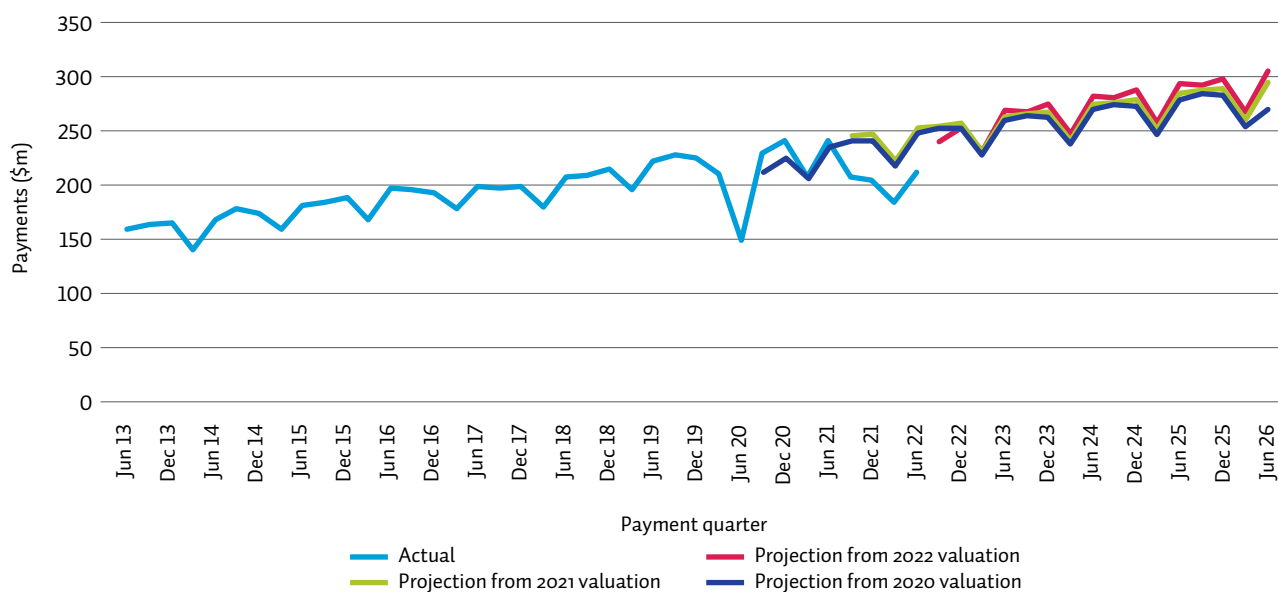
The OCL for medical claims at 30 June 2022 was \$2.1 billion. The OCL release in the past eight years has been \$432 million in total, with \$399 million of this being influenceable.

The breakdown of the 2021/22 OCL movements is shown below.

- **Active claims:** \$8 million OCL release.
- **Average cost of claims:** \$53 million OCL release.
- **Non-influenceable changes:** \$44 million OCL strain.

Graph 29 shows that medical payments were 12% lower than expected in 2021/22. The primary reason for this was lower new claim numbers as a result of the COVID-19 restrictions.

GRAPH 29: CLAIM PAYMENTS FOR MEDICAL SERVICES



The influenceable OCL release in medical claims was \$61 million

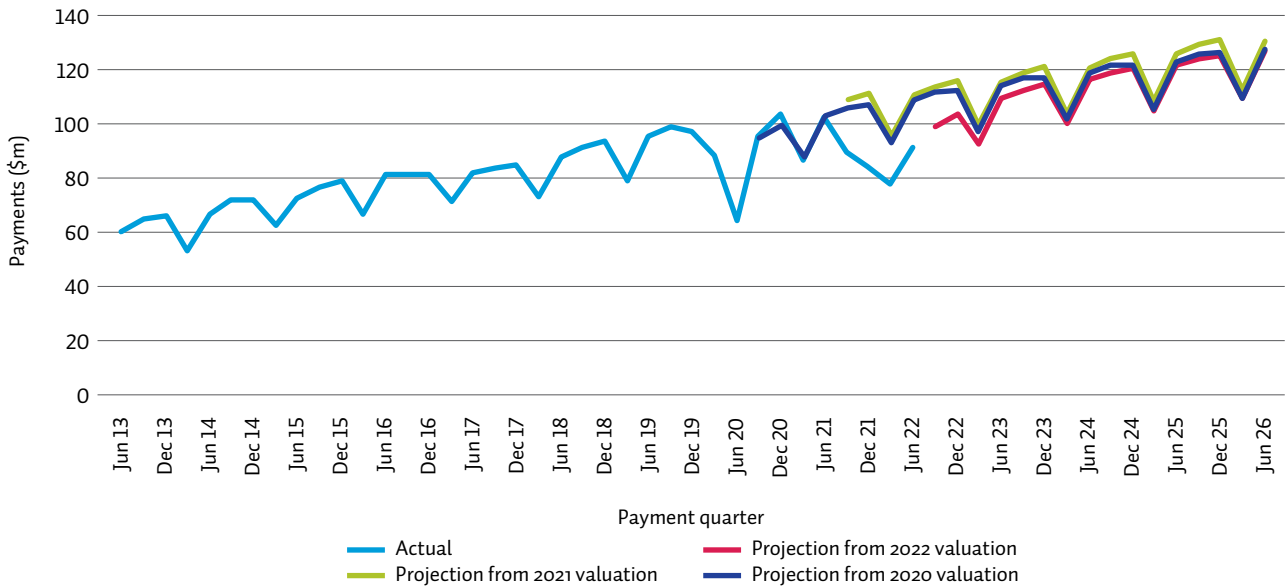
The lower-than-expected claim volumes during 2021/22, which were mainly driven by the other-medical payment type, led to an OCL release of \$8 million. There was a further \$53 million OCL release from the lower-than-expected average claim costs, mainly in the other-medical category.

The OCL movements in the four medical categories were as follows:

- General practice:** The number of new claims was lower than expected, and this resulted in a \$2 million release. Lower average costs led to an OCL release of \$1 million. The total influenceable OCL release for general practice was \$3 million.
- Radiology:** There were more new claims than expected in the last year after allowing for the impacts of COVID-19 restrictions. This resulted in a \$4 million OCL strain. Higher-than-expected average costs led to an OCL strain of \$1 million. The total influenceable OCL strain for radiology was \$5 million.
- Physiotherapy:** After allowing for the impacts of COVID-19 restrictions, a higher-than-expected number of new claims resulted in a \$3 million OCL strain. This was offset by lower-than-expected average costs, which led to a \$2 million OCL release. The total influenceable OCL strain for physiotherapy was \$1 million.
- Other-medical:** Clients are remaining on the Scheme for longer than expected, but there were fewer new claims in the older accident periods. The net effect was a \$12 million release. Lower average costs led to an OCL release of \$52 million. The total influenceable OCL release for other-medical was \$64 million.

Graph 30 shows only the other-medical payments, which formed the largest component of the medical payments in 2021/22. The projection for the 2022 valuation excludes non-influenceable rate changes.

GRAPH 30: CLAIM PAYMENTS FOR OTHER MEDICAL SERVICES



The other-medical average payments were lower than expected in 2021/22. This was mainly driven by the lower-than-expected superimposed inflation. In the past two years superimposed inflation has been negative compared to the 2% assumption. This has resulted in a OCL release of \$52 million.

C.10 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 claim frequencies in this section include estimates of the number of claims for accidents that have happened in the year in question, but that haven't been reported. Entitlement claims receive compensation and/or rehabilitation support in addition to medical treatment.

COVID-19 restrictions had a noticeable impact on the claim frequency. While the country was in lockdown, the potential for people to be injured reduced significantly. The March 2020 lockdown affected new claim frequencies in the 2019/20 financial year, and all Accounts saw a drop in claim frequencies. After the first lockdown ended in June 2020, claim frequencies quickly returned to normal and continued pre-COVID-19 trends. The August 2021 lockdown and the following traffic light system had impacts on the 2021/22 claim frequencies that were similar to those seen in the first lockdown. We've ignored these periods for projecting future claim frequencies.

Future claim frequencies have been projected in line with ACC's budget and the Treasury's expectations of the economic outlook. This year's economic outlook is expected to be better than last year's projections, with lower future unemployment rates and faster recoveries from COVID-19 restrictions. The unemployment rate decreased to 3.3% in the September 2021 quarter and has remained stable since then.

Some claims are handled through bulk-funded public health acute services. Most of these claims are not counted in our frequency calculations, as they require no further support from ACC. Those who do go on to receive further support are counted when the further support is provided.

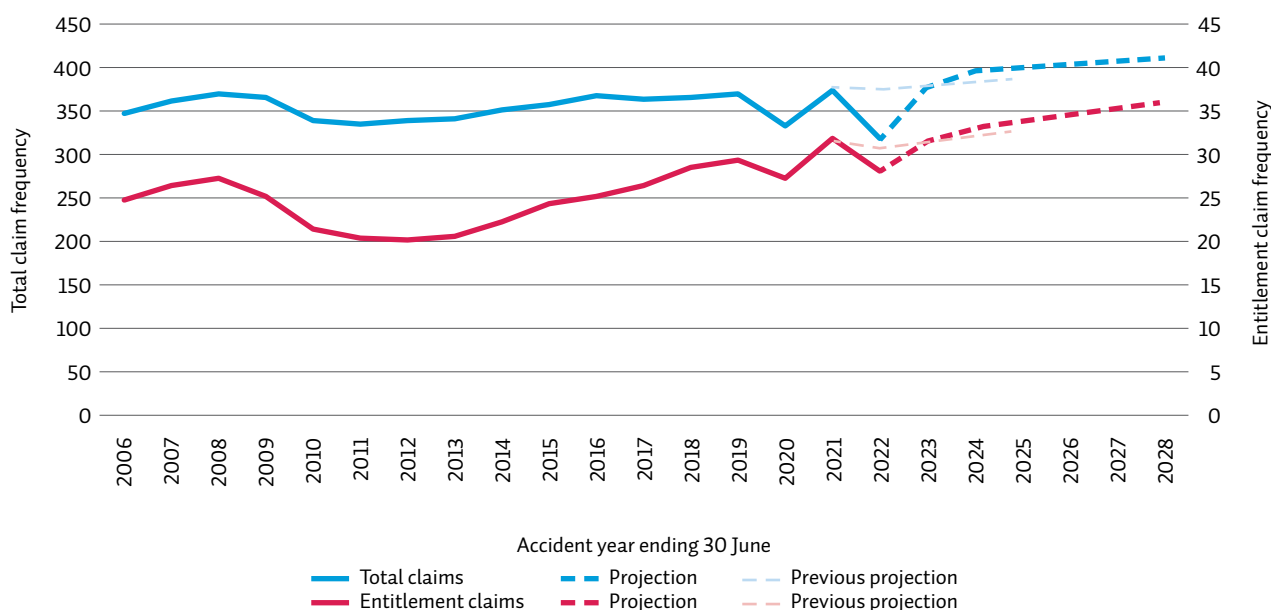
We also exclude work-related claims from employers in the Accredited Employers Programme, as they are not covered by the levies set for the Work Account, but rather are paid for directly by the employers.

Work-related gradual process claims are excluded, where applicable, from the following graphs as exposure to a gradual process injury occurs over a number of years.

Total Scheme claim frequencies are gradually rising

Graph 31 shows the total historical and projected claim frequencies for ACC's five Accounts.

GRAPH 31: TOTAL SCHEME: ESTIMATED CLAIM FREQUENCIES PER 1,000 PEOPLE



The COVID-19 restrictions in 2021/22 led to reductions in both total claims and entitlement claims, a pattern similar to that in 2019/20. We saw a quick recovery of claims in 2020/21 following the removal of restrictions, and we expect claim frequencies to return to the levels prior to the lockdowns.

Total claim frequency is expected to increase in line with the historical trend. The increases will mainly be seen in the Earners' and Non-Earners' Accounts, discussed later in this section.

We've seen a cyclical movement in the claim frequencies over time. There was a peak in 2007/08 followed by lower claim frequencies with the Global Financial Crisis. Claim numbers started picking up again from 2012/13 and continued to increase at a gradual rate to 2018/19.

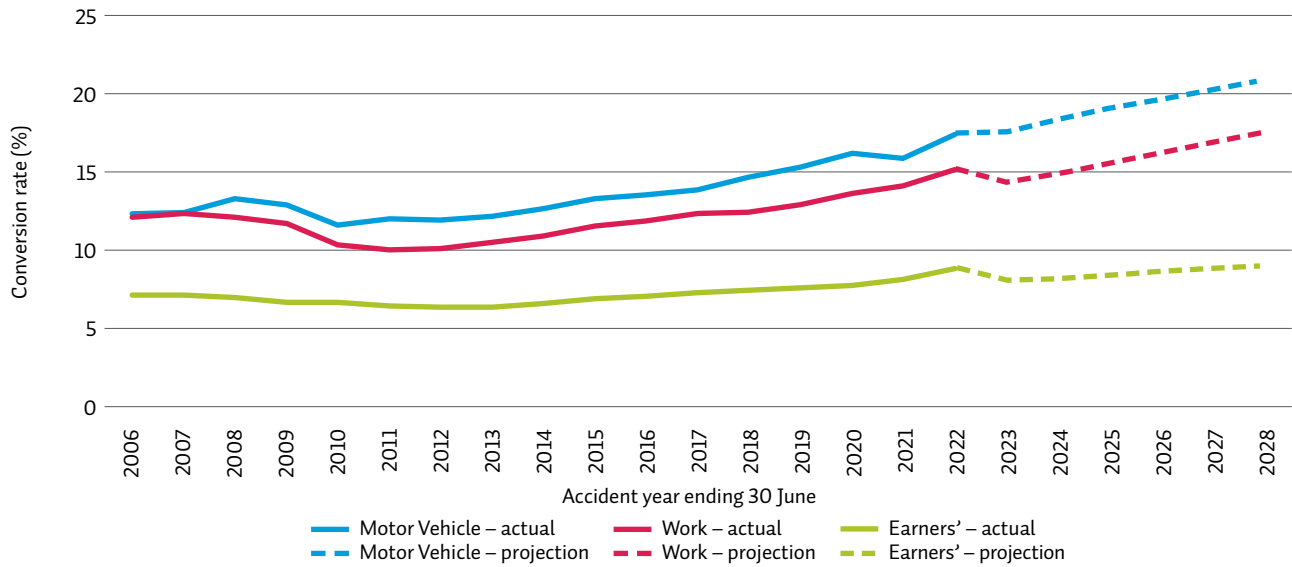
We are projecting entitlement claim frequency to increase faster than total claim frequency

It's generally expected that entitlement claim and total claim frequencies would trend at similar rates, as they did for 2009/10 and prior accident years. However, entitlement claim frequency increased at an average 6% per annum between 2012/13 and 2018/19, compared to 1% per annum for total claims.

Approximately 80% of the entitlement claims in the levied Accounts receive weekly compensation, so the increase in entitlement claims relative to total claims is strongly correlated to an increase in the proportion of claims receiving weekly compensation. This is known as the weekly compensation conversion rate.

Graph 32 shows the past and projected weekly compensation conversion rates for the levied Accounts. These Accounts hold the bulk of weekly compensation claims.

GRAPH 32: WEEKLY COMPENSATION CONVERSION RATE



The Motor Vehicle and Work Accounts generally have more severe accidents, so the weekly compensation conversion rates are generally higher for these two Accounts. All three of the levied Accounts have seen consistent increases in the weekly compensation conversion rates in the past 10 years.

The increase in weekly compensation conversion rates is consistent by injury complexity, industry type and activity type. There is no evidence of a shift to more high-complexity injuries that require entitlement payments.

