

TE TŪ O TE TAHA PŪTEA

FINANCIAL CONDITION REPORT



He Kaupare. He Manaaki.
He Whakaora.
prevention. care. recovery.

2023



This Financial Condition Report has been prepared by ACC's internal actuaries and issued by ACC's Appointed Actuary. Accountability for the report rests with the Appointed Actuary.

In writing this report as at 30 June 2023, we've complied with the New Zealand Society of Actuaries' professional standards, appropriately adapted for ACC. In line with these standards, our objectives are to:

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

We're satisfied that the data, methods, and assumptions used in this report are appropriate for the purpose of assessing the financial condition of the Scheme.



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1. Summary

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

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

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

This report takes a long-term view. Currently, there are no risks to ACC's financial condition significant enough to affect its ability to pay claims over the short to medium term. However there are underlying trends and issues that, if left unaddressed, are likely to result in the next generation having to pay significantly higher levies and taxes to ensure the Scheme remains sustainable.

The scale, complexity, and long-term nature of the Scheme mean that it takes time to make changes and that decisions made today can have major implications for the future fairness and sustainability of the Scheme. It's important that work continues to reduce future funding requirements by improving long-term Scheme performance and that decision makers understand the likely impact of today's actions on future levy and taxpayers.

Despite a surplus in 2022/23, the long-term financial condition of the Scheme is under pressure

In 2022/23, there was a 2% increase to the overall funding ratio of the Scheme, which means the ratio of Scheme assets to Scheme liabilities improved slightly. This increase was because favourable economic movements (changes to economic variables that are outside of ACC's control) offset a weaker-than-expected underwriting result (the surplus or deficit generated by ACC's insurance activities during the year).

Despite this small surplus in 2022/23, the long-term financial condition of the Scheme is under pressure. This is primarily due to the gap between the income ACC receives and the

costs it incurs for each new year of claims. ACC's income for new claims in a given year is generated through levies and appropriations, while costs incurred reflect the lifetime cost of accidents that occur in that year, allowing for expected investment returns.

The long-term financial condition of the Scheme is also being affected by an ongoing decline in claim performance. This was the ninth consecutive year in which overall claim performance declined. Claim performance is driven by how effectively and efficiently ACC is rehabilitating injured clients and is affected by a mix of factors, some of which are within ACC's control. This decline was the main driver of ACC's weaker-than-expected underwriting result.

The Motor Vehicle, Work and Earners' Accounts remain in surplus, but ACC is spending more in claims than it's receiving in levies

The Motor Vehicle, Work and Earners' Accounts remain in surplus, above their funding target. However, the annual gap between the income ACC is receiving from levies for these Accounts and the lifetime cost of accidents incurred each year is \$1.21 billion.

To some extent this is deliberate and in the short term it will help reduce the funding ratio of Accounts in surplus to their funding target. If steps aren't taken to reduce this gap, however, the funding ratio of all the Scheme's Accounts will decline, and ACC's financial condition will weaken.

Of these Accounts, the Earners' Account is under the most pressure. Even if future levy increases are approved the current cost gap means the Account is projected to fall below its funding target next year and continue to decline until 2028. It's not forecast to reach its funding target again until after 2040. This is due to a cap which limits how much levies and appropriations can increase in a single year¹.

The Treatment Injury and Non-Earners' Accounts are projected to remain under funding targets until after 2040

The Treatment Injury and Non-Earners' Accounts don't currently have a cost gap. These Accounts, however, have a lower funding position and remain under their funding targets. Even if future levy and appropriation increases are approved, these Accounts aren't forecast to reach their funding targets again until after 2040.

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

If an unfavourable economic result coincides with a weaker underwriting result, ACC's financial condition could deteriorate quickly

2022/23 is the third consecutive year where favourable economic movement has more than offset weaker-than-expected underwriting performance. Economic movements aren't within ACC's control and can't be relied upon to always be favourable. If an ongoing decline in claim performance coincides with unfavourable economic movements (for example because of a decrease in interest rates), there could be a significant deterioration in the Scheme's financial condition. For example, as at 30 June 2023, a 1% decrease in interest rates would result in a 9.9% decrease in the overall ratio of Scheme assets to liabilities.

For the Scheme to remain sustainable, levies and appropriations will need to increase to match costs.

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

ACC will next make recommendations for how levies and appropriations should be set in 2024. ACC must make recommendations in accordance with two Government funding policies, which prescribe how recommendations are calculated. These recommendations are not binding on Government.

ACC can lessen the burden on levy payers and taxpayers

ACC has three key levers that can reduce the amount that needs to be paid in levies and appropriations:

- Investing and managing its assets to generate returns above market benchmarks. In 2023, ACC's investment portfolio made a return of 7.07% after costs, which was 0.20% below the benchmark target of 7.27%. Portfolio performance has been above its benchmark in eight of the last 10 years.
- Investing in a balanced injury prevention portfolio to reduce the incidence and severity of injuries in the community.
- Improving claim and rehabilitation performance to help people return to independence sooner.

ACC can also continue efforts to manage its operating expenses. In 2022/23 ACC's organisational expenses were equal to 8.8% of the total income ACC received from levies, appropriations, and investment returns. It's important that the management of operating expenses isn't pursued to the detriment of claim performance, which has a much greater impact on financial condition.

Focusing on client outcomes will also support improving the financial condition of the Scheme. Making effective investments in injury prevention and helping people recover from injury and return to independence will both improve ACC's financial condition and result in better outcomes for New Zealanders.

Injury prevention isn't having a significant impact on Scheme sustainability

Some injury prevention programmes are performing well. Overall, however, the current scale and performance of ACC's injury prevention portfolio is insufficient to have a significant impact on the financial sustainability of the Scheme.

Work's underway on a new strategic approach to expand the scale and enhance the performance of ACC's injury prevention activities. If successful, this could make a meaningful difference to the levies and taxes New Zealanders may need to pay in the future.

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

In 2022/23, declining claim performance resulted in strain² of \$902 million to ACC's outstanding claims liability (OCL), which is the money ACC will need to pay in the future to support clients who are currently injured. This is part of a longer-term pattern — in the past five years declining claim performance has resulted in cumulative strain of \$2.9 billion. ACC's total OCL is now \$46.3 billion.

We acknowledge that ACC, like many organisations, has faced significant challenges over the past few years. The impacts of COVID-19 are still being felt. Workforce constraints have caused higher staff turnover than previously experienced. The wider health system, and the providers ACC works with and relies on, are also under pressure. Cyclone Gabrielle also required some of the most capable members of ACC's workforce to divert their attention to meet urgent need.

As impactful as these challenges have been, they don't fully explain the decline in claim performance that has continued in 2022/23. This decline began well before the COVID-19 pandemic and there's no evidence that would allow us to attribute increasing numbers and costs of claims solely to external events.

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

ACC is committed to improving claim performance by delivering better rehabilitation outcomes for New Zealanders

ACC has substantial programme of work underway to improve claim performance by delivering better rehabilitation outcomes for New Zealanders. Key initiatives include the Rehabilitation Improvement Group (RIG), the Rehabilitation Performance Programme (RPP), and the Integrated Services for Sensitive Claims (ISSC) Evolution programme. ACC has also recently begun a review into how it commissions health services.

There are significant opportunities to improve claim performance

This year, and over the past five years, declining claim performance has been concentrated in three areas. We've identified much of the strain in these areas as 'influenceable', which means ACC might be able to control or mitigate it — at least to some degree. In this sense influenceable strain points to areas where there's the greatest potential to improve claim performance. If ACC can deliver and sustain significant improvements to claim performance in following areas, there will be a positive impact on ACC's financial condition:

- **Weekly compensation.** This is paid to clients who are unable to work, either temporarily or permanently, because of their injury. In 2022/23 there was \$181 million of influenceable strain in this area. Over the past five years the total influenceable strain has been \$1.36 billion.
- **Serious injury care.** This comprises all payments made to seriously injured clients who need access to care services, either permanently or temporarily. It includes costs for clients in residential care facilities and the cost of care providers who travel to a client's home. In 2022/23, there was \$655 million of influenceable strain in this area. Over the past five years the total influenceable strain has been \$1.38 billion.
- **Sensitive claims.** These are claims for physical and mental injuries resulting from sexual abuse or sexual assault. These clients are eligible for counselling services, attendant care, and vocational rehabilitation services, along with weekly compensation for lost earnings while in recovery. In the past year there was \$69 million of strain in this area. Over the past five years the total influenceable strain has been \$955 million. Some of this strain is because ACC has been actively working to improve access for these clients. We're more concerned about strain caused by increasing average cost of claims, rather than strain due to more survivors accessing services.

We've identified some future risks to ACC's financial condition

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

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

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

- claims associated with activities which may be impacted by climate change (for example, driving and recreation or sporting activities)
- increased violence claims due to the potential impact that increased temperatures may have on human behaviour
- potential increases in the number of drownings or water-related claims due to rising sea levels and temperature
- increased claims from flooding events and wildfires.

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

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

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

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

There are other risks that could affect future financial condition. Future pay equity claims across the health system could result in significant growth in claim costs and the OCL. In addition, expansion of Scheme access could place pressure on ACC's future financial condition. For example, there are currently three cases before the Courts which, depending on their ruling, could also have a material impact on the Scheme's financial condition. ACC could also choose to improve access to the Scheme where it believes there are current problems, as it's doing for survivors of sexual abuse and assault.

It will be important to understand the effect that the ongoing implementation of Huakina Te Rā will have on ACC's financial condition

On 1 July 2023, ACC launched its new enterprise strategy, Huakina Te Rā. Through the implementation of this strategy, ACC is intending to address potential access and equity issues. It's too early for Huakina Te Rā to have had an impact on ACC's financial condition.

Moving forward, as with any strategy, the success of Huakina Te Rā will depend on the degree to which ACC can translate intent into reality by navigating trade-offs and best using its scarce resources.

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

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

We've updated our recommendations on how ACC can improve its financial condition

We've updated our recommendations to reflect our latest advice on opportunities to improve the financial condition of the Scheme. There are now four active recommendations:

1. We recommend that ACC's injury prevention activities are guided by a detailed implementation strategy that:
 - sets out clear milestones for how ACC's strategic injury prevention targets will be achieved over time
 - sets out accountabilities and responsibilities across ACC to ensure the importance of injury prevention as a lever for financial sustainability is recognised and managed
 - includes approaches to ensure current and historic performance issues are appropriately managed
 - strengthens investment logic, monitoring, and evaluation frameworks so that changes can be made at the right time if a programme seems to be going off track, or if the environment changes.
2. We recommend that ACC improve Māori access, outcomes, and experience by:
 - developing an evidence base about where there are unfair or avoidable differences in injury risk and Scheme access, outcomes, and experience for Māori
 - clearly demonstrating how the work ACC's doing will result in improved access, outcomes, and experience for Māori, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term (including Māori).
3. We recommend that ACC's work on sensitive claims:
 - improves ACC's understanding of the people suffering sexual abuse or assault in the community, including what their injury and claim patterns might mean for how services are delivered and funded, now and in the future
 - ensures services can be shown to deliver the right client outcomes, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term.
4. We recommend ACC places appropriate focus on claims that have the potential to have the greatest long-term impact on the OCL and new year claim costs, such as weekly compensation and social rehabilitation care and capital. ACC should ensure:
 - the services seriously injured clients are receiving are needs based and that effective monitoring and control frameworks are in place
 - that clients only enter or remain in the long-term claim pool due to complex or ongoing rehabilitation or support needs
 - work underway to improve rehabilitation outcomes can deliver the sustained performance improvements needed to have a positive impact on the OCL.

2. Why financial condition matters

About this section	Key messages
<ul style="list-style-type: none">• This section talks about why we write this report each year.• It introduces the concepts of Scheme sustainability and Scheme fairness.• It also includes an explanation of some key actuarial concepts, which will help non-specialist readers better understand the document.• This section is supplemented by a glossary of key terms, which can be found on page 52.	<ol style="list-style-type: none">1. ACC is here for all New Zealanders.2. We want to make sure the Scheme is here for the next generation and they're not paying for today's injuries.3. Focusing on client outcomes will support improving the financial condition of the Scheme.4. Making effective investments in injury prevention and helping people recover from injury and return to independence will both improve ACC's financial condition and result in better outcomes for New Zealanders.5. This document needs to comply with some professional requirements, but we've tried to limit jargon and to keep things as simple as possible.6. There are some key concepts that will help to understand what this report is saying about ACC's financial condition and sustainability.
Key concepts	
Scheme Sustainability Scheme Fairness Financial Condition Accounts New Year Claim Costs Funding Ratio Outstanding Claims Liability	

ACC is here for all New Zealanders

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

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

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

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

The report sets out the financial condition of the Scheme, how it's changed during the year and the reasons for the changes. The report also includes forecasts on how key aspects of financial condition may change over time and identifies existing and future risks to the Scheme. Where appropriate, we make recommendations for improving customer outcomes and ensuring a stronger financial condition in the future.

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

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

Currently, there are no risks to ACC's financial condition significant enough to affect its ability to pay claims over the short to medium term. However there are underlying trends and issues that, if left unaddressed, are likely to result in the next generation having to pay significantly higher levies and taxes to ensure the Scheme remains sustainable.

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

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

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

In writing this report as at 30 June 2023, we've complied with the New Zealand Society of Actuaries' professional standards, appropriately adapted for ACC. In line with these standards, our objective is to present a view of the Scheme that's transparent and free from bias. That's important in helping others to build a clear picture of the financial condition of the Scheme. It's also important in establishing what's needed to ensure ACC's financial condition can support a fair and sustainable Scheme for New Zealanders now and in the future.

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

There are some key concepts that are helpful to understand

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

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

How the Scheme is structured and funded

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. Each Account is funded by a levy, Parliament appropriation (funding from taxpayers paid by government), or a mixture of both.

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

To best understand the financial condition of the Scheme, it's necessary to look at each Account individually, rather than looking at all the Accounts in aggregate. One of the reasons

for this is Accounts can't be 'cross-subsidised', which means funds from one Account can't be transferred to another. This also means that levies collected for one Account cannot be used to offset another Account, but instead must be returned to levy payers in the form of a reduction in future levies.

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

How we measure financial sustainability and fairness

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

The **funding ratio** is the ratio (%) of assets (mainly investments) each of ACC's Accounts has available relative to the liabilities (the OCL, with some elements excluded). It's a legislative requirement for ACC's Accounts to be 'fully funded' – that is to have a funding ratio of 100%. If Accounts are below 100% for too long, it can be difficult to get them back to target and Scheme fairness and sustainability are threatened. It's also not optimal to be too far beyond 100% for too long, as this means we're holding onto more taxpayer and levy payer money than we need.

New year claim costs are the lifetime cost of claims occurring in a year, allowing for expected investment returns. The new year cost gap is the difference between new year claim costs and the income received from levies or appropriations.

In theory, we want levies and appropriations to be set at a level that matches the cost of new accidents each year (so that there's no new year cost gap). If levies and appropriations are set too far below new year claim costs, then we're living beyond our means and the funding ratio of an Account will deteriorate. If levies and appropriations are set too far above new year claim costs, then we're overcharging levy payers and taxpayers.

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

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

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

The outstanding claims liability (OCL)

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

A simple calculation of the OCL is³:



³ The calculation of the OCL is reduced by an allowance for returns to be earned on funds held before the money is paid out.

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

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

We classify OCL strain and release as either:

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

Long-term injuries have the greatest impact on the OCL

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

On 20 May 2023 two accidents occur	
Joe falls off his bike and injures his knee and wrist	Jane has a much more serious crash and is taken to hospital
<ul style="list-style-type: none"> • Joe goes to his GP, is certified as off work for eight weeks, and is referred to his physio for the same period. • By 30 June 2023 he's about two weeks away from returning to work. • The OCL for Joe as at 30 June 2023, will be the cost of weekly compensation for those two weeks, plus his last two physio appointments, plus any other services he needs from ACC for that last couple of weeks. <p>The OCL for a claim like this would be in the low thousands, and by June 2024 we'd be expecting the OCL for this claim to be zero, as by then Joe will be back at work, fully recovered.</p>	<ul style="list-style-type: none"> • She suffers a serious spinal injury and requires intensive care. She's unlikely to ever return to work, and will need in home care and capital equipment to regain as much independence as possible • By 30 June 2023, she has been profiled as a Serious Injury. • The OCL for Jane will include weekly compensation up to when she turns 65, the cost of care hours and capital equipment for the rest of her life, plus any other ACC services she's likely to need. <p>The OCL for a claim like this could be many millions of dollars. This claim will likely be included in the OCL for the rest of Jane's life. Each year we'd re-estimate what's left to pay to provide the services Jane needs, looking forward from the new balance date.</p>

The OCL is closely tied to client outcomes

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

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

There's some uncertainty in our predictions

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

The results and numbers presented in this report sometimes differ from those in ACC's Annual Report for 2023

This is because the Financial Condition Report is prepared in a way that aligns with the Government's Funding Policy Statements for ACC, while the Annual Report is prepared in a way that aligns with New Zealand generally accepted accounting practice (NZ GAAP).

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

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

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

More technical information is available in the appendices

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

- Additional background information. This appendix provides some additional background information that we need to cover to meet our professional standards.
- Financial results. This appendix provides more detail to supplement the discussion in the 'Financial and actuarial results' section of the main report. It also includes a reconciliation of the financial results presented in the Financial Condition Report to those presented in the Annual Report.
- Valuation of the OCL. This appendix discusses how ACC's outstanding claims liability was valued for the year ending 30 June 2023.
- Funding details. This appendix provides more detail to supplement the discussion in the main report on the future funding requirements and sustainability of each of ACC's five Accounts.
- Management of investments. This appendix discusses the performance of ACC's investment portfolio and how this is managed and governed.
- Claim performance. This appendix provides more detail to supplement the discussion in the main report on the claim and rehabilitation performance at ACC and the impact it's having on financial sustainability.
- Risk management. This appendix outlines the risks ACC faces and the associated risk frameworks it uses to achieve its objectives.

Some numbers have been rounded

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

3. Financial and actuarial results

About this section	Key messages
<ul style="list-style-type: none">• This section discusses how ACC’s financial condition has changed in the past year, as well as the trend over time.• It does this by looking at the financial impact that ACC’s insurance activities (the underwriting result) and economic variables (the economic result) have had on the Scheme.• This section includes projections on how we think the Scheme’s funding ratio may change over the next few years.• A breakdown of changes in the OCL is also included.	<ol style="list-style-type: none">1. The Scheme’s funding ratio is slightly stronger than expected. This was because favourable economic results offset the impact of a weaker-than-expected underwriting result.2. The OCL has increased by \$1.11 billion to \$46.33 billion.3. Declining claim performance negatively affected both the underwriting result and the OCL.4. Economic results won’t always be favourable. If a poor economic result coincides with a weak underwriting result, then ACC’s financial condition will deteriorate.5. We expect underwriting deficits to continue for the next four years. This is partly to reduce the surplus in some Accounts.
Key concepts	
Funding Ratio Outstanding Claims Liability Underwriting Result Economic Result New Year Claim Costs	

The Scheme's funding ratios are stronger than expected. Favourable economic movements offset the impact of weaker underwriting performance

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

The target funding ratio for each Account is 100%⁴. This means ACC aims to hold assets equal to the OCL, excluding the risk margin and some other elements. When funding ratios are close to the target of 100%, we can be more confident that the Scheme is sustainable and fair.

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

Last year, we projected there would be a fall in funding ratios for most Accounts during 2022/23. Instead, as at 30 June 2023, the funding ratios for most Accounts increased.

The primary reason for the unexpected increase was the impact of favourable economic movements, which offset a weaker-than-expected underwriting result:

- Economic movements are changes to economic variables that are outside of ACC's control (such as interest rates and inflation). Economic movements can result in large changes to the Scheme's funding ratio and be favourable to the Scheme even if the wider economic climate is less favourable.
- The underwriting result⁵ is the surplus or deficit generated by ACC's insurance activities during the year. It's the difference between income (levies and appropriations) received and the cost of claims incurred during a year (including expenses paid). It excludes economic impacts from investments and changes in interest rates.

Table 1 shows the opening funding ratios by Account as at 30 June 2022, the expected change in the ratios during 2022/23, and the impact this year's underwriting and economic results had on the final ratios as at 30 June 2023.

TABLE 1: CHANGE IN FUNDING RATIO BY ACCOUNT

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non- Earners' Account	Total
Opening funding ratio as at 30 June 2022	125%	136%	105%	81%	50%	100%
Impact of expected underwriting result	(5%)	(6%)	(8%)	(2%)	(0%)	(4%)
Impact of expected economic result	2%	3%	3%	2%	1%	2%
Expected funding ratio as at 30 June 2023	123%	133%	99%	80%	52%	98%
Difference between actual and expected underwriting result	(0%)	0%	(3%)	(3%)	(1%)	(2%)
Difference between actual and expected economics result	8%	4%	6%	6%	4%	6%
Actual funding ratio as at 30 June 2023	131%	137%	102%	83%	55%	102%

The weaker-than-expected underwriting result was mainly driven by an OCL strain of \$902 million and cash claim costs being \$164 million higher than expected. This was partially offset by higher-than-expected levy and appropriation income of \$272 million and lower-than-expected expenses of \$48 million.

Favourable economic movements were driven by the net impact of changes to discount and inflation rate assumptions (\$2,029 million) and higher-than-expected net investment income (\$793 million).

⁴ The exception to the 100% funding ratio target is pre-2001 claims in both the Non-Earners' Account and the non-levied portion of the Treatment Injury Account. These claims are funded under a Pay As You Go (PAYG) approach. This means no additional funding needs to be held at the end of the year so the funding targets for these claims are effectively 0%.

⁵ Technically, in this report, the underwriting result refers to the movement in funding position as a result of underwriting activities.

An increase in interest rates during the year led to a significant decrease in the OCL. Normally, an increase in interest rates might result in negative investment returns from bond portfolios. ACC's bond portfolio, however, generated a small positive return. Other revaluation gains on growth assets resulted in a higher-than-expected overall gross return (before costs) on ACC's total investment portfolio of 7.25%. Overall, the net impact of economic assumption changes on the OCL and actual investment returns were key drivers of ACC's higher-than-expected funding position.

Table 2 provides a breakdown of the 2022/23 underwriting and economic result.

TABLE 2: 2022/23 UNDERWRITING AND ECONOMIC RESULTS

\$M	Actual	Expected	Difference
Income			
Total levies and appropriations	5,901	5,629	272
Expenditure			
Cash claim costs	6,719	6,556	164
Change in OCL	1,761	859	902
Expenses	148	196	(48)
Total expenditure	8,629	7,605	1,024
Underwriting result	(2,727)	(1,982)	(746)
Economic			
Change in discount and inflation rate assumptions	2,029	0	2,029
Unwind of risk-free interest rate	(1,408)	(1,408)	0
Net investment income	3,119	2,326	793
Economic result	3,740	918	2,822
Total movement in funding position⁶	1,013	(1,064)	2,077
Movement in funding ratio	2%	(2%)	4%

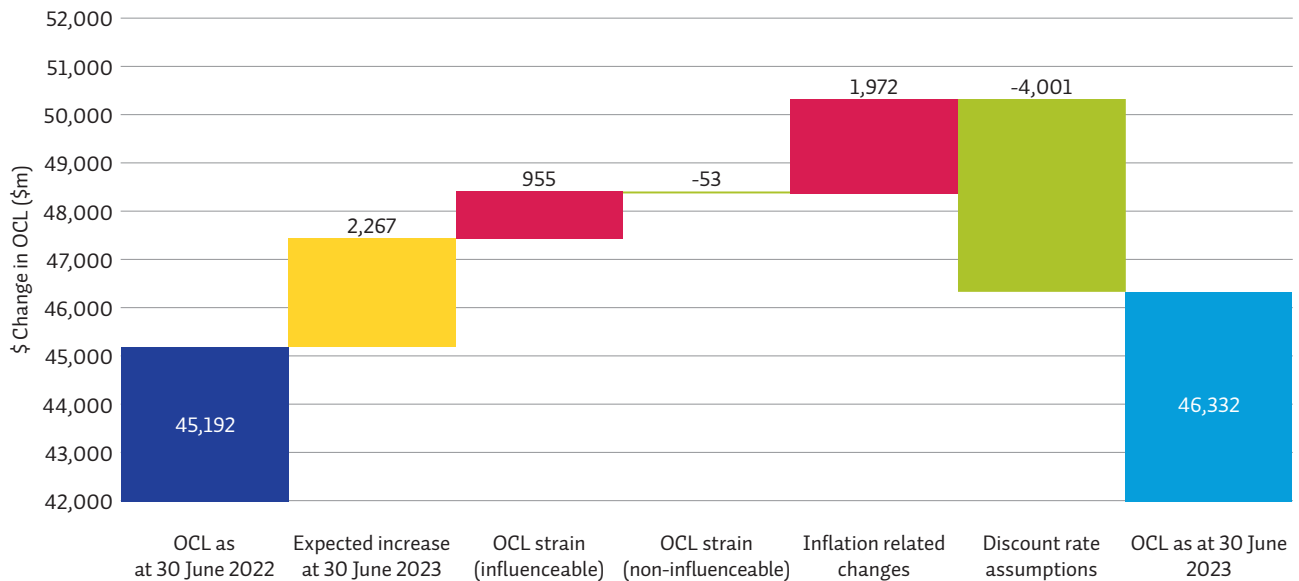
The OCL increased by \$1,140 million

In the 2022/23 financial year the OCL increased by \$1,140 million. The total OCL is now \$46,332 million.

The key movements in the OCL in the last financial year were:

- An expected increase of \$2,267 million. Each year we expect the OCL to grow because we expect the cost of new claims in the year to be greater than the cost of claims that were resolved. There are several factors driving this including inflation, population growth, demographic changes, and Scheme maturity.
- An increase of \$955 million due to influenceable OCL strain. This strain was primarily driven by weaker-than-expected claim performance across all Accounts and was the key driver of the weaker-than-expected underwriting result.
- A reduction of \$53 million due to non-influenceable release. This was mainly due to a change in assumptions for client mortality and the composition of contracted versus less expensive non-contracted care for some clients.
- An increase of \$1,972 million due to inflation-related changes. These changes are classed as an economic movement outside of ACC's control.
- A reduction of \$4,001 million due to changes to discount rate assumptions. These changes are also classed as an economic movement outside of ACC's control.

⁶ Funding position is a different way of expressing funding ratio, using dollar amounts rather than a percentage. If the funding position increases relative to the size of the Account, then the funding ratio will also increase and vice versa.