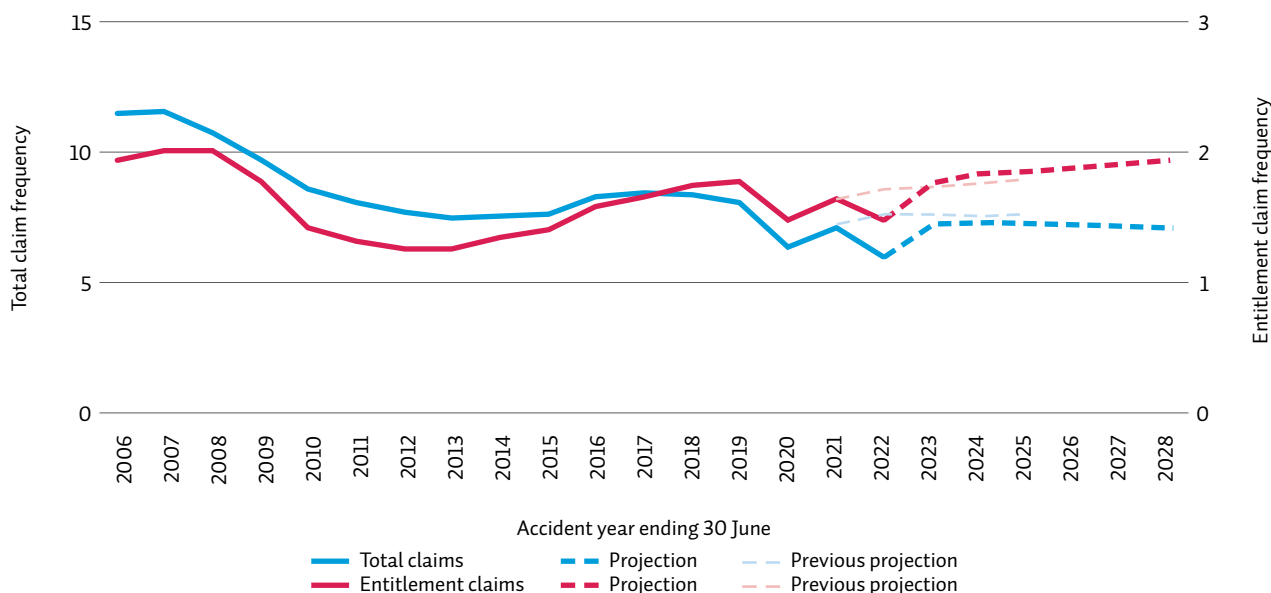
There is some evidence of an increase in the proportion of people working in active industries such as construction and other trades. People working in active jobs are generally more likely to receive weekly compensation than those in sedentary jobs. However, the shift to these higher-risk industries does not explain much of the observed increase.

This leaves the majority of the growth unexplained. It may be that the overall awareness of weekly compensation is improving or that employees are more confident in taking leave when they have more job security. However, it's difficult to find evidence for or against this.

Motor Vehicle Account total claim frequency is expected to reduce slowly, but the entitlement claim frequency is expected to increase

Graph 33 shows the annual historical and projected claim frequencies for the Motor Vehicle Account.

GRAPH 33: MOTOR VEHICLE ACCOUNT: ESTIMATED CLAIM FREQUENCIES PER 1,000 MOTOR VEHICLES



The Motor Vehicle Account total claim frequency, measured per 1,000 registered motor vehicles, has been decreasing over time. The sudden reductions in the 2019/20 and 2021/22 total claim frequency were due to COVID-19 restrictions. We expect total claim frequency to return to the 2020/21 level and decline slowly in line with trends pre-COVID-19.

Total claim frequency has been decreasing for all age groups, with the biggest reductions seen in young drivers. Better roading infrastructure, improvements in car safety and an awareness of safe driving could be contributing to this. ACC has an effective injury prevention programme for young drivers (see page 28).

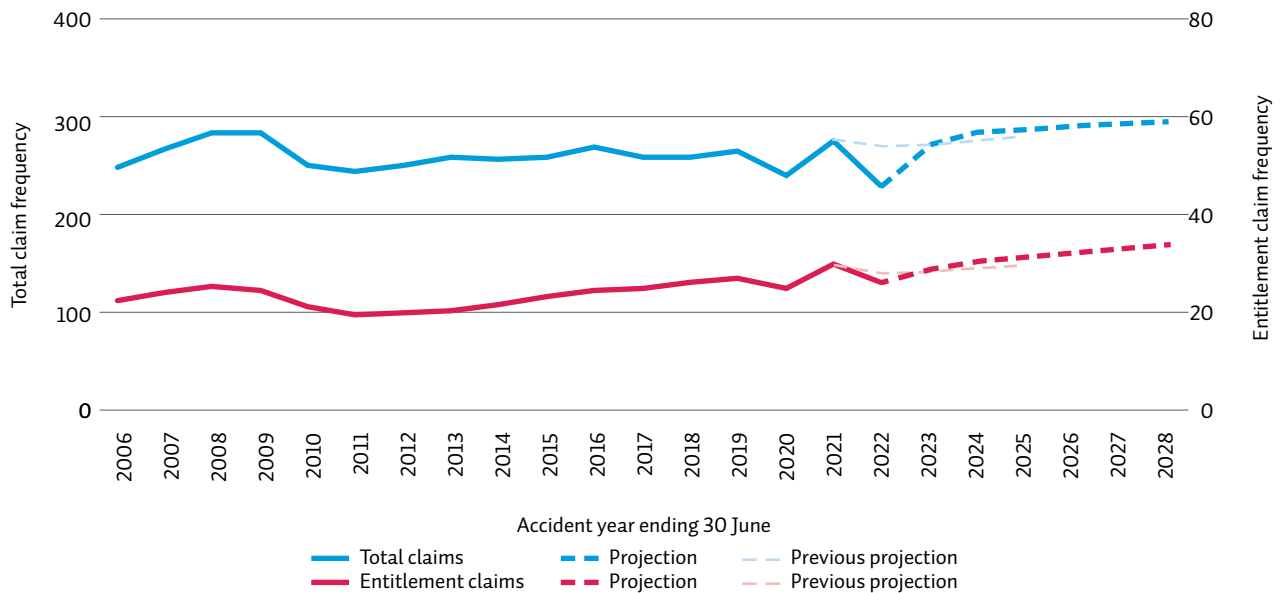
In addition, the number of cars per person in New Zealand has been gradually increasing, by around 14% since 2006. In the same period the distance travelled per person has decreased by 5%, which has decreased the claim rates per car. Kilometres travelled per motor vehicle started declining in 2019 and have stayed low since the COVID-19 restrictions were imposed. As people drive less and less often, the number of claims will decrease and this will also affect the frequency.

Entitlement claim frequency is expected to increase in line with historical trend, albeit at a slower rate due to the reasons for the total claim frequency declining. This can also be seen in the growth in the weekly compensation conversion rate (see Graph 32).

Earners' Account claim frequencies are expected to increase

Graph 34 shows the annual claim frequencies, including projections, for the Earners' Account.

GRAPH 34: EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCIES PER 1,000 EARNERS



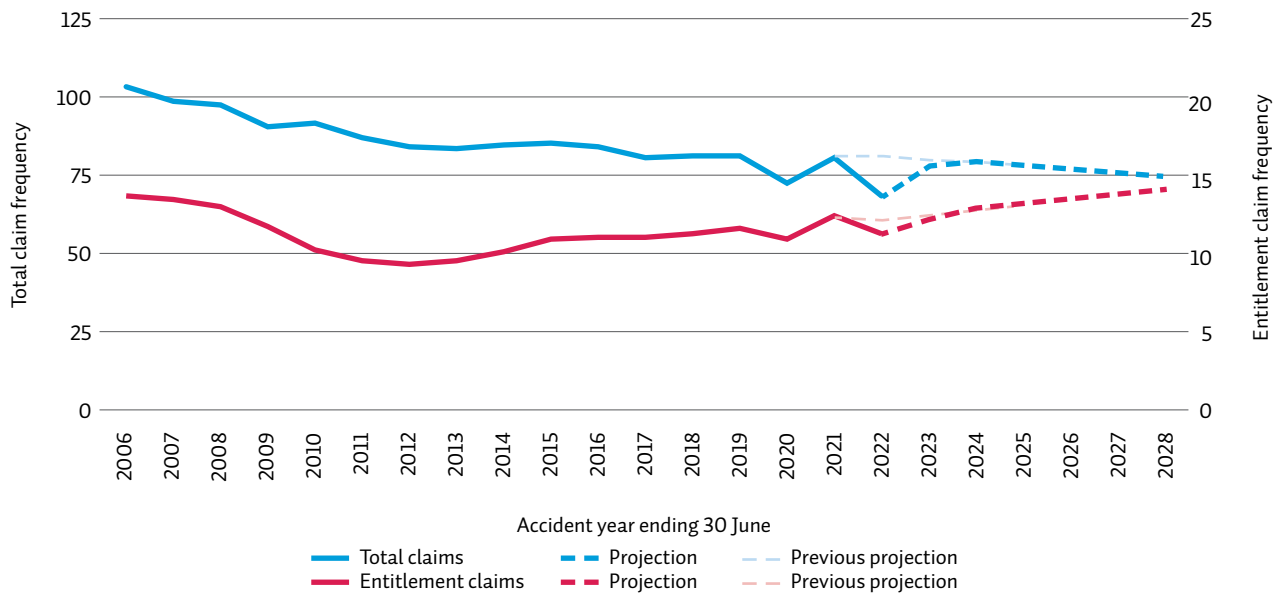
The total claim frequency projections for the Earners' Account haven't changed much during 2021/22. Historically, under-45 male earners have had highest total claim frequency, but this has been decreasing over time. Claim frequencies have been gradually increasing for over-45 earners, particularly females.

The frequency of entitlement claims is projected to continue growing at the rate observed in the past 10 years. This can also be seen in the growth in the weekly compensation conversion rate (see Graph 32).

Total claim frequency for the Work Account is expected to reduce, but entitlement claim frequency is expected to increase

Graph 35 shows the annual claim frequencies, including projections, for the Work Account.

GRAPH 35: WORK ACCOUNT: ESTIMATED CLAIM FREQUENCIES³ PER 1,000 EMPLOYED PEOPLE



Total claim frequency for the Work Account has been reducing and we expect this trend to continue.

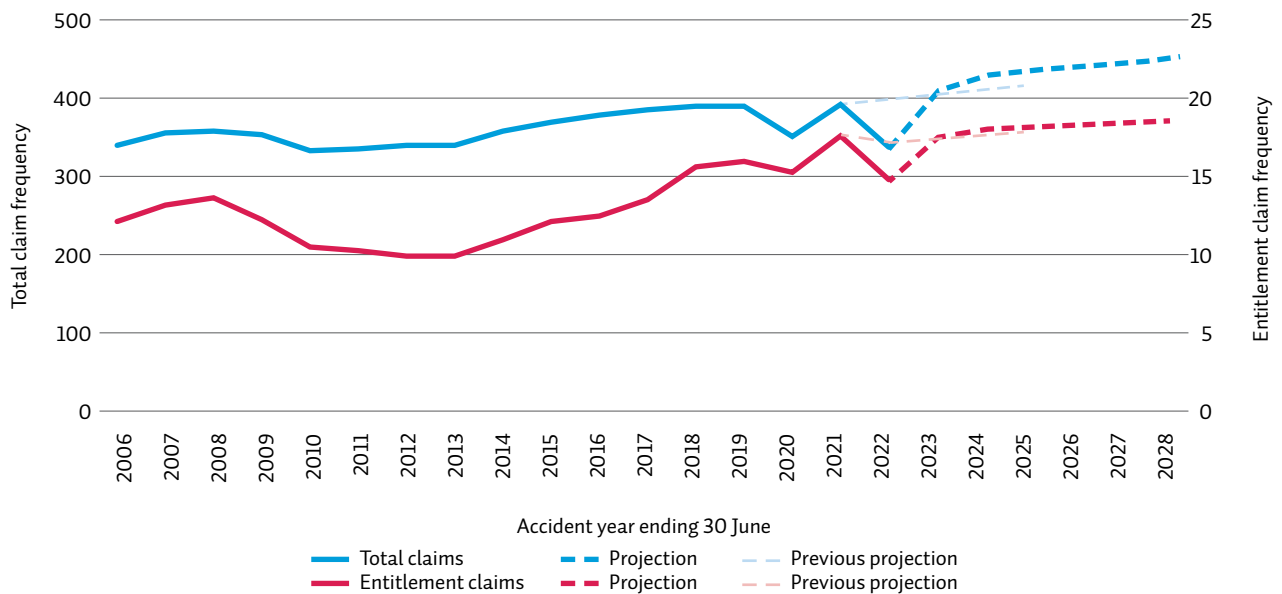
Entitlement claim frequency has been gradually increasing since 2011/12, in line with the increasing weekly compensation conversion rate. Going forward we expect entitlement claims to continue to increase in line with the current weekly compensation conversion trend.

³ Excludes work-related gradual process claims.

Non-Earners' Account claim frequencies are expected to increase

Graph 36 shows the annual historical and projected claim frequencies for the Non-Earners' Account. It excludes bulk-funded public health acute services which are a large portion of the new year claim costs in this Account.

GRAPH 36: NON-EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCIES PER 1,000 NON-EARNERS



Falls are the most common cause of injuries for all non-earners. They are likely to happen at home for the over-65s and during sport or recreational activities for children and working-age non-earners.

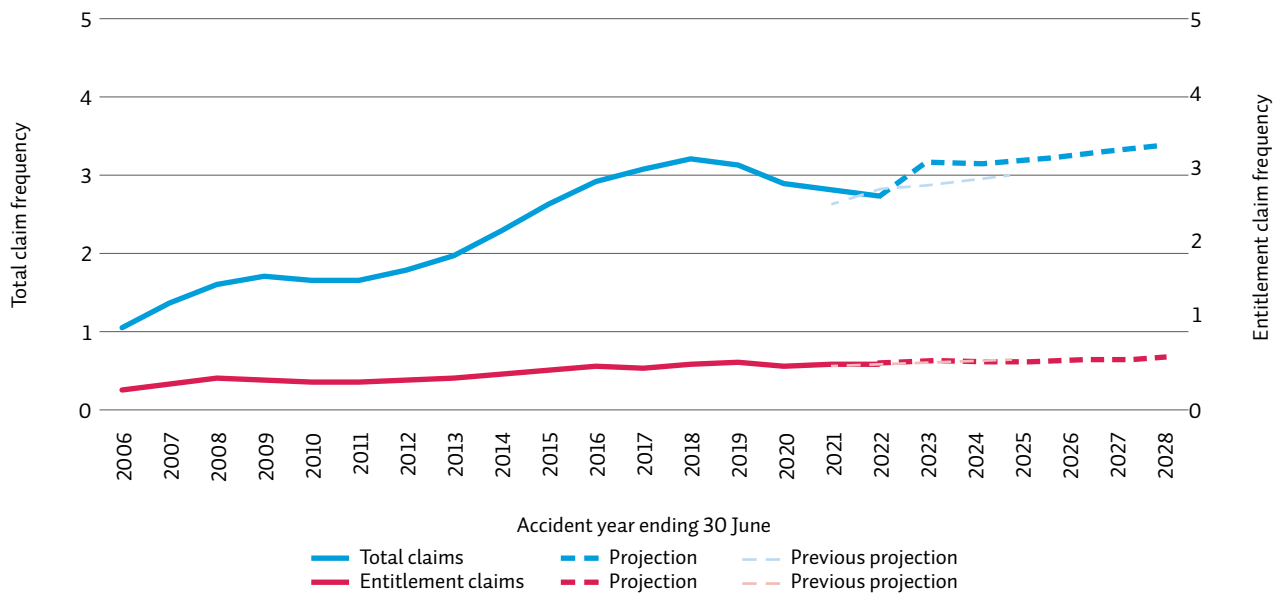
Children, who make up around 40% of the non-earner population, have the lowest average claim frequency and that has been stable over time. Working-age non-earners, the second largest group, have the highest average claim frequency and it is growing at the greatest rate. Over-65s make up less than 30% of the non-earner population and are the smallest but fastest-growing group. They are projected to overtake the working-age non-earner population in 2026. The average claim frequency for this group is steadily increasing.

We're projecting that the entitlement claim frequency will grow in line with the total claims. The historical growth in entitlement claims relative to total claims has been due to the increase in the number of sensitive claims.

Treatment Injury Account claim frequencies are expected to increase slowly over time

Graph 37 shows the annual historical and projected claim frequencies for the Treatment Injury Account.

GRAPH 37: TREATMENT INJURY ACCOUNT: ESTIMATED CLAIM FREQUENCIES PER 1,000 PEOPLE



Elective surgical activity is a major source of treatment injury claims, and there have been reductions/delays in that activity due to COVID-19 restrictions since 2019/20. As a result there have been fewer claims for treatment injuries. 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. We expect the total claim frequency to return to pre-COVID-19 levels, and gradually increase over time.

Through the COVID-19 lockdowns we saw a reduction in total claims, but not in entitlement claims. It may be that entitlement claims often relate to serious injuries, so medical treatment and support can't be delayed easily. Entitlement claims have almost tripled since 2006, in line with total claims.

Appendix D – Valuation of the outstanding claims liability

D.1 The OCL decreased by 11% between June 2021 and June 2022

ACC's outstanding claims liability (OCL) at 30 June 2022 was \$51,336 million including the risk margin, a decrease of \$5,401 million from 30 June 2021. The initial forecast was an increase of \$1,596 million.

We expect an increase in the OCL every year. We expect the rate of new claims to exceed claims leaving the Scheme. The OCL will also grow with inflation and as the population grows.

The decrease was due to the substantial increase in interest rates during the year.

The liability includes work-related gradual process claims incurred but not reported. The liability for these claims isn't included in the OCL reported in the Annual Report due to accounting requirements, but it's included here as it's included in the funding policy as a cost to the Scheme, funded by the Work Account levy.

D.2 The OCL is an important indicator of the Scheme's performance

The OCL is important as it feeds into recommendations for levy rates and appropriations. It also points to areas where changes in claim volumes or costs may be risks to the Scheme's sustainability and to outcomes for clients.

D.3 External valuation actuaries calculated the OCL

Alan Greenfield FNZSA FIAA and Ross Simmonds FNZSA FIA, from external actuary Taylor Fry, valued ACC's OCL. They gave us their report⁴, Accident Compensation Corporation – Valuation of Outstanding Claims Liabilities as at 30 June 2022, in August 2022.

They calculated the OCL by forecasting future cash flows for each payment type for accidents that happened before 30 June 2022. They then discounted cash flows back to 30 June 2022 using a 'risk-free' interest rate. They also included allowances for claims handling expenses and risk margins.

⁴ OCL numbers quoted in this appendix align with the valuation and Annual Reports, plus the gradual process claims incurred but not reported. For a reconciliation of the FCR OCL strain to the Annual Report OCL strain see Table 10.

D.4 The OCL calculation complies with all professional reporting standards

The reporting standards are:

- the New Zealand equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts for Public Benefit Entities (NZ IFRS 4 [PBE]), issued by the New Zealand Accounting Standards Board of the External Reporting Board
- Professional Standard No. 30 – Valuations of General Insurance Claims, issued by the New Zealand Society of Actuaries.

D.5 Despite strains from claim performance, the OCL reduced due to changes in economic conditions

Table 25 shows the breakdown of the OCL, including the risk margin, and how it changed between 30 June 2021 and 30 June 2022.

TABLE 25: CHANGES IN OCL FROM 30 JUNE 2021 TO 30 JUNE 2022

\$M	Liability at 30 June 2021	Expected increase	Changes due to economic assumptions	Changes due to influenceable drivers	Changes due to non-influenceable drivers	Liability at 30 June 2022
Medical costs	2,614	104	(318)	(70)	49	2,380
Elective surgery	4,249	183	(641)	(49)	36	3,778
Social rehabilitation	25,690	637	(4,782)	292	828	22,665
Compensation-related	13,505	434	(1,573)	287	83	12,737
Sensitive claims	4,826	243	(755)	258	5	4,577
Other	3,043	(29)	(278)	(36)	(11)	2,690
Claims handling expenses	2,809	23	(344)	18	3	2,509
Total liability	56,737	1,596	(8,691)	701	993	51,336

When claim volumes or costs move above or below what's expected, and we can link that movement to areas over which management has 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.

D.6 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 payments per claim, superimposed inflation and claims handling expenses. They're set separately for each Account.

D.7 Excluding changes due to economic assumptions and non-influenceable factors, the OCL increased

Claim volumes and costs during 2021/22 were higher than expected. This resulted in an influenceable increase in the OCL of \$701 million. The main changes in the OCL are discussed throughout this report.

D.8 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're also split by Account using an activity-based apportionment model.

The liability excludes significant one-off costs for Integrated Change Investment Portfolio projects included in the 2022/23 budget. The costs of the projects are assumed to be offset by future benefits.

D.9 Changes to economic conditions resulted in a significant decrease in the OCL

Changes due to economic assumptions decreased the OCL by \$8,691 million, including the risk margin (\$7,700 million excluding 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 F**. The \$8,691 million change this year reflected:

- an increase in interest rates, resulting in a reduction of \$9,940 million
- an increase in inflation rates, resulting in an increase of \$836 million
- higher-than-expected inflation during 2021/22, resulting in an increase of \$413 million.

D.10 Cash flows are projected for each payment type

Table 26 shows the main payment types and how each is valued for the OCL.

TABLE 26: PAYMENT TYPES

Payment type	Description	Valuation methodology
Non-fatal weekly compensation	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 provided to clients with serious injuries	Individual projection
Social rehabilitation – non-serious injury	Non-vocational rehabilitation services provided to clients whose injuries aren't serious	Full payment per active claim
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

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 average cost and the average number of active claims are multiplied 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 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.

D.11 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 aren’t 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 methods and assumptions used are appropriate.

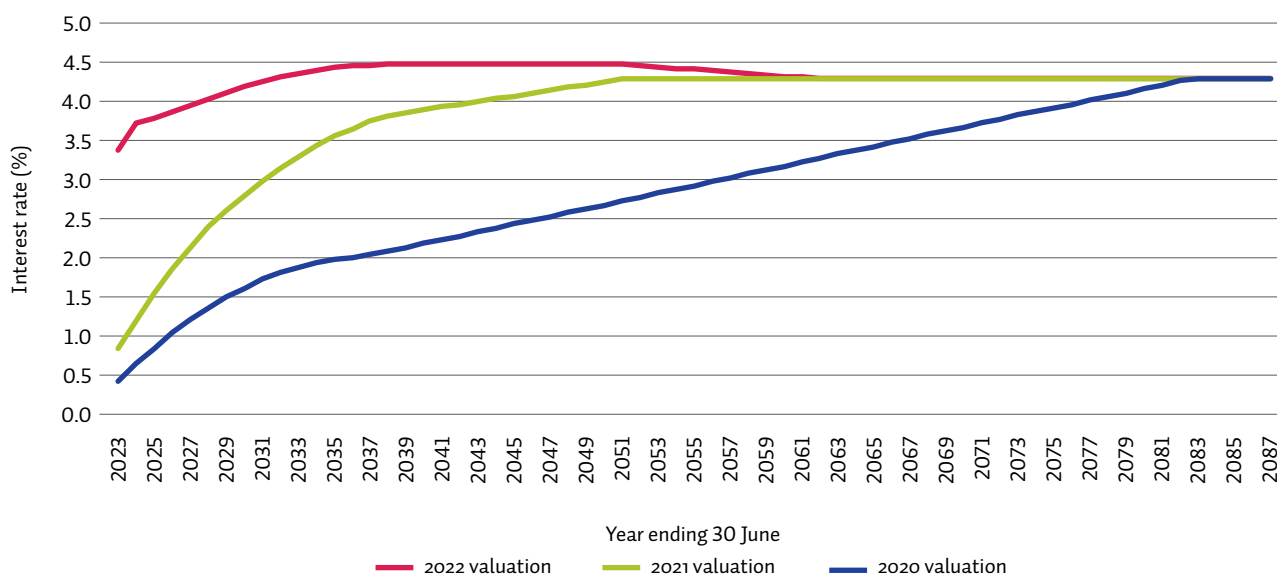
Assumptions for economic factors are prescribed by the Treasury

NZ IFRS 4 (PBE) 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 can’t 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.

Graph 38 shows the risk-free interest rates used in the calculation of the 30 June 2022 OCL and the rates used in the two previous years.

GRAPH 38: RISK-FREE INTEREST RATES: APPLICATION OF THE YIELD CURVE TO LIABILITIES

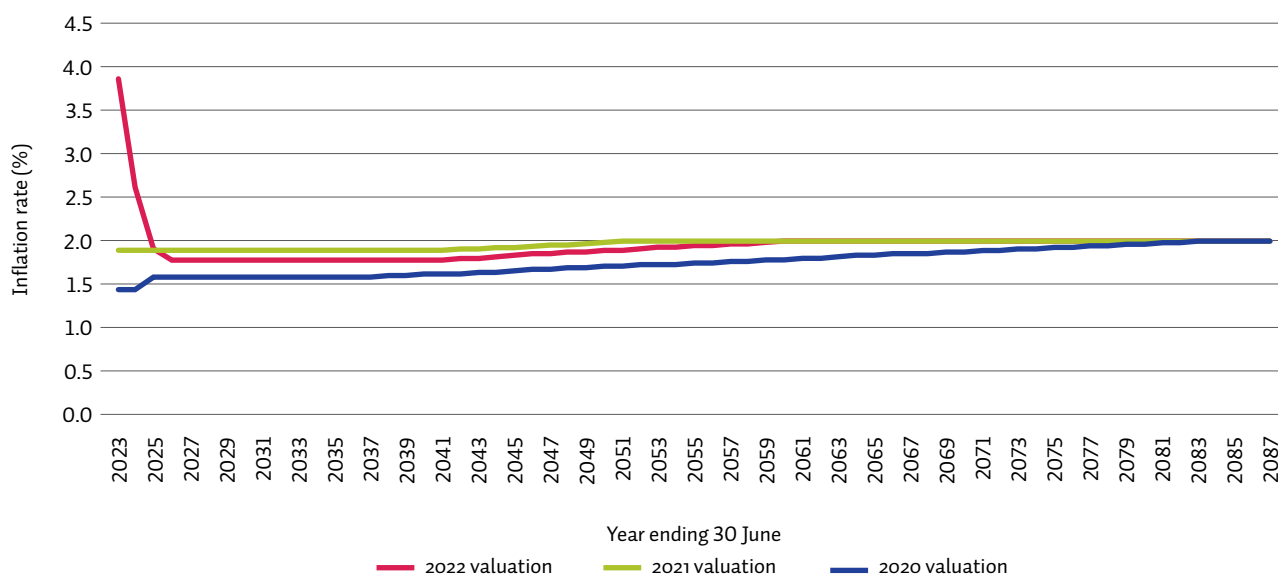


In 2021/22, interest rates increased significantly, in line with market yields available on New Zealand Government bonds.

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 CPI assumptions. These assumptions are based on historical differences between the relevant indices. Graph 39 shows the CPI assumptions used in the calculation of the 30 June 2022 OCL and the rates used in the two previous years.

GRAPH 39: INFLATION RATE ASSUMPTIONS



The forecast short-term inflation rates have been increased significantly from the previous year because the observed inflation during the past year increased and expectations are for higher inflation to continue for the next two years. The reduction in medium-term inflation rates is due to a change in the Treasury’s methodology, which has removed an assumed inflation liquidity premium. This has reduced the forecast inflation by 0.3% per annum.

The inflation indices are applied to payment types according to economic drivers of cost. Table 27 shows the inflation type used for each payment type.

TABLE 27: APPLICATION OF INFLATION ASSUMPTIONS

Inflation type	Payment type used
Average weekly earnings 1% above CPI	The starting level of non-fatal weekly compensation for new claims, as the payment is based on income at the date pre-incapacity.
Labour cost index 0.2% above CPI	Non-fatal weekly compensation 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.

D.12 The risk margins applied follow industry standards

Applying the best-estimate assumptions gives a central estimate of the OCL. This means it's equally likely to be overstated or understated. NZ IFRS 4 (PBE) 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. NZ IFRS 4 (PBE) doesn't 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.

Graph 40 shows the distribution of potential OCL estimates without the risk margin. It shows the 'best estimate' of the OCL was \$45.557 billion at 30 June 2022. It also shows the variance in the OCL, with 95% of potential estimates between \$32 billion and \$64 billion.

GRAPH 40: ESTIMATED DISTRIBUTION OF OCL AT 30 JUNE 2022

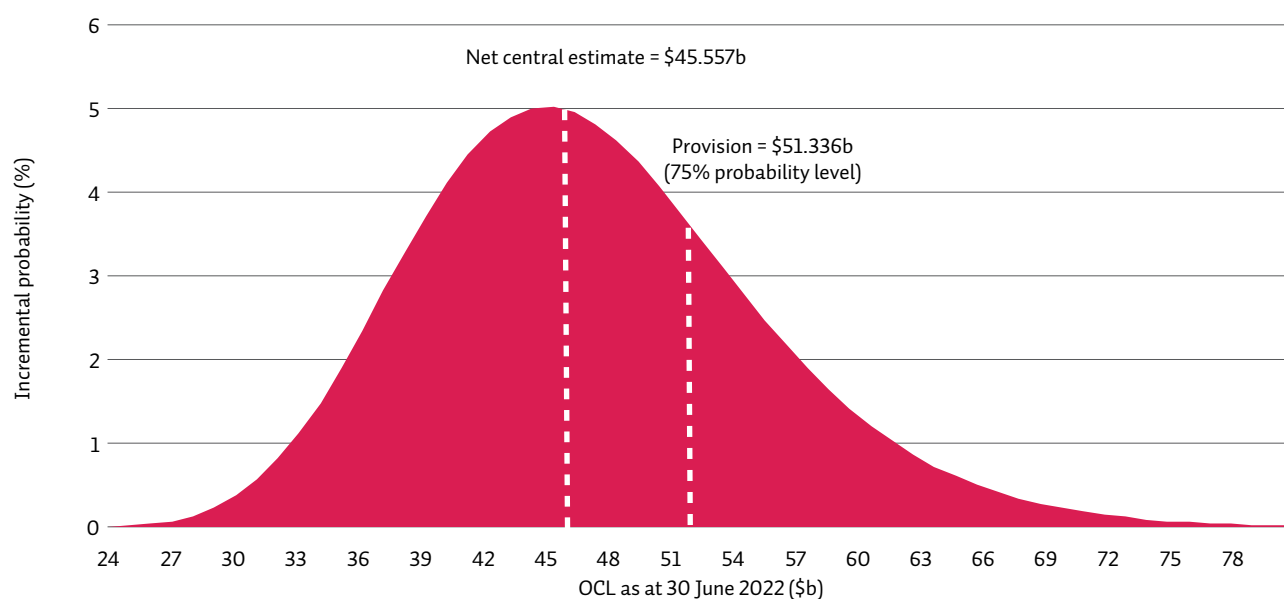


Table 28 shows the risk margins added to the central estimate to meet the 75% level.

TABLE 28: RISK MARGINS

Account	2021/22
Earners'	11.8%
Motor Vehicle	13.2%
Non-Earners'	13.4%
Treatment Injury	14.2%
Work	11.0%
Total risk margin	12.7%

Appendix E – Financial results

E.1 ACC recorded a \$535 million deficit in 2021/22

This year's deficit was lower than budgeted

The statement of comprehensive income for the year ended 30 June 2022 is shown in Table 29, and compares results with the previous two years.

The results for 2020/21 and 2021/22 are separated into performance related to cash flow (as in the Annual Report 2022) and the outstanding claims liability (OCL) movement during the year. The latter allows us to examine overall financial performance taking into account incurred costs. This is consistent with the full funding requirements for most of the Scheme.

TABLE 29: STATEMENT OF COMPREHENSIVE INCOME FOR THE PAST THREE YEARS

§M	2019/20	2020/21	2021/22	Budget	Difference
Income					
Total levies and appropriations	4,412	5,045	5,388	5,130	258
Expenditure					
Claims incurred					
Medical costs	1,498	1,670	1,661	1,844	(183)
Elective surgery	374	441	410	464	(54)
Sensitive claims	176	212	238	241	(3)
Social rehabilitation	830	938	1,028	1,039	(11)
Compensation related	1,540	1,731	1,807	1,870	(62)
Other	201	203	201	226	(25)
Claims handling expenses	525	509	536	519	18
Total cash claim costs	5,145	5,704	5,881	6,202	(322)
Total change in OCL	1,464	2,197	2,735	1,583	1,152
Total claims incurred	6,608	7,901	8,615	7,785	830
Expenses					
Net operating costs	115	93	111	116	(5)
Injury prevention costs	103	79	78	110	(32)
Total expenses	217	172	189	226	(37)
Total expenditure	6,825	8,073	8,804	8,012	793
Surplus/(deficit) from underwriting activities	(2,413)	(3,028)	(3,416)	(2,881)	(535)
Economic					
Change in risk-free discount and inflation rate assumptions	(5,184)	7,944	7,641	n/a	7,641
Investment management costs	(58)	(74)	(77)	(72)	(6)
Unwind of risk-free interest rate	(570)	(115)	(178)	(178)	0
Investment income	3,416	4,834	(4,504)	1,613	(6,117)
Total economic	(2,396)	12,588	2,881	1,363	1,518
Net surplus/(deficit)	(4,809)	9,561	(535)	(1,518)	983

This year's financial result varied heavily by Account

Table 30 sets out the statement of comprehensive income for the year ending 30 June 2022, split by Account.