CHART 1: OCL MOVEMENTS IN THE 2022/23 FINANCIAL YEAR


Overall OCL growth was lower than expected due to favourable economic movements

At 30 June 2022, we expected a reduction in the Scheme's funding ratio. A significant contributor to the forecasted reduction was the expected growth in the OCL of \$2,267 million. However, in 2022/23, the actual increase in liability was much less at \$1,140 million. This lower-than-expected increase was the largest driver of the positive movement in the Scheme's funding ratios.

But declining claim performance meant claim volumes and costs were higher than expected across all Accounts

Table 3 summarises the impacts of OCL strain and release across each Account. Every Account had influenceable strain, but there was a partial offset due to non-influenceable release in the Motor Vehicle, Treatment Injury, Non-Earners', and (to a lesser extent) Earners' Accounts. The Work Account was the only Account to see non-influenceable strain, due to recent changes in hearing loss claim acceptance and lodgement criteria.

More detailed analysis on influenceable strain and claim performance can be found in the 'Claim performance' section.

TABLE 3: OCL STRAIN/RELEASE BY ACCOUNT

\$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2022/23
Influenceable OCL strain/(release)	76	19	461	290	108	955
Non-influenceable OCL strain/(release)	(60)	110	(1)	(53)	(48)	(53)
Total OCL strain/(release) as at 30 June 2023	16	129	460	237	60	902

Economic results won't always be favourable. If a poor economic result coincides with a weak underwriting result, then ACC's financial condition will deteriorate

Over the past five years, the Scheme has recorded underwriting deficits between \$1.7 billion and \$3.4 billion. As has been the case for levied Accounts⁷ for several years, a certain amount of underwriting deficit can be deliberate. An example is if Accounts are above the target funding ratio of 100% and excess funds need to be returned to levy payers. However, in the past five years underwriting deficits have also been driven by declining claim performance. This is discussed in more detail in the 'Claim performance' section.

2022/23 is the third consecutive year where economic movement was better-than-expected. This is primarily due to increasing interest rates and the impact this has on the OCL. Economic movements are not within ACC's control and cannot be relied upon to always be favourable. If an ongoing decline in claim performance coincides with several years of unfavourable economic movements, there could be a significant deterioration in the Scheme's financial condition. This would pose a threat to Scheme sustainability and fairness.

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

TABLE 4: ACTUAL VS EXPECTED MOVEMENT IN FUNDING POSITION

\$M	2018/19	2019/20	2020/21	2021/22	2022/23
Expected movement in funding position at start	(875)	(1,661)	(1,322)	(919)	(1,064)
Levy/appropriation income higher/(lower) than expected	203	22	323	272	272
Cash claim costs paid (higher)/lower than expected	186	79	(396)	19	(164)
Expenses paid (higher)/lower than expected	4	39	19	13	48
OCL (strain)/release	(494)	(134)	(450)	(1,499)	(902)
Underwriting movement higher/(lower) than expected	(101)	6	(504)	(1,195)	(746)
Net investment income higher/(lower) than expected	3,586	1,990	3,443	(6,062)	793
Economic assumptions for the OCL higher/(lower) than expected	(11,152)	(5,184)	7,944	7,641	2,029
Economic movement higher/(lower) than expected	(7,565)	(3,194)	11,387	1,578	2,822
Closing movement in funding position	(8,542)	(4,849)	9,561	(536)	1,013

The 2018/19 and 2019/20 results show how the Scheme can be impacted by unfavourable economic movements — in this case risk-free interest rates falling to historical lows. These unfavourable economic movements significantly increased the OCL and put upward pressure on levies and appropriations.

A drop in interest rates remains the economic movement most likely to negatively impact on ACC's financial condition. As at 30 June 2023, a 1% decrease in interest rates would result in a 9.9% decrease in the overall weighted average funding ratio of the Scheme.

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

⁷ The levied Accounts are Motor Vehicle, Work, Earners', and the Earners' portion of Treatment Injury. The non-levied Accounts are the Non-Earners' and the Non-Earners' portion of Treatment Injury.

We expect deficits to continue for the next four years

We predict ACC will continue to return underwriting deficits in each of the next four years and that these deficits will be close to \$2 billion each year.

As Table 5 shows, we're not expecting economic movements to provide a significant offset to the projected underwriting deficits. In total we expect the Scheme's overall funding position to reduce by between \$1.1 billion and \$1.4 billion in each of the next four years.

TABLE 5: SUMMARY OF PROJECTED MOVEMENT IN FUNDING POSITION

\$M	2022/23	2023/24	2024/25	2025/26	2026/27
Underwriting result	(2,727)	(1,970)	(2,046)	(1,980)	(1,906)
Economic result	3,740	576	650	782	755
Movement in funding position	1,013	(1,395)	(1,396)	(1,198)	(1,151)

The current funding ratios of the Motor Vehicle and Work Accounts are well above the target funding ratio of 100%. For these Accounts we want to create a deficit to reduce the funding ratios closer to the 100% target and ensure ACC isn't overcharging levy payers. However, the size of the deficit means that the funding ratios of these Accounts will continue to decline over time, which will have an impact on how future levies may need to be set.

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

ACC ACCOUNT SUMMARY 2022/23

MOTOR VEHICLE ACCOUNT



What type of accident does the Account cover?
Injuries involving a moving motor vehicle.



How funds were provided?
Levies sourced from motor vehicle, Injuries involving a moving motor vehicle, Employer and private law.



What is the position of the fund?

130.6%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **51,700** **Average claim cost** **\$12,726**

New year cost gap **\$(297m)**

The excluded Public Health Act/acc Services costs

WORK ACCOUNT



What type of accident does the Account cover?
Work related injuries



How funds were provided?
Levied from employers and the self-employed



What is the position of the fund?

137.2%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **338,400** **Average claim cost** **\$3,369**

New year cost gap **\$(296m)**

The excluded Public Health Act/acc Services costs

TREATMENT INJURY ACCOUNT



What type of accident does the Account cover?
Injuries that are caused by, or happen during treatment.



How funds were provided?
Levied from employees and the self-employed plus appropriations



What is the position of the fund?

83.3%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **26,200** **Average claim cost** **\$13,581**

New year cost gap **\$(91m)**

This excluded Public Health Act/acc Services costs

NON-EARNERS' ACCOUNT



What type of accident does the Account cover?
Injuries not covered in other Accounts to people not in employment.



How funds were provided?
Government appropriation



What is the position of the fund?

55.0%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **1,109,100** **Average claim cost** **\$957**

New year cost gap **\$(8m)**

This excluded Public Health Act/acc Services costs

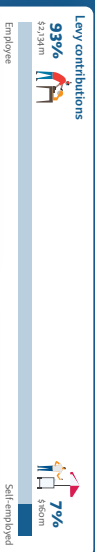
EARNERS' ACCOUNT



What type of accident does the Account cover?
Non-work injuries to people in employment.



How funds were provided?
Levied from employees and the self-employed



What is the position of the fund?

101.6%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **943,200** **Average claim cost** **\$2,268**

New year cost gap **\$(515m)**

The excluded Public Health Act/acc Services costs

ACC TOTAL

Everyone in New Zealand is covered by ACC's no-fault scheme if they're injured in an accident.
Under the Scheme, individuals (or a group) are entitled to sue for compensatory damages following injury. In exchange for comprehensive accident insurance cover and compensation, the Scheme is managed through five Accounts, which each providing cover for a specific group of injuries.



What is the position of the fund?

102.2%

The funding ratio represents the position of the Account as the ratio (%) of assets to liabilities.

Number of claims **2,468,600** **Average claim cost** **\$2,169**

New year cost gap **\$(1,207m)**

This excluded Public Health Act/acc Services costs

4. Future funding and sustainability

About this section	Key messages
<ul style="list-style-type: none">• This section focuses on the funding that the Scheme will need over the coming years.• This is determined by looking at the funding ratio of the Scheme’s Accounts and considering if there’s enough money coming in each year from levies and appropriations to cover new year claim costs.• The section includes predictions for how levies and appropriations may need to change over the coming years, in line with the Government Funding Policy Statements for the Scheme.• It also discusses the implications for Scheme sustainability and fairness if funding and costs don’t align.	<ol style="list-style-type: none">1. We assess the future funding requirements for the Scheme by looking at the future funding ratio and claim costs for each Account.2. The future funding ratio of most Accounts is declining because ACC is spending more on claims than it’s receiving through levies and appropriations. This is partially deliberate for Accounts in surplus.3. Over the medium to long term, if levies and appropriations don’t match costs, the financial condition of the Scheme will deteriorate.4. Each Account has a different funding trajectory that has an impact on how levies and appropriations may need to be set in the coming years.5. We are forecasting increases in levies and appropriations for all Accounts.6. ACC can lessen the burden on levy payers and taxpayers through its investment portfolio, injury prevention programmes, and by improving claim performance.
Key concepts	
Government Funding Policy Funding Ratio New Year Claim Costs New Year Rate	

We can understand the future funding requirements for the Scheme by looking at the future funding ratio and claim costs for each Account

ACC makes recommendations on how levies and appropriations can be set. This is done annually for the Accounts funded by appropriations (the non-levied Accounts) and three-yearly for the levied Accounts. ACC also completes public consultation every three years on any recommended changes to levies.

ACC must make recommendations in accordance with two Government Funding Policy Statements, which prescribe how recommendations are calculated. These recommendations are not binding on Government.

Under the Government Funding Policy Statements, ACC needs to make recommendations based on projected new year claim costs – the lifetime costs of claims occurring in a year. There is then a funding adjustment, which is the change required in the levy rate or appropriation need to move the Account towards the 100% funding target over time. Increases must not exceed a cap, which is 5% per year for levied Accounts (5% plus inflation for the Motor Vehicle Account) and 7.5% per year for the non-levied Accounts.

Government determines the final levy rates and appropriations, which can be different to ACC’s recommendations.

The future funding ratios of most of the Accounts are declining because ACC is spending more on claims than it’s receiving through levies and appropriations

Across all Accounts, the aggregate new year cost gap projected for 2023/24 is \$1,207 million. This means that, currently, the lifetime cost of claims that ACC must fund each year is \$1,207 million more than what’s being collected each year in levies and appropriations.

For levied Accounts, the rate that needs to be set to match new year claim costs is called the ‘new year rate’. For non-levied Accounts, the level that appropriations need to be set to match new year claim costs is called the ‘new year cost’. Currently, the rates for levied Accounts are below the new year rate. However, the 2023/24 appropriations approved by Government are close to the new year cost.

Table 6 shows the projected 2023/24 new year cost gap, rates, and costs for each Account, as well as the expected direction of movement in future funding ratios. When forecast income is below new year claim costs, the shortfall will result in a reduction in the future funding ratio. Currently the funding ratios for the levied Accounts are declining, whereas the ratio for the non-levied Accounts is projected to increase.

TABLE 6: PROJECTED 2023/24 NEW YEAR CLAIM COSTS, GAPS, AND RATES BY ACCOUNT

Account ⁸	2023/24 levy or appropriation	New year rate/cost	New year cost gap	Funding ratio as at 30 June 2023	Expected future direction of funding ratio
Motor Vehicle (rate per vehicle)	\$113.94	\$184.78	(38%)	131%	↓
Work (rate per \$100 of payroll)	\$0.63	\$0.84	(25%)	137%	↓
Earners’ (rate per \$100 wages)	\$1.27	\$1.55	(18%)	102%	↓
Treatment Injury (levied) (rate per \$100 wages)	\$0.06	\$0.12	(53%)	131%	↓
Treatment Injury (non-levied)	\$244m	\$220m	11%	86%	↑
Non-Earners⁹	\$1,774m	\$1,782m	(0%)	81%	↑

⁸ The numbers for the Non-Earners’ and Treatment Injury Accounts are different than those presented in the previous section, as this section only considers the fully funded portion of these Accounts.

⁹ Currently there’s a slight new year cost gap for the Non-Earners’ Account, but over the longer-term appropriations are expected to increase, which will remove the gap and increase the Account’s funding ratio.

The funding ratios of the levied Accounts are projected to decline

As discussed in the ‘Financial and actuarial results’ section, the decline in the funding ratio is partially deliberate for Accounts with large funding surpluses. Currently this is the Work Account, the Motor Vehicle Account, and the levied portion of the Treatment Injury Account. When this occurs, levies are deliberately discounted to return the surplus funds to levy payers over time, which moves the funding ratio towards the 100% target. However, the extent of the current new year cost gap means that these Accounts are declining faster than is sustainable without future levy increases.

The funding ratio of the Earners’ Account is currently at 102%, marginally above the funding target. Due to the large new year cost gap, the Earners’ Account’s expected to fall below the funding target next year and continue to decrease until 2029/30. This will occur even if projected recommendations for levy increases are approved by the Government, due to the 5% cap on annual increases for the levied Accounts.

The funding ratios of the non-levied Accounts are projected to improve

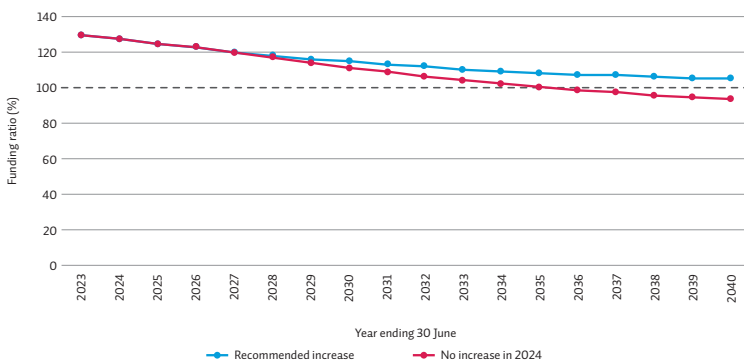
Unlike the levied Accounts, the non-levied Accounts are below the 100% funding target. While the Accounts are in deficit, appropriations are recommended to be higher than the new year claim costs, increasing the future funding ratios toward target. As the funding ratios get closer to target the difference between appropriations and the new year claim costs will decrease. However, due to the extent of the current deficits, these Accounts aren’t forecast to reach their funding targets until after 2040. This is due to the cap which limits how much levies and appropriations can increase in a single year.

Over the medium to long term, if levies and appropriations don’t match costs, the financial condition of the Scheme will deteriorate

Under current projections, levies and appropriations for most Accounts are expected to need to increase for at least the next 10 years. If no increases are approved, then funding ratios will deteriorate faster than expected, and it will be more difficult to achieve the funding targets in the long term. It will also mean that future increases need to be larger, or at cap for longer.

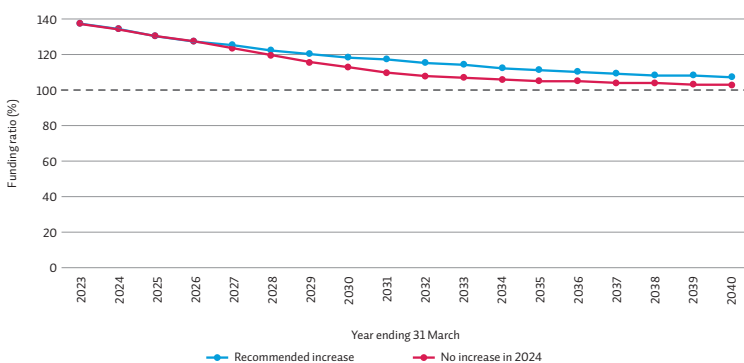
We have estimated the future funding ratio of each Account under two scenarios. The first scenario is if increases to levies and appropriations recommended under the Government Funding Policy Statements are approved. The second scenario is if no increases are approved in 2024, but recommended increases are approved in later years.

CHART 2: MOTOR VEHICLE ACCOUNT FUTURE FUNDING RATIO SCENARIOS



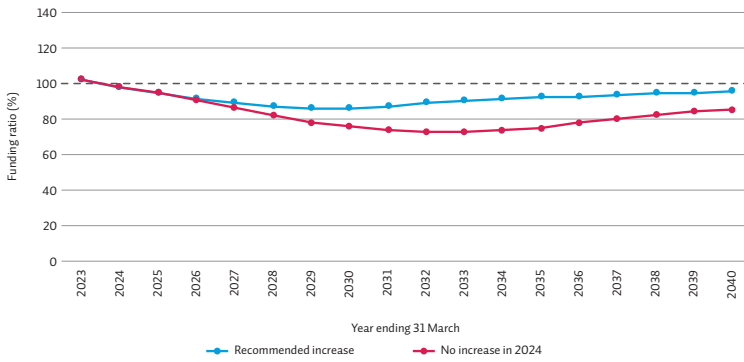
The Motor Vehicle Account is currently above target, but the new year cost gap of \$297 million means that the funding ratio is declining. This means that, despite being in surplus, levy increases will be recommended. If these increases aren’t approved the new year cost gap will widen and future levies will need to be higher or at cap for longer to compensate for holding levies flat in the short term.

CHART 3: WORK ACCOUNT FUTURE FUNDING RATIO SCENARIOS



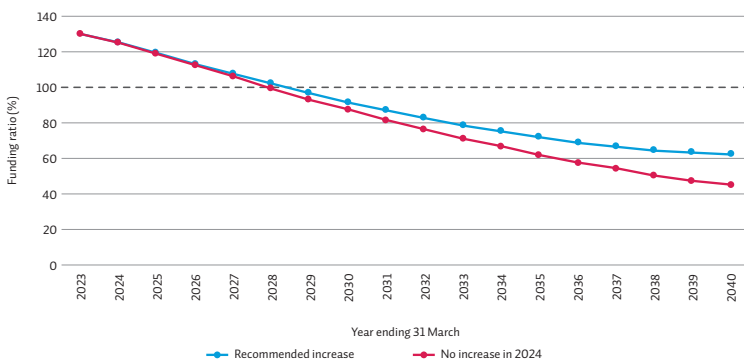
The Work Account is gradually declining over time in line with the funding policy. Over the coming years the new year cost gap of \$296 million will need to be addressed to ensure the Account doesn’t decline too quickly. If recommended levy increases aren’t approved the new year cost gap will widen and future levies will need to be higher or at cap for longer to compensate for holding levies flat in the short term.

CHART 4: EARNERS' ACCOUNT FUTURE FUNDING RATIO SCENARIOS



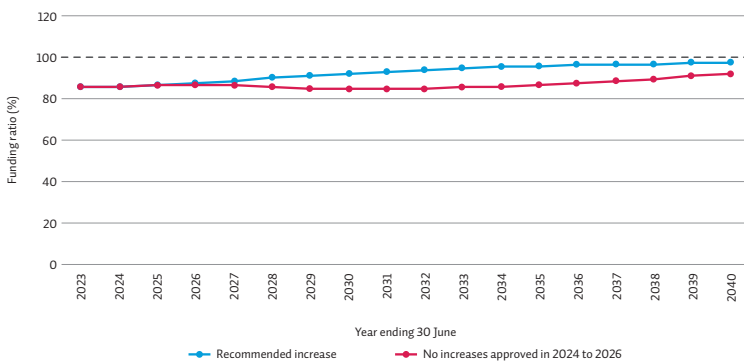
The Earners' Account is only slightly above target (102%), with a new year cost gap of \$515 million. If recommended levy increases are approved the Account will decline slowly before gradually returning close to target over many years. If recommend levy increases aren't approved the funding ratio could drop to 73% by 2031/32, which would have an impact on Scheme sustainability and fairness. If the funding ratio of the Account drops this low many years of increases will be needed to restore the funding ratio.

CHART 5: TREATMENT INJURY ACCOUNT (LEVIED PORTION) FUTURE FUNDING RATIO SCENARIOS



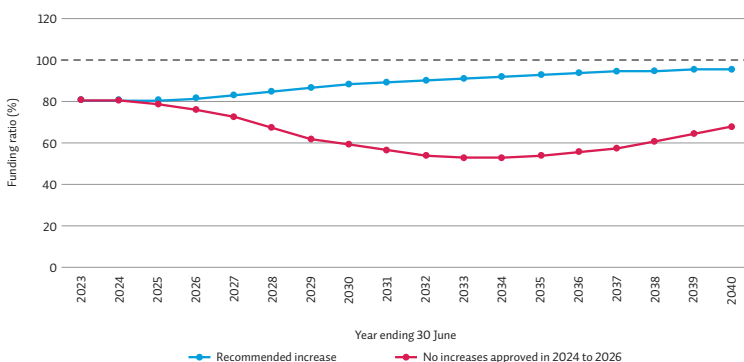
The Treatment Injury Account is represented over two charts as it's funded through a mix of levies and appropriations. Due to a new year cost gap of \$115 million, the funding ratio for the levied portion of the Treatment Injury Account is expected to decline rapidly in both scenarios. This is because the current 5% cap on levy increases makes it difficult to restore the Account's funding ratio without it going into large negatives first. If no increases are approved in 2024 the future funding ratio is projected to decline to 43% in 2040/41.

CHART 6: TREATMENT INJURY ACCOUNT (NON-LEVIED PORTION) FUTURE FUNDING RATIO SCENARIOS



There's no current new year cost gap for the non-levied portion of the Treatment Injury Account. Instead there's a positive differential of \$25 million. However, new year claim costs are projected to increase between now and 2040. Ongoing increases to the appropriation will be required to keep up with increasing costs. If no increases are approved, the future projected funding ratio will decline slowly over time as the cost of claims continues to rise.

CHART 7: NON-EARNERS' ACCOUNT FUTURE FUNDING RATIO SCENARIOS

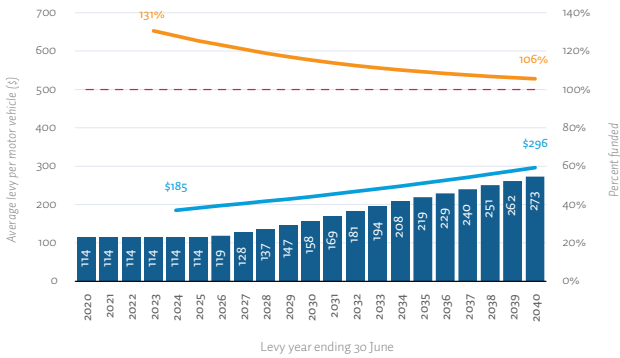


The current new year cost gap for the Non-Earners' Account is \$8 million. New year claim costs are projected to significantly increase between now and 2040. Ongoing increases to the appropriation will be required to keep up with increasing costs and bring the Account back to target. If no increases are approved, the future projected funding ratio is projected to rapidly decline to 53% in 2032/33.

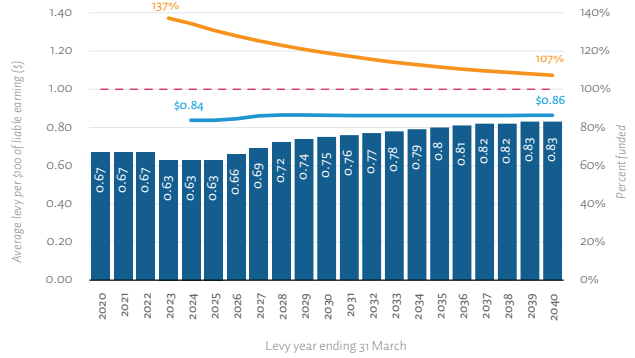
Past and future funding ratios, levies and new year rates

The charts below show the projected movement of funding ratios, new year rates and costs, and levies and appropriations out to 2040. These projections assume that the increases to levies and appropriations that ACC recommends under the Government Funding Policy Statements are approved.

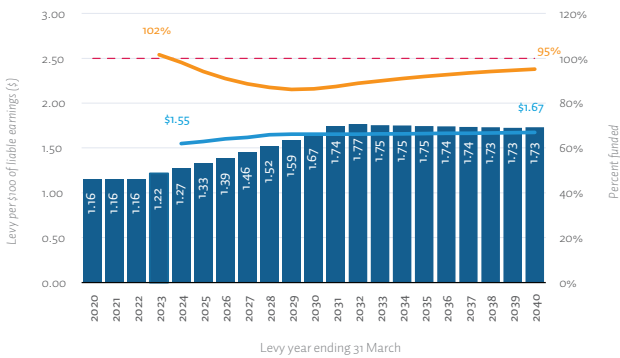
MOTOR VEHICLE ACCOUNT



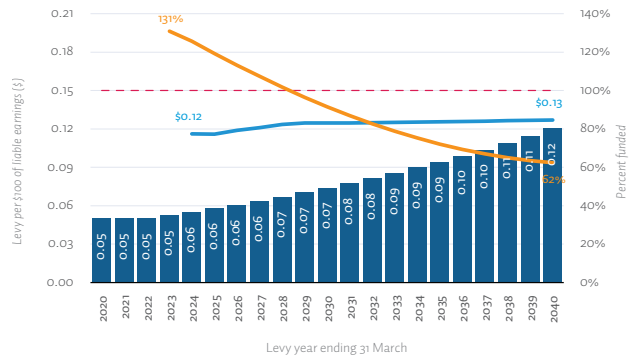
WORK ACCOUNT



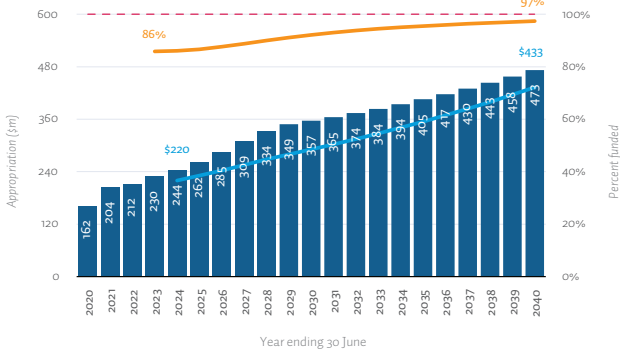
EARNERS' ACCOUNT



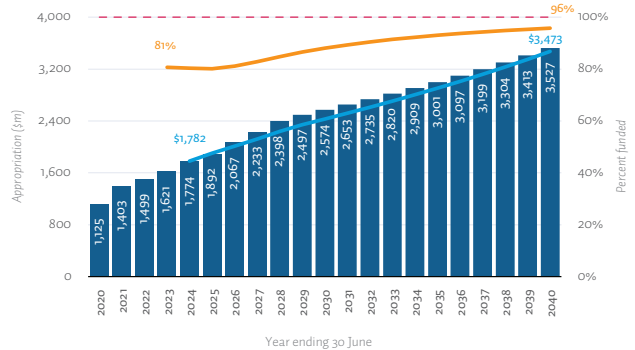
TREATMENT INJURY ACCOUNT (LEVIED)



TREATMENT INJURY ACCOUNT (NON-LEVIED)



NON-EARNERS' ACCOUNT



■ Levy rate/appropriation \$
 ■ New year claim rate/cost
 ■ Funding ratio (end of year)
 ■ Target funding ratio

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

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

While there's fluctuation, declining claim performance has resulted in consistent upward pressure on levies and appropriations in the past five years. This is reflected through the direct impact claim performance has on funding ratios, and through the resulting impact on projected future claim performance.