TABLE 30: STATEMENT OF COMPREHENSIVE INCOME BY ACCOUNT

\$M	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2021/22 Total
Income						
Total levies and appropriations	461	1,660	2,021	917	330	5,388
Expenditure						
Claims incurred						
Medical costs	125	830	512	169	25	1,661
Elective surgery	24	91	206	60	29	410
Sensitive claims	0	129	103	6	0	238
Social rehabilitation	261	368	163	101	135	1,028
Compensation-related	212	16	956	544	79	1,807
Other	45	20	63	47	25	201
Claims handling expenses	53	112	223	105	44	536
Total cash claim costs	720	1,566	2,226	1,032	337	5,881
Total change in OCL	259	822	889	(126)	890	2,735
Total claims incurred	979	2,389	3,115	906	1,227	8,615
Expenses						
Net operating costs	5	3	41	61	1	111
Injury prevention costs	8	24	16	24	6	78
Total expenses	13	27	57	85	7	189
Total expenditure	992	2,416	3,172	991	1,234	8,804
Surplus/(deficit) from underwriting activities	(531)	(756)	(1,151)	(74)	(904)	(3,416)
Economic						
Change in risk-free interest and inflation rate assumptions	2,023	1,843	1,445	1,001	1,327	7,641
Investment management costs	(24)	(9)	(19)	(16)	(9)	(77)
Unwind of risk-free interest rate	(47)	(39)	(40)	(27)	(26)	(178)
Investment income	(1,433)	(549)	(1,099)	(874)	(549)	(4,504)
Total economic	519	1,247	288	84	743	2,881
Net surplus/(deficit)	(12)	491	(864)	10	(160)	(535)

Deteriorating claim performance is a key driver of this year's \$3.4 million underwriting deficit

The underwriting result is the surplus or deficit generated by ACC's insurance activities during the financial year. It's the difference between levies and appropriations collected for providing personal injury cover, and the cost of claims incurred and expenses paid out. It excludes pure economic impacts.

The underwriting result has deteriorated during the past four years, with deficits of \$2.41 billion in 2019/20, \$3.03 billion in 2020/21 and \$3.42 billion in 2021/22.

All Accounts had underwriting deficits

The main drivers of this year's underwriting deficits are shown in Table 31. It compares the actual deficits to what was expected when the levies and appropriations were determined.

TABLE 31: ANALYSIS OF UNDERWRITING DEFICIT BY ACCOUNT

	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2021/22 Total
Levies/appropriations different from expected new year claim costs	(100)	6	(110)	(127)	(110)	(441)
Expected reduction in OCL for Pay As You Go (PAYG) claims	n/a	130	n/a	n/a	32	163
Different assumptions for pricing vs valuation	(134)	(379)	(241)	(131)	(197)	(1,081)
Total expected deficit at time of pricing	(234)	(242)	(351)	(259)	(274)	(1,359)
Updated claim assumptions	(75)	(25)	(421)	(114)	1	(635)
Updated levies forecast	(126)	1	46	(2)	(7)	(88)
Updated economic assumptions	(114)	117	(149)	(70)	58	(157)
Projected underwriting result for 30 June 2022 (as at 30 June 2021)	(548)	(150)	(875)	(444)	(222)	(2,239)
Actual vs expected levy/appropriation income	1	19	125	106	4	255
Actual vs expected cash paid	39	(30)	(6)	69	(5)	67
Actual vs expected change in OCL	(22)	(596)	(396)	195	(680)	(1,499)
Closing underwriting result for 30 June 2022	(531)	(756)	(1,151)	(74)	(904)	(3,416)

The expected deficit as at the time of pricing accounts for 40% of the total underwriting result

At the time of pricing (2018 for the Levied Accounts and 2020 for the non-levied Accounts) an underwriting deficit in 2021/22 of \$1,359 million was expected for all Accounts.

Three components contribute to this result.

1. A \$441 million deficit due to approved levies and appropriations being different from the expected cost of 2021/22 claims. The bulk of this relates to the levied Accounts. These Accounts were above their funding targets at the time of pricing. Levies were therefore set to reduce the funding ratios and move them closer to target, resulting in the expected deficit.

2. A \$163 million surplus relating to non-earner claims incurred prior to 2001 and funded on a Pay As You Go (PAYG) basis. Every year a small surplus is expected from PAYG claims. That's because the appropriation received in any given year for PAYG claims is equivalent to the amount we expect ACC to pay out in that year for those claims. However, as the OCL is also expected to reduce, this leads to a surplus. At the time of pricing we expected the reduction in the OCL for PAYG claims in the 2021/22 financial year to be \$163 million.
3. A \$1,081 million deficit due to differences in the assumptions used to calculate levies and appropriations and those used for determining the OCL. For example, levy calculations for new year claims assume investment returns above risk-free rates. The OCL uses risk-free rates, so it's expected that new year claims will increase the OCL by more than is projected under the levy and appropriation assumptions. Additionally, levy rates were determined by factoring in the expected benefits of the injury prevention portfolio and the Integrated Change Investment Portfolio (ICIP). These expected benefits are not explicitly accounted for in the OCL valuation. Instead, the OCL will reduce if and when the benefits are realised.

The projected underwriting deficit for 2021/22 was higher at 30 June 2021 than it was when levies were set

The total projected underwriting deficit as at 30 June 2021 (the start of the current financial year) was \$2,239 million.

Assumption changes between 2018 when levies were set and the start of 2021/22 led to the projected underwriting deficit for 2021/22 increasing. New year claim costs for 2021/22 increased because claim assumptions were changed in the 2019, 2020 and 2021 OCL valuations. In addition, risk-free interest rates fell between June 2018 and June 2021. The Earners' Account experienced the largest movement, with the expected deficit rising from \$351 million to \$875 million (an increase of \$524 million). The Motor Vehicle and Work Accounts also experienced large increases of \$315 million and \$186 million respectively.

As the non-levied Accounts were priced more recently, in 2020, they were less affected by assumption changes. In the Non-Earners' Account and Non-Earners' portion of the Treatment Injury Account, favourable economic assumption changes during the year more than offset any increases due to deteriorating claim performance. These Accounts have lower funding ratios relative to other Accounts, so the losses from investments in proportion to the OCL were lower.

Worse-than-expected claim performance in the current year increased the underwriting deficit further

The total actual underwriting deficit as at 30 June 2022 was \$3,416 million, \$1,177 million larger than projected. Underwriting deficits for most Accounts were larger than projected. The main exception was the Work Account, where the \$74 million deficit in 2021/22 was \$370 million less than projected as at 30 June 2021. The main reasons for the changes in the 2021/22 year were as follows:

1. The total OCL and IBNR (incurred but not reported) strain from the 2022 valuation was \$1,499 million (excluding the risk margin). Of this, \$615 million is considered influenceable strain. All Accounts except the Work Account experienced OCL strain in 2021/22.
2. Levies collected in 2021/22 were higher than expected and contributed a surplus of \$255 million. Liable earnings were higher than expected in 2021/22 due to a higher-than-expected working population and higher-than-expected wage growth. Consequently, the bulk of this surplus is attributable to the Earners' and Work Accounts.
3. Lower-than-expected cash payments during 2021/22 contributed a \$67 million surplus.
 - a. Restrictions due to COVID-19 led to lower treatment volumes and fewer new weekly compensation claims in 2021/22.
 - b. Expenses were also lower than expected in 2021/22. A complete analysis of the changes in expenses follows.

Total expenses were below budget despite an increase in 2021/22

Total expenses increased by 6%, from \$755 million in 2020/21 to \$803 million in 2021/22. This was \$14 million below budget. Expenses pay for handling claims, preventing injuries, investing funds and the costs of operating. These expenses, with Enterprise Change Portfolio (ECP) expenses split out, are shown in Table 32.

TABLE 32: EXPENSE CATEGORIES WITH ECP AND OTHER COSTS SPLIT OUT

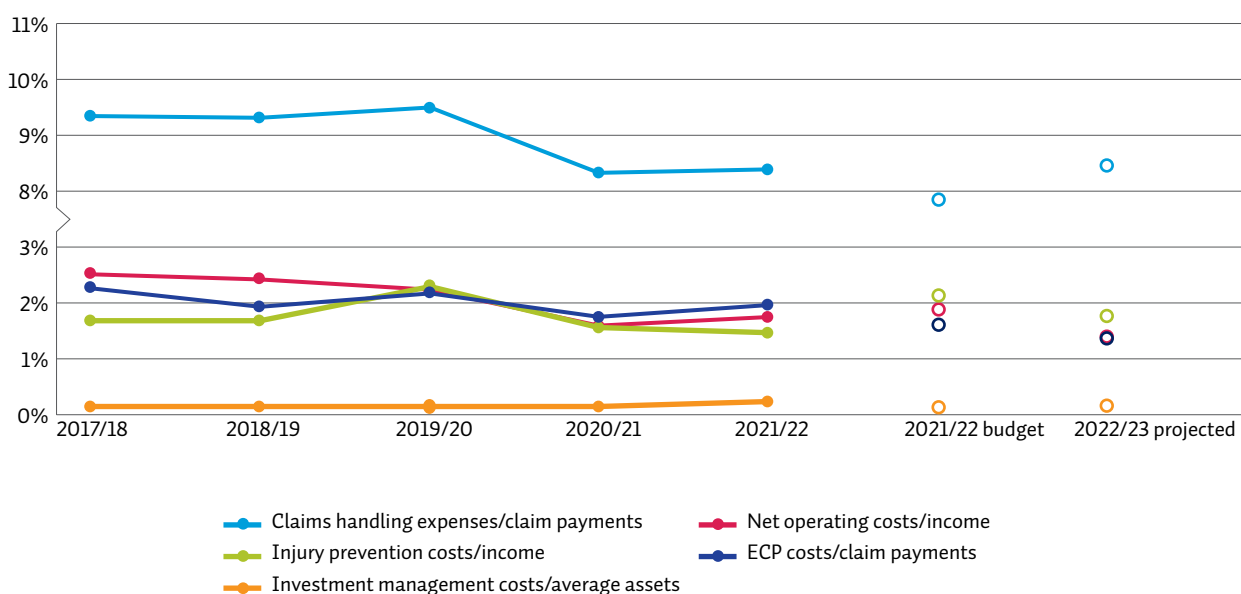
\$M	Actual 2020/21	Actual 2021/22	Budget 2021/22
Injury prevention costs	79	78	110
ECP	91	105	93
Net operating costs	79	94	97
Claims handling expenses	432	448	446
Investment management costs	74	77	72
Total	755	803	817

Overall expenses were adequately managed.

Graph 41 shows expenses, as percentages of the underlying service, for the past five years, alongside the 2021/22 budget and 2022/23 projected budget in five categories:

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

GRAPH 41: EXPENSES AS PERCENTAGES OF UNDERLYING SERVICE



Injury prevention costs were well below budget

Injury prevention costs of \$78 million remained at a similar level to those in 2021/22 compared to 2020/21. As a percentage of levy and appropriation income received, injury prevention expenditure dropped to 1.45% in 2021/22 from 1.56% in 2020/21.

Injury prevention expenses were \$32 million below budget. This was partly due to COVID-19 restrictions affecting programmes and new programmes not being implemented within the timeframes assumed. The injury prevention programmes that contributed most to the underspend were those within the Workplace, Treatment Safety and Strategic portfolios.

The injury prevention budget is \$100 million in 2022/23 or 1.78% as a percentage of income. This is a reduction from the 2021/22 budget of \$110 million.

Spending on Enterprise Change Portfolio projects increased

The ECP includes the ICIP, continuous delivery initiatives and other smaller change projects. The ICIP made up almost half of the ECP in 2021/22. The ECP project costs as a percentage of claim payments increased to 1.97% (\$105 million) from 1.74% (\$91 million). Of the ECP expenses in 2021/22, \$88 million related to claims handling expenses and \$17 million to net operating costs.

ECP expenses in 2021/22 were \$13 million above the budget of \$93 million. This was mainly due to technology initiatives brought forward from 2022/23 to 2021/22. As a result, budgeted ECP costs and claim payments reduced to \$82 million in 2022/23, \$11 million lower than in the 2021/22 budget.

Remaining operating costs increased during the year but remained below budget

Net operating costs (excluding the ECP project spend) as a percentage of income from levies and appropriations increased to 1.75% from 1.57%. Expenditure was \$15 million higher than in 2020/21, largely driven by higher levy-setting costs, but \$2 million below budget.

The net operating cost budget is \$79 million for 2022/23 or 1.40% as a percentage of income.

Claims handling expenses increased

Claims handling expenses in 2021/22 (excluding the ECP project spend) were \$448 million. They were higher than the \$432 million in 2020/21. As a percentage of claim payments they also increased to 8.38% in 2021/22 from 8.32% in 2020/21.

Although claims handling expenses were broadly in line with the budget of \$446 million, claim payments were lower than expected in 2021/22. This resulted in this year's percentage being higher than the budgeted 7.85%.

The claims handling expenses budget is \$507 million for 2022/23 or 8.47% as a percentage of expected claim payments. This is a 13% increase from the 2021/22 budget but in line with the increase in expected claim costs.

Investment management costs were broadly as expected

Investment management costs of \$77 million were above the budget of \$72 million. This was due to performance fees, with investment returns beating the benchmark. However, as a percentage of funds under management they increased from 0.15% to 0.16%, slightly above the budget of 0.15%.

The investment management cost budget is \$70 million for 2022/23 or 0.16% as a percentage of expected funds under management.

Changes in the economic environment had a favourable impact on the net deficit

The total economic contribution was a surplus of \$2,881 million, significantly higher than the budgeted surplus of \$1,363 million. The economic contributions in the previous two years were a deficit of \$2,396 million in 2019/20 and a surplus of \$12,588 million in 2020/21. Two main factors drove the economic contribution for 2021/22:

1. There was an increase in risk-free interest rates during the year. The single effective discount rate, which is a duration-weighted average risk-free discount rate, increased by 1.18% to 4.18%. This was partially offset by increases in inflation rates. The net impact on the OCL was a reduction of \$7,641 million.
2. There was a loss on investments of \$4,504 million. In 2021/22 ACC achieved a negative investment return of 9.21% before costs. This result was driven by losses in most asset types, including bonds and equities.

E.2 We expect a deficit in each of the next four years

Table 33 shows the expected income and expenditure for the Scheme in the next four years. This forecast is calculated on a pricing basis and differs from the accounting basis used in the Annual Report.

The four-year projections are based on the following:

- The 2022/23 to 2024/25 levy rates prescribed by Cabinet in 2021
- The June 2022 indicative levy rates for 2025/26
- Assumptions updated to 30 June 2022
- The 2022/23 approved appropriation for the Non-Earners' Account, agreed in October 2021.
- The appropriations for the Non-Earners' Account for 2023/24 to 2025/26, as recommended in the 2022 October Baseline Update.

TABLE 33: STATEMENT OF COMPREHENSIVE INCOME

\$M	2022/23	2023/24	2024/25	2025/26
Income				
Total levies and appropriations	5,629	6,031	6,380	6,834
Expenditure				
Claims incurred				
Medical costs	1,958	2,135	2,265	2,392
Elective surgery	477	523	564	604
Sensitive claims	262	294	326	358
Social rehabilitation	1,050	1,131	1,197	1,262
Compensation-related	2,014	2,231	2,415	2,584
Other	225	256	241	244
Claims handling expenses	572	562	576	585
Total cash claims	6,556	7,132	7,584	8,027
Total OCL	853	761	735	751
Total claims incurred	7,409	7,893	8,320	8,778
Expenses				
Net operating costs	96	104	107	108
Injury prevention costs	100	105	110	115
Total expenses	196	209	217	223
Total expenditure	7,605	8,102	8,536	9,001
Surplus/(deficit) from underwriting activities	(1,976)	(2,071)	(2,156)	(2,168)
Economic				
Investment management costs	(70)	(72)	(73)	(75)
Unwind of risk-free interest rate	(1,408)	(1,636)	(1,752)	(1,880)
Investment income	2,396	2,551	2,664	2,782
Total economic	918	843	838	827
Net surplus/(deficit)	(1,058)	(1,228)	(1,318)	(1,341)

Next year's expected underwriting deficit is heavily affected by the funding adjustment

Table 34 gives the projected statement of comprehensive income by Account for 2022/23 compared with the total result for 2021/22.