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

TABLE 7: CHANGES IN 2025/26 NEW YEAR CLAIM COSTS DUE TO CLAIM PERFORMANCE FROM 2018 TO 2023

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account (levied)	Treatment Injury Account (non-levied)	Non-Earners' Account
New year claim costs as at 30 June 2023	\$857m	\$1,316m	\$3,291m	\$245m	\$243m	\$2,010m
Change from claim performance 2018-2023	↑\$118m 14%	↑\$267m 20%	↑\$1,007m 31%	↑\$57m 23%	↑\$16m 6%	↑\$432m 22%
Change from other factors	↓(\$60m) (7%)	↓(\$28m) (2%)	\$0m 0%	↑\$27m 11%	↓(\$42m) (17%)	↓(\$74m) (4%)
Impact of claim performance on new year rate	↑\$27.09	↑\$0.17	↑\$0.49	↑\$0.03		

In the Motor Vehicle Account some of the impact of declining claim performance was partially offset by favourable economic movements. In the Work and Earners' Accounts, the impact of declining claim performance was partially offset by higher-than-expected levy collection. In the Non-Earners' Account, and the non-levied portion of the Treatment Injury Account, claim performance was partially offset by favourable economic movements.

Claim performance issues causing the increase in new year claim costs in the past five years include:

- People taking longer to be rehabilitated who then needed more weekly compensation payments. This was a key driver of increasing new year claim costs for the Work Account and accounted for more than half of the increase for the other levied Accounts.
- Higher claim frequency for weekly compensation claims. This contributed to the increased new year claim costs for most Accounts, except for the Motor Vehicle Account, where the number of new weekly compensation claims was lower than expected.
- Funding for ambulance and public health acute services (PHAS) has increased significantly in the past five years. This caused half of the increase in the Motor Vehicle and Non-Earners' Accounts.
- Serious injury care hour increases were the primary driver of increased costs for the non-levied portion of the Treatment Injury Account and caused small increases in other Accounts.
- Almost 20% of the increase to new year claim costs in the Earners' and Non-Earners' Accounts was driven by increasing numbers of new sensitive claims.
- Increases to new year claim costs were partially offset by lower medical payments and expected new claim numbers for most Accounts.

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

For the levied Accounts there's currently a significant gap between the new year claim costs and what's being collected in levies. Moreover, we're expecting new year claim costs to increase significantly over the next 10 years. Because of this, under the Government Funding Policy Statements, ACC will likely need to recommend that levies and appropriations increase at cap for many years for most Accounts. Specific recommendations will differ, depending on the Account.

This is likely to have an impact on New Zealand households, particularly lower income households with less disposable income.

Table 8 shows the levy impact in 10 years for an average income household with two cars.

TABLE 8: IMPACT OF EXPECTED LEVY INCREASES OVER THE NEXT 10 YEARS ON AN AVERAGE INCOME HOUSEHOLD

	Expected levy payment in 2023	Expected levy payment in 2033	Increase	Percentage increase
Motor Vehicle Account	\$230	\$310 (excluding inflation)	\$80	35%
Earners' Account (including the levied portion of Treatment Injury Account)	\$1,270	\$1,850 (2023 income levels)	\$580	46%
Total	\$1,500	\$2,160	\$660	44%

Rising appropriations for the non-levied Accounts will also have an impact. Currently every taxpayer in New Zealand contributes on average about \$400 toward the appropriation. In 10 years, this is expected to increase by 19%.

Work Account levies are also expected to rise 24% over the next 10 years, to \$780 in today's money (excluding inflation). This increase will have less direct impact on households but is still important to account for due to the impact on businesses and the self-employed.

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

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

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

- Investing and managing its assets to generate returns above market benchmarks.
- Investing in a balanced injury prevention portfolio to reduce the incidence and severity of injuries in the community. Injury prevention is discussed more in the next section.
- Improving claim and rehabilitation performance to help people return to independence sooner. Claim performance is discussed more in the 'Claim performance' section.

ACC can also continue efforts to manage its operating expenses. In 2022/23 ACC's organisational expenses were equal to 8.8% of the total income ACC received from levies, appropriations, and investment returns. It's important that the management of operating expenses isn't pursued to the detriment of claim performance, which has a much greater impact on financial condition.

Investment returns help keep levies and appropriations lower

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

Investment returns have a material impact on new year claim costs, helping to keep them lower, which in turn reduces upward pressure on levies and appropriations. Table 9 shows the expected effect of investment returns on the new year rate in 2025/26.

TABLE 9: 2025/26 NEW YEAR RATE/COSTS DISCOUNTED BY FORECAST INVESTMENT RETURNS AND RISK-FREE RATES

	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account (levied)	Treatment Injury Account (non-levied)	Non-Earners' Account
New year rate/cost discounted by expected investment returns	\$197.00	\$0.85	\$1.60	\$0.12	\$243m	\$2,010m
New year rate/cost discounted by expected risk-free rates	\$222.42	\$0.89	\$1.71	\$0.13	\$319m	\$2,172m
Difference	13%	6%	7%	11%	31%	8%

In 2023, ACC's investment portfolio made a return of 7.07% after costs. This was slightly below the benchmark target of 7.27%. Portfolio performance has been above its benchmark in eight of the last 10 years.

5. Injury prevention

About this section	Key messages
<ul style="list-style-type: none">• This section discusses the performance of ACC’s activity to reduce the incidence and severity of injuries in Aotearoa New Zealand.• It includes discussion of the performance of the overall prevention portfolio, as well as the performance of specific programmes.• Investment in injury prevention is important to ACC’s financial condition because it can reduce the levies and taxes New Zealanders need to pay to keep the Scheme financially sustainable. It’s often long term in nature.• Injury prevention can also provide wider social benefits, but these are less relevant to this document, which is focused on financial sustainability.• Investment in prevention is guided by legislation that requires ACC to be satisfied that its investment in prevention is likely to result in lower levies or appropriations, or can be funded by another source, such as Parliament appropriation.	<ol style="list-style-type: none">1. Injury prevention isn’t currently having a significant impact on the financial sustainability of the Scheme.2. Two key issues are limiting the performance of the injury prevention portfolio:<ul style="list-style-type: none">– The scale of the investment isn’t sufficient to result in a meaningful reduction in the cost of claims each year.– Much of ACC’s investment is underperforming.3. Some programmes are performing well, but there’s also a risk that overall portfolio performance will continue to decline.4. ACC is working on a new strategic approach to increase the scale and the performance of the injury prevention portfolio.
Key concepts	
Return on Investment Claim Benefits New Year Claim Costs	

Preventing injuries reduces social, economic, and personal harm to New Zealanders

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

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

ACC's injury prevention activities have the potential to be an important lever to improve financial condition over the longer term. Injury prevention programmes can reduce claim costs by decreasing the number or severity of injuries. This reduces new year claim costs, which in turn can lead to lower levies and appropriations.

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

As a result, a return on investment (ROI) is calculated for injury prevention initiatives. The ROI is the ratio of claim benefits to investments. The higher claim benefits are compared to investments, the higher the ROI. The higher the ROI for a given investment, the greater the reduction in levies and appropriations and the greater the financial benefit is to levy payers and taxpayers. Claim benefits are the estimated monetary value of claims avoided through an injury prevention initiative.

ACC is working on a new strategic approach to injury prevention. This approach could create new opportunities for injury prevention to make a meaningful difference to levies and appropriations by reducing new year claim costs.

Injury prevention isn't currently making a significant contribution to Scheme sustainability and fairness

There's not enough investment to have a significant impact on new year claim costs

When recommending levies and appropriations, we offset new year claim costs by the target net claim benefits of injury prevention. Net claim benefits refer to the total claim benefits minus the investment made. So the net claim benefits of a \$100 million investment at an ROI of \$1.75 would be \$75 million. In the 2023/24 year, the target net claim benefits from the prevention portfolio are only expected to be \$49 million, which is 0.7% of new year claim costs¹⁰.

Even if ACC's overall prevention investment was performing well, the scale of the current investment under the projected ROI isn't enough to have a significant impact on new year claim costs. Without a more significant reduction in new year claim costs, injury prevention investment can't result in a meaningful reduction to levies and appropriations.

Determining what targets should be set for injury prevention performance is a strategic choice that ACC needs to make. As an illustrative example only, a 5% reduction in new year claim costs could be considered as material. To achieve a 5% reduction in projected new year claim costs for 2023/24, the overall injury prevention portfolio would need to deliver \$359 million of claim benefits. By 2040, \$703 million of claim benefits would need to be delivered to result in a 5% reduction in new year claim costs.

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

To date ACC has invested \$657.7 million in injury prevention programmes, out of a planned investment of \$709.5 million. This investment has delivered \$479.7 million of benefits, with another \$541.3 million of benefits still to be realised. These figures are inclusive of all investments, including those without an ROI.

When including future planned investments and benefits that have yet to be realised, the ROI for ACC's overall injury prevention portfolio is \$1.44. This means that it's projected that an additional 44 cents will be returned to levy payers and taxpayers for each dollar invested. When considering only benefits that have been delivered against investments made to date, the portfolio ROI drops to \$0.73¹¹.

Future claim benefits were reduced by \$82.1 million in 2022/23 due to declining portfolio performance and outlook. This is part of a longer-term pattern, with total net expected claim benefits across the injury prevention portfolio being consistently downgraded since 2020.

This year benefits were reduced in the Targeted portfolio (where claim benefits were reduced by \$78.5 million) and the Treatment Safety portfolio (where claim benefits were reduced by \$5.5 million). There was a minor offset from the Workplace portfolio (where expected claim benefits increased by \$2 million).

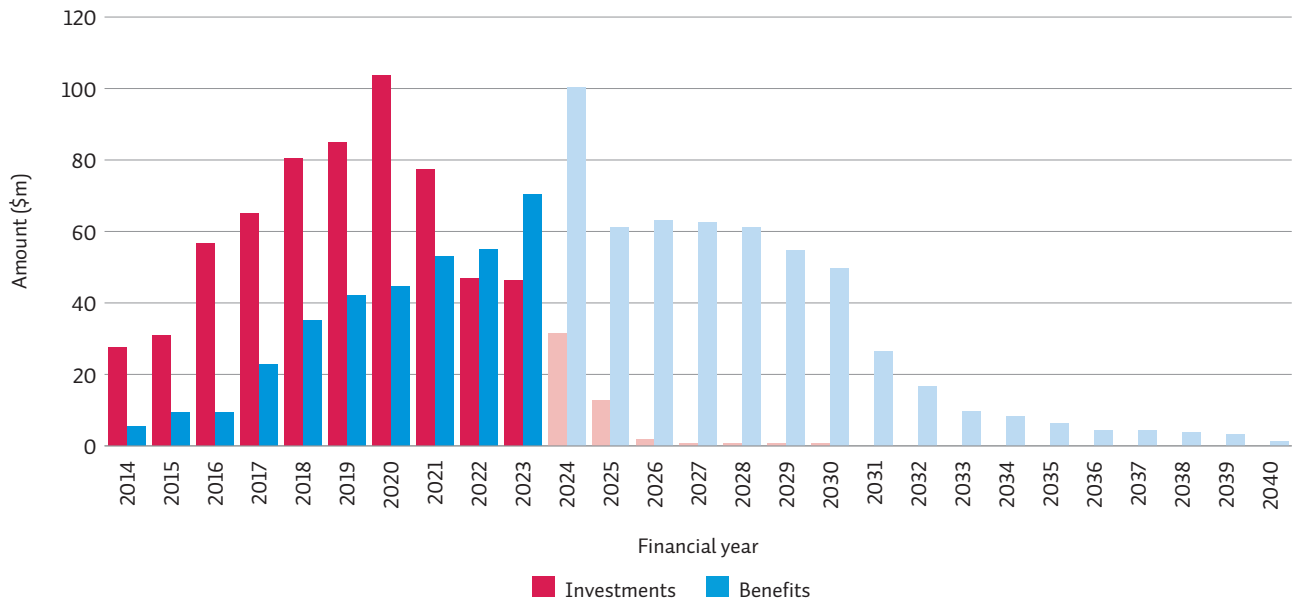
Investment in injury prevention is often long term in nature, and it's reasonable to expect that some benefits will be realised in the future. Currently, however, 93% of investment has been committed but only 47% of claim benefits have been realised. This ratio, along with the history of expected future claim benefits being reduced, suggests that there's a risk that not all the future benefits will be realised.

¹⁰ This excludes any investment that doesn't contribute towards the target ROI.

¹¹ In 2022/23, the ROI was \$1.72 for the Targeted and Treatment Injury portfolios against a target ROI of \$2.12. The ROI for the Workplace portfolio (excluding WorkSafe) was above target at \$2.01, however as this is a smaller portfolio this wasn't enough to significantly increase overall portfolio performance.

Chart 8 shows past and future investments and claim benefits across the overall injury prevention portfolio, as at 30 June 2023.

CHART 8: PAST AND FUTURE INVESTMENTS AND CLAIM BENEFITS AS AT 30 JUNE 2023



Performance is mixed across the five injury prevention portfolios

ACC's injury prevention investment is divided into five portfolios, with a sixth Māori portfolio that sits across all portfolios. Portfolios are further split into sub-portfolios, which are then split into programmes.

As at 30 June 2023, 85 programmes are in design, implementation, or delivery. Table 10 shows past investments and benefits since 2006/07 and future investments and benefits still to be realised, starting from 2023/24, by portfolio.

TABLE 10: INJURY PREVENTION PAST AND FUTURE INVESTMENTS AND BENEFITS AS AT 30 JUNE 2023

Portfolio		Past	Future	Commentary
Targeted Makes short-term investments targeting specific outcomes related to road, sports, and community	Investment: Benefits:	\$365.7m \$390.3m	\$36.6m \$355.8m	91.1% of planned investment has been made and 52.3% of benefits have been realised. In 2022/23 future benefits were reduced by \$78.5 million. Given past performance there's a risk that not all the future benefits will be realised. ROI: \$1.85
Treatment Safety Targets injuries acquired through medical treatment	Investment: Benefits:	\$59.8m \$7.1m	\$1.3m \$73.8m	98% of total investment has been made, but only 9% of benefits have been realised. In 2022/23, future benefits were reduced by \$5.5 million, but the portfolio delivered benefits for the first time. Given past performance there's a risk that not all the future benefits will be realised. ROI: \$1.32
Workplace (excluding WorkSafe) Targets work-related injuries	Investment: Benefits:	\$78.6m \$78.0m	\$13.9m \$107.5m	Two of 11 programmes in delivery are performing well. As a result, the portfolio has reached its expected claim benefits to date. However, there are risks around future benefits from the Grants and Subsidies programme. ROI: \$2.01 If WorkSafe was included the expected ROI would drop to \$1.36.
WorkSafe A subset of the Workplace portfolio	Investment: Benefits:	\$50.3m \$4.4m	\$0.0m \$4.2m	With an expected ROI of 0.17 this investment is having a minor, but overall, negative, impact on levies and appropriations. 100% of the planned investment has been made and in 2022/23 some benefits were delivered. ROI: \$0.17
Strategic Makes long-term investments aligned to ACC's injury prevention strategic objectives	Investment: Benefits:	\$92.4m \$0.0m	\$0.0m \$0.0m	No claim benefits have been realised from this portfolio. New programmes are in design, but no further planned investments have been confirmed at this stage. No ROI yet
Māori An overarching portfolio focussed on Māori outcomes	Investment: Benefits:	\$10.9m \$0.0m	\$0.0m \$0.0m	The Māori portfolio is different in nature from other portfolios, as it's woven through other portfolios rather than being standalone. As programmes are still in design, most investments have yet to factor into the ROI calculation. No ROI yet
Total	Investment: Benefits:	\$657.7m \$479.7m	\$51.7m \$541.3m	The overall outlook for the portfolio is uncertain. Most of the investment has been committed, but most benefit realisation is still in the future. Given the history of benefit targets being reduced, there's a risk that not all the future benefits will be delivered. ROI: \$1.44

Some programmes are performing well, but future benefits are concentrated in only 10% of programmes

There are areas of higher performance in the prevention portfolio.

In the Targeted portfolio, five programmes have performed well in the past year. These are focused on road safety (Ride Forever, Young Driver) and sports safety (Football, Netball). Ride Forever and Young Driver have delivered \$28.1 million in claim benefits, while Football and Netball collectively delivered \$5.8 million. In addition, MORSIM, an operating room simulation programme within the Treatment Safety portfolio, delivered claim benefits for the first time, totalling \$7.1 million. The Child programme also delivered \$3.9 million of benefits.

Under the Workplace portfolio the FarmStrong programme is performing well. In the past year FarmStrong achieved \$17.4 million in claim benefits, exceeding its target by \$16 million.

53% of expected future benefits are concentrated in 10% of the total of programmes in delivery

Despite these areas of higher performance, the overall performance outlook for the portfolio is uncertain.

53% (\$284.6 million) of the \$541.3 million in future claim benefits is expected to be delivered through only through five programmes. This poses a risk to future overall performance, as investment risk isn't well-diversified among the 85 injury prevention programmes. The investment committed to these five programmes from inception through 2023/24 is \$193.8 million, with a further \$32.1 million planned from 2023/24. Table 11 shows the benefit performance of these programmes.

TABLE 11: INJURY PREVENTION PROGRAMMES WITH THE MOST EXPECTED FUTURE CLAIM BENEFITS AS AT 30 JUNE 2023

Programme		Past	Future	Commentary
Falls and Fractures	Investment:	\$79.8m	\$16.5m	This Targeted programme hasn't achieved its claim benefit targets to date. It has an ROI of \$1.14, with 75% of claim benefits yet to be delivered and 17% of planned investment remaining.
	Benefits:	\$27.5m	\$81.8m	
Grants and Subsidies	Investment:	\$22.2m	\$9.2m	This Workplace programme achieved its claim benefit target for the first time during 2022/23. Its ROI is \$1.96, but 97% of total benefits are yet to be realised. 29% of planned investment remains to be spent.
	Benefits:	\$2.1m	\$59.4m	
Ride Forever	Investment:	\$45.1m	\$0.0m ¹²	This Road programme has been performing well. It has an ROI of \$2.80 as at 30 June 2023.
	Benefits:	\$71.1m	\$55.2m	
Young Driver	Investment:	\$36.6m	\$6.4m	This is another Road programme that has been performing well. It has an ROI of \$3.39 as at 30 June 2023.
	Benefits:	\$103.0m	\$42.9m	
Neonatal	Investment:	\$9.9m	\$0.0m	This Treatment Safety programme has yet to deliver claim benefits. While its current ROI is \$4.55, 100% of its claim benefits have yet to be realised.
	Benefits:	\$0.0m	\$45.3m	
Total	Investment:	\$193.8m	\$32.1m	The total ROI of the five concentration risk programmes is higher than the overall portfolio ROI, but the bulk of benefits are still to be realised.
	Benefits:	\$203.6m	\$284.6m	

Some programmes have delivered little to no benefit

In a balanced portfolio of prevention initiatives, and over time, some investments would be expected to fail or underperform. Since 2012, there have been 63 injury prevention programmes that haven't delivered any benefits. Fifteen programmes remain in delivery with no benefits realised or quantified, and 48 have been exited. There have also been deliberate decisions to not target or calculate an ROI for some initiatives.

If the number and size of investments with no return is too high, this places additional pressure on the remaining portfolio to return benefits for levy payers and taxpayers. Table 12 provides a summary of injury prevention programmes with nil ROI. Exited programmes represent \$109.0 million, or 15%, of all prevention investment.

¹² A business case for additional investment in Ride Forever was approved in July 2023, which is outside the assessment period of the FCR.

TABLE 12: PROGRAMMES EXITED OR IN DELIVERY WITH NIL ROI BY PORTFOLIO

Programme		Exited	In delivery	Total
Targeted	Investment:	\$22.1m	\$29.0m	\$51.1m
	Number:	18	4	22
Treatment Safety	Investment:	\$5.7m	\$3.2m	\$8.9m
	Number:	2	5	7
Strategic	Investment:	\$40.2m	\$51.2m	\$91.4m
	Number:	3	3	6
Workplace	Investment:	\$21.1m	\$0.7m	\$21.9m
	Number:	24	2	26
WorkSafe	Investment:	\$19.9m	\$3.5m	\$23.4m
	Number:	1	1	2
Total	Investment:	\$109.0m	\$87.7m	\$196.7m
	Number:	48	15	63

ACC is working on a new strategic approach to increase the scale and the performance of the injury prevention portfolio

ACC is developing a new strategic approach that will integrate injury prevention into everything it does. This approach could create new opportunities to deliver better prevention outcomes and make a meaningful difference to levies and appropriations by reducing new year claim costs.

To have a positive significant impact on financial condition, we believe that it's important that any new approach:

- Begins with an honest appraisal of the extent to which prevention investment can and should deliver significant reductions in new year claim costs. This appraisal should consider ACC's obligations under legislation and the historic performance of both ACC's prevention portfolio, and, if possible, the portfolios of other jurisdictions.
- Sets clear targets over time for the reduction in new year claim costs that injury prevention should deliver. This should include a final target, as well as timebound milestone targets.
- Explores different options for how portfolio scale and portfolio performance may need to increase to deliver the desired reduction in new year claim costs.
- Appropriately integrates injury prevention across ACC.
- Improves the portfolio's benefit realisation profile by reducing the current timing disparity between investment made and benefits realised. This shouldn't be at the expense of deprioritising long-term investments. Instead, the focus should be on reducing risks around future benefit realisation by limiting the number of investments where full funding is committed before significant benefits are delivered.
- Develops appropriate supporting plans, processes, and frameworks so the strategy guides the design and decisions for individual portfolios and programmes.
- Strengthens investment logic, monitoring, and evaluation frameworks so that changes or disinvestment can be made at the right time if a programme seems to be going off track, or if the environment changes.
- Includes consideration of how to avoid the risk of concentrating the bulk of benefits in a small number of programmes.

6. Claim performance

About this section	Key messages
<ul style="list-style-type: none"> • Claim performance is influenced by how efficiently and effectively ACC is managing claims, as well as by external factors. It's closely linked to rehabilitation performance. • Along with prevention, claim and rehabilitation performance is a core lever for financial sustainability. • Claim performance is closely linked to client outcomes. Rehabilitating people to health and independence sooner reduces the OCL, which in turn improves the Scheme's financial condition. • When considering claim performance, we pay special attention to influenceable OCL strain. • Areas experiencing influenceable OCL strain can present good opportunities for ACC to improve claim performance, as they're the areas where ACC has more control or influence. 	<ol style="list-style-type: none"> 1. In 2022/23, declining claim performance resulted in \$955 million of influenceable OCL strain. 2. Over the past five years declining claim performance has resulted in \$2.9 billion of influenceable OCL strain. 3. The operating environment has been challenging, but this doesn't fully explain declining performance. 4. This year, and in previous years, weaker claim performance has been driven by three key areas. These are weekly compensation rehabilitation rates, serious injury care hours and costs, and the average cost of sensitive claims. 5. This year there was also significant influenceable OCL strain due to an increase in claims handling expenses. 6. ACC is committed to improving claim performance by delivering better rehabilitation outcomes for New Zealanders.
Key concepts	
Outstanding Claims Liability Influenceable and Non-influenceable Strain Payment Types Serious Injury	

Understanding claim performance and the OCL

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

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

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

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

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

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

Influenceable strain isn't always a bad thing. There are times when influenceable OCL strain can be considered positive (for example, where it's the result of a deliberate choice to increase access to the Scheme). Over the past five years, however, the scale of influenceable strain is concerning, due to the impact it's having on the Scheme's financial condition.

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

In 2022/23, the total OCL strain was \$902 million

In the 2022/23 financial year there was \$955 million of influenceable OCL strain. There was also a non-influenceable OCL release of \$53 million, meaning overall there was a total strain of \$902 million.

Table 13 shows the total OCL strain and release in 2022/23 across key payment types. Payment types are the categories of payment that ACC makes to help rehabilitate clients and compensate them for lost earnings because of their accidents. Monitoring payment types help us understand claim performance trends and identify opportunities where ACC can improve rehabilitation outcomes.

TABLE 13: OCL MOVEMENT BY PAYMENT TYPE IN THE 2022/23 FINANCIAL YEAR

Payment type	OCL as at 30 June 2023 (\$M)	Influenceable movement (\$M)	Non-influenceable movement (\$M)	Total OCL movement (\$M)
Weekly compensation	11,435	181	0	181
Sensitive claims	4,244	69	0	69
Serious injury care	16,269	655	(161)	493
Serious injury capital	2,092	63	(19)	44
Non-serious injury care	1,303	45	0	45
Non-serious injury capital	575	18	0	18
Elective surgery	3,377	(27)	0	(27)
Medical (GPs, radiology & physiotherapy)	475	(29)	0	(29)
Other-medical	1,522	(164)	0	(164)
Hearing loss	1,184	(80)	127	47
Claims handling expenses	2,427	233	0	233
Other	1,427	(8)	0	(8)
Total	46,332	955	(53)	902

The total strain of \$902 million was lower than the influenceable strain of \$955 million. This was because some of the influenceable strain was offset by:

- A non-influenceable release of \$161 million for serious injury care. This was due to changes in assumptions on mortality and the future use of non-contracted care hours, which have a lower cost than contracted hours.
- A non-influenceable release of \$19 million for serious injury capital. This was mainly due to changes in mortality assumptions.

Some of this non-influenceable release was, in turn, offset by a non-influenceable strain of \$127 million related to hearing loss claims. This was driven by:

- The lowering of the hearing loss thresholds from 6% to 5%, effective from October 2022. The lower threshold has increased the number of accepted claims.
- Audiologists lodging claims directly without ACC's pre-approval. This policy change has allowed more claims to be processed earlier.

Total influenceable strain was also partially offset by changes to acupuncture contract changes, which resulted in an influenceable OCL release of \$167 million for other-medical claims.

Declining claim performance resulted in \$955 million of influenceable OCL strain

The influenceable OCL strain of \$955 million can be broken down into two core components:

- **Number of active claims.** This is the number of new and existing claims ACC is managing. It's affected not only by new claims entering, but by how long both new and older claims are staying on the Scheme. In the past year increases to how long people were staying on the Scheme resulted in a \$215 million OCL strain.
- **Average cost of claims.** This is the average amount paid per claim. In the past year, the average amount paid per claim was higher than expected, resulting in \$740 million of OCL strain.

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

Non-influenceable strain was seen across all Accounts but had the greatest impact on the Earners' Account.

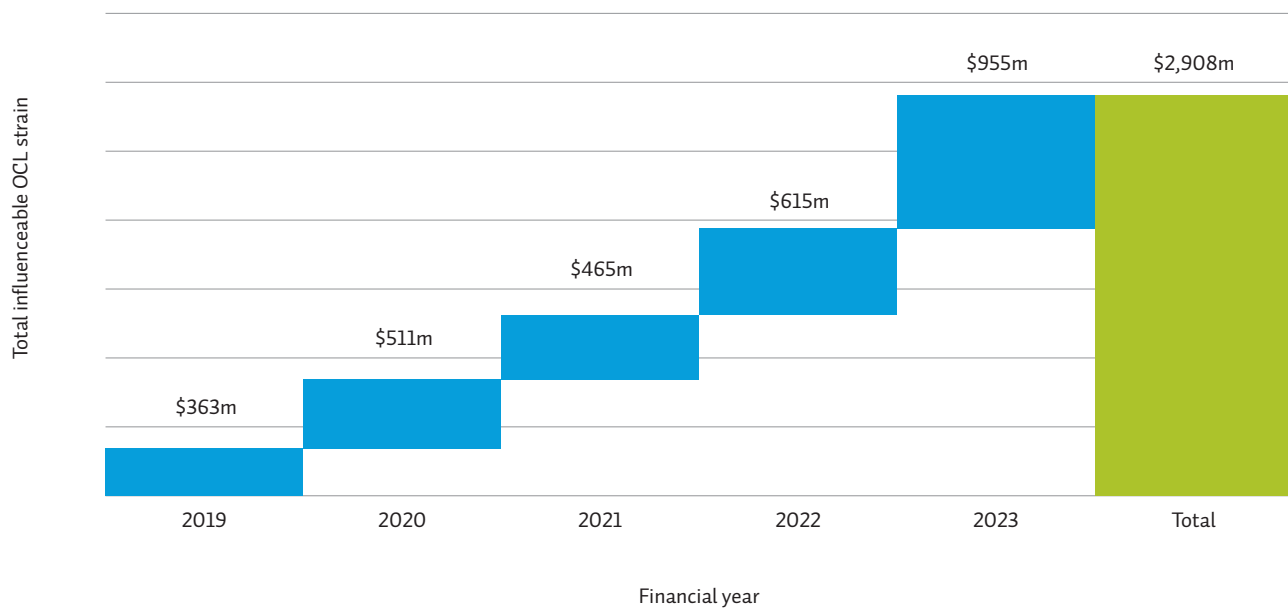
TABLE 14: DRIVERS OF INFLUENCEABLE STRAIN ACROSS ACCOUNTS

Account	Influenceable strain (\$M)	Largest payment type contributing to strain
Motor Vehicle	\$76	Serious injury care
Work	\$19	Serious injury care
Earners'	\$461	Weekly compensation
Treatment Injury	\$290	Serious injury care
Non-Earners'	\$108	Serious injury care
Total	\$955	

Over the past five years declining claim performance has resulted in \$2.9 billion of influenceable OCL strain

This year’s results reinforce a nine-year pattern of declining claim performance and resulting OCL strain. In the past five years there’s been a cumulative total of \$2,908 million of influenceable strain. These increases are placing ongoing pressure on the financial condition of the Scheme. This, in turn, increases how much needs to be collected in levies and appropriations to keep the Scheme fair and sustainable.

CHART 9: CUMULATIVE INFLUENCEABLE OCL STRAIN IN THE PAST FIVE YEARS



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

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

ACC is still experiencing the lingering impacts of COVID-19. Workforce constraints have caused higher staff turnover than previously experienced. This has resulted in a recurring cycle of training and upskilling employees while trying to keep up with incoming claims.

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

Cyclone Gabrielle also required some of the most capable members of ACC’s workforce to divert their attention to meet urgent need. In some cases this has meant that less effort has gone into upskilling ACC’s workforce so they can more proactively manage the rehabilitation of our clients.

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

Declining claim performance has been driven by three payment types

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

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

The cumulative strain from each of these payment types over the past five years is shown in Table 15.

TABLE 15: INFLUENCEABLE OCL STRAIN BY PAYMENT TYPE AND YEAR

\$M	2019	2020	2021	2022	2023	Total
Weekly compensation strain	135	341	438	262	181	1,357
Serious injury care strain	151	335	80	157	655	1,378
Sensitive claims strain	308	69	249	229	69	925
Other OCL net strain/(release)	(231)	(235)	(303)	(33)	51	(751)
Total	363	511	465	615	955	2,908

Weekly compensation



2022/23 influenceable strain:
\$181 million



Five-year influenceable strain:
\$1,357 million



Total OCL:
\$11,435 million

Over the past year, lower-than-expected rehabilitation rates contributed to \$181 million of influenceable weekly compensation strain. Rehabilitation rates measure how long people on the Scheme take to recover from their injuries and return to health and independence.

- **Number of active claims: \$222 million influenceable OCL strain.** Lower-than-expected rehabilitation rates for accidents that occurred in the past eight years in the Earners’ Account resulted in \$251 million of strain. This was partially offset by improved rehabilitation performance in the Motor Vehicle Account.
- **Average cost of claims: \$42 million influenceable OCL release.** The strain caused by increasing numbers of active claims was partially offset by a \$42 million influenceable release. This is because the number of backdated weekly compensation claims was lower than expected.

There has been \$1,357 million of cumulative influenceable weekly compensation OCL strain over the past five years. We’d need to see at least two years of sustained improvement before we could be confident that there would be an OCL release for this payment type.

Serious injury care

 2022/23 influenceable strain: \$655 million	 Five-year influenceable strain: \$1,378 million	Total OCL: \$16,269 million
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In the past year there was a total of \$493 million of serious injury care strain. This comprised \$655 million of influenceable strain, partially offset by \$161 million of non-influenceable release, as discussed earlier in this section.

- **Number of active claims: \$74 million influenceable OCL strain.** This was driven by higher-than-expected claim numbers for accidents that occurred before 30 June 2023, but were not reported. This was partially offset by lower-than-expected claims in the 2023 accident year.
- **Average cost of claims: \$581 million influenceable OCL strain.** This was driven by higher-than-expected care hours and payments, as well as increased use of residential care facilities.

Nearly half of the \$1,378 million five-year total for influenceable serious injury care strain occurred in the past year.



There are a comparatively small number of seriously injured clients (approximately 7,000 claims), but due to high client and claim complexity their care requirements represent a significant portion of the OCL (\$16.3 billion as at 30 June 2023). Due to the long-term nature of these claims, small changes in service provision can have a significant impact on the OCL.

We know there have been higher-than-expected increases in attendant care hours and the use of residential care facilities in the past year. ACC has reviewed a small sample of serious injury claims to understand the factors driving these increases. Early results from the investigation into this strain suggest the following potential contributory factors:

- An increase in co-morbidities, in particular behavioural issues, have resulted in clients relying solely on ACC for additional support. This may be because agency funding responsibilities are unclear or shared funding arrangements are not in place. The OCL impact is exacerbated where these are young clients as they are expected to stay on the Scheme for longer than older clients.
- High attrition rates have led to less experienced staff not always knowing the correct internal process to follow. This, along with delays in decisions, has contributed to extra hours being approved or an earlier-than-expected move to residential care.
- The COVID-19 vaccine mandate for care and support workers has reduced the availability of carers. Clients have had to fall back on receiving care from family members, non-contracted carers, or entering residential care.
- Labour and material shortages in the building sector have increased the time taken to make housing modifications for seriously injured clients. This has resulted in clients having to be in residential care facilities for significantly longer than expected.

Work's underway to strengthen relationships with co-funders such as Te Whatu Ora and the Ministry of Social Development to ensure dual funding arrangements can be established to support clients with existing co-morbidities and behavioural issues. ACC is also looking at managing internal capacity and capability issues by improving internal processes and controls.

Sensitive claims

 2022/23 influenceable strain: \$69 million	 Five-year influenceable strain: \$925 million	Total OCL: \$4,244 million
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ACC fully funds the services for survivors of sexual abuse and assault through the Integrated Services for Sensitive Claims (ISSC) programme. As a result of ongoing work to improve the accessibility and effectiveness of sensitive claim services, growth in the number of active sensitive claims is expected and appropriate. This does, however, make it important that the average cost per claim is carefully managed to ensure the service remains sustainable.

- **Number of active claims: \$104 million influenceable OCL release.** This was driven by fewer clients continuing their treatment than expected, particularly for accidents between 2015 and 2021.
- **Average cost of claims: \$173 million influenceable OCL strain.** This was mainly driven by high levels of backdated weekly compensation payments in the Earners' Account.

The cumulative influenceable strain for sensitive claims over the past five years was \$925 million. Between 2018/19 and 2020/21, the main driver of influenceable strain was increasing claim numbers. However, in 2021/22 and 2022/23, the main driver of influenceable strain was an increasing average cost per claim. While the number of sensitive claims is still increasing, this has been at a lower rate than projected at last year's valuation. This is believed to be related to capacity constraints in the sector, rather than a slowing of demand, as waitlists for services and declined referrals remain high.

We know some of the average cost strain is driven by higher-than-expected backdated weekly compensation payments. We have seen a strong upward trend in the proportion of total sensitive claim costs that are being paid as backdated weekly compensation since 2018/19. This is evident in both the Earners' and Non-Earners' Accounts, particularly for claims older than five years.

Increasing frequency of mental health conditions in ACC clients has had some impact, but doesn't explain declining claim performance

Mental health conditions are a risk factor for injury and can complicate recovery.

Research commissioned by ACC in 2022 found that clients with serious mental health needs cost ACC 40% more than other clients, particularly through a greater likelihood to remain on weekly compensation for longer. This analysis also suggests mental health need is a useful indicator of risk or complexity within clients. However, while there's some evidence of an increase in the proportion of claims with mental health conditions, this doesn't explain deteriorating ACC performance to any significant degree.

There's value in ACC deepening its understanding of how mental health conditions influence recovery. This, however, should be part of wider efforts to understand and respond to all the major factors contributing to declining claim performance.

This year there was significant OCL strain from claims handling expenses

The liability for claims handling expenses (CHE) represents the funding ACC estimates it needs to hold for the future processing and administration costs for servicing claims that have occurred, both reported and unreported, as at 30 June 2023.

In 2022/23, there was an influenceable strain of \$233 million for CHE. The key drivers of this were:

- A higher level of budgeted expenses, including higher-than-expected personnel costs. This resulted in an 11% increase in CHE.
- The Integrated Change Investment Portfolio (ICIP) ceased in June 2023. The ICIP expenses relating to CHE had previously been excluded from the calculation of OCL because they were part of a project spend rather than being associated with handling claims. As ICIP has now ended, the related spend is now part of continuous delivery and treated as business-as-usual costs. These costs have been attributed to the CHE spend and have increased the OCL by \$65 million. ICIP is discussed more in the 'Future risks and opportunities' section.

We're currently not anticipating any further major strain in this area over coming years.

ACC is committed to improving claim performance by delivering better rehabilitation outcomes for New Zealanders

Delivering effective rehabilitation, especially for people requiring longer-term support, is one of the most effective ways that ACC can simultaneously improve client outcomes and financial condition.

There's extensive work underway across ACC to deliver better rehabilitation outcomes for New Zealanders. In this report we consider only the largest of these initiatives, as these have the greatest potential to have a positive impact on Scheme sustainability and fairness. We recognise, however, that there are many smaller initiatives underway that could make important contributions. ACC has also recently begun a review into how it commissions health services, which will be discussed in more depth in a future Financial Condition Report.

The Rehabilitation Improvement Group is working to ensure ACC's rehabilitation system helps people get what they need faster

In 2022 the Rehabilitation Improvement Group (RIG) was established to continuously improve rehabilitation outcomes.

The RIG is now moving into a design and delivery phase, with a focus on performance improvement activity across three different time horizons.

- During the rest of the 2023 calendar year the RIG will continue to focus on performance through the Rehabilitation Performance Programme (RPP).

- In early 2024, the RIG will address findings from the discovery phase of the programme to improve ACC's processes and experience for both customers and frontline teams. The focus will be on realising opportunities to create more capacity in the system.
- For the rest of 2024 and beyond, the RIG aims to define a vision for a mature rehabilitation system. The focus will be on purpose, what customers need, and how to ensure the work meaningfully impacts on rehabilitation outcomes.

Due to the scale and complexity of this work and the lag in measuring results, it will take time for RIG to have a significant impact on ACC's financial condition. As it progresses, it will be important that there's appropriate consideration of how and when the changes delivered by RIG may influence the OCL, new year claim costs, and wider Scheme sustainability and fairness.

The Rehabilitation Performance Programme is focusing on tactical improvements to lift capability

The RPP has been established to address continuing concerns around deteriorating rehabilitation performance. It's closely connected to the work underway through the RIG.

The programme's based on three pillars of continuous improvement:

- matching clients with the right ACC individuals, teams, services, and pathways to deliver the best rehabilitation journey possible
- creating capacity through a range of initiatives related to the wider 'system' of claim management
- growing capability across ACC's teams, particularly capability that helps ACC support clients to achieve better rehabilitation outcomes.

It's too early for this work to have had an impact on financial condition. However, if the changes delivered by RPP can provide a sustained impact on rehabilitation performance, at scale, we could expect to see a positive impact on the OCL by 2025.

The evolution of the Integrated Services for Sensitive Claims Evolution programme will help reduce barriers for survivors seeking help

The ISSC Evolution programme aims to build a modern, caring, and supportive service which meets the needs of current and future survivors of sexual abuse or assault. It's the next step of evolution in the ISSC service that ACC introduced in 2014.

As part of the ISSC Evolution programme, work's underway to commission a redesigned contract, which will take effect from 1 December 2024. From there

further changes are planned to be delivered as part of a continuous improvement programme.

Changes made as part of the Evolution programme are intended to result in better outcomes for clients by improving workforce capacity and reducing barriers for those seeking help. Unlike other ACC initiatives, these changes are expected to result in higher costs in the short term. However, in the long-term ACC expects that clients receiving help sooner will lead to better rehabilitation outcomes and a reduction in average claim costs.

Careful measurement of outcomes, along with appropriate evaluation and monitoring frameworks, will be crucial to the programme's success. Work on this is underway as part of the contract redesign. This can help ensure that shorter-term cost increases eventually translate into longer-term improvements in client outcomes and a corresponding reduction in the average cost claims.

7. Future risks and opportunities

About this section	Key messages
<ul style="list-style-type: none">• This section discusses additional opportunities and risks relevant to the financial condition of the Scheme.• These opportunities and risks are in addition to those discussed in the ‘Injury prevention’ and ‘Claim performance’ sections.• It focuses on those opportunities and risks that are significant enough to have a material potential impact on the future sustainability of the Scheme.• Some of the opportunities and risks discussed will have an impact in the shorter term (the next few years), while the impact of others will be felt longer term.	<ol style="list-style-type: none">1. ACC’s new enterprise strategy, Huakina Te Rā, can create new opportunities to enhance the intergenerational sustainability and fairness of the Scheme.2. It will be important to understand the effect that the ongoing implementation of Huakina Te Rā will have on ACC’s financial condition.3. Future pay equity claims across the health system could result in significant growth in the OCL.4. Investment in the Integrated Change Portfolio has ended, and benefits will no longer be monitored separately.5. Expansion of Scheme boundaries presents a risk to financial sustainability.6. An aging population will have a gradual impact on claims.7. The impacts of climate change on the Scheme are uncertain.8. ACC doesn’t need reinsurance at this time.9. The proposed New Zealand Income Insurance Scheme has been placed on hold.
Key concepts	
Huakina Te Rā Integrated Change Investment Portfolio Scheme Boundaries	

ACC's new enterprise strategy, Huakina Te Rā, can create new opportunities to enhance the intergenerational sustainability and fairness of the Scheme

On 1 July 2023, ACC launched its new enterprise strategy, Huakina Te Rā.

Huakina Te Rā provides the 10-year direction for the organisation, articulating ACC's vision as well as establishing ACC's strategic goals.

Huakina Te Rā is a dual-framed strategy. The aim is to have a clear response for both tangata whenua and tangata Tiriti under a single and purposeful strategic direction and vision for ACC. ACC will do this by taking a 'waka hourua' (double-hulled sailing vessel) approach to implementation.

Through this approach, Huakina Te Rā has three dual-framed strategic goals that ACC aims to achieve in the next 10 years. These goals are framed from both tangata whenua and tangata Tiriti worldviews. The dual framings aren't translations of each other, but complementary dual responses, and will be achieved together for ACC to be successful.

Mana Taurite | Equity is the dual goal for all people in Aotearoa New Zealand to experience accessible services and improved outcomes:

- Mana Taurite — equity of access, service experience, and outcomes for Māori.
- Equity — the people ACC serves in Aotearoa New Zealand achieve equity of access and experience, and better outcomes.

Ringa Atawhai | Guardianship is the dual goal for the Scheme to be sustainable for present and future generations:

- Ringa Atawhai — ACC is a trusted partner with Māori to improve outcomes.
- Guardianship — ACC are valued kaiāwhina (helpers) of the people they serve now and will be trusted stewards for future generations.

Oranga Whānau | Safe and Resilient Communities is ACC's dual goal to partner and invest to help create safer and more resilient communities:

- Oranga Whānau — whānau experience intergenerational healing and restoration so they can thrive and flourish.
- Safe and Resilient Communities — ACC strengthens whānau and community safety and resilience by partnering and investing where it counts.

Along with guiding principles and strategic intentions, the three dual-framed goals will help ACC deliver on its purpose and vision:

- ACC's purpose is to improve lives every day through a focus on prevention, care, and recovery for all people in Aotearoa New Zealand who are affected by injury.
- ACC's vision is Tōnui Ake Nei | Thriving Aotearoa — a future where ACC works together so that all people and their communities can live lives they value. Tōnui means 'to thrive and prosper'. Ake Nei refers to something that is 'increasing, rising, of great importance'.

Huakina Te Rā launched at the beginning of the 2023/24 financial year, so hasn't had an impact on ACC's financial condition as at 30 June 2023. Moving forward, the implementation of Huakina Te Rā does provide opportunities to enhance the intergenerational sustainability and fairness of the Scheme:

- Through Mana Taurite | Equity, ACC may be able to uncover opportunities where investing in access and experience for underserved populations can help people get better sooner. This, in turn, could reduce long-term claims.
- A focus on Ringa Atawhai | Guardianship can help ensure that intergenerational sustainability is a part of ACC's culture and integrated into design, processes, and decision-making frameworks.
- Oranga Whānau | Safe and Resilient Communities provides opportunities to work in partnership with whānau and communities to increase safety and resilience in a way that reduces the long-term demand on the Scheme.

It will be important to understand the effect that the ongoing implementation of Huakina Te Rā will have on ACC's financial condition

As with any strategy, the success of Huakina Te Rā will depend on the degree to which ACC can translate intent into reality by navigating trade-offs and best using its scarce resources.

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

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

We do believe that there could be a scenario where, in trying to meet the goal of Mana Taurite | Equity, we see increased access to and use of the Scheme that isn't counterbalanced by reduced long-term claims. If enhancing access and experience outweighs any other financial impacts, there could be an increase in new year claim costs and the OCL. This, in turn, would increase upward pressure on levies and appropriations. Given the potential for such a scenario, we believe it's crucial that there's sufficient emphasis on injury prevention and claim performance as Huakina Te Rā is delivered over the coming years.

We'll be able to provide more detail on how Huakina Te Rā may impact on Scheme sustainability once more detailed information is available on ACC's implementation approach.

Future pay equity claims across the health system could result in significant growth in the OCL

The OCL includes future costs for health system workers, including those who provide care for ACC clients. There was an increase in carer pay rates effective from 1 July 2023, which has already been factored into the OCL valuation. The Crown is currently considering a significant pay equity claim for care workers. This could result in a further, more substantial increase to carer pay rates, which could result in a significant amount of non-influenceable OCL strain.

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

Investment in the Integrated Change Portfolio has ended, and a new benefit monitoring approach will be introduced

The Integrated Change Investment Portfolio (ICIP) is a large-scale change programme that was developed to improve client outcomes and experience and improve customer trust and confidence. Considerable upfront investment was made into the ICIP, with the understanding that significant benefits would be realised in the future. ACC has been factoring the expected financial benefits of ICIP into the calculations of expected levies and appropriations.

As of 30 June 2023, investment in the ICIP has ended, with a total of \$605 million invested across all initiatives. The initial expected total gross benefit when investment began was \$1.75 billion. This has now been reduced to an expected total benefit of \$1.2 billion. As at 30 June 2023, \$120 million of benefits have been delivered.

ACC has decided that ICIP benefits no longer be monitored as a separate portfolio. Instead, more limited monitoring will occur through existing reporting to the Board on ACC's Service Level Agreement, Statement of Intent, and organisational performance. The implications of this new approach on levies and appropriations will become clearer once the new monitoring approach is finalised, which is expected to occur in 2023/24.

Expansion of Scheme boundaries presents a risk to financial sustainability.

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

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

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

There are currently three cases before the Courts which, depending on their ruling, could have a material impact on the Scheme's financial condition. Detailed estimates on the financial impact of these judicial decisions are best completed after judgments have been issued, as guidance issued with judgments can affect the impact a judgment has on financial condition.

An aging population will have a gradual impact on future claims

The New Zealand population is expected to grow by 0.8% per year over the next decade. The population of those aged 65 and over is expected to grow much faster at 2.9% per year. The overall proportion of the population aged 65 and over is expected to increase from 17% to 21% by 2033. The population aged under 20 is expected to reduce by around 0.2% per year over the next decade.

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

The impacts of climate change on the Scheme are uncertain

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

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

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

- claims associated with activities which may be impacted by climate change (for example, driving and recreation or sporting activities)
- increased violence claims due to the potential impact that increased temperatures may have on human behaviour
- potential increases in the number of drownings or water-related claims due to rising sea levels
- increased claims from flooding events and wildfires.

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

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

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

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

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

ACC doesn't need reinsurance at this time

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

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

The proposed New Zealand Income Insurance Scheme has been placed on hold

Following public consultation in the first half of 2022, funding was provided to ACC to undertake some pre-implementation planning for the New Zealand Income Insurance Scheme (NZIIS). The proposed scheme was designed to provide income replacement for people made redundant or who are incapacitated by a health condition or disability. The preliminary work investigated how to deliver a new scheme alongside the Accident Compensation Scheme. Further work was started to establish the systems and operational processes for the proposed scheme. In February 2023, the Government decided to pause the proposed scheme.

The costs associated with preliminary work on the NZIIS were funded under a separate appropriation so haven't had a material impact on the Scheme's financial condition. As the work has been paused no future impact is predicted.

8. Recommendations

About this section	Key messages
<ul style="list-style-type: none">• Each year we recommend actions ACC can take to improve its financial condition and enhance Scheme sustainability and fairness.• The Scheme’s long-term nature means recommendations may take several years to resolve.• Recommendations from prior years can be carried over to future reports, depending on how much progress has been made to address them.• In the 2022 Financial Condition Report one recommendation was closed, one was placed on hold and one new recommendation was made. As of last year’s report there were five active recommendations.	<ol style="list-style-type: none">1. This year we have closed one recommendation (measuring customer outcomes) and significantly updated another (injury prevention).2. We have also made some updates to the three remaining recommendations — Māori access, outcomes and experience, sensitive claims insights and outcomes, and longer-term claim performance.3. The updates we’ve made to the other recommendations are to make them clearer and more specific. The intent behind the recommendations hasn’t changed.4. For each recommendation we have noted what we would need to see before the recommendation could be closed.
Key concepts	
Financial Condition Report Recommendation	

We are closing the measuring customer outcomes recommendation

Recommendation	2022/23 progress highlights
<p>We recommend that ACC ensures that its ongoing work on customer outcomes measurement aligns with the enterprise strategy and focuses on:</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • ACC has worked to address this recommendation through the Measuring What Matters (MWM) programme. MWM is using a logic-modelling approach to cascade from the strategic goals of Huakina Te Rā through to a set of measures for strategic and operational accountabilities and reporting. Lead and lag measures have been developed as part of this work. • Ongoing improvements are also being made to organisational performance monitoring of the measures in ACC's Service Level Agreement and Statement of Intent. • A measure to track movement in new year claim costs has been introduced, which (along with monitoring of the OCL) will help ensure there's appropriate strategic focus on Scheme sustainability and fairness.
Commentary	
<p>ACC has made good progress against this recommendation in the past year.</p> <p>The frameworks for the strategic management and measurement of customer outcomes have been put in place. Work on setting targets, measures, and baselines is ongoing, but a good foundation has been established. Along with the OCL, proper monitoring of the new year claim costs measure will help ensure there's focus on the implications of ACC's performance on levies and appropriations.</p> <p>Given the progress made in the past year, we are closing this recommendation. We will, however, continue to monitor this area and if progress stalls it may be reopened in a future Financial Condition Report.</p> <p>Moving forward, we believe it's important to remember that ACC's customers include levy payers and taxpayers. Delivering the right outcomes for them by managing a fair and sustainable Scheme should remain a core component of ACC's outcomes and measurement frameworks.</p>	

We have updated the injury prevention recommendation to reflect progress made in the past year

Recommendation	2022/23 progress highlights
<p>We recommend that ACC’s injury prevention activities are guided by a detailed implementation strategy that:</p> <ul style="list-style-type: none"> • sets out clear milestones for how ACC’s strategic injury prevention targets will be achieved over time • sets out accountabilities and responsibilities across ACC to ensure the importance of injury prevention as a lever for financial sustainability is recognised and managed • includes approaches to ensure current and historic performance issues are appropriately managed • strengthens investment logic, monitoring, and evaluation frameworks so that changes can be made at the right time if a programme seems to be going off track, or if the environment changes. 	<ul style="list-style-type: none"> • Under Huakina Te Rā, ACC has begun a strategic refresh of injury prevention. Through this work ACC is setting a strategic target for the intended impact of its prevention activities, including the impact on levies and appropriations. • The importance of injury prevention has been acknowledged in initial planning for Huakina Te Rā. Over the next four years ACC plans to focus on embedding injury prevention in everything it does. • ACC’s Board reviewed the new strategic approach in October 2023.
Commentary	
<p>We believe setting a strategic injury prevention target would be a significant milestone for ACC and would mostly address the intent of the recommendation we first made in 2015.</p> <p>Given the positive impact that injury prevention can have on ACC’s financial condition, we believe it’s important for the momentum in this area to be maintained. We have therefore updated our injury prevention recommendation to focus on the next stage of the process — a detailed implementation strategy that will help turn intent into reality.</p> <p>We also believe that injury prevention requires a whole-of-ACC approach. The responsibility for reaching an ambitious injury prevention target cannot sit in only one function, but instead needs to be shared across the organisation.</p> <p>We believe that, if sufficient progress is made, this recommendation could be closed — or at least refocused — in 2024.</p>	