TABLE 34: PROJECTED 2022/23 STATEMENT OF COMPREHENSIVE INCOME

§M	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Projected 2022/23 Total	2021/22 Total
Income							
Total levies and appropriations	470	1,798	2,168	837	357	5,629	5,388
Expenditure							
Claims incurred							
Medical costs	143	983	625	176	30	1,958	1,661
Elective surgery	29	100	234	73	41	477	410
Sensitive claims	0	138	118	5	0	262	238
Social rehabilitation	291	326	184	91	158	1,050	1,028
Compensation-related	240	17	1,057	607	92	2,014	1,807
Other	50	19	45	89	22	225	201
Claims handling expenses	56	121	236	113	46	572	536
Total cash claims	808	1,705	2,499	1,154	389	6,556	5,881
Total OCL	119	119	437	33	145	853	2,735
Total claims incurred	927	1,825	2,937	1,187	534	7,409	8,615
Expenses							
Net operating costs	6	5	28	56	1	96	111
Injury prevention costs	10	34	19	31	6	100	78
Total expenses	17	39	47	86	7	196	189
Total expenditure	944	1,864	2,983	1,273	541	7,605	8,804
Deficit from underwriting activities	(474)	(66)	(815)	(437)	(184)	(1,976)	(3,416)
Economic							
Changes to risk-free discount and inflation assumptions							7,641
Investment management costs	(23)	(8)	(18)	(12)	(9)	(70)	(77)
Unwind of risk-free interest rate	(351)	(305)	(328)	(211)	(213)	(1,408)	(178)
Investment income	690	290	610	519	286	2,396	(4,504)
Total economic	316	(23)	264	296	64	918	2,881
Net surplus/(deficit)	(157)	(89)	(552)	(141)	(120)	(1,058)	(535)

The factors contributing to the projected underwriting deficit in 2022/23 are shown in Table 35 and explained below.

TABLE 35: ANALYSIS OF PROJECTED UNDERWRITING DEFICIT

	\$M
Expected deficit	
Impact due to funding adjustment	(1,042)
Impact due to difference in assumptions between how levies/appropriations and OCL are determined	(1,020)
Levy and appropriation income higher than projected at time of pricing	91
Change in new year claim costs and expenses since time of pricing	(168)
Expected OCL change for PAYG	164
2022/23 projected underwriting deficit	(1,976)

Adjustment to funding explains over half of next year’s projected underwriting deficit

The levy income required to cover the expected lifetime costs of new claims in 2022/23 was reduced by \$1,279 million to move the funding ratios of the levied Accounts to target. There was an offset of \$236 million due to the approved appropriation for the Non-Earners’ Account being above the 2022/23 new year claim costs.

The total contribution to the projected underwriting deficit due to funding adjustments was \$1,042 million.

Different assumptions in determining levies/appropriations and the OCL also make significant contributions to the projected deficit

Differences in the assumptions between those used to calculate levies and appropriations and those for the OCL (such as different discount rates) resulted in a projected deficit of \$1,020 million.

Income in 2022/23 is now projected to be higher than we expected in 2021

Levy income in 2022/23 is now projected to be \$76 million higher than expected in 2021 when the levied Accounts were priced. This increase is largely driven by the Earners’ and Work Accounts. Population and wage increases mean liable earnings in 2022/23 for these Accounts will now be higher than expected. There is a partial offset from the Motor Vehicle Account because recommended levy increases in 2022/23 were not approved.

An additional \$15 million in funding represents additional appropriation funding approved in 2021/22 to cover maternal birth injuries and other items.

The total impact due to higher-than-expected income in 2022/23 is \$91 million.

New year claim costs are also projected to be higher than was expected in 2021/22

Since levies and appropriations were set, claim costs have increased. Worsening claim performance has led to higher valuation assumptions compared to this time last year. This has caused the expected deficit to increase by \$593 million.

The largest contributors to this increase are deteriorating rehabilitation performance for weekly compensation claims and higher medical costs. Projected deficits due to claim performance are evident in all Accounts, but the Earners’ and Non-Earners’ Accounts are the largest contributors. The deterioration in rehabilitation performance for weekly compensation claims is heavily concentrated in the Earners’ Account. The medical payment type generally includes large volumes of short-term claims, so this payment type has been particularly affected by increased claim frequency projections in the Non-Earners’ Account.

Changes to economic assumptions have largely offset the \$593 million deficit, by \$425 million. The net impact of the updated valuation assumptions is a \$168 million deficit.

The OCL is expected to reduce for Non-Earners' PAYG claims

The Non-Earners' Account has a small portion of PAYG costs. These are claims that were incurred pre-2001 for which ACC holds no assets. Funding for these claims is collected annually from the Government based on the expected payments during the year. For accounting purposes ACC is required to hold an OCL for these claims and each year this is expected to reduce. In total, the PAYG claims are expected to produce an accounting surplus and this is recognised in the expected underwriting result. For 2022/23 it's expected to contribute an underwriting surplus of \$164 million.

Changes in the economic environment are expected to have favourable impacts on next year's projected result

The economic surplus in 2022/23 is projected to be \$1,057 million. Investment returns are expected to contribute \$2,396 million in 2022/23. This will be offset by an expected deficit of \$1,338 million from investment management costs and other economic impacts.

The projected economic surplus will partially offset the forecast underwriting deficit. Combined with the underwriting deficit of \$1,983 million, the total projected deficit of the Scheme in 2022/23 will be \$918 million.

E.3 Changing conditions bring uncertainty to the financial results and projections

The 2021/22 financial results and future-year projections are based on best estimate assumptions. However, assumptions can change as factors both beyond and within the influence of ACC change. The past four years provide a particularly good illustration of the volatility of economic conditions, with changes during this period being at the extreme end of what might reasonably be expected. From 2017/18 to 2019/20, risk-free interest rates fell to historical lows, increasing the OCL and placing upward pressure on levy rates and appropriations. There were also implications for future investment returns. Interest rates have since recovered, returning to levels close to those of 2017/18. However, the current high inflation environment has somewhat offset the interest rate movements. Economic condition unpredictability continues to bring uncertainty to the overall Scheme performance.

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

ACC's weighted average funding ratio of 100%, as at 30 June 2022, was calculated by dividing assets by liabilities (see **Appendix A.6**). However, as asset values and liability values can move in response to changing conditions, this ratio is liable to change. Changes to the funding ratio have implications for levies and appropriations as well as ACC's overall financial condition. It's therefore important that we understand the sensitivity of ACC's funding ratio to such changes.

Table 36 shows how a 1% move in interest rates could change the OCL (excluding the risk margin), the investment portfolio and the funding ratio, as at 30 June 2022. It also shows how changes in major claim risks could change the OCL and the resulting change in the funding ratio.

TABLE 36: 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	(5,860)	7,883	(2,023)	2,304	8.8	(9.8)
Asset values			452	(452)	1.0	(1.0)
Inflation rate	7,962	(6,027)	1,259	(1,098)	(11.7)	11.4
Weekly compensation continuance rates	810	(710)	n/a	n/a	(1.6)	1.5
Sensitive claims continuance rates	563	(454)	n/a	n/a	(1.1)	0.9
Care superimposed inflation	2,974	(2,238)	n/a	n/a	(5.7)	4.7
Elective surgery superimposed inflation	655	(497)	n/a	n/a	(1.3)	1.0
Medical superimposed inflation	301	(244)	n/a	n/a	(0.6)	0.5
Elective surgery active claims	1,011	(694)	n/a	n/a	(2.0)	1.4

ACC’s claim payments can’t be closely matched with investment assets, so the funding ratios are highly sensitive to interest rate changes. This is particularly the case when interest rates are low. As interest rates have increased significantly in the past two years, the sensitivity to changes has reduced but still remains significant.

As shown in Table 36, a 1% rise in interest rates would decrease the value of the OCL and the investment assets by different amounts. The impacts at 30 June 2022 would be a \$3,819 million increase in net assets and an 8.8% increase in the weighted average funding ratio, from 101.1% to 109.9%. On the other hand, a 1% fall in interest rates would reduce net assets by \$5,597 million and the weighted average funding ratio would reduce from 101.1% to 91.2%.

Similarly, a 1% rise in inflation rates would increase the value of the OCL and index-linked bond investment assets by different amounts, resulting in a \$6,737 million increase in net assets. The weighted average funding ratio would decrease by 11.8% from 101.1% to 89.3%. On the other hand, a 1% fall in inflation rates would increase net assets by \$4,960 million and the weighted average funding ratio would increase by 11.5% from 101.1% to 112.5%.

After economic assumptions, a 1% increase in superimposed inflation for serious injury care would create the largest OCL increase. If this happened, investment assets wouldn’t change and the weighted average funding ratio would fall by 5.7%.

Changes in the OCL, the assets and therefore the funding ratios have implications for levies and appropriations. We discuss the sensitivities to the same factors for levy rates and appropriations in **Appendix G.2**.

To understand how the uncertainty of these assumptions affects the future funding ratios, we’ve simulated pathways using variations in the above assumptions. The full results of this analysis can be found in **Appendix G.3**.

Appendix F – Management of investments

F.1 There's governance in how ACC invests its assets

ACC actively manages its portfolios with Board Investment Committee oversight

ACC's Investments group manages investments and develops the overall investment strategy. It manages a significant proportion of the investment portfolio including equities, fixed interest securities and direct markets. Most of the investments outside Australasia are managed by 11 external fund management companies. ACC takes an active approach to managing investments to gain better risk-adjusted returns than it would under a passive regime.

The Board Investment Committee (BIC) supports the Board in its investment responsibilities, such as maintaining the security and financial viability of the organisation. Within this remit is oversight of allowable asset types, investment practices and performance management. The BIC ensures that the accepted risks are within the Board's appetite and compliant with both the Investment Risk Management Policy and Investment Guidelines.

The Strategic Asset Allocation sets the basis for the investment portfolio

The Strategic Asset Allocation (SAA), subject to the BIC's approval, sets out the investment strategy at its highest level. This involves setting benchmark investment allocations by asset class for each Account's reserves portfolio. These benchmark allocations are used to measure against investment portfolio performance. A composite benchmark is used to measure against overall investment return.

The SAA serves as the basis for implementing the investment portfolio. Its high-level objective is to manage investment returns and risks. The principal focus is on asset-liability risk, which incorporates both the outstanding claims liability (OCL) and investment assets. Levy payers and taxpayers ultimately bear the risks if investment returns are inadequate in meeting future claim payments. Therefore, achieving a balance between these two facts is important:

- Higher but more stable levy rates and appropriations from low-risk and low-return investments
- Lower but more variable levy rates and appropriations from high-risk and potentially higher return investments.

The BIC reviews long-term benchmark investment allocations under advice from the Investments group. These reviews take place twice a year with a full one around September and an interim one around March.

The main cumulative changes as a result of the reviews in this financial year were generally modest in size:

- An increase in the cash weight to increase liquidity for some of the scheme Accounts
- An increase in the interest rate swap overlay to maintain overall interest rate exposure
- An increase in the weighting for inflation-indexed bonds and a small decrease in New Zealand long bonds due to the availability of newly issued inflation-indexed bonds
- A decrease in global equity exposure in response to changes in expected returns
- A decrease in total unhedged foreign currency exposure due to an increase in expected returns for currency hedging (arising from changes in the currency level and the differential between New Zealand and offshore interest rates).

The actual asset allocations are different from the strategic allocations

Investment managers have discretion, within tolerances set by the BIC, on how much to deviate from benchmarks. This contributes to the risks taken under the active management approach, with an aim of enhancing investment returns while limiting each Account's risk exposure. So actual allocations may differ at any time within limits prescribed by the BIC.

Table 37 shows the strategic asset allocations showing benchmark holdings and actual allocations by Account. Strategic proportions as at 30 June 2021 are included for comparison purposes.

TABLE 37: STRATEGIC AND TOTAL ASSET ALLOCATIONS BY ACCOUNT

Asset class	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total strategic asset allocation 2022	Actual asset allocation 2022	Strategic asset allocation 2021
New Zealand cash	2.0%	4.0%	3.0%	10.0%	2.0%	4.5%	5.9%	2.8%
New Zealand long bonds	32.0%	3.5%	21.0%	31.0%	19.0%	25.6%	22.1%	25.7%
New Zealand index-linked bonds	32.0%	30.5%	23.0%	18.5%	33.5%	27.2%	24.8%	25.8%
Global bonds	0.5%	0.5%	5.0%	5.5%	1.0%	2.3%	3.3%	3.5%
New Zealand property and infrastructure	3.5%	3.5%	4.0%	4.0%	3.5%	3.7%	2.8%	3.7%
Private markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.7%	0.0%
New Zealand equities	7.5%	11.0%	9.0%	7.5%	10.0%	8.5%	7.6%	8.5%
Australian equities	4.0%	4.5%	4.5%	4.5%	4.5%	4.0%	3.9%	4.3%
Global equities	18.5%	42.5%	30.5%	19.0%	26.5%	24.2%	24.9%	25.6%
Foreign currency contracts overlay	n/a	n/a	n/a	n/a	n/a	n/a	(0.6%)	n/a
Other	n/a	n/a	n/a	n/a	n/a	n/a	(0.5%)	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	7.8%	14.0%	5.5%	0.0%	9.5%	6.5%	5.0%	5.1%
Total equity weight (treating New Zealand property and infrastructure as 'half equities')	31.8%	59.8%	46.0%	33.0%	42.8%	38.6%	37.8%	40.4%

There is no strategic asset allocation for private markets, which include unlisted property, infrastructure and private equity holdings. This is because the SAA is restricted to listed assets. The actual asset allocation in the private markets, however, was about 5.7% in the 2021/22 financial year.

The 2021/22 investment return was negative but beat the benchmark

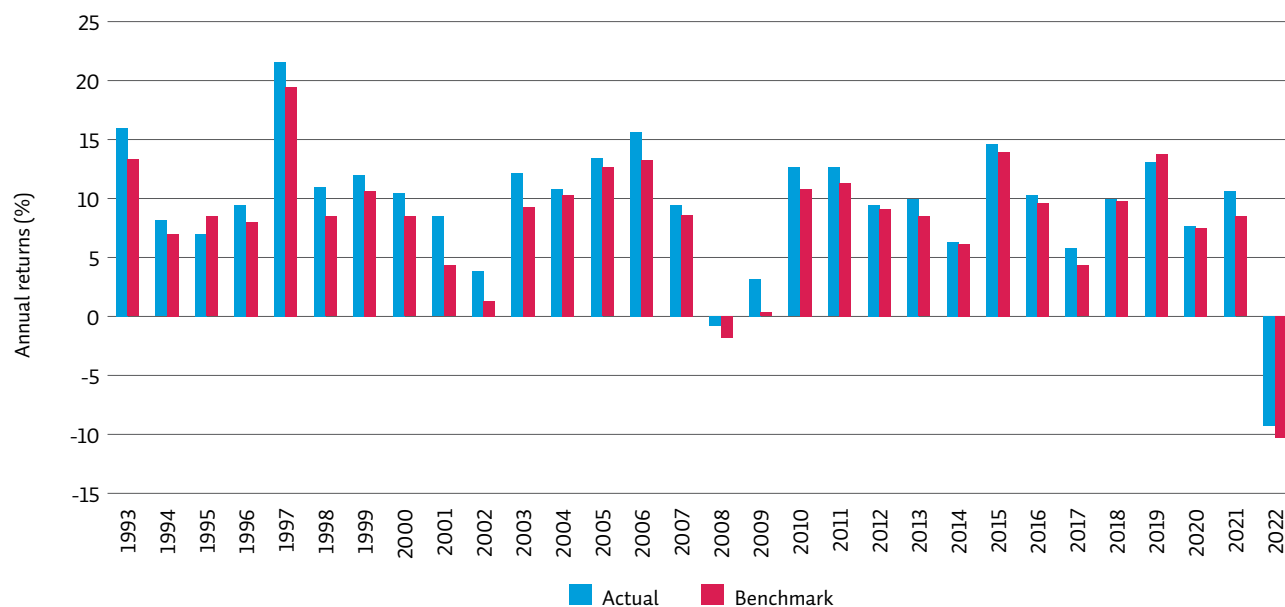
At the end of 2021/22, investment assets have a market value of \$44.8 billion. These assets and their associated future investment returns will fund expected future cash claim payments amounting to \$103 billion at the end of 2021/22 (\$93 billion at the end of 2020/21) during the lifetime of existing claims, excluding Pay As You Go (PAYG) claims, which are funded as costs arise.