We've updated the Māori access, outcomes, and experience recommendation to make our intent clearer

Recommendation	2022/23 progress highlights
<p>We recommend that ACC improve Māori access, outcomes, and experience by:</p> <ul style="list-style-type: none"> • developing an evidence base about where there are unfair or avoidable differences in injury risk and Scheme access, outcomes, and experience for Māori • clearly demonstrating how the work ACC's doing will result in improved access, outcomes, and experience for Māori, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term (including Māori). 	<ul style="list-style-type: none"> • Huakina Te Rā was finalised as dual-framed strategy, inclusive of both tangata whenua and tangata Tiriti worldviews. • Te Kāpehu Whetū, ACC's new Māori outcomes framework, was launched in July 2022. Te Kāpehu Whetū defines what 'good' looks like from the perspective of Māori clients and considers the role of ACC in contributing to oranga whānau (family welfare). • Since Te Kāpehu Whetū was launched in July 2022, implementation workshops have been delivered to over 450 ACC staff. • Work has begun to develop an equity action plan, informed by research on the drivers of inequity.
Commentary	
<p>In the past year the launch of ACC's enterprise strategy (Huakina Te Rā) and Māori outcomes framework (Te Kāpehu Whetū) have laid the foundation for better Scheme access, outcomes, and experience for Māori.</p> <p>We believe Te Kāpehu Whetū is a sound framework, but to realise its promise it will need to be effectively embedded in product, process, and service design across ACC.</p> <p>Moving forward we believe that it will be crucial that ACC's work in this area is guided by robust evidence based on high-quality data. There are some known issues with the quality of some ethnicity data in the public sector, and we would expect to see ACC develop an approach to mitigate any potential issues with data accuracy.</p> <p>We also believe it's important that the impact of improving Scheme access and outcomes for Māori is explored as part of the decision-making process, where ACC commits to any major strategic work in this area. It's possible that increasing access for Māori may increase Scheme costs in the short term but decrease costs in the longer term by reducing the number of long-term claims. Alternatively, increasing access may increase costs without much of a cost offset. If the latter scenario is more likely, it will be important for ACC to find offsets elsewhere (for example, through claim performance or injury prevention), so any future financial strain on the Scheme is reduced.</p> <p>We believe this recommendation could close in 2024, if there's demonstrable progress made against each of its three elements.</p>	

The sensitive claims outcomes and insights recommendation is being progressed

Recommendation	2022/23 progress highlights
<p>We recommend that ACC’s work on sensitive claims:</p> <ul style="list-style-type: none"> improves ACC’s understanding of the people suffering sexual abuse or assault in the community, including what their injury and claim patterns might mean for how services are delivered and funded, now and in the future ensures services can be shown to deliver the right client outcomes, in a way that is sustainable and cost-effective for levy payers and taxpayers in the longer term. 	<ul style="list-style-type: none"> Work against this recommendation has continued to be progressed through the Integrated Services for Sensitive Claims (ISSC) evolution programme. The EuroQol 5 Dimension 5 Level questionnaire has been identified as the recommended primary population outcomes measure. A suite of secondary outcomes measures has also been identified. ACC is working through licensing arrangements to understand which secondary measures will be ready for when the new contract goes live in December 2024. The purpose, service objectives, and KPIs for ACC’s sensitive claims service are being updated for alignment with Huakina Te Rā. It’s proposed that the concept of financial sustainability is integrated into updated service objectives.
Commentary	
<p>There has been good progress on this recommendation in the past year. In particular, the integration of financial sustainability into the proposed service objectives for sensitive claims is an important step forward.</p> <p>We believe the nature of sensitive claims, where it can take survivors many years to come forward and make a claim, means that it’s crucial to maintain a focus on financial sustainability. This is to make sure that those experiencing sexual assault or abuse today will benefit from a robust sensitive claims service when they decide to come forward in the future.</p> <p>As work in this area progresses, we will be looking for evidence that the effectiveness and efficiency of services under the new ISSC contract will be regularly and robustly monitored. We will also be looking for evidence that ACC has a plan to appropriately collect and use insight gathered through the new contract to inform future service delivery.</p> <p>This recommendation is currently on track to be closed in late 2024 or early 2025 to coincide with the launch of the new contract.</p>	

The longer-term claim performance recommendation has been updated to be clearer and more specific

Recommendation	2022/23 progress highlights
<p>We recommend ACC places appropriate focus on claims that have the potential to have the greatest long-term impact on the OCL and new year claim costs, such as weekly compensation and social care and capital. ACC should ensure:</p> <ul style="list-style-type: none"> the services seriously injured clients are receiving are needs based and that effective monitoring and control frameworks are in place that clients only enter or remain in the long-term claim pool due to complex or ongoing rehabilitation or support needs work underway to improve rehabilitation outcomes can deliver the sustained performance improvements needed to have a positive impact on the OCL. 	<ul style="list-style-type: none"> In 2022, work against this recommendation has been progressed strategically through the Rehabilitation Improvement Group (RIG) and operationally through the Rehabilitation Performance Programme (RPP), which is closely connected to RIG. Through the RIG, ACC has developed a more holistic understanding of the rehabilitation system and identified opportunities for improvement. Realising these opportunities over the next one to two years could have a positive impact on the OCL and new year claim costs. Through RPP, ACC is using a continuous improvement approach to respond to the operational causes of declining claim performance. The current focus is on building internal capability to better rehabilitate longer-term clients with more complex needs.
Commentary	
<p>In the past year we have seen enhancing rehabilitation performance become a major strategic focus for ACC. It will be important that the momentum of key work in this area, such as RIG and RPP, is maintained. There also needs to be a focus on ensuring that the work done under these initiatives translates into the sustained and scaled improvements to rehabilitation performance needed to have a material impact on financial condition.</p> <p>In response to the extent of this year's OCL strain, there could be more focus on ensuring that seriously injured clients are receiving an appropriately targeted level of service. Even small changes to the service delivery for seriously injured clients can have a major impact on financial condition. Given this, we believe there's an opportunity over the next year for ACC to improve its monitoring and control frameworks for seriously injured clients.</p> <p>We believe the increasing organisational focus on managing the long-term claims pool is positive. Moving forward, ACC should ensure there's appropriate focus both on early rehabilitation to prevent clients from entering the pool, and on rehabilitating clients who have been in the pool for some time.</p> <p>Given sufficient progress we believe this recommendation could be closed, or at least refocused, in 2024.</p>	

Glossary

Account

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment, and compensation claim that ACC pays.

Appropriation

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

Claim benefits

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

Client

A person who makes a claim under the Scheme.

Customer

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

Deficit

An excess of expenditure over income.

Economic movements

Changes to economic variables that are outside of ACC's control.

Financial condition

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

Financial Condition Report Recommendation

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

Fully funded

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

Funding adjustment

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

Funding policy

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

Funding ratio

The ratio of assets held to liabilities for an Account.

Funding target

The target funding ratio for an Account.

Huakina Te Rā

ACC's enterprise strategy, launched on 1 July 2023.

Integrated Change Investment Portfolio (ICIP)

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

Levied Accounts

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

Levies/levy

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

New year claim costs

The estimated lifetime costs of new claims for accidents that occur during the year, allowing for expected investment returns.

New year cost gap

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

New year rate

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

Non-levied Accounts

Accounts funded by appropriation. Currently the Non-Earners' Account and a portion of the Treatment Injury Account.

Outstanding claims liability (OCL)

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

Outstanding claims liability release

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

Outstanding claims liability strain

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

Pay As You Go (PAYG)

A funding approach where claims are funded as costs arise.

Payment type

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

Rehabilitation rates

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

Return on investment (ROI)

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

Risk margin

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

Scheme

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

Scheme fairness

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

Scheme sustainability

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

Serious injury

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

Surplus

An excess of income over expenditure.

Unexpired risk liability

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

Appendices

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B. Financial results	This appendix provides more detail to supplement the discussion in the 'Financial and actuarial results' section of the main report on how ACC's financial condition has changed in the past year	64
C. Valuation of the outstanding claims liability	This appendix discusses how ACC's outstanding claims liability was valued for the year ending 30 June 2023	76
D. Funding details	This appendix provides more detail to supplement the discussion in the main report on the future funding requirements and sustainability of each of ACC's five Account	82
E. Management of investments	This appendix discusses the performance of ACC's investment portfolio and how this is managed and governed	94
F. Claim performance	This appendix provides more detail to supplement the discussion in the main report on the claim and rehabilitation performance at ACC and the impact it's having on financial sustainability	100
G. Risk management	This appendix outlines the risks ACC faces and the associated risk frameworks it uses to achieve its objectives	124

Appendix A – Additional background information

This appendix provides some additional background information that we need to cover to meet our professional standards.

ACC has a clear governance structure

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

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

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

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

ACC manages five Accounts

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment, and compensation claim that ACC pays.

Each of the Accounts has a different exposure and funding base.

Exposure

Exposure is a way of measuring the potential volume and cost of claims that might occur.

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.

It's not possible to estimate exposure based on every New Zealander's activities and lifestyle, so we estimate it using readily available and reliable information.

Funding base

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

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

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

Below we outline the coverage, exposure, and funding bases for each of the five Accounts¹³.

¹³ 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.

Motor Vehicle Account

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

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

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

Work Account

Includes all work or work-related accidents.

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

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

The liable earnings are limited to a specified maximum amount each year (\$136,544 in 2022/23). Every month Inland Revenue sends information to ACC on the earnings of New Zealand workers. Future liable earnings are estimated using average weekly earnings inflation, which is linked to the consumer price index (CPI) from Treasury forecasts.

Earners' Account

Includes all claims for employed people except those that fall within the Motor, Work or Treatment Injury Accounts.

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

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

Treatment Injury Account

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

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

The funding base for this Account is split between the Earners' and the Non-Earners' Accounts. The Earners' Account (or levied) portion uses the same liable earnings as the Earners' Account to determine the levy rate. The Non-Earners' Account (or non-levied) portion forms part of the appropriation funded annually by the Government.

Non-Earners' Account

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

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

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

The Government sets ACC's funding policies

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

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 – 2021-go1226 – New Zealand Gazette*¹⁴.

The Government last updated the Non-Earners' Account's funding policy in 2019/20.

¹⁴ <https://www.gazette.govt.nz/notice/id/2021-go1226>

TABLE 16: 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 (PAYG) 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
<p>Annual increases in the appropriation are capped at 7.5%.</p>	

Each of ACC's five Accounts has a target funding position set through its funding policy (for all Accounts this is currently 100%¹⁵). If an Account is at target, it means we're estimating there are sufficient funds 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 funding¹⁶.

The components of funding

There are two main components to the funding calculations. First, the **new year claim costs** represent the lifetime costs of ACC rehabilitating and supporting people injured during the year, allowing for expected investment returns. 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 then further adjustments are made. These are:

- The forecast net benefits from investments in injury prevention and the Integrated Change Investment Portfolio (ICIP) 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% for the levied Accounts and 7.5% for the non-levied Accounts. There's no limit applied if the recommended levy or appropriation is a decrease.

When recommending changes in levies, usually every three years, ACC consults businesses, communities, and individuals, and provides explanations of the drivers and assumptions behind the changes. The Board then reviews the feedback and recommends levy rates to the Minister for ACC. The final levy rates are set by Cabinet. The last 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 annual October Baseline Update.

ACC offers products to some customers

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

The Work Account offers 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

¹⁵ The exception to the 100% funding ratio target is pre-2001 claims in both the Non-Earners' Account and the non-levied portion of the Treatment Injury Account. These claims are funded under a PAYG approach. This means no additional funding needs to be held at the end of the year so the funding targets for these claims are effectively 0%.

¹⁶ Full funding means the assets held to cover estimated claim liabilities are equal to those liabilities.

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 is given by Cabinet following appropriate public consultation.

Accredited Employers Programme (AEP)

Large employers (those who pay annual Work Account 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 18% 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 77% 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 23% 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

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 about 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:

- **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.
- **Lower levels of weekly compensation.** Under this option the level of compensation paid reduces as the client gradually returns to work. No amount's paid once the client can substantially do their pre-injury work. This is the same as the standard weekly compensation ACC offers to non-CPX customers.

Experience rating and No Claims Discount

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

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

- Those that have had no weekly compensation days paid and no accidental death claims 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 in each of the previous three years 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. Less than 10% 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.

Claims are paid across several services

Table 17 summarises the main payments the Scheme makes to rehabilitate and compensate people with covered personal injuries.

TABLE 17: SCHEDULE OF SERVICES

Medical			
Public Health Acute Services (PHAS)	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 (e.g. X-ray) and high-tech (e.g. 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 costs 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 (including fatal weekly compensation)	Funeral grants and support for spouses and/or dependants. This support includes weekly compensation payments of up to 80% of the deceased pre-accident weekly income (capped).		
Lump sum and independence allowance	Additional support to compensate for permanent impairment due to injury. This includes work-related gradual process (WRGP) claims that result from ongoing exposure to an element (e.g. 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 WRGP, 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.

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.

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

The recovery teams are:

1. **Enabled recovery** (approximately 11% of claims): Clients primarily manage their own recovery using an online portal to select services and regularly check in.
2. **Assisted recovery** (approximately 50% of claims): Clients primarily manage their own recovery. Members of the ACC team contact them if there's something specific to discuss.
3. **Supported recovery** (approximately 16% of claims): Clients have dedicated ACC contacts who work with them on their recovery.
4. **Partnered recovery** (approximately 17% of claims): Clients build relationships with dedicated ACC contacts who support them in managing their injuries and recovery.
5. **Other** (approximately 7%): Clients primarily managed by providers under escalated care pathways.

Reviews of ACC claim decisions

Clients who are dissatisfied with ACC's decisions on support can ask for a review. The review applications can be made by clients about claim-related decisions, or by business customers about 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 is lodged. Around 70% of all review requests are resolved without the need for external review providers. 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
- Way Finders, which serves all other needs.

Table 18 shows that 8,874 reviews were lodged in 2022/23, up from 8,189 in 2021/22. These accounted for about 7.54% of ACC's decisions to decline support in the same period.

TABLE 18: REVIEW LODGEMENTS AND OUTCOMES

	Year ending 30 June							
	2016	2017	2018	2019	2020	2021	2022	2023
Number of reviews lodged	6,534	7,228	7,582	8,082	8,641	9,329	8,189	8,874
% of decline decisions	6.96%	7.16%	7.04%	7.24%	8.11%	8.49%	7.74%	7.54%
Number of reviews completed	6,398	6,446	7,806	8,378	9,544	9,347	9,402	9,037
Number resolved without external review providers	2,893	2,799	3,457	4,192	5,796	6,344	6,228	6,432
% resolved without external review providers	45%	43%	44%	50%	61%	68%	66%	71%
Number found in favour of clients at formal hearings	1,003	1,156	1,424	1,464	1,216	873	903	728
% of formal hearings found in favour of clients	29%	32%	33%	35%	33%	29%	29%	28%
Number found in favour of ACC at formal hearings	2,469	2,451	2,885	2,696	2,478	2,111	2,225	1,837
% of formal hearings found in favour of ACC	71%	68%	67%	65%	67%	71%	71%	72%

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.

Appendix B – Financial results

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

ACC’s overall funding position increased by \$1,013 million in 2022/23. The economic surplus of \$3,740 million offset the underwriting deficit of \$2,727 million

Table 19 shows how ACC’s overall funding position and overall funding ratio changed during 2022/23. It includes:

- the Scheme surplus as stated in the 2023 Annual Report
- the adjustments required to move the Scheme surplus from an accounting basis to a funding basis consistent with the Government’s funding policies for ACC.

TABLE 19: CHANGE IN ACC’S OVERALL FUNDING POSITION AND FUNDING RATIO IN 2022/23

	Funding position (\$M)	Funding ratio
Opening funding position/ratio as at 30 June 2022	10	100.0%
Plus Scheme surplus/(deficit)	911	2.0%
Plus change in value of work-related gradual process (WRGP) claims incurred but not reported	(24)	(0.1%)
Less risk margin on change in outstanding claims liability (OCL)	135	0.3%
Less change in unexpired risk liability	(10)	0.0%
Total change in funding position/ratio during 2022/23	1,013	2.2%
Closing funding position/ratio as at 30 June 2023	1,023	102.2%

With the exception of the Earners' Account, the movement in funding position of all Accounts increased in 2022/23

Table 20 sets out the total movement in funding position for the year ending 30 June 2023, split by Account.

TABLE 20: MOVEMENT IN FUNDING POSITION BY ACCOUNT

\$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2022/23
Income						
Total levies and appropriations	474	972	2,295	363	1,798	5,901
Expenditure						
Claims incurred						
Medical costs	145	182	586	30	955	1,897
Elective surgery	29	70	251	35	110	495
Sensitive claims	0	6	128	0	149	283
Social rehabilitation	307	116	197	174	389	1,183
Compensation-related	230	613	1,112	91	19	2,064
Other	52	43	67	34	26	223
Claims handling expenses	55	108	239	49	123	574
Total cash claim costs	817	1,138	2,580	412	1,772	6,719
Total change in OCL under the funding policies	135	167	897	382	179	1,761
Total claims incurred	952	1,306	3,477	795	1,951	8,481
Expenses						
Net operating costs	5	52	24	1	4	86
Injury prevention costs	8	13	12	5	24	62
Total expenses	14	65	36	5	28	148
Total expenditure	965	1,371	3,513	800	1,979	8,629
Movement in funding position from underwriting activities	(491)	(399)	(1,219)	(438)	(181)	(2,727)
Economic						
Impact of economic assumptions for the OCL higher/(lower) than expected	542	221	358	394	514	2,029
Investment management costs	(26)	(13)	(21)	(10)	(10)	(81)
Unwind of risk-free interest rate	(351)	(211)	(328)	(213)	(305)	(1,408)
Investment income	894	573	908	400	425	3,200
Movement in funding position from economic factors	1,058	569	917	570	625	3,740
Total movement in funding position	567	170	(301)	133	444	1,013

This year's underwriting deficit was larger than expected. Deteriorating claim performance was the main contributor

Table 21 includes a breakdown of the components that contributed to the 2022/23 movement in funding position, split by underwriting and economic performance. It compares this year's results against the 2022/23 projected result as at 30 June 2022 and last year's budget set on 28 February 2022.

TABLE 21: MOVEMENT IN FUNDING POSITION VS EXPECTED

\$M	Actual 30 June 2023	Expected	Difference	Budget
Income				
Total levies and appropriations	5,901	5,629	272	5,605
Expenditure				
Claims incurred				
Medical costs	1,897	1,958	(61)	2,104
Elective surgery	495	477	18	530
Sensitive claims	283	262	21	292
Social rehabilitation	1,183	1,050	133	1,228
Compensation-related	2,064	2,014	51	2,077
Other	223	225	(2)	230
Claims handling expenses	574	572	3	572
Total cash claim costs	6,719	6,556	164	7,032
Total change in OCL under the funding policies	1,761	859	902	2,035
Total claims incurred	8,481	7,415	1,065	9,067
Expenses				
Net operating costs	86	96	(10)	96
Injury prevention costs	62	100	(38)	100
Total expenses	148	196	(48)	196
Total expenditure	8,629	7,611	1,018	9,263
Movement in funding position from underwriting activities	(2,727)	(1,982)	(746)	(3,657)
Economic				
Impact of economic assumptions for the OCL higher/(lower) than expected	2,029	0	2,029	0
Investment management costs	(81)	(70)	(11)	(70)
Unwind of risk-free interest rate	(1,408)	(1,408)	0	(1,038)
Investment income	3,200	2,396	804	2,174
Movement in funding position from economic factors	3,740	918	2,822	1,066
Total movement in funding position	1,013	(1,064)	2,077	(2,591)

The main drivers of this year's underwriting deficits are shown in Table 22. It compares the actual deficit (\$2,727 million) as at 30 June 2023 to what was expected:

- when the levies and appropriations were determined using data as at 30 June 2021 (\$2,093 million)
- as at 30 June 2022 (\$1,982 million).

TABLE 22: ANALYSIS OF MOVEMENT IN FUNDING POSITION FROM UNDERWRITING ACTIVITIES BY ACCOUNT

\$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total 2022/23
Levies/appropriations different from expected new year claim costs	(378)	(316)	(483)	(105)	75	(1,206)
Expected reduction in OCL for PAYG claims	n/a	n/a	n/a	33	131	164
Different assumptions for pricing vs valuation	(161)	(174)	(318)	(133)	(265)	(1,051)
Expected movement in funding position from underwriting activities at time of pricing	(539)	(489)	(801)	(205)	(59)	(2,093)
Updated levies forecast	(24)	24	73	3	15	91
Updated claim assumptions	(18)	(32)	(206)	(54)	(95)	(405)
Updated economic assumptions	107	54	118	72	74	425
Projected movement in funding position from underwriting activities for 30 June 2023 (as at 30 June 2022)	(474)	(443)	(815)	(184)	(66)	(1,982)
Actual vs expected levy/appropriation income	4	135	127	6	0	272
Actual vs expected cash paid	(5)	37	(70)	(22)	(55)	(116)
Actual vs expected change in OCL	(16)	(129)	(460)	(237)	(60)	(902)
Closing movement in funding position from underwriting activities for 30 June 2023 (as at 30 June 2023)	(491)	(399)	(1,219)	(438)	(181)	(2,727)

At the time of pricing, an underwriting deficit was expected for all Accounts in 2022/23.

Pricing for the 2022/23 financial year was based on 30 June 2021 data for all Accounts. At that time, an underwriting deficit was projected for all Accounts with a total projected deficit of \$2,093 million. Three components contribute to this result:

- A \$1,206 million deficit due to approved levies and appropriations being different from the expected cost of 2022/23 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.
- A \$164 million surplus relating to non-earner claims incurred prior to 2001 and funded on a PAYG basis. This is an expected accounting surplus that occurs every year.
- A \$1,051 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.

The projected underwriting deficit for 2022/23 was smaller as at 30 June 2022 than it was when levies and appropriations were recommended.

The change in the projected movement in funding position from underwriting activities, between the time of pricing and the beginning of the 2022/23 financial year, varied depending on Account. In total, the projected underwriting deficit for 2022/23 reduced by \$111 million from \$2,097 million to \$1,982 million due to the following factors:

- Higher projected income in 2022/23 of \$91 million.
 - 2022/23 levy income was projected to be higher than it was when the Accounts were priced. This increase was largely driven by the Earners' and Work Accounts. Population and wage increases meant liable earnings in 2022/23 for these Accounts were projected to be higher as at 30 June 2022 than expected as at 30 June 2021.
 - An additional \$15 million appropriation funding was approved in 2021/22 to cover maternal birth injuries and other items.

- Changes to economic assumptions offset higher claim assumptions.
 - Deteriorating claim performance between the time of pricing and the start of the 2022/23 year led to higher valuation assumptions. This was evident across all Accounts. However, during the same period, economic assumptions also changed. Depending on the Account, this helped to provide a full or partial offset to the impact of worsening claim performance.

Worse-than-expected claim performance in the current year resulted in the 2022/23 underwriting deficit being significantly higher than expected

The total actual underwriting deficit as at 30 June 2023 was \$2,727 million. This was a \$634 million higher deficit than projected at the time of pricing and \$746 million higher than projected as at 30 June 2022. Underwriting deficits for the Motor Vehicle, Earners', Treatment Injury and Non-Earners' Accounts were higher than expected, while the underwriting deficit for the Work Account was lower than expected. The main reasons for the changes in the 2022/23 year were as follows:

- The total OCL strain under the funding policy from the 2023 valuation was \$902 million (excluding the risk margin). This consisted of a \$955 million strain identified as influenceable, with a \$53 million non-influenceable release. All Accounts experienced OCL strain in 2022/23.
- Higher-than-expected cash claim payments during 2022/23 with a partial offset from lower-than-expected expenses contributed \$116 million to the deficit. Higher-than-expected claim payments were largely driven by higher-than-expected social rehabilitation costs in all Accounts and higher-than-expected compensation-related expenses in the Earners' Account. Lower-than-expected medical costs in the Earners' and Non-Earners' Accounts provided a partial offset.
- Levies collected in 2022/23 were higher than expected and contributed a surplus of \$272 million. Liable earnings were higher than expected in 2022/23 due to a higher-than-expected working population and higher-than-expected wage growth. The bulk of this surplus is therefore attributable to the Earners' and Work Accounts.

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

Table 23 shows the expected change in funding position for the Scheme for each of the next four years. The four-year projections are based on the following:

- the 2023/24 to 2024/25 levy rates prescribed by Cabinet in 2021
- the June 2023 indicative levy rates for 2025/26 and 2026/27
- assumptions updated to 30 June 2023
- the 2023/24 approved appropriation for the Non-Earners' Account, agreed in October 2022
- the appropriations for the Non-Earners' Account for 2024/25 to 2026/27, as recommended in the 2022 October baseline update.

TABLE 23: PROJECTED MOVEMENT IN FUNDING POSITION

\$M	2023/24	2024/25	2025/26	2026/27
Income				
Total levies and appropriations	6,172	6,613	7,159	7,744
Expenditure				
Claims incurred				
Medical costs	2,063	2,215	2,344	2,466
Elective surgery	524	562	603	643
Sensitive claims	305	341	377	415
Social rehabilitation	1,184	1,259	1,332	1,403
Compensation-related	2,263	2,459	2,652	2,850
Other	267	254	260	266
Claims handling expenses	624	638	651	673
Total cash claim costs	7,231	7,728	8,220	8,716
Total change in OCL under the funding policies	717	732	719	729
Total claims incurred	7,948	8,460	8,938	9,445
Expenses				
Net operating costs	92	96	97	100
Injury prevention costs	103	103	104	104
Total expenses	195	200	201	204
Total expenditure	8,143	8,659	9,139	9,649
Movement in funding position from underwriting activities	(1,970)	(2,046)	(1,980)	(1,906)
Economic				
Investment management costs	(70)	(71)	(73)	(75)
Unwind of risk-free interest rate	(2,337)	(2,226)	(2,039)	(2,184)
Investment income	2,982	2,947	2,894	3,013
Movement in funding position from economic factors	576	650	782	755
Total movement in funding position	(1,395)	(1,396)	(1,198)	(1,151)

All Accounts are expected to return deficits in 2023/24

Table 24 gives the projected movement in funding position by Account for 2023/24 compared with this year's total movement.