Since 1993 actual gross investment returns have outperformed the market benchmark by over 1% on average. In the 2021/22 year, the actual investment return before costs was negative at -9.21%. However, it still beat the market benchmark by just under 1% after allowing for costs.

During 2021/22 there were losses in most asset types, including bonds and equities. Overall, Australasian equities and global bonds outperformed benchmarks despite suffering losses. Investment returns, which varied by Account, were similarly above benchmark performance. However, each Account experienced a loss.

The Scheme's investment performance from 1993 is shown in Graph 42.

GRAPH 42: COMPARISON OF INVESTMENT RETURNS WITH BENCHMARK



The future returns outlook has improved

The expected long-term investment return has increased for the second year in a row at 5.6% in 2022 compared to 4.2% in 2021 and 3.6% in 2020. Last year we reported that the outlook for real assets had deteriorated. This year the outlooks for both real and fixed assets have improved.

F.2 The investment strategy considers the nature of liabilities and available assets

The liability profile varies by Account

The short-term nature of most claims means that they pose less significant investment risks than long-term claims. However, a small number of claims are for very long-term serious injuries, and these 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. Weekly compensation tends to end 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 and dominate the Work Account liability.

In the case of elective surgery, claims can last for the medium to long term, subjecting them to high superimposed inflation. Clients with associated elective surgery claims often have injuries that deteriorate as they get older, such that their procedures may be repeated. The Earners' Account has the highest elective surgery liability. This makes the average duration of claims in the Earners' Account slightly longer than that in the Work Account.

The investment strategy considers the nature of liabilities

Asset allocation varies by Account to reflect the varying sizes and nature of claim liabilities, besides considering asset availability in the investment markets. The asset allocations for Accounts with low funding ratios and long claim liabilities tend to be more highly weighted towards equities. This is because equity volatility is less material than the volatility of the liabilities for those Accounts.

In the case of the Motor Vehicle Account, there is 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. Therefore, the corresponding equity weights are not as high in the Motor Vehicle Account as they are in other Accounts.

There is some mismatching between assets and liabilities

In a closely matched portfolio, asset and liability values respond similarly to economic stresses and mostly offset each other. That 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 tend to be 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 won't be fully offset by an increase in investment asset values, reducing the funding ratio. Likewise, a decrease in the OCL due to rising interest rates won't fully match the corresponding decrease in investment asset values, leading to an increase in the funding ratio.

The minimum risk portfolio closely matches the OCL

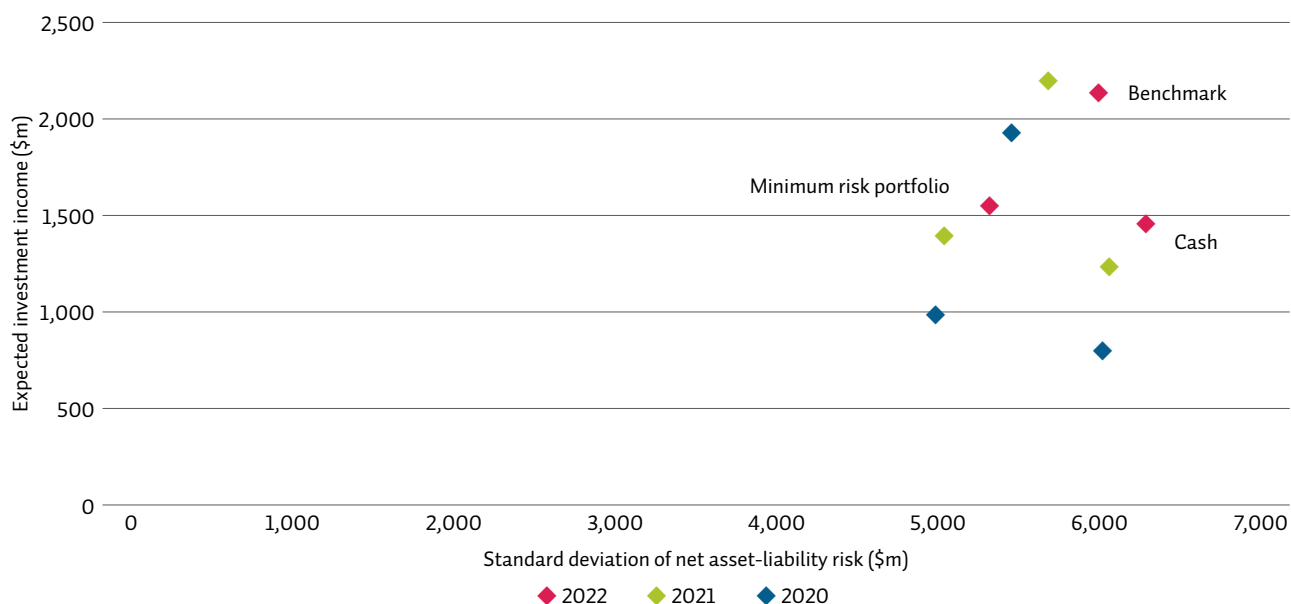
The investment strategy employs the concept of a minimum risk portfolio (MRP) to decide the level of incremental net asset risk. The MRP is risk-based and represents the lowest end of the risk-return trade-off. Investment managers then decide how much discretionary risk to accept over and above the MRP while balancing trade-offs between the additional risks taken and the potential for higher returns.

The notional MRP is typically dominated by New Zealand Government bonds and includes a weighting for inflation-indexed bonds. The duration of long bonds and the real nature of inflation-indexed ones are a good match to the OCL, which is long in duration and moves with inflation. The minimum-risk portfolio also contains relatively small allocations of equity and other asset classes.

The actual portfolio, which includes discretionary risk, substitutes some bonds with equities and other higher-return assets.

Graph 43 shows the estimated risks and returns for the MRP compared to cash and the benchmark portfolio as at 30 June 2022. Risk is shown as the sum of net annual assets minus liability volatility (standard deviation) in all Accounts. The graph includes the previous two years to allow for comparison.

GRAPH 43: TOTAL RESERVE ACCOUNT: RISK VS RETURN



ACC estimates an expected return of \$1.5 billion for the notional minimum-risk portfolio as at 30 June 2022 with a net asset-liability risk of \$5.4 billion. The portfolio benchmarks adopted in 2021/22 increase the expected annual investment income to \$2.1 billion, but also raise the total risk to \$6.1 billion.

Interest rates rose during the year to 30 June 2022, which lifted the expected return for all portfolios.

F.3 Risk controls mitigate some economic and financial uncertainties

Many factors can influence investment performance and the net value of assets including:

- interest rates
- inflation
- equity market fluctuations
- credit defaults
- stronger currency.

Several of these factors can move simultaneously in the same direction, such as a decline in both interest rates and equity markets during a financial crisis.

Derivatives help hedge against declines in long-term real interest rates

OCL calculations use risk-free interest rates to project into the future. Reductions in long-term interest rates, which are used in discounting, result in increases in the OCL. When long-term interest rates fall, the value of fixed interest assets (especially those with long durations or maturities) tend to rise but not as much as the OCL increases. On the other hand, other investments don't necessarily move up or down in value. This combination result tends to be a reduction in the value of assets relative to liabilities.

The Investments group uses interest rate derivatives to hedge against declines in long-term real interest rates. In particular, it uses fixed-for-floating interest rate swaps to generate revaluation gains when long-term interest rates decline. Despite this, ACC is still exposed to interest rate declines.

Real assets can provide some protection from inflation

Inflation movements drive rehabilitation costs and wages, which impacts future claim costs. Many assets, including bonds with fixed payments (nominal bonds) and interest rate derivatives, are not protected from inflation. When interest rates rise due to higher inflation expectations, the market values of nominal assets tend to fall. Real assets like property, equity and inflation-linked securities tend to fall in value when real interest rates rise but otherwise may increase with inflation and can provide protection from inflation when held to maturity.

Foreign currency exposure helps offset a weaker currency

Exchange-rate movements alter the market value of offshore investments. Relationships between currency movements and other market movements may impact the overall asset/liability risk. The New Zealand dollar tends to fall when equity markets decline. The portfolio's foreign currency exposure therefore tends to help offset the risk of a decline in equity markets.

Liquidity risks, although lower, are still considered in risk planning

Compared to many other investment funds, ACC faces fewer liquidity risks because:

- it doesn't face client redemptions
- it has a high proportion of investments in cash and bonds
- it has a fairly steady payment profile.

Nevertheless, ACC does scenario modelling as part of its liquidity planning and management.

The share market provides opportunities for higher returns but with higher risks

A portion of the investment portfolio is in shares, which don't provide a good match to ACC's liabilities. This is accepted as there is scope for mismatching, such as when the funding ratio is in surplus, in return for higher expected returns in the long term. It also allows for diversification and improvements in overall expected returns. ACC responds to broader market impacts through its SAA reviews.

ACC responds to broad market impacts mainly through its SAA reviews, where it also considers unlikely but potentially high-impact events

Extreme investment risks are usually rare, although they are becoming less so and can have severe consequences. They can also be more difficult to monitor and predict than other risks, which can make hedging more complicated. A consideration of extreme risks can highlight areas where further action is needed. Examples of extreme risks are:

- natural disasters
- an Australasian banking crisis
- hyperinflation
- pandemics.

The COVID-19 pandemic has further demonstrated the importance of risk management, as it has continued to have an important influence on economies and financial markets. Its impacts on financial markets have varied through time, across countries, across companies and in sectors within economies. Managers of each sub-portfolio respond to these impacts according to their risk allocations.

F.4 ACC has environmental, social and governance considerations

The organisation considers climate risks, both physical and transitional

To target lower climate risks in the portfolio, the Investments group:

- measures the carbon intensity of investee companies
- sets long-term carbon intensity reduction targets
- seeks to invest in companies that provide emission reductions.

ACC's recently launched \$50 million Climate Change Impact Fund has already made its first investment. The Fund actively seeks companies that provide both commercial returns and emission reductions. ACC is considering increasing the Fund to \$100 million if sufficient commercial opportunities emerge.

There are investments that can provide higher returns than others and improve health, safety and wellbeing

The Health and Safety (H&S) Impact Fund has made several investments, of which the first was in January 2021, since its launch in September 2020. The \$50 million fund is managed by the Private Markets team and is ACC's first impact fund investment. The fund seeks to invest in companies that:

- assist in the reduction of the OCL
- improve health and wellbeing
- advance health and safety standards in New Zealand
- improve ACC's clients' experience of the rehabilitation process
- provide superior risk-adjusted investment returns.

The H&S fund has seen ACC partner with two New Zealand firms, Robotics Plus and Mentemia. The Robotics Plus assets will be used to help solve growing challenges in global primary industries and Mentemia is a mental wellbeing app.

Both the Climate Change and the H&S Impact Funds will support the Government's emission-reduction commitment of New Zealand being a net-zero, low-emissions country by 2050.

The two Impact Funds are not part of the strategic asset allocation and are not considered during the SAA reviews.

Appendix G – Funding details

G.1 Economic conditions and deteriorating claim performance have affected indicative levies and appropriations

Table 38 shows the changes in the indicative 2023/24 levy rates between the recommended rates calculated in June 2021 and those calculated using the June 2022 basis. Even though the 2023/24 levies have already been prescribed, the June 2022 basis provides an updated view on the levies ACC would recommend were the consultation to be held today.

TABLE 38: CHANGE IN INDICATIVE 2023/24 LEVY RATES FROM JUNE 2021 TO JUNE 2022

	Motor Vehicle \$	Earners' \$	Earners' portion of Treatment Injury \$	Work \$
2023/24 indicative uncapped levies before the Integrated Change Investment Portfolio (ICIP) and injury prevention benefits as at 30 June 2021	138.48	1.47	0.07	0.68
New year rates				
New year rate at 30 June 2021	224.34	1.56	0.12	0.91
Change from:				
Claim frequency and severity	5.95	0.14	0.01	0.04
Discount rate/investment forecasts	(29.55)	(0.08)	(0.01)	(0.06)
Base inflation	2.85	0.04	0.00	0.02
Other	(0.43)	(0.06)	(0.00)	(0.04)
New year rate at 30 June 2022	203.17	1.59	0.12	0.86
Funding adjustment				
Funding adjustment at 30 June 2021	(85.87)	(0.10)	(0.05)	(0.23)
Change from:				
Claim frequency and severity	4.47	0.03	0.01	0.01
Discount rate/investment forecasts	(41.17)	(0.04)	(0.01)	(0.08)
Base inflation	1.68	0.00	0.00	0.00
Other	43.94	0.08	0.02	0.07
Funding adjustment at 30 June 2022	(76.96)	(0.01)	(0.03)	(0.22)
2023/24 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2022	126.21	1.57	0.09	0.64
Reduction due to ICIP and injury prevention	(8.18)	(0.03)	(0.00)	(0.03)
Limitation due to capping	0.00	(0.26)	(0.03)	0.00
2023/24 indicative levies as at 30 June 2022	118.03	1.27	0.06	0.61

Note – the rounding of totals means the new year rates plus funding adjustment may not exactly equal the levies.

The indicative uncapped levy rates for 2023/24 are lower than those estimated in June 2021 for the Motor Vehicle and Work Accounts, but they are higher for the Earners' levy (including the portion of Treatment Injury). Increased discount rate and investment forecasts have reduced both new year rates and the funding adjustment. This has been offset by deteriorating claim frequency and severity, especially for the Earners' Account.

Table 39 shows the difference between the indicative capped levies for 2023/24 as at June 2022 and the levies already prescribed for that year.

TABLE 39: 2023/24 INDICATIVE CAPPED LEVIES COMPARED TO PRESCRIBED LEVIES

	Motor Vehicle \$	Earners' \$	Earners' portion of Treatment Injury \$	Work \$
2023/24 indicative capped levies	118.03	1.27	0.06	0.61
2023/24 prescribed levies	113.94	1.27	0.06	0.63

The 2023/24 indicative capped levy for the Work Account is now \$0.61, \$0.02 lower than the \$0.63 prescribed by Government. For the other Accounts the indicative capped levies are equal to or higher than the prescribed levies.

Table 40 shows the changes in the indicative 2023/24 appropriation between those calculated using the June 2021 basis and those calculated using the June 2022 basis.

TABLE 40: CHANGE IN CALCULATIONS FOR 2023/24 NON-EARNERS' APPROPRIATION FROM JUNE 2021 TO JUNE 2022

	Non-Earners' Account \$M	Non-Earners' portion of Treatment Injury Account \$M	Non-Earners' combined Accounts \$M
2023/24 approved funding	1,897.7	282.8	2,180.5
Estimated 2023/24 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2021	1,935.8	318.1	2,253.8
New year claim cost			
New year claim cost at 30 June 2021	1,850.6	288.1	2,138.8
Change from:			
claim frequency and severity	113.3	19.0	132.2
discount rate /investment forecasts	(76.4)	(50.5)	(127.0)
base inflation	61.4	7.1	68.4
other	8.1	(0.4)	7.6
New year claim cost on 30 June 2022 basis	1,944.3	261.9	2,206.2
Funding adjustment			
Funding adjustment at 30 June 2021	85.1	30.0	115.1
Change from:			
claim frequency and severity	59.7	44.1	103.8
discount rate /investment forecasts	(75.0)	(50.5)	(125.5)
base inflation	26.3	9.0	35.3
other	87.9	51.7	139.6
Funding adjustment on 30 June 2022 basis	183.9	84.3	268.2
Estimated 2023/24 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2022	2,128.2	346.2	2,474.4
Reduction due to ICIP and injury prevention	(76.0)	(11.5)	(87.5)
Limitation due to capping	(146.2)	(51.9)	(198.1)
Additional funding outside the cap	29.6	0.0	29.6
2023/24 indicative appropriation as at 30 June 2022	1,935.6	282.8	2,218.4

Note – the rounding of totals means the new year claim costs plus funding adjustment may not exactly equal the appropriation.

For the Non-Earners' Account, ACC recommended decreases in the pre-approved appropriations for the 2022/23 to 2025/26 period in October 2021. This was the result of improved funding positions. No change was recommended in the 2022/23 pre-approved appropriation of \$2,046 million. These recommended decreases were approved by the Government.