TABLE 24: PROJECTED MOVEMENT IN FUNDING POSITION BY ACCOUNT FOR 2023/24

\$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total projected 2023/24	Total 2022/23
Income							
Total levies and appropriations	478	908	2,461	390	1,935	6,172	5,901
Expenditure							
Claims incurred							
Medical costs	155	185	640	32	1,051	2,063	1,897
Elective surgery	32	76	262	43	110	524	495
Sensitive claims	0	5	142	0	158	305	283
Social rehabilitation	312	97	205	179	391	1,184	1,183
Compensation-related	253	671	1,215	106	17	2,263	2,064
Other	57	105	55	26	25	267	223
Claims handling expenses	60	120	261	52	131	624	574
Total cash claims	869	1,259	2,780	439	1,884	7,231	6,719
Total change in OCL under the funding policies	51	45	429	111	81	717	1,761
Total change in claims incurred	920	1,304	3,209	550	1,964	7,948	8,481
Expenses							
Net operating costs	6	57	25	1	4	92	86
Injury prevention costs	11	28	25	5	34	103	62
Total expenses	17	85	50	6	38	195	148
Total expenditure	937	1,389	3,259	556	2,002	8,143	8,629
Movement in funding position from underwriting activities	(459)	(480)	(798)	(166)	(66)	(1,970)	(2,727)
Economic							
Impact of economic assumptions for the OCL higher/ (lower) than expected							2,029
Investment management costs	(22)	(15)	(17)	(8)	(8)	(70)	(81)
Unwind of risk-free interest rate	(566)	(349)	(574)	(355)	(492)	(2,337)	(1,408)
Investment income	874	630	742	366	369	2,982	3,200
Movement in funding position from economic factors	286	267	151	3	(130)	576	3,740
Total movement in funding position	(173)	(213)	(648)	(164)	(197)	(1,395)	1,013

The 2023/24 projected underwriting deficit is now smaller than previously projected

The main drivers of next year's projected underwriting deficits are shown in Table 25. It compares the projected deficit as at 30 June 2023 to what was expected:

- when the levies and appropriations were determined, in 2021 for the levied Accounts and 2022 for the non-levied Accounts (\$2,005 million)
- as at 30 June 2022 (\$2,084 million).

TABLE 25: ANALYSIS OF 2023/24 PROJECTED MOVEMENT IN FUNDING POSITION FROM UNDERWRITING ACTIVITIES, BY ACCOUNT

\$M	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	2023/24 Total
Levies/appropriations different from expected new year claim costs	(366)	(298)	(412)	(45)	342	(779)
Expected reduction in OCL for PAYG claims	n/a	n/a	n/a	34	136	171
Different assumptions for pricing vs valuation	(170)	(163)	(349)	(166)	(549)	(1,397)
Projected movement in funding position from underwriting activities for 30 June 2024 (as at time of pricing)	(535)	(461)	(761)	(176)	(72)	(2,005)
Updated levies forecast	(61)	(8)	65	3	0	(1)
Updated claim assumptions	(20)	(64)	(224)	(21)	(0)	(330)
Updated economic assumptions	98	44	92	18	0	252
Projected movement in funding position from underwriting activities for 30 June 2024 (as at 30 June 2022)	(518)	(488)	(828)	(177)	(72)	(2,084)
Updated levy and appropriation forecasts	(1)	32	86	6	17	141
Updated claim assumptions	41	(36)	(78)	(8)	(22)	(103)
Updated economic assumptions	20	11	22	12	10	75
Projected movement in funding position from underwriting activities for 30 June 2024 (as at 30 June 2023)	(459)	(480)	(798)	(166)	(66)	(1,970)

At the time of pricing, we projected the total funding position movement from underwriting activities in 2023/24 would be a \$2,005 million deficit

Three components contribute to the deficit projected at the time of pricing:

- A \$779 million deficit due to approved levies being different from the expected cost of 2023/24 claims. As the levied Accounts were above their funding targets at the time of pricing, levies were set to reduce the funding ratios and move them closer to target. This resulted in a projected deficit of \$1,168 million for the levied Accounts. There was an offset of \$389 million due to the approved appropriation for the Non-Earners' Account and non-levied portion of the Treatment Injury Account being above the 2023/24 new year claim costs.
- A \$171 million surplus relating to non-earner claims incurred prior to 2001 and funded on a PAYG basis. At the time of pricing, we expected the reduction in the OCL for PAYG claims in the 2023/24 financial year to be \$171 million.
- A \$1,397 million deficit due to differences in the assumptions used to calculate levies and appropriations and those for the OCL (such as different discount rates).

The total projected funding position movement from underwriting activities for 2023/24 was larger as at 30 June 2022 than it was when the Accounts were priced

Between the time of pricing and the beginning of the 2022/23 financial year the total projected underwriting deficit for 2023/24 increased by \$78 million to \$2,084 million. Only the levied Accounts contributed to this change in projection as the non-levied Accounts were priced in 2022. The following factors contributed:

- A total reduction in forecast levy income of \$1 million.
- Deteriorating claim performance during the 2021/22 year led to higher valuation assumptions, resulting in a \$330 million projected deficit.
- Changes to economic assumptions during the 2021/22 year contributed a \$252 million projected surplus.

Favourable economic movement combined with higher-than-expected forecast levies has offset deteriorating claim performance in 2022/23

As at 30 June 2023, the projected funding position movement from underwriting activities for 2023/24 is a \$1,970 million deficit. This deficit is smaller than projected at the time of levy and appropriation setting and also lower than projected at the beginning of the year. Higher levies than previously forecasted in the Work and Earners' Accounts have more than offset the impact of higher claim assumptions in most Accounts.

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

Table 26 shows how a 1% movement in interest rates, asset values, or inflation assumptions could change the OCL (excluding the risk margin), the investment portfolio, and the funding ratio as at 30 June 2023. It also shows how changes in major claim assumptions could change the OCL and the resulting change in the funding ratio.

TABLE 26: 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	(5,691)	7,615	(2,296)	2,431	8.7	(9.9)
Asset values	n/a	n/a	474	(474)	1.0	(1.0)
Inflation rate	7,724	(5,874)	1,338	(1,178)	(12.1)	11.9
Serious injury care superimposed inflation	2,908	(2,188)	n/a	n/a	(6.0)	5.1
Weekly compensation continuance rates	801	(692)	n/a	n/a	(1.7)	1.5
Sensitive claims continuance rates	556	(440)	n/a	n/a	(1.2)	1.0
Elective surgery superimposed inflation	638	(474)	n/a	n/a	(1.4)	1.1
Medical superimposed inflation	268	(208)	n/a	n/a	(0.6)	0.5
Elective surgery active claims	1,000	(696)	n/a	n/a	(2.2)	1.5

Changes in interest rates alter the value of the OCL and the investment assets by different amounts. This is because ACC's liabilities can't be completely matched with investment assets, due to the long-term nature of the liabilities, as discussed in 'Appendix E – Management of investments'. As a result, the funding ratios are highly sensitive to interest rate changes. This is particularly the case when interest rates are low. As interest rates have increased significantly in the past three years, the sensitivity to changes has reduced but still remains significant.

As shown in Table 26, the impact of a 1% rise in interest rates as at 30 June 2023 would be a \$3,395 million increase in net assets and a resulting 8.7% increase in the weighted average funding ratio from 102.2% to 110.9%. On the other hand, a 1% fall in interest rates would reduce net assets and the weighted average funding ratio would reduce by 9.9% from 102.2% to 92.3%.

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 \$6,386 million decrease in net assets. The weighted average funding ratio would decrease by 12.1% from 102.2% to 90.1%. On the other hand, a 1% fall in inflation rates would increase net assets and the resulting weighted average funding ratio would increase by 11.9% from 102.2% to 114.1%.

After economic assumptions, a 1% increase in superimposed inflation for serious injury care would have the largest OCL impact with a \$2,908 million increase to liability. Investment assets are not impacted by serious injury care superimposed inflation and the weighted average funding ratio would fall by 6%.

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 D – Funding details'.

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 also be found in Appendix D.

Expense analysis

Total expenses remained unchanged from 2021/22

Total expenses remained unchanged in 2022/23 at \$803 million. This was \$34 million below budget, primarily due to an underspend on injury prevention. Expenses pay for handling claims, preventing injuries, investing funds, and the costs of operating the Scheme. These expenses, with Integrated Change Investment Portfolio (ICIP) expenses split out, are shown in Table 27.

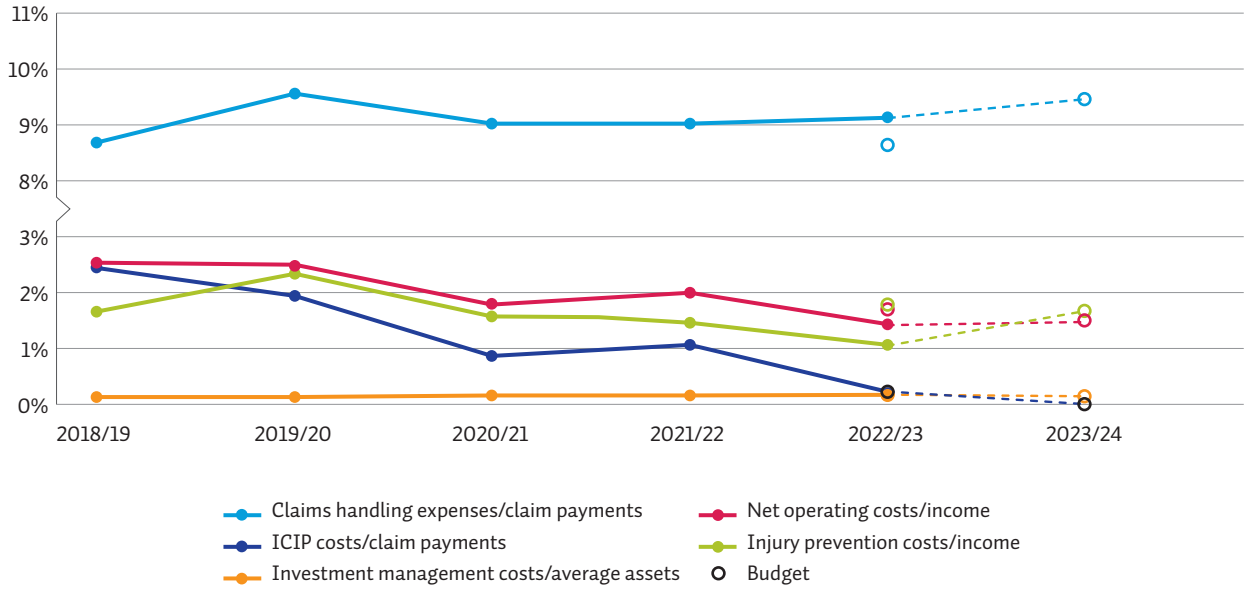
TABLE 27: EXPENSE CATEGORIES WITH ICIP AND OTHER COSTS SPLIT OUT

\$M	Actual 2021/22	Actual 2022/23	Budget 2022/23	Budget 2023/24
Claims handling expenses	482	560	558	624
Net operating costs	107	85	95	92
ICIP	58	15	14	0
Injury prevention costs	78	62	100	103
Investment management costs	77	81	70	70
Total	803	803	837	889

Chart 10 shows expenses, as percentages of the underlying service, for the past five years, alongside the 2022/23 budget and 2023/24 projected budget in five categories:

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

CHART 10: EXPENSES AS PERCENTAGES OF UNDERLYING SERVICE



Claims handling expenses increased

Claims handling expenses in 2022/23 (excluding the ICIP project spend) were \$560 million. This was significantly higher than the \$482 million spent in 2021/22. Claims handling expenses as a percentage of claim payments increased to 9.11% in 2022/23 from 9.02% in 2021/22 and above the budget of 8.64%.

The claims handling expenses budget is \$624 million for 2023/24 or 9.45% as a percentage of expected claim payments. This is a 12% increase from this year’s claims handling expense spend. Some of this increase is due to ICIP projects now moving into continuous delivery.

Operating costs reduced during the year and were below budget

Net operating costs (excluding the ICIP project spend) as a percentage of income from levies and appropriations reduced in 2022/23 from 1.99% to 1.43%. Expenditure was \$23 million lower than in 2021/22 and \$10 million lower than budget due to levy collection efficiencies.

The net operating cost budget is \$92 million for 2023/24 or 1.49% as a percentage of income.

Spending on Integrated Change Investment Portfolio (ICIP) projects reduced

The ICIP project costs as a percentage of claim payments decreased to 0.25% (\$15 million) from 1.09% (\$58 million). Of the ICIP expenses in 2022/23, \$14 million related to claims handling expenses and \$1 million to net operating costs. ICIP expenses in 2022/23 were \$1 million

above the budget of \$14 million. As ICIP-related expenses ended in 2022/23, the budget for 2023/24 is nil, with any future spend now included in business-as-usual claims handling expenses and operating costs.

Injury prevention costs were well below budget

Injury prevention costs reduced from \$78 million in 2021/22 to \$62 million in 2022/23. As a percentage of levy and appropriation income received, injury prevention expenditure dropped to 1.06% in 2022/23 from 1.45% in 2021/22.

Injury prevention expenses were \$38 million below budget due to issues of onboarding providers and milestones not being met. The risks associated with this underspend are discussed in more detail in the main report.

The injury prevention budget is \$103 million in 2023/24 or 1.67% as a percentage of income. This is a small increase from the 2022/23 budget of \$100 million.

Investment management costs were higher than expected

Investment management costs of \$81 million were above the budget of \$70 million due to newly introduced performance-related incentives for external fund managers. As a percentage of funds under management they increased from 0.16% in 2021/22 to 0.18% in 2022/23, above the budget of 0.15%.

The investment management cost budget is \$70 million for 2023/24, or 0.15% as a percentage of expected funds under management.

Appendix C – Valuation of outstanding claims liability

This appendix discusses how ACC’s outstanding claims liability (OCL) was valued for the year ending 30 June 2023.

This appendix contains OCL numbers calculated on an accounting basis, in line with the accounting standards. The Annual Report includes the liability for work-related gradual process (WRGP) claims that have been incurred but not reported in a note to the financial statements and not directly in the reported OCL numbers, due to accounting requirements¹⁷.

The OCL increased by 3% between June 2022 and June 2023

ACC’s OCL as at 30 June 2023 was \$51,537 million. This was an increase of \$1,265 million from 30 June 2022, compared to an expected increase of \$2,580 million.

The liability for WRGP claims incurred but not reported as at 30 June 2023 was \$1,090 million.

We expect an increase in the OCL every year as 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 lower-than-expected increase was due to favourable economic movements (increases to risk-free interest rates partially offset by increases to inflation rates) outweighing the strain from claim performance.

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

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

External valuation actuaries calculated the OCL

Alan Greenfield FNZSA FIAA and Ross Simmonds FNZSA FIA, from external actuary Taylor Fry, valued ACC’s OCL. They gave us their report, *Accident Compensation Corporation – Valuation of Outstanding Claims Liabilities as at 30 June 2023*, in August 2023.

They calculated the OCL by forecasting future cash flows for each payment type for accidents that happened before 30 June 2023. They then discounted cash flows back to 30 June 2023 using a ‘risk-free’ interest rate. They also included allowances for claims handling expenses and risk margins. Their calculations align with the accounting standards.

The OCL calculation complies with all professional reporting standards

The reporting standards are:

- the 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.

Despite strains from claim performance, the OCL reduced due to changes in economic conditions

Table 28 shows the breakdown of the OCL, including risk margins, and how it changed between 30 June 2022 and 30 June 2023.

¹⁷ For a reconciliation of the Financial Condition Report OCL strain to the Annual Report OCL strain see Table 41.

TABLE 28: CHANGES IN OCL FROM 30 JUNE 2022 TO 30 JUNE 2023

\$M	Liability as at 30 June 2022	Expected increase	Changes due to economic assumptions	Changes due to influenceable drivers	Changes due to non-influenceable drivers	Liability as at 30 June 2023
Medical costs	2,380	171	(71)	(218)	0	2,263
Elective surgery	3,778	243	(174)	(29)	0	3,818
Social rehabilitation	22,665	1,027	(1,408)	882	(214)	22,953
Compensation-related	12,737	763	(324)	186	0	13,361
Sensitive claims	4,577	313	(184)	77	0	4,783
Other	1,626	10	(13)	3	0	1,625
Claims handling expenses	2,509	53	(89)	262	0	2,734
Total OCL	50,272	2,580	(2,263)	1,162	(214)	51,537
WRGP incurred but not reported liability	1,064	3	(44)	(74)	141	1,090

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.

Assumptions used in the OCL calculation are economic or claim related

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

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

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

Excluding changes due to economic assumptions and non-influenceable factors, the OCL increased

Claim volumes and costs during 2022/23 were higher than expected. This resulted in an influenceable increase in the OCL of \$1,162 million. The main changes in the OCL are discussed throughout this report.

The OCL includes claims handling expenses

The OCL must allow for future claims handling expenses. These are based on the assumed cost per expense driver for each expense type, drawn from budgeted expenses. The expenses are split into rehabilitation, medical treatment, serious injury, sensitive claims, and hearing loss. They are also split by Account using an activity-based apportionment model.

Changes to economic conditions resulted in a significant decrease in the OCL

Changes due to economic assumptions decreased the OCL by \$2,263 million, including the risk margin. Changes in the economic environment cause the OCL to go up and down. The investment team helps to manage the risks through its asset allocation strategy, as described in 'Appendix E – Management of investments'. The \$2,263 million change this year reflected:

- an increase in interest rates, resulting in a reduction of \$4,432 million
- an increase in future inflation rates, resulting in an increase of \$1,932 million
- higher-than-expected inflation during 2022/23, resulting in an increase of \$237 million.

Cash flows are projected for each payment type

Table 29 shows the main payment types and how each is valued for the OCL.

TABLE 29: PAYMENT TYPES

Payment type	Description	Valuation methodology
Weekly compensation (non-fatal)	Income replacement	Full payment per active claim
Vocational rehabilitation	Rehabilitation services provided to help clients return to work	Simplified payment per active claim
Social rehabilitation – serious injury	Non-vocational rehabilitation services and assistance with capital costs provided to clients with serious injuries	Individual projection
Social rehabilitation – non-serious injury	Non-vocational rehabilitation services and assistance with capital costs provided to clients whose injuries are not serious	Full payment per active claim
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 number of active claims is multiplied by the average cost at each future point to calculate the projected cash flow.

Simplified payment per active claim

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

Individual projection

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

Assumptions for calculating the OCL are 'best estimate'

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

We’re satisfied that the claim assumptions are appropriate

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

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

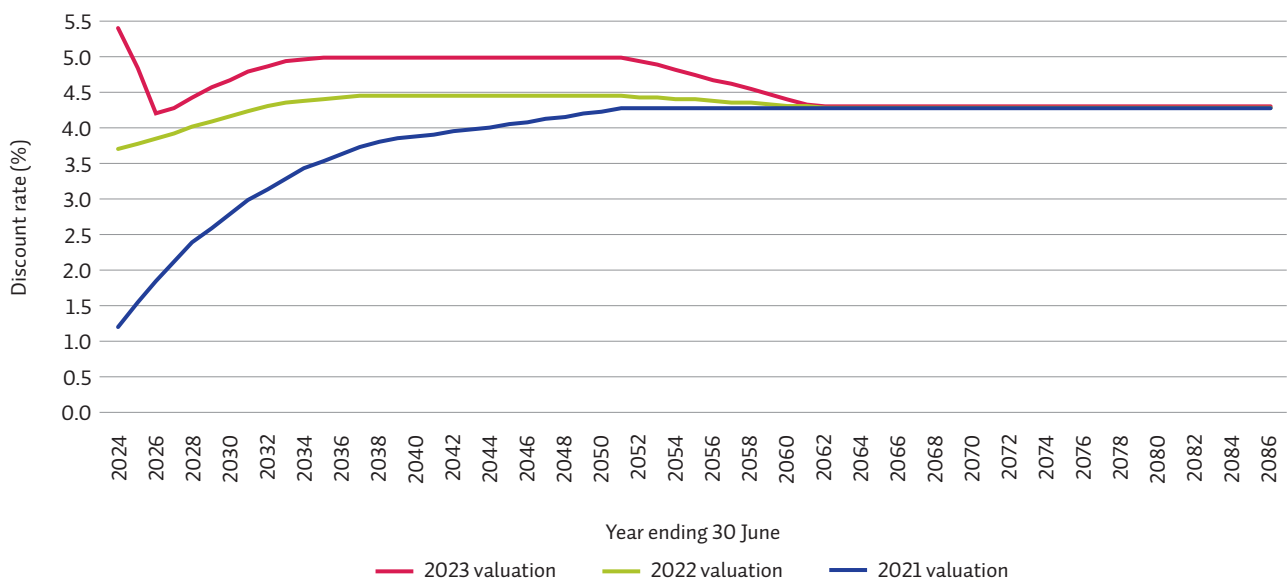
Assumptions for economic factors are prescribed by the Treasury

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 cannot be seen from New Zealand Government bond yields.

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

Chart 11 shows the risk-free interest rates used in the calculation of the 30 June 2023 OCL and the rates used in the two previous years.

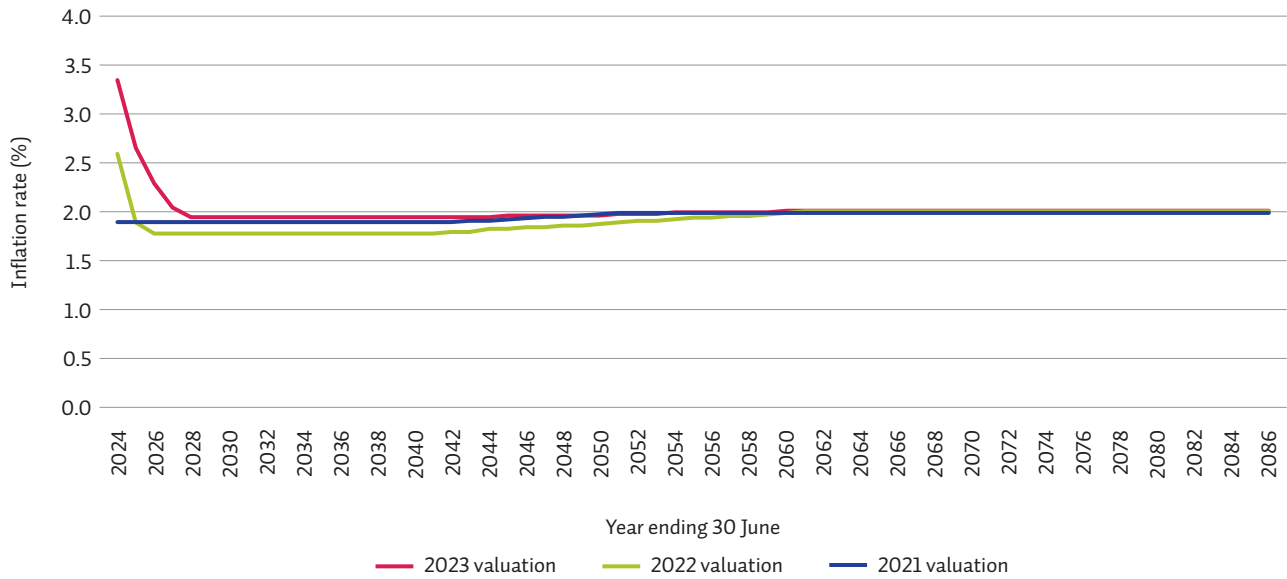
CHART 11: RISK-FREE INTEREST RATES – APPLICATION OF THE YIELD CURVE TO LIABILITIES



In 2022/23, interest rates increased in line with market yields available on New Zealand Government bonds.

The Treasury specifies assumptions for short-term consumer price index (CPI) rates, based equally on inflation-indexed bonds and market forecasts of inflation. Assumptions for future average weekly earnings rates and the labour cost index are based on the historical differences between these two indices and the CPI. Chart 12 shows the CPI assumptions used in the calculation of the 30 June 2023 OCL and the rates used in the two previous years.

CHART 12: INFLATION RATE ASSUMPTIONS



The forecast short-term inflation rates have been increased from the previous year because the observed inflation during the past year increased and expectations are for higher inflation to continue for the next three years.

The inflation indices are applied to payment types according to economic drivers of cost. Table 30 shows the inflation type used for each payment type.

TABLE 30: APPLICATION OF INFLATION ASSUMPTIONS

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

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

Chart 13 shows the distribution of potential OCL estimates without the risk margin. It shows the 'best estimate' of the OCL was \$45.728 billion as at 30 June 2023. It also shows the variance in the OCL, with 95% of potential estimates between \$32 billion and \$65 billion.

CHART 13: ESTIMATED DISTRIBUTION OF OCL AS AT 30 JUNE 2023

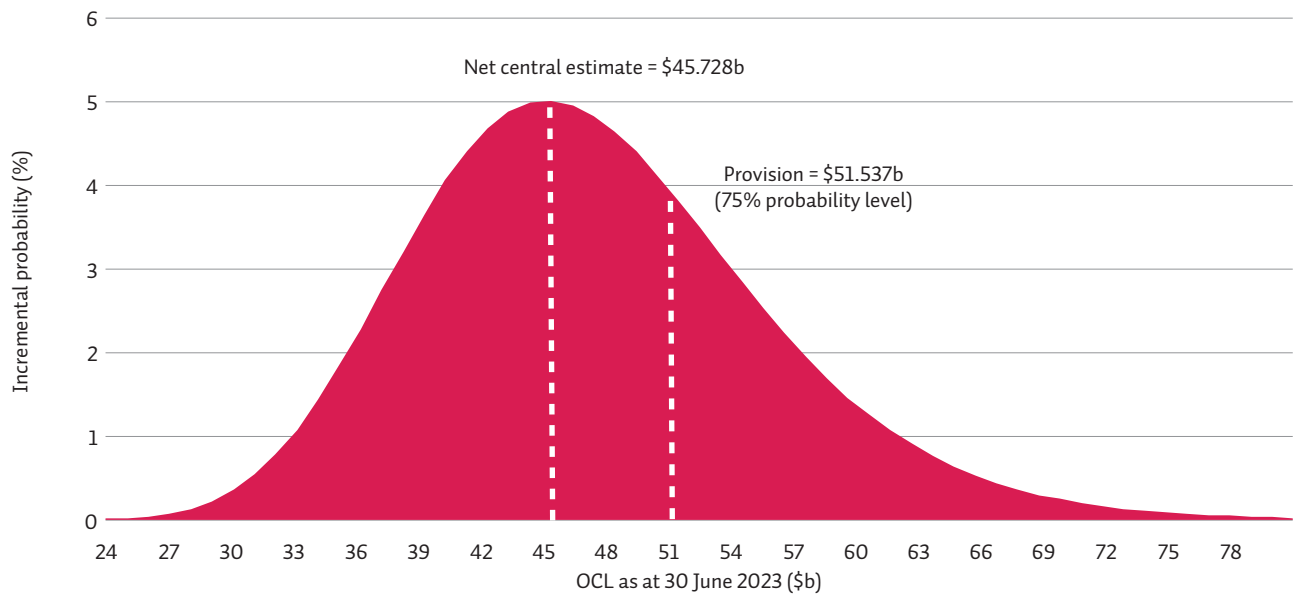


Table 31 shows the risk margins added to the central estimate to meet the 75% level.