As with the levied Accounts, increases in the projected discount rates and investment returns have decreased both the new year claim cost and the funding adjustment. However, this has been more than offset by increasing claim frequency and severity. The combined new year claim cost and funding adjustment have both increased. We now expect capped increases until 2025/26, a significant change since last year's indications.

The effects of increased claim frequency and severity on indicative levies and appropriations are detailed on page 50. Other changes are described below.

Increased risk-free interest rates and investment forecasts have significantly reduced expected costs

Risk-free interest rate forecasts have increased significantly in the year to 30 June 2022. The short-term interest rate is 2.5% higher than previously forecast.

Higher risk-free rates have also led to an increase in the forecasts of investment returns, which have significantly reduced the funding required now to meet the expected lifetime cost of future claims – by 5% to 16% depending on the Account. The largest reductions have been for the Non-Earners' portion of the Treatment Injury Account (16%) and the Motor Vehicle Account (13%). These are the Accounts with the largest proportion of long-term claims.

Higher interest rates have also reduced the OCL leading to an improved funding position. This has further reduced the indicative uncapped levies.

Higher short-term inflation has only partially offset these favourable economic factors

Inflation during 2021/22 has been higher than assumed as at 30 June 2021. We expect inflation to remain higher than previously expected in the short term. This will have some impact on increasing claim costs.

The long-term forecast is for inflation to be slightly lower than previously forecast. This is mostly due to a change in how inflation rates are forecast by the Treasury, rather than a change in expectations.

The small change in long-term inflation rates limits the impact of inflation on the indicative uncapped levies and appropriations. However, if higher inflation rates persist for longer than expected, there will be additional pressure on funding requirements.

Lower asset balances have increased the level of funding required

By far the biggest component of the 'other' change for the funding adjustment is the change in projected asset balances. Asset balances have reduced in the year to 30 June 2022, increasing the funding adjustment. This has offset the decrease in the OCL due to higher risk-free interest rates.

Projected asset balances are also affected by the level of funding approved. Not having the recommended increase in the 2022/23 Motor Vehicle levy approved has increased the funding pressure on the 2023/24 levy.

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

For the new year rate, the 'other' change is primarily changes in population and 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.

Expected injury prevention and ICIP benefits reduce the estimates of levies and appropriations

ACC offsets the calculated levies and appropriations with the expected financial benefits of injury prevention and the ICIP.

Table 41 shows the expected reductions in levies and appropriations for each of the next five years.

TABLE 41: EXPECTED REDUCTIONS IN LEVIES AND APPROPRIATIONS FROM INJURY PREVENTION AND THE ICIP

\$M	2022/23	2023/24	2024/25	2025/26	2026/27
Expected reduction from injury prevention					
Levies	36.1	42.6	47.4	49.6	51.9
Appropriation	46.9	35.4	37.1	38.9	40.6
	83.0	78.0	84.6	88.5	92.5
Expected reduction from ICIP					
Levies	22.5	85.6	122.7	155.3	180.3
Appropriation	30.2	51.0	55.8	61.3	66.3
	52.7	136.6	178.5	216.5	246.6
Total reduction from injury prevention and ICIP	135.7	214.6	263.1	305.0	339.1

We estimate that these activities will reduce the required funding in 2023/24 by \$215 million, split between \$128 million for the levies and \$86 million for the appropriation.

Last year we estimated that the reduction in the 2023/24 calculated levies and appropriation was \$242 million. This was \$28 million more than we're now expecting.

The main reasons for this change are:

- a delay in the projected benefits of the ICIP reducing the expected 2023/24 benefits by \$29 million. This is partially offset by a \$15 million reduction in ICIP-related expenses due to a change in how they're allocated. To date, the benefits delivered through the ICIP response haven't been in line with expectations. While most of the ultimate targets are expected to be achieved, the pathway to achieving these targets has changed
- a decrease in the projected injury prevention benefits of \$14 million. Injury prevention benefits are lower than previously forecast, in line with decreased spending on injury prevention.

If these injury prevention and ICIP benefits are not realised, levies and appropriations will need to increase above the latest forecasts.

G.2 Indicative levies and appropriations are sensitive to many factors

Table 42 and Table 43 show the expected impacts on indicative uncapped 2023/24 levies and 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 42: SENSITIVITY OF LEVY RATES

Impact on levy rates (\$)	Motor Vehicle Account		Earners' Account		Earners' portion of Treatment Injury Account		Work Account	
	+1%	-1%	+1%	-1%	+1%	-1%	+1%	-1%
Risk-free discount rates and investment returns	(51.20)	67.37	(0.10)	0.13	(0.01)	0.02	(0.08)	0.10
Asset values	(3.62)	3.62	(0.01)	0.01	(0.00)	0.00	(0.01)	0.01
Inflation rates	93.54	(79.46)	0.19	(0.17)	0.03	(0.02)	0.16	(0.15)
Number of new weekly compensation claims	0.95	(0.95)	0.01	(0.01)	0.00	(0.00)	0.01	(0.01)
Weekly compensation continuance rates	12.22	(10.09)	0.02	(0.01)	0.00	(0.00)	0.03	(0.03)
Sensitive claim continuance rates	n/a	n/a	0.02	(0.02)	n/a	n/a	n/a	n/a
Elective surgery superimposed inflation	5.73	(4.07)	0.03	(0.02)	0.00	(0.00)	0.01	(0.01)
Medical superimposed inflation	3.95	(2.97)	0.01	(0.01)	0.00	(0.00)	0.01	(0.01)
Care superimposed inflation	41.50	(30.58)	0.03	(0.03)	0.01	(0.01)	0.02	(0.01)
Elective surgery active claims	6.58	(4.40)	0.03	(0.02)	0.00	(0.00)	0.02	(0.01)

TABLE 43: SENSITIVITY OF NON-EARNERS' APPROPRIATION

Impact on Non-Earners' appropriation (\$M)	Non-Earners' Account		Non-Earners' portion of Treatment Injury Account		Total Non-Earners'	
	+1%	-1%	+1%	-1%	+1%	-1%
Risk-free discount rates and investment returns	(154.45)	219.52	(115.27)	170.44	(269.71)	389.97
Asset values	(5.52)	5.52	(3.67)	3.67	(9.19)	9.19
Inflation rate	282.08	(215.67)	188.25	(153.56)	470.33	(369.23)
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	45.28	(34.34)	n/a	n/a	45.28	(34.34)
Elective surgery superimposed inflation	20.31	(14.39)	6.50	(4.81)	26.81	(19.20)
Medical superimposed inflation	20.30	(16.96)	1.55	(1.31)	21.86	(18.27)
Care superimposed inflation	118.17	(80.47)	145.93	(98.90)	264.10	(179.37)
Elective surgery active claims	19.22	(12.89)	5.77	(4.12)	24.99	(17.01)
Number of non-earners	20.65	(20.65)	3.06	(3.06)	23.71	(23.71)

No sensitivities have been calculated for weekly compensation scenarios for the Non-Earners' Account, as non-earners are not eligible⁵ for weekly compensation payments.

⁵ 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.

No sensitivities were applied to care inflation rates in periods before June 2023. The inflation rates for these periods have already been prescribed.

G.3 Different possible future 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 funding policy with best-estimate assumptions; this 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 at 30 June 2022
- 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 payments and superimposed inflation.

We've generated funding ratios for each simulation. Graphs 44, 46, 48 and 50 show the distribution of possible funding ratios for each Account in future years, with levy rates and the appropriations calculated according to the funding policy. The central 80% of simulations fall within this range (the 10th to 90th percentile).

As with funding ratios, new year claim costs vary with changes in economic assumptions and claim trends. This results in a range of possible pathways for levies and appropriations.

We've used the same set of simulations as for the funding ratios to understand the variability of levies and appropriations. Graphs 45, 47, 49 and 51 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.

In comparison to last year's FCR, the simulated levy rates have been calculated on the basis that they can't change in the three-year levy-setting period. This has been done to better align with how we calculate levies based on the funding policy.

The forecast levy and appropriation pathways on the graphs are set with the assumptions from June 2022 held for the duration of the projections. The historical levy rates and appropriations are also shown from 2019/20 onwards.

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. 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 at 30 June 2022 into the future. However, for each simulation, the economic and claim 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.

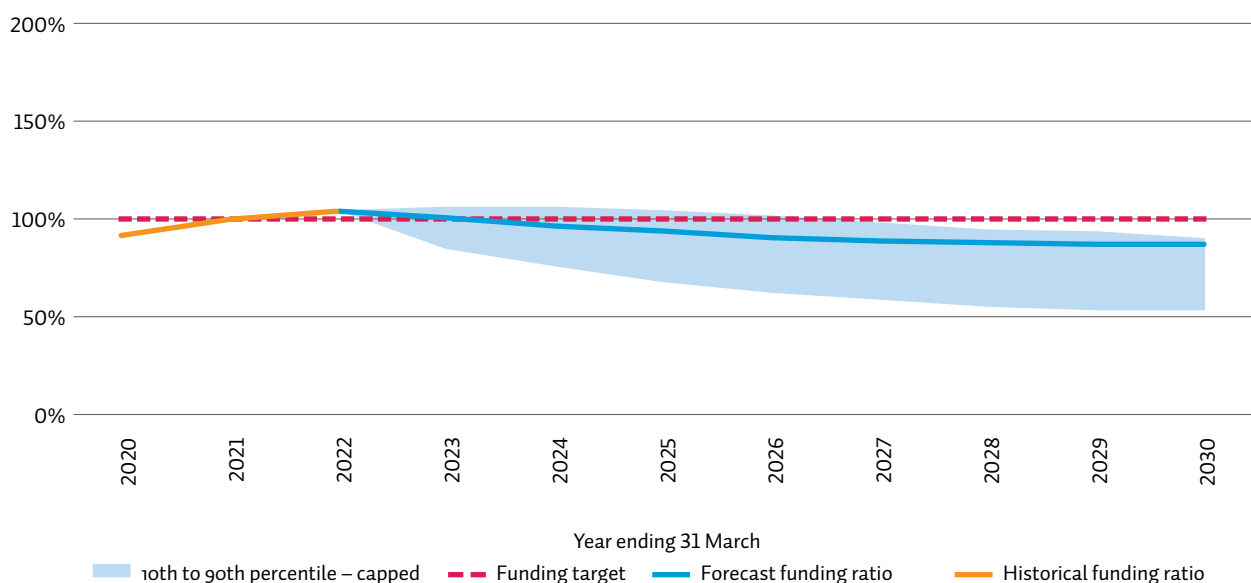
Earners' Account

The Earners' Account (excluding the Earners' portion of the Treatment Injury Account) had an opening funding ratio of 105%. While the Government approved the capped levy increases for 2022/23, 2023/24 and 2024/25, they remain below new year rates. We forecast that by 2023/24 the Earners' Account will be in deficit (97%). Capped levy increases will limit how quickly the funding position can be restored.

Our simulations indicate there is an 87% probability that the funding ratio will be below 100% in 2026 and a 37% probability that it will be below 80%. If levy increases in line with the funding policy are not approved, funding ratios are more likely to be below target. This is true for all the Accounts.

As stated above, the funding policy deliberately slows any funding increases as a response to deteriorating economic and claim assumptions in the simulations. The forecast funding ratio maintains the economic and claim assumptions at 30 June 2022 into the future, so it's at the upper end of the simulations.

GRAPH 44: EARNERS' ACCOUNT, EXCLUDING THE EARNERS' PORTION OF THE TREATMENT INJURY ACCOUNT: PROJECTED FUNDING RATIO

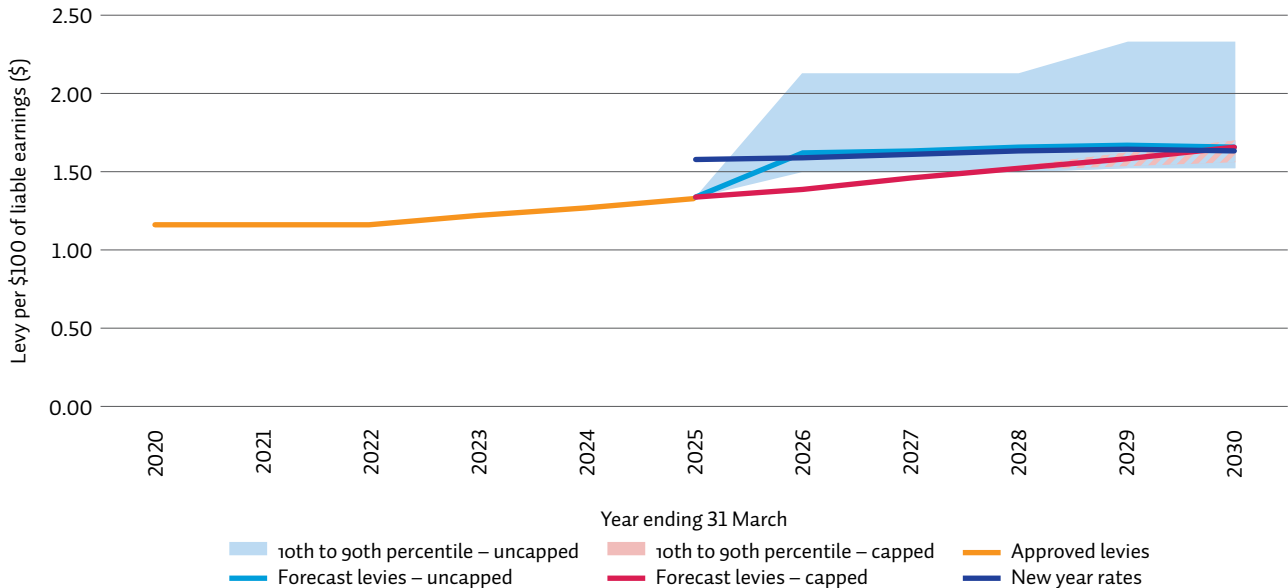


Levies are forecast to increase at the 5% cap for the next five years. This is due to the expected deficit and the significant gap between the 2024/25 levy (\$1.39) and the new year claim costs for 2025/26 (\$1.70). 2025/26 is the start of the three-year period when levies will next be recommended.

Our simulations also show the strong likelihood of capped increases. The range of possible capped levies closely follows the maximum 5% increase per annum.

The Earners' Account (excluding the Earners' portion of the Treatment Injury Account) 2029/30 capped levy could vary from \$1.57 to \$1.70 with 80% confidence. It's important to note that this range 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 increase. Without the cap the range of possible levies in the same period widens, from \$1.53 to \$2.33 with 80% confidence.

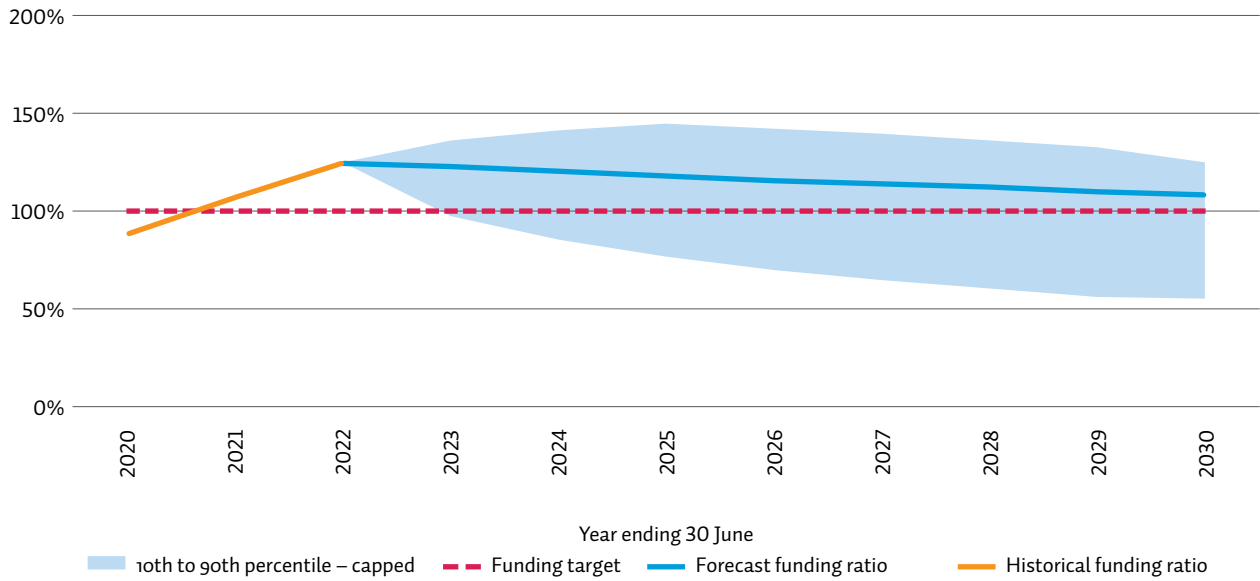
GRAPH 45: EARNERS' ACCOUNT, EXCLUDING THE EARNERS' PORTION OF THE TREATMENT INJURY ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



Motor Vehicle Account

At 30 June 2022, the Motor Vehicle Account had a funding ratio of 125%, a slight increase from 122% the previous year. The forecast funding ratio reduces over time as 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 2026 and a 17% probability that the funding ratio will be lower than 80%.