TABLE 31: RISK MARGINS

Account	2022/23
Motor Vehicle	13.2%
Work	11.0%
Earners'	11.8%
Treatment Injury	14.2%
Non-Earners'	13.4%
Total risk margin	12.7%

The external valuation actuary has retained the assumed 2021/22 risk margins for this valuation, as they consider the current risk margins remain appropriate.

Appendix D – Funding details

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

Table 32 shows the changes in the indicative 2025/26 levy rates between the June 2022 and June 2023 bases. The first year of the next levy-setting cycle is 2025/26. The June 2023 basis provides an updated view on the levies ACC would recommend were the consultation to be held today.

TABLE 32: CHANGE IN INDICATIVE 2025/26 LEVY RATES FROM JUNE 2022 TO JUNE 2023

\$	Motor Vehicle Account	Work Account	Earners' Account	Levied portion of Treatment Injury
2025/26 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2022	151.91	0.69	1.68	0.10
Reduction due to ICIP and injury prevention	(11.46)	(0.05)	(0.05)	(0.01)
Limitation due to capping	(18.32)	0.00	(0.24)	(0.03)
2025/26 indicative capped levies as at 30 June 2022	122.13	0.64	1.39	0.06
New year rates				
New year rate as at 30 June 2022	216.51	0.87	1.64	0.12
Change from:				
Claim frequency	(17.67)	(0.03)	(0.03)	0.00
Claim severity	8.94	0.06	0.08	0.00
Discount rate/investment forecasts	(5.99)	(0.01)	(0.02)	(0.00)
Base inflation	6.72	0.02	0.03	0.00
Other	(1.68)	(0.04)	(0.06)	(0.00)
New year rate as at 30 June 2023	206.83	0.87	1.63	0.12
Funding adjustment				
Funding adjustment as at 30 June 2022	(64.60)	(0.18)	0.05	(0.02)
Change from:				
Claim frequency	(5.65)	0.00	(0.01)	0.00
Claim severity	1.45	0.03	0.04	0.01
Discount rate/investment forecasts	(24.69)	(0.04)	(0.03)	(0.01)
Base inflation	14.94	0.02	0.01	0.00
Other	2.01	0.00	(0.01)	(0.00)
Funding adjustment as at 30 June 2023	(76.55)	(0.17)	0.05	(0.02)
2025/26 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2023	130.28	0.70	1.68	0.10
Reduction due to ICIP and injury prevention	(11.53)	(0.03)	(0.04)	(0.00)
Limitation due to capping	0.00	(0.01)	(0.25)	(0.04)
2025/26 indicative capped levies as at 30 June 2023	118.75	0.66	1.39	0.06

Note – rounding means totals may not equal the sum of parts.

The indicative uncapped levy rate for 2025/26 is higher than that estimated in June 2022 for the Work Account and stable for the Earners' Account (including the levied portion of the Treatment Injury Account), but lower for the Motor Vehicle Account. The reduction in the Motor Vehicle Account was partially driven by lower projected frequency of weekly compensation claims. For other Accounts, changes in claim frequency and severity increased the forecast levies. Increased discount rate and investment forecasts reduced both new year rates and the funding adjustment for all Accounts. This was offset by increased forecast inflation.

Last year, ACC's 2023/24 recommended appropriation was approved by the Government. This year ACC will make recommendations for the 2024/25 appropriation. Table 33 shows the changes in the indicative 2024/25 appropriation between those calculated using the June 2022 basis and those calculated using the June 2023 basis. This is different from the levied Accounts.

TABLE 33: CHANGE IN CALCULATIONS FOR 2024/25 NON-EARNERS' APPROPRIATION FROM JUNE 2022 TO JUNE 2023

\$M	Non-Earners' Account	Non-levied portion of Treatment Injury Account	Total Non-Earners' appropriation
2024/25 approved funding	2,062.4	304.0	2,366.4
Estimated 2024/25 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2022	2,203.5	347.5	2,551.0
New year claim costs			
New year claim costs as at 30 June 2022	2,042.3	270.8	2,313.1
Change from:			
Claim frequency	(34.0)	3.2	(30.9)
Claim severity	70.4	6.8	77.2
Discount rate /investment forecasts	(27.6)	(13.8)	(41.4)
Base inflation	49.8	12.4	62.1
Other	(10.9)	(2.2)	(13.0)
New year claim costs as at 30 June 2023	2,090.0	277.2	2,367.2
Funding adjustment			
Funding adjustment as at 30 June 2022	161.2	76.7	237.9
Change from:			
Claim frequency	(11.2)	1.8	(9.4)
Claim severity	14.5	6.9	21.4
Discount rate/investment forecasts	(66.6)	(45.7)	(112.3)
Base inflation	48.9	31.1	79.9
Other	24.2	1.5	25.7
Funding adjustment as at 30 June 2023	170.9	72.2	243.2
Estimated 2024/25 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2023	2,260.9	349.4	2,610.4
Reduction due to ICIP and injury prevention	(38.8)	(6.6)	(45.4)
Limitation due to capping	(155.4)	(38.8)	(194.2)
Additional funding outside the cap	13.5	0.0	13.5
2024/25 indicative appropriation as at 30 June 2023	2,080.3	304.0	2,384.3

Note – rounding means totals may not equal the sum of parts.

Last year, ACC recommended capped increases for the 2024/25 Non-Earners' appropriation, which were pre-approved by the Government in October 2022. Since then, the funding requirements for 2024/25 have increased, but further increases to the recommended appropriation are limited due to capping.

As with the levied Accounts, increases in the projected discount rates and investment returns have decreased both the new year claim costs and the funding adjustment. However, this was offset by increasing claim frequency and severity and higher forecast inflation. The new year claim costs and funding adjustment both increased for the combined non-levied Accounts. Compared to last year, we now expect appropriation increases to be capped for longer, until 2026/27.

Detailed changes to indicative levies and appropriations are described below.

Deteriorating claim performance mostly increased funding requirements

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

- Lower weekly compensation claim frequency for the Motor Vehicle Account, reducing the new year claim costs by 6%. This more than offset the impact of increased severity for the Motor Vehicle Account.
- Lower total claim frequency for all Accounts, reducing the projected medical payments.

Changes to the claim frequencies since 2021/22 are discussed in more detail in 'Appendix F – Claim performance'.

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

- The duration of weekly compensation claims increased the new year claim costs for the Work, Earners', and Motor Vehicle Accounts. The impact is largest for the Work Account, where the new year claim costs increased by 8% as a result.
- Higher sensitive claim payments for the Earners' Account.
- Higher care rates and average care hours for seriously injured claims.

Costs for Public Health Acute Services (PHAS) have increased substantially in recent years. They were \$61 million (8%) higher than previously expected in 2023/24. This impacted all Accounts, with more than half of the increase in the Non-Earners' Account. While these services have little impact on the OCL, they are a significant component (38%) of new year claim costs for the Non-Earners' Account.

Changes in claim performance for existing claims have increased the OCL and reduced the funding position for most Accounts. This increased the funding required through funding adjustments.

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

Increased risk-free interest rates and investment forecasts reduced expected funding requirements

Risk-free interest rate forecasts increased in the year to 30 June 2023. On average, short-to-medium term interest rates are about 0.5% higher than the previous forecast.

In addition to this, forecasts of investment returns also increased. This reduced the funding required now to meet the expected lifetime cost of future claims – by 1% to 5%, depending on the Account. The largest reductions were for the non-levied portion of the Treatment Injury Account (5%) and the Motor Vehicle Account (3%). These are the Accounts with the largest proportion of long-term claims.

Higher interest rates also reduced the OCL, leading to an improved funding position. This further reduced the forecast levies and appropriations through funding adjustments.

Higher forecast inflation partially offset these favourable economic factors

Forecast inflation rates are higher than the previous projections as at 30 June 2022. They are about 0.8% higher in the short term and about 0.2% higher in the medium-to-long term.

Higher inflation increased the expected claim costs, partially offsetting the reduction in funding requirements from higher risk-free rates and investment forecasts.

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

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

Expected injury prevention and ICIP benefits reduce the indicative levies and appropriations

ACC offsets the new year claim costs with the expected financial benefits of injury prevention and the ICIP, which subsequently reduce calculated levies and appropriations.

Table 34 shows the expected reductions in the new year claim costs for each of the next five years. They are slightly different to the reductions shown in Table 33, which include the impact of funding adjustment.

TABLE 34: EXPECTED REDUCTIONS IN NEW YEAR CLAIM COSTS FROM INJURY PREVENTION AND THE ICIP

\$M	2023/24	2024/25	2025/26	2026/27	2027/28
Expected reduction from injury prevention					
Levies	38.6	40.1	41.7	42.1	42.3
Appropriation	3.1	3.4	3.7	3.7	3.7
	41.6	43.5	45.4	45.8	46.0
Expected reduction from ICIP					
Levies	61.5	81.7	110.6	130.2	146.5
Appropriation	33.2	37.8	41.2	43.9	45.8
	94.7	119.5	151.8	174.1	192.4
Total reduction from injury prevention and ICIP	136.3	163.0	197.2	219.9	238.4

We estimate that these activities will reduce the required funding in 2025/26 by \$197 million, split between \$152 million for the levied Accounts and \$45 million for the non-levied Accounts.

Last year we estimated that the reduction in the 2025/26 new year claim costs would be \$305 million. This was \$108 million more than we're now expecting.

The main reasons for this change are:

- A \$57 million reduction due to the deterioration of projected resource efficiency benefits from the ICIP programme. The investment into ICIP has ended. Apart from resource efficiency benefits, most of the ultimate targets are expected to be achieved. However, to date, the benefits delivered through the ICIP response haven't been in line with expectations.
- A decrease of \$43 million in the projected injury prevention benefits. The target return on investment for the Strategic portfolio was written down to 1 as no benefit targets have been set. There was a methodology change to allocate portfolio benefits by the investment in each Account. Expected benefits for the Motor Vehicle Account are higher than previously forecast. They are offset by lower expected benefits for other Accounts.

If the injury prevention and ICIP benefits are not realised, levies and appropriations will need to increase above the latest forecasts.

Indicative levies and appropriations are sensitive to many factors

Table 35 and Table 36 show the expected impacts on indicative uncapped 2025/26 levies and 2024/25 appropriations of a 1% increase or decrease in key assumptions. The movements don't indicate the upper or lower levels of all possible outcomes. These sensitivities are calculated independently of each other.

TABLE 35: SENSITIVITY OF LEVY RATES

Impact on levy rates (\$)	Motor Vehicle Account		Work Account		Earners' Account		Treatment Injury Account (levied)	
	1%	-1%	1%	-1%	1%	-1%	1%	-1%
Risk-free discount rates and investment returns	(48.73)	66.02	(0.08)	0.10	(0.11)	0.13	(0.01)	0.02
Asset values	(3.88)	3.88	(0.01)	0.01	(0.01)	0.01	(0.00)	0.00
Inflation rates	83.92	(63.30)	0.15	(0.11)	0.21	(0.16)	0.02	(0.02)
Number of new weekly compensation claims	0.98	(0.98)	0.01	(0.01)	0.01	(0.01)	0.00	(0.00)
Weekly compensation continuance rates	12.18	(10.10)	0.03	(0.03)	0.02	(0.02)	0.00	(0.00)
Sensitive claim continuance rates	n/a	n/a	n/a	n/a	0.02	(0.02)	n/a	n/a
Elective surgery superimposed inflation	5.75	(4.11)	0.01	(0.01)	0.03	(0.02)	0.00	(0.00)
Medical superimposed inflation	3.50	(2.65)	0.01	(0.01)	0.01	(0.01)	0.00	(0.00)
Care superimposed inflation	49.27	(36.08)	0.02	(0.01)	0.04	(0.03)	0.01	(0.01)
Elective surgery active claims	6.65	(4.45)	0.02	(0.01)	0.03	(0.02)	0.00	(0.00)

TABLE 36: SENSITIVITY OF NON-EARNERS' APPROPRIATION

Impact on Non-Earners' appropriation (\$M)	Non-Earners' Account		Treatment Injury Account (non-levied)		Total Non-Earners' appropriation	
	1%	-1%	1%	-1%	1%	-1%
Risk-free discount rates and investment returns	(158.92)	224.21	(129.28)	168.69	(288.20)	392.90
Asset values	(6.25)	6.25	(4.00)	4.00	(10.25)	10.25
Inflation rate	277.36	(209.19)	186.43	(167.54)	463.79	(376.73)
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	46.32	(35.47)	n/a	n/a	46.32	(35.47)
Elective surgery superimposed inflation	19.80	(14.29)	6.62	(4.94)	26.42	(19.22)
Medical superimposed inflation	18.58	(15.94)	1.49	(1.27)	20.06	(17.21)
Care superimposed inflation	130.41	(88.88)	156.10	(121.88)	286.51	(210.76)
Elective surgery active claims	18.92	(12.80)	5.84	(4.18)	24.76	(16.99)
Number of non-earners	22.38	(22.38)	3.21	(3.21)	25.58	(25.58)

No sensitivities have been calculated for weekly compensation scenarios for the Non-Earners' Account, as non-earners are not eligible¹⁸ for weekly compensation payments.

¹⁸ 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.

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, which means it's equally likely that they're too high or too low. Our forecasts vary over time with changes in the underlying assumptions, such as those indicated in the sensitivities above. To understand more, we simulate future examples of these variations.

The simulations allow for:

- the funding position as at 30 June 2023
- variations in economic factors, including the earned rates of investment return, inflation rates, and risk-free interest rates
- changes in the number of claims, rehabilitation rates, average costs and superimposed inflation.

We've generated funding ratios, along with levy rates and appropriations based on the funding policy for each simulation. Charts 14, 16, 18 and 20 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).

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. Charts 15, 17, 19 and 21 show, for each Account, the distribution of future uncapped and capped levy and appropriation paths. The distribution of capped levy paths is much narrower than the uncapped levy paths, showing the effect the cap has on stabilising levy rates.

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

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

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

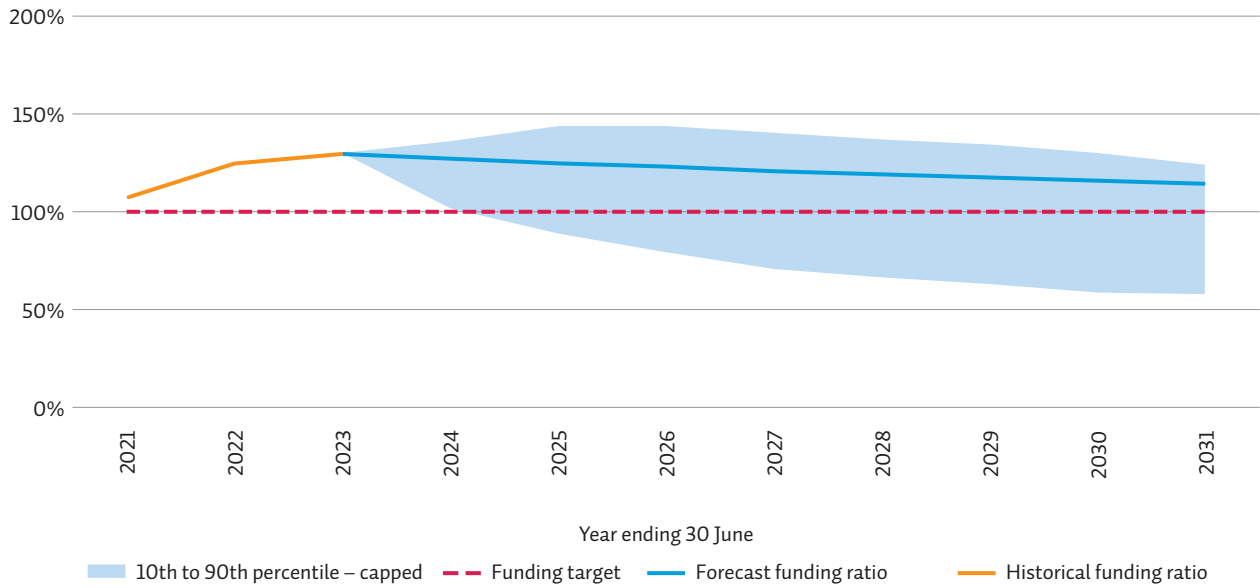
The combination of capped funding increases and unrestricted decreases results in a higher likelihood of significant underfunding (less than 80% funding ratio) in each Account. If this happens, the underfunding is likely to be passed on to future levy payers and taxpayers in the form of higher levies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

The forecast funding ratio path maintains the economic and claim assumptions as at 30 June 2023 into the future. However, for each simulation, the assumptions can change each year. The levies and appropriations are then re-calculated by applying the applicable funding policy. If these assumptions deteriorate, the funding policy (both capping and the funding adjustment) will deliberately slow any increases in funding. This means that the simulated funding ratio is likely to be lower than the indicative funding ratio path.

Motor Vehicle Account: Future levy increases, capped at the maximum of 5% for seven consecutive years, will be necessary despite the strong funding ratio to better align with new year rates

As at 30 June 2023, the Motor Vehicle Account had a funding ratio of 131%, an increase from 125% in the previous year. The forecast funding ratio, shown as the blue line in Chart 14, reduces over time. This is because the funding surplus is returned to levy payers in the form of lower levies in line with the funding policy. The simulations imply a 32% probability of being under the 100% target in 2026 and an 11% probability that the funding ratio will be lower than 80%.

CHART 14: MOTOR VEHICLE ACCOUNT PROJECTED FUNDING RATIO

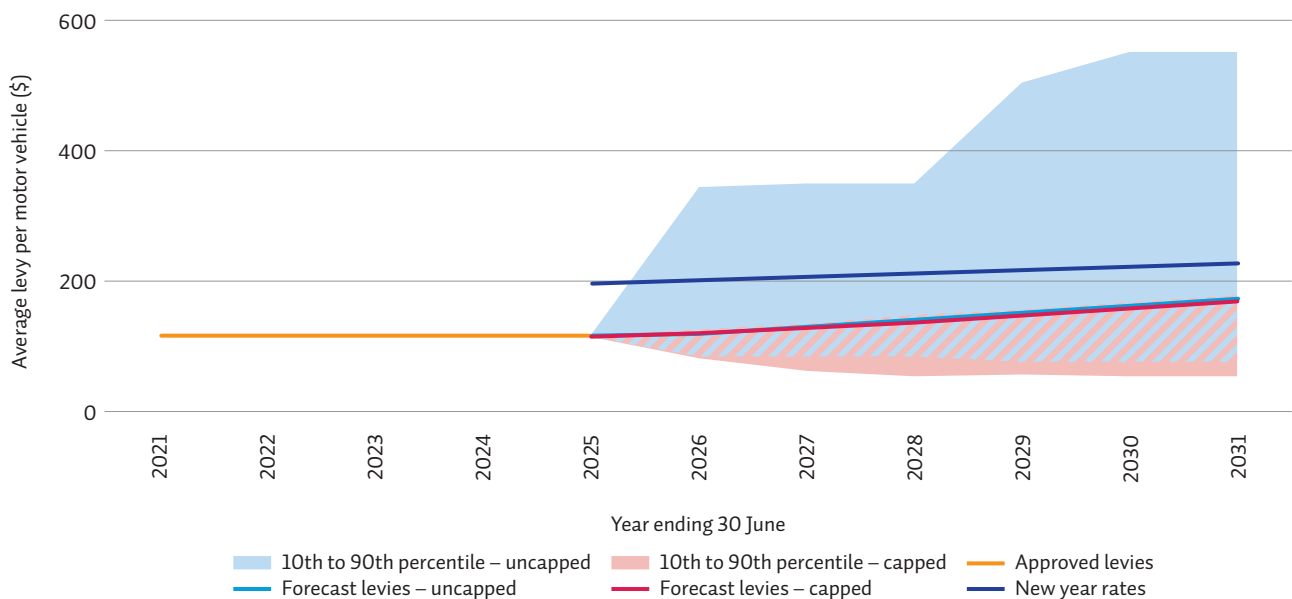


Despite the strong funding ratio, we expect levy increases will be needed in the future. This is because the 2024/25 levy (\$113.94) is well below the 2025/26 new year rate (\$197.00). The three-year period when levies will next be recommended starts with 2025/26. We forecast levies will increase at the cap for the next seven 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 simulated levy rate could range from 45% to 338% 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 \$54 and \$167 in 2029/30. The upper range is still well below the expected 2029/30 new year rate (\$214.53).

The volatility in levy paths is mostly caused by the funding adjustment, rather than the new year claim costs. The \$54 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.

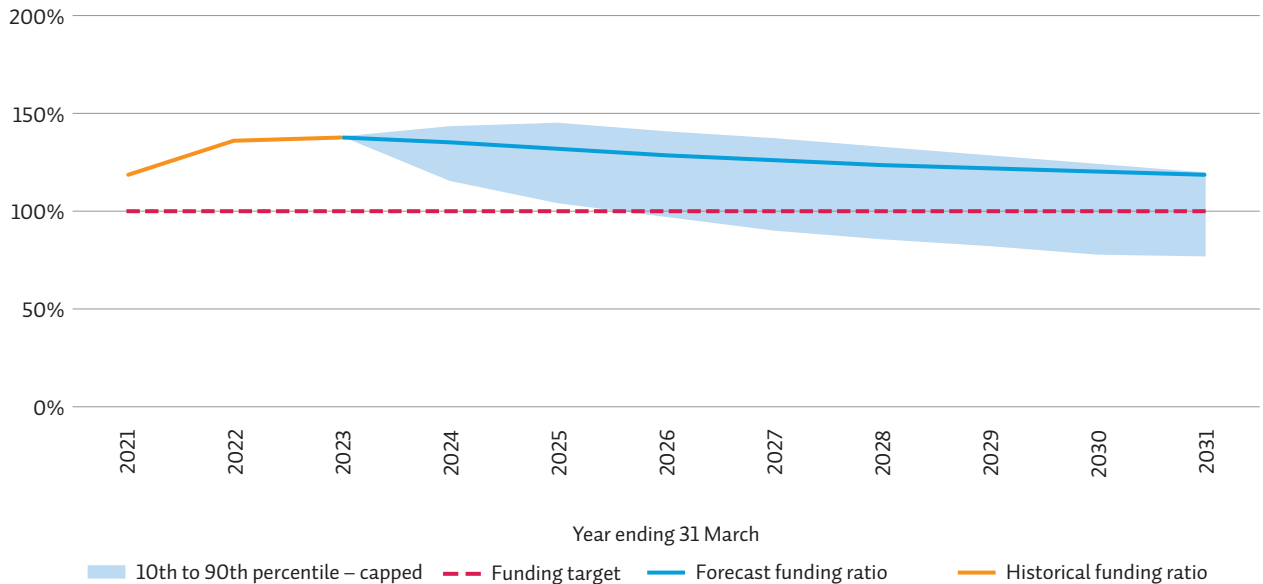
CHART 15: MOTOR VEHICLE ACCOUNT DISTRIBUTION OF FUTURE LEVY PATHS



Work Account: Future levy increases, capped at the maximum of 5% for three consecutive years, will be necessary despite the strong funding ratio, to better align with new year rates

The Work Account had the strongest funding ratio as at 30 June 2023, of 137%. It's the least likely to be below the 100% funding target in 2026, with a probability of 14% and only a 2% probability of a funding ratio lower than 80%.

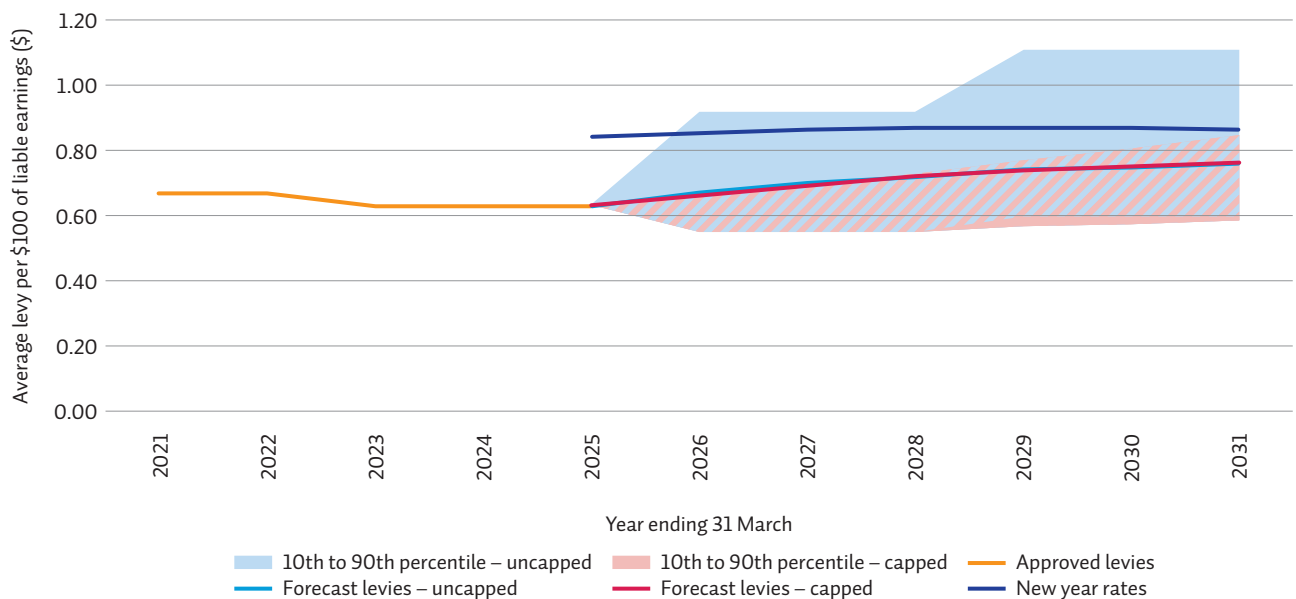
CHART 16: WORK ACCOUNT PROJECTED FUNDING RATIO



The new year rate for 2025/26 is \$0.85 per \$100 liable earnings, significantly higher than the 2024/25 levy of \$0.63. Therefore, levy increases are forecast to be at the 5% maximum cap for three consecutive years.