GRAPH 46: MOTOR VEHICLE ACCOUNT: PROJECTED FUNDING RATIO

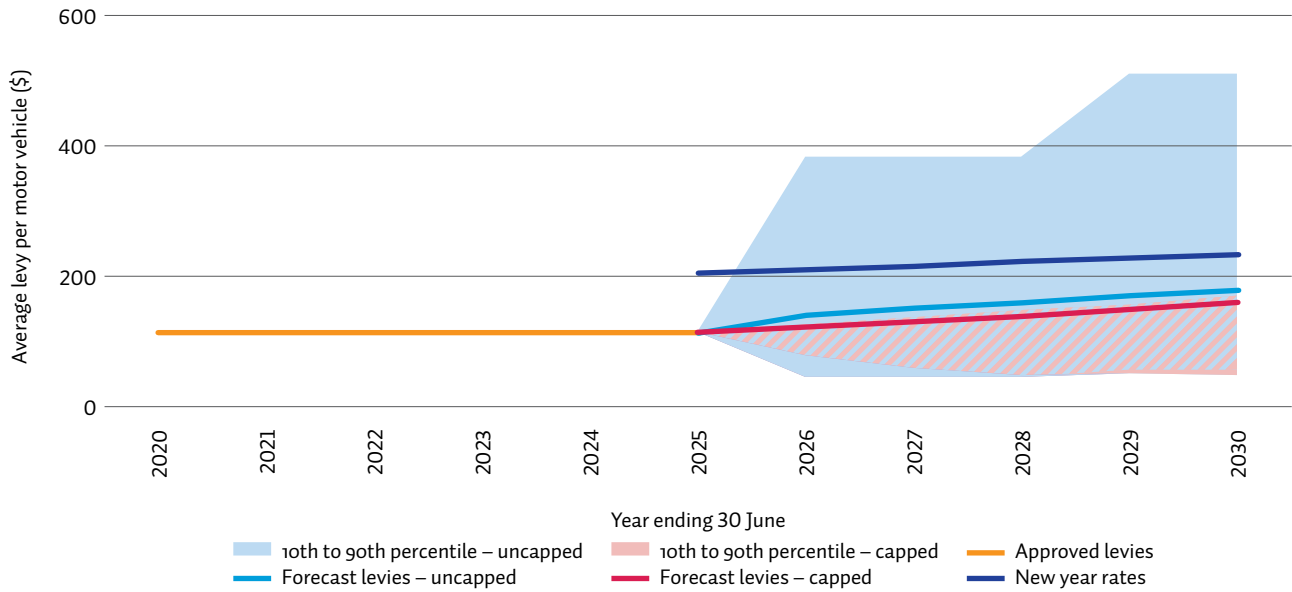


Despite the strong funding ratio, we expect levy increases will be needed in the future. This is because the 2024/25 levy (\$113.94) is well below the 2025/26 new year rate (\$207.40). We forecast levies will increase at the cap for the next five years.

The distribution of the Motor Vehicle Account’s simulated uncapped levy path is the widest of the levied Accounts. For example, by 2029/30 the levy rate could range from 32% to 283% 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 \$49 and \$169 in 2029/30. This is still well below the expected 2029/30 new year rate (\$232.05).

The volatility in levy paths is mostly caused by the funding adjustment, rather than the new year claim costs. The \$49 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 is then applied to move the levy rate towards the funding target over time in accordance with the funding policy.

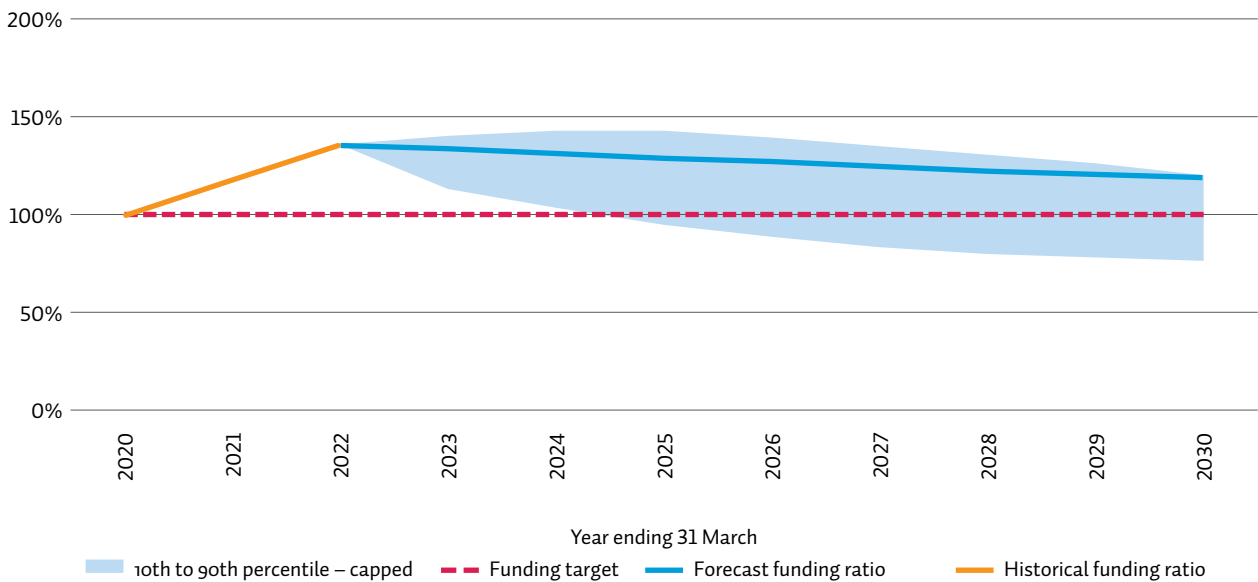
GRAPH 47: MOTOR VEHICLE ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



Work Account

The Work Account had the strongest funding ratio at 30 June 2022, of 136%. It's the least likely to be below the 100% funding target in 2026, with a probability of 25% and only a 6% probability of a lower-than-80% funding ratio.

GRAPH 48: WORK ACCOUNT: PROJECTED FUNDING RATIO

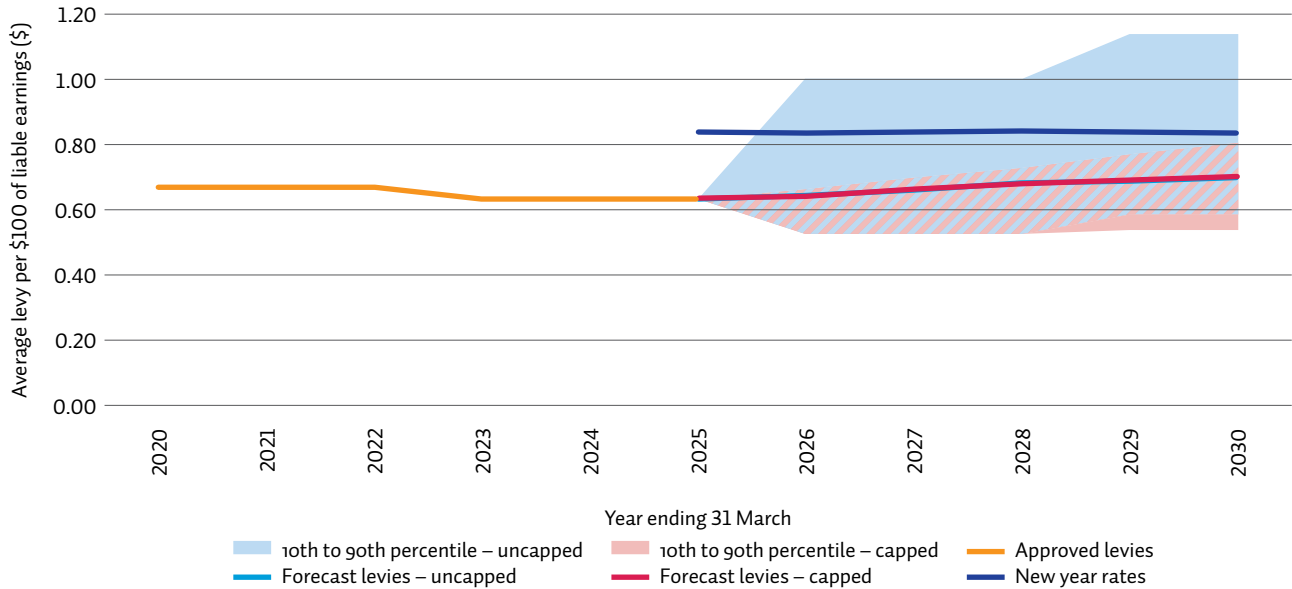


The new year rate for 2025/26 is \$0.83 per \$100 liable earnings, significantly higher than the 2024/25 levy of \$0.63. Increases in the levy are forecast to be below the 5% cap due to the strong funding ratio.

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

Of all the levied Accounts, the Work Account has the widest range of possible capped levies relative to its range of possible uncapped levies. The Work levy is less likely to need capped increases due to the strong funding ratio.

GRAPH 49: WORK ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



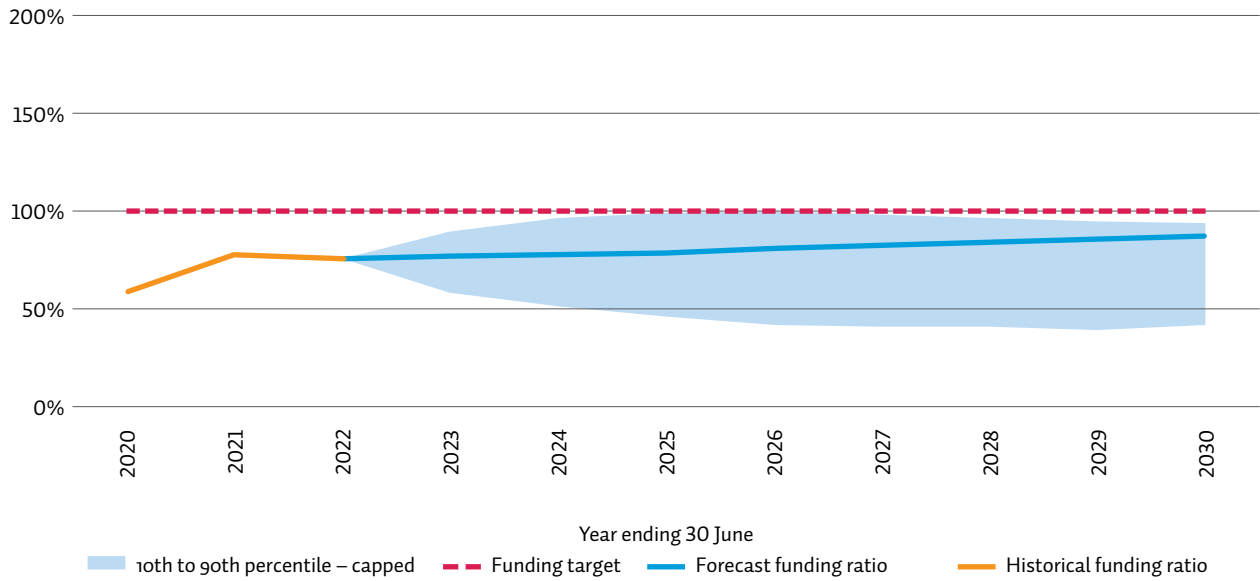
Non-Earners' Account

Unlike the levied Accounts, the fully funded portion of the Non-Earners' Account (excluding the Non-Earners' portion of the Treatment Injury Account) was in deficit at 30 June 2022. The funding ratio was 76%, a slight deterioration compared to 78% the previous year.

The forecast funding ratio, according to the 2022 appropriation recommendation, moves gradually towards the 100% target as appropriations are increased over time. The forecast funding ratio in 2026 is 81%.

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. The simulations imply a 90% probability of the Account being below the 100% funding target in 2026, as well as a 63% probability of it having a funding ratio less than 80%.

GRAPH 50: NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION): PROJECTED FUNDING RATIO



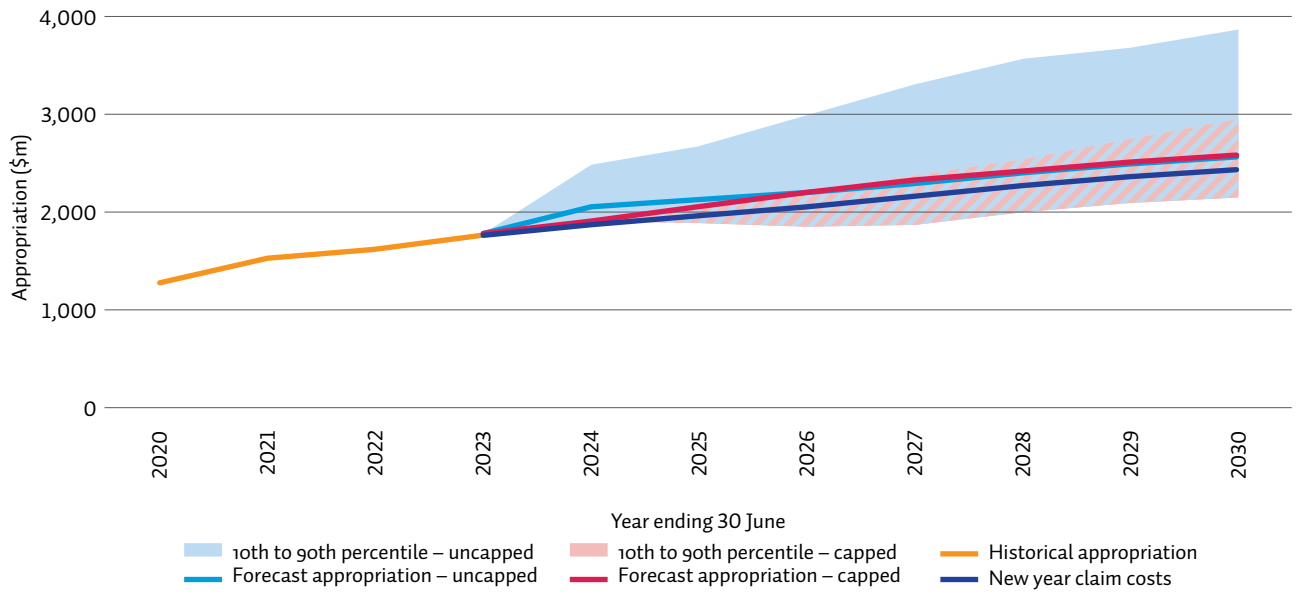
Appropriation increases are expected due to the deficit in the Non-Earners' Account. The 2022 recommended appropriations suggest that the combined appropriation will increase at the 7.5% cap for 2023/24, 2024/25 and 2025/26.

The funding policy for the Non-Earners' Account states that claims before July 2001 should be funded on a PAYG basis. This means that included in the appropriation in any given year is the amount we expect to pay in that year for those claims. The PAYG portion of the appropriation is very stable, at around \$190 million per year. As it represents only a year's worth of payments, it's not affected by changes in economic assumptions. Also, there's more certainty around claim numbers and payments as it only covers claims from before 2001.

The distribution of the simulated uncapped appropriations is very wide, with a projected range of \$2.2 billion to \$3.9 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.

Even with capped increases the distribution is quite wide, between \$1.9 billion and \$2.4 billion in 2026/27 for the Non-Earners' Account appropriation.

GRAPH 51: NON-EARNERS' ACCOUNT, EXCLUDING THE NON-EARNERS' PORTION OF THE TREATMENT INJURY ACCOUNT: DISTRIBUTION OF FUTURE APPROPRIATION PATHS





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