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

CHART 17: WORK ACCOUNT DISTRIBUTION OF FUTURE LEVY PATHS

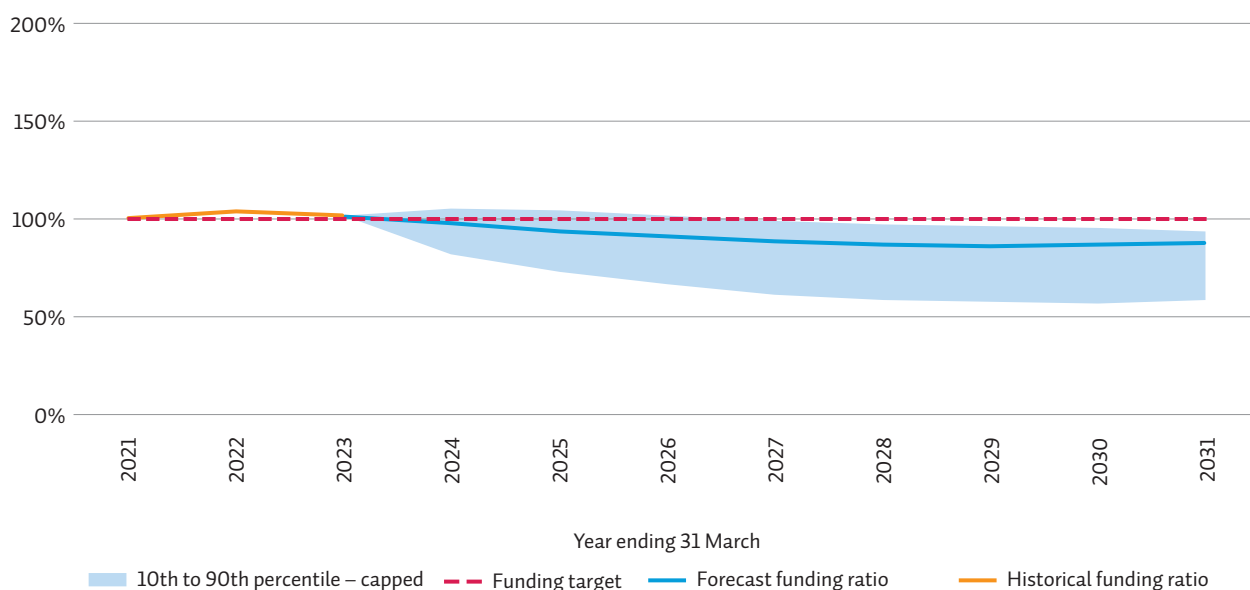


Earners' Account: Future levy increases, expected to consistently reach the maximum 5% cap for six consecutive years, are essential to address forecast funding deficits and high new year rates

The Earners' Account (excluding the levied portion of the Treatment Injury Account) had an opening funding ratio of 102%. While the Government approved the capped levy increases for 2023/24 and 2024/25, they remain below new year rates. We forecast that the Earners' Account for 2023/24 will be in deficit (98%), and the funding ratios will further deteriorate as the year progresses, as illustrated in Chart 18. Capped levy increases will limit how quickly the funding position can be restored. As stated above, the funding policy deliberately slows any funding increases as a response to deteriorating economic and claim assumptions in the simulations.

Our simulations indicate there's an 87% probability that the funding ratio will be below 100% in 2026 and a 35% 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.

CHART 18: EARNERS' ACCOUNT PROJECTED FUNDING RATIO (EXCLUDING THE LEVIED PORTION OF THE TREATMENT INJURY ACCOUNT)

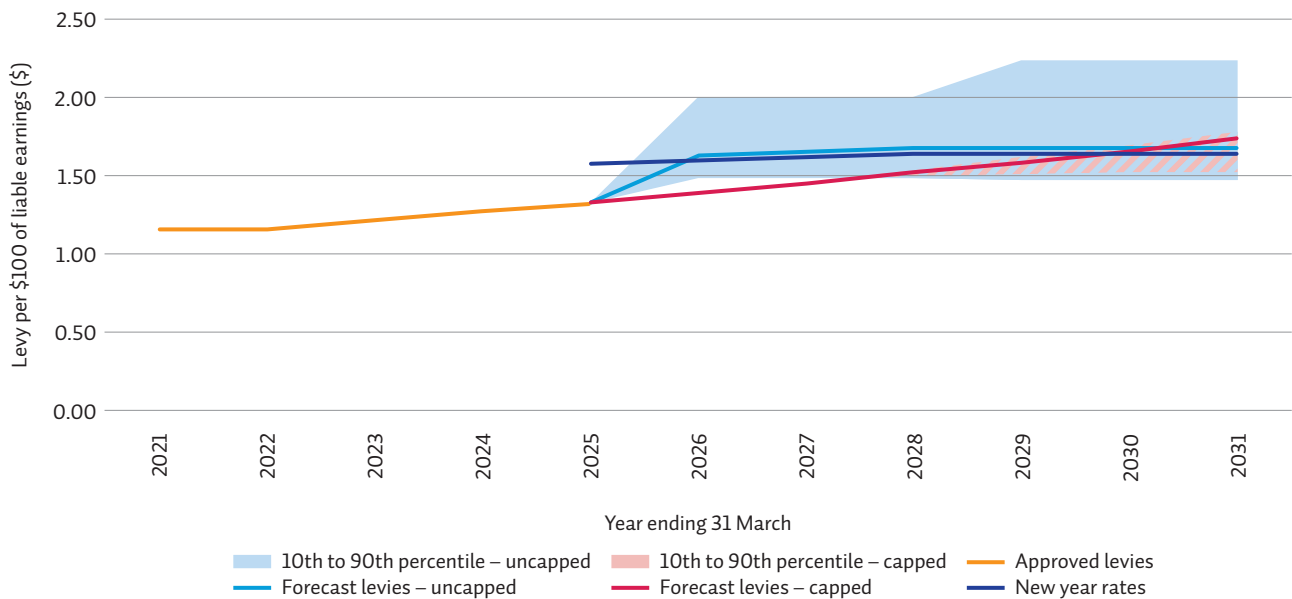


Levies are forecast to increase close to the 5% cap for the next six years. This is due to the expected deficit and the gap between the 2024/25 levy rate (\$1.33) and the new year claim rate for 2025/26 (\$1.60).

Our simulations also show the strong likelihood of capped increases. As shown in Chart 19, the range of possible capped levies closely follows the maximum 5% increase per annum. This indicates that it's very unlikely that levy increases will be below the maximum 5%.

The Earners' Account (excluding the levied portion of the Treatment Injury Account) 2029/30 capped levy could vary from \$1.53 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 need to increase. Without the cap the range of possible levies in the same period widens, from \$1.48 to \$2.24 with 80% confidence.

CHART 19: EARNERS’ ACCOUNT DISTRIBUTION OF FUTURE LEVY PATHS (EXCLUDING THE LEVIED PORTION OF THE TREATMENT INJURY ACCOUNT)



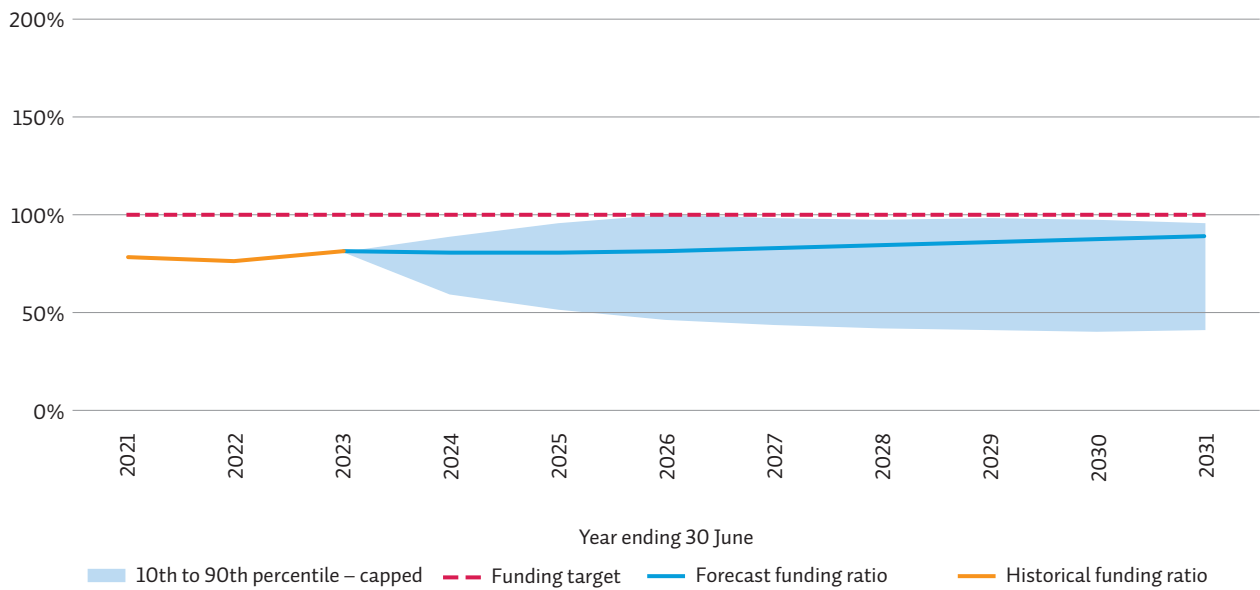
Non-Earners’ Account: Future appropriation increases, expected to consistently reach the maximum 7.5% cap for three consecutive years, are essential to address forecast funding deficits and high new year claim costs

Unlike the levied Accounts, the fully funded portion of the Non-Earners’ Account (excluding the non-levied portion of the Treatment Injury Account) was already in deficit as at 30 June 2023. The funding ratio was 81%, an improvement compared to 76% the previous year.

The forecast funding ratio, according to the 2023 appropriation recommendation, moves gradually towards the 100% target as appropriations are increased over time. The forecast funding ratio in 2030 is 88%.

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 62% probability of it having a funding ratio of less than 80%.

CHART 20: NON-EARNERS' ACCOUNT PROJECTED FUNDING RATIO (FULLY FUNDED PORTION EXCLUDING THE NON-LEVIED PORTION OF THE TREATMENT INJURY ACCOUNT)



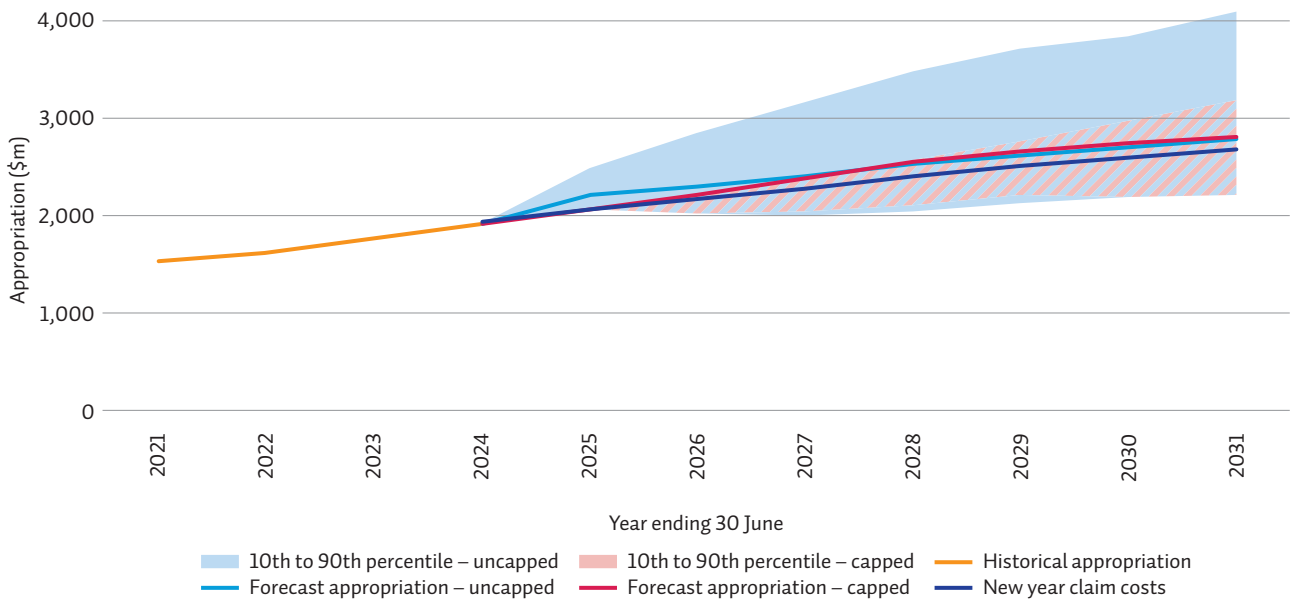
Appropriation increases are expected due to the deficit in the Non-Earners' Account. The 2023 recommended appropriations suggest that the combined appropriation will increase at the 7.5% cap for the three consecutive years from 2023/24.

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 \$200 million per year. As it represents only a year's worth of payments, it's not as affected by changes in economic assumptions. Also, there's more certainty around claim numbers and payments as it only covers claims from before 2001.

The distribution of the simulated uncapped appropriations is 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 \$2.2 billion and \$3.0 billion in 2029/30 for the Non-Earners' Account appropriation.

CHART 21: NON-EARNERS' ACCOUNT DISTRIBUTION OF FUTURE APPROPRIATION PATHS
(EXCLUDING THE NON-LEVIED PORTION OF THE TREATMENT INJURY ACCOUNT)



Appendix E – Management of investments

This appendix discusses the performance of ACC’s investment portfolio and how this is managed and governed.

The 2022/23 investment return was 7.25%

ACC’s investment assets had a market value of \$46.8 billion as at 30 June 23, up from \$44.8 billion in the previous year. These assets and their associated future investment returns are held to fund the outstanding claims liability (OCL).

The actual investment return before costs in 2022/23 was 7.25%. The investment return was 7.07% after costs, 0.20% below the market benchmark. The outlook across asset classes is positive. The expected long-term investment return is now 6%, up from 5.6% in 2021/22, 4.2% in 2020/21, and 3.6% in 2019/20, reflecting a rise in interest rates in the period.

Chart 22 shows the Scheme’s annual investment returns against benchmark since 2014 when ACC first held assets equal to the OCL (fully funded). Actual investments performed very closely against market benchmarks overall.

CHART 22: COMPARISON OF INVESTMENT RETURNS (BEFORE COSTS) WITH BENCHMARK



During 2022/23, there were gains in most asset types, as shown in Table 37. Investment returns were highest for Australian equities and global equities. Most asset classes beat their benchmarks, with global bonds and listed infrastructure/property beating benchmarks by the highest margins. Private markets didn’t suffer a loss, but also didn’t perform as well as the benchmark.

TABLE 37: MARKET VALUE AND INVESTMENT RETURN (BEFORE COSTS) BY ASSET TYPE

	Market value 30 June 2023 (\$M)	2022/23 return (%)	Benchmark return (%)	Relative performance (%)
Cash reserves	2,622	4.37	4.19	0.18
NZ inflation-indexed bonds	12,706	5.50	5.79	(0.29)
NZ long bonds	10,213	0.53	(0.16)	0.69
NZ equities	3,593	8.39	7.92	0.47
Listed infrastructure and property	1,201	5.40	3.78	1.62
Private markets	2,166	0.30	7.18	(6.88)
Australian equities (unhedged)	1,149	12.55	11.81	0.74
Global bonds (unhedged)	1,275	5.26	3.23	2.04
Global equities (unhedged)	12,108	18.18	18.90	(0.72)
Interest rate overlay	(285)	(0.22)	(0.23)	0.00
Global equity futures overlay	66	0.12	0.00	0.12
Global bond futures overlay	10	0.03	0.00	0.03
Foreign currency overlay	(97)	(0.25)	(0.18)	(0.07)
Total reserves	46,726	7.25	7.27	(0.02)

Investment returns were highest for the Non-Earners' Account portfolio, followed by the Earners' Account. Performance by Account was above benchmark for all Accounts except Non-Earners' and Treatment Injury. Each Account's investment portfolio saw gains for most asset classes.

TABLE 38: MARKET VALUE AND INVESTMENT RETURN (BEFORE COSTS) BY ACCOUNT

Account	Market value 30 June 2023 (\$M)	2022/23 return (%)	Benchmark return (%)	Relative performance (%)
Motor Vehicle	13,856	6.03	6.06	(0.03)
Work	10,200	6.27	6.14	0.13
Earners'	11,932	8.12	8.04	0.07
Treatment Injury	5,369	7.59	7.74	(0.16)
Non-Earners'	5,370	10.24	10.46	(0.22)
Total reserves	46,726	7.25	7.27	(0.02)

ACC actively manages its portfolios with oversight from the investment committee

ACC manages investments actively to gain better risk-adjusted returns than it would under a passive regime. A passive investment management approach is a strategy that mechanically tracks representative market benchmarks. Under an active investment management approach, the manager actively seeks opportunities to make short-term returns while making calculated risks.

For ACC, this includes developing the overall investment strategy and managing a significant proportion of the investment portfolio including equities, fixed interest securities, and direct markets. External fund management companies manage most investments outside of Australasia.

The Board Investment Committee (BIC) provides oversight of ACC's investment management and investment performance against established benchmarks. They approve asset allocation benchmarks and set the default allocation between investment markets for each Account including asset classes, risk tolerances, and exposure limits. The BIC appoints or removes external fund managers and investment advisors.

The investment strategy considers the nature of liabilities and available assets

The liability profile varies by Account

Long-term liabilities, which are mainly serious injury claims, are primarily in the Motor Vehicle, Non-Earners', and Treatment Injury Accounts. The liability profile for these serious claims is lengthy, with payments subject to general price inflation and superimposed inflation.

There are also medium-term claims, such as in the case of weekly compensation. 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.

The investment strategy considers the nature of liabilities

Accounts with low funding ratios and long claim liabilities generally have asset allocations that are more heavily weighted towards equities. This is because equity volatility is less material relative to liability volatility for these Accounts.

The Accounts with the lowest total equity weightings are the Work and Motor Vehicle Accounts. For the Work Account, this is due to its comparatively short duration liabilities and higher funding ratio.

In the case of the Motor Vehicle Account, there's less cushion to absorb fluctuations in equity prices without them significantly impacting levy rates. That's because of the low annual cash flow from levy income and claim payments in relation to the size of assets and liabilities.

The relatively high total equity weighting for the Non-Earners' Account is due to its relatively low funding ratio.

There's 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, which results in net assets that are relatively immune to external pressures.

In practice, it's not possible to match Scheme assets to total claim liabilities completely or even closely. The available securities with suitable characteristics 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 Strategic Asset Allocation sets the basis for the investment portfolios for each Account

Strategic Asset Allocation (SAA) is the process of setting benchmark investment allocations by asset class for each Account. Investment portfolio performance is measured against these benchmark allocations. A composite benchmark is used to measure overall investment return.

Table 39 shows the strategic asset allocations with benchmark holdings and actual allocations by Account. The asset allocation weightings are set independently per Account.

During 2022/23, the asset allocation was reviewed and the exposure to Australian equities was considered against the rest of the global equities. It was determined there were some advantages to maintain exposure to Australian equities, but it didn't need to be maintained at the existing allocation. The result saw a reduction in allocation to Australian equities offset by an increase in allocation to global equities.

Actual asset allocations differ from their strategic counterpart. This reflects a combination of deliberate and temporary deviations. Deliberate deviations are permitted by discretion given to the investment team under their Investment Guidelines. Temporary deviations arise from

the impact of market movements on asset weightings. Strategic asset allocations vary from year to year, depending on SAA reviews.

There's 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. Actual asset allocation in the private markets was 4.6% at the end of 2022/23. This explains why the actual asset allocations for New Zealand property and infrastructure are lower than their strategic allocations, as some of the exposure has been obtained instead through private markets.

TABLE 39: STRATEGIC ASSET ALLOCATIONS BY ACCOUNT

Asset class (%)	Motor Vehicle Account	Work Account	Earners' Account	Treatment Injury Account	Non-Earners' Account	Total strategic asset allocation 2023	Actual asset allocation 2023	Total strategic asset allocation 2022
New Zealand cash	2.0	12.5	3.0	2.0	4.0	4.8	5.6	4.5
New Zealand long bonds	32.5	31.4	21.4	20.0	3.5	24.7	21.9	25.6
New Zealand inflation-indexed bonds	32.7	19.3	23.7	34.1	30.1	27.3	27.2	27.2
Global bonds	1.0	4.5	4.5	0.5	0.5	2.6	2.7	2.3
New Zealand property and infrastructure	3.5	4.0	4.0	3.5	3.5	3.8	2.6	3.7
Private markets	0.0	0.0	0.0	0.0	0.0	0.0	4.6	0.0
New Zealand equities	7.6	7.6	9.1	10.1	11.1	8.7	7.7	8.5
Australian equities	2.0	2.0	3.5	3.0	4.5	2.8	2.5	4.0
Global equities	18.7	18.7	30.8	26.8	42.9	25.5	25.9	24.2
Foreign currency contracts overlay	n/a	n/a	n/a	n/a	n/a	n/a	(0.2)	n/a
Other	n/a	n/a	n/a	n/a	n/a	n/a	(0.4)	n/a
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Interest rate derivative asset allocation overlay	10.2	0.0	9.5	13.5	16.4	8.9	7.3	6.5
Total equity weight (treating New Zealand property and infrastructure as 'half equities')	30.1	30.3	45.4	41.7	60.2	38.8	37.3	38.6

There's some mismatch between assets and liabilities

In a closely matched portfolio, asset and liability values would respond similarly to economic stresses and mostly offset each other. This would result in net assets being relatively immune to external economic movements.

A fall in interest rates results in an increase in the OCL value. 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. This makes it difficult to fully offset such an increase in the OCL with a corresponding increase in investment asset values. The impact on the funding ratio is a decrease in value. Similarly, a decrease in the OCL due to rising interest rates won't fully match a decrease in investment asset values. This leads to an increase in the funding ratio.

ACC considers Ethical, Social and Governance (ESG) implications

ACC follows an Ethical Investment Policy, which requires consideration of:

- its fiduciary responsibilities
- the ethical implications of its investments.

Ethical implications include those impacting the environment, as well as health, safety, and wellbeing.

The BIC ensures compliance with the Ethical Investment Policy, which conforms with New Zealand legislation and UN international conventions.

In managing climate risks, both physical and transitional, ACC:

- measures the carbon intensity of investee companies
- sets long-term carbon intensity reduction targets
- seeks to invest in companies that provide emission reductions.

The organisation manages various investment risks

Many factors can influence investment performance and the net value of assets. Several of these factors can move simultaneously in the same direction. For example, both interest rates and equity markets can decline during a financial crisis.

Table 40 shows the risks that ACC faces and how it manages them.

TABLE 40: INVESTMENT RISKS AND MANAGEMENT STRATEGY

Risk	Description	Management
Interest rate	When long-term interest rates fall, the value of fixed interest assets doesn't tend to rise as much as the OCL increases. Furthermore, not all investments will move up or down in value.	ACC uses interest rate derivatives, such as interest rate swaps, to hedge against declines in long-term observed market interest rates. This helps generate revaluation gains when long-term interest rates decline.
Inflation	Price and wage inflation result in higher future claim costs. Interest rates also rise due to higher inflation expectations. This results in lower asset market values.	Real assets like property, equity, and inflation-linked securities tend to increase in value when real interest rates fall. They provide some protection from inflation when held to maturity.
Credit	ACC is exposed to counterparties with a risk of default.	The BIC risks exposure by approving credit and portfolio limits. ACC monitors counterparty credit ratings, only allowing investment with certain New Zealand banks. Investment Guidelines constrain investment in unrated debt.
Currency	The New Zealand dollar tends to fall when equity markets decline, resulting in a decline in the value of assets in the local currency. Exchange rate movements alter the market value of offshore investments.	The portfolio's foreign currency exposure helps offset the risk of a decline in equity markets.
Liquidity	There's a low risk of ACC being unable to pay immediate or uncertain expenses as they arise.	ACC keeps a high proportion of investments in cash and bonds, with levies and appropriations providing a regular income. Scenario modelling is part of ACC's liquidity planning and management.
Extreme or rare events	Extreme events, such as natural disasters and pandemics, are difficult to monitor and predict. This makes hedging more challenging.	Managers of each sub-portfolio respond to the impacts of extreme events according to their risk allocations.

Appendix F – Claim performance

This appendix provides more detail to supplement the discussion in the main report on the claim and rehabilitation performance at ACC and the impact it's having on financial sustainability.

The outstanding claims liability (OCL) strain numbers and results we present in this appendix align with the Government's funding policies for ACC. They differ from the figures in the Annual Report, which are prepared in line with generally accepted accounting practice (GAAP). Table 41 provides a high-level reconciliation of the strain reported in the Annual Report to the funding basis strain reported here.

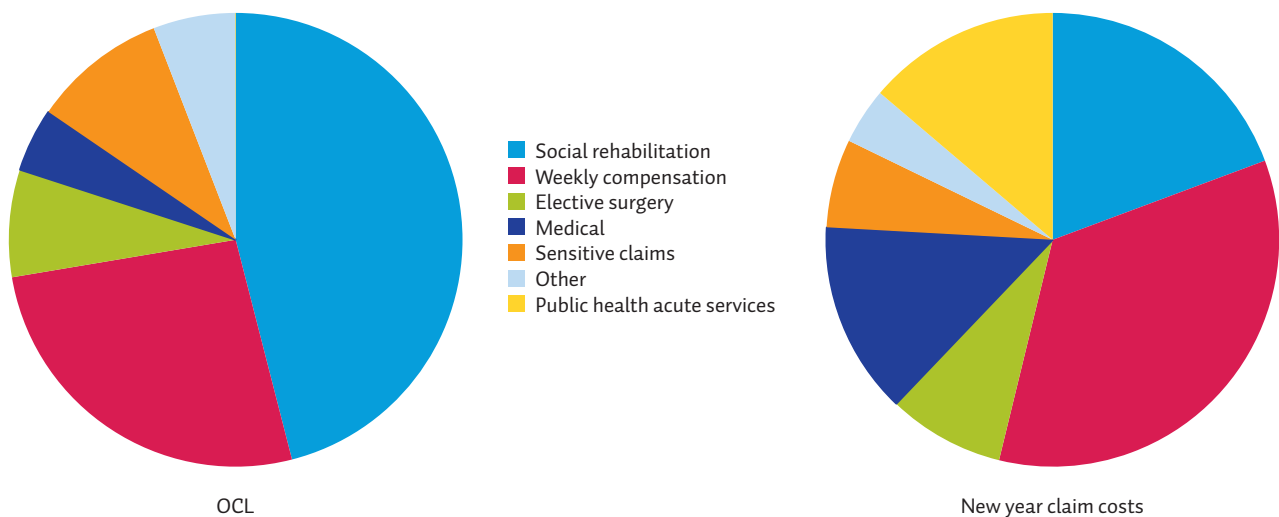
TABLE 41: OCL CHANGE – ANNUAL REPORT VS FINANCIAL CONDITION REPORT

		\$M
Annual Report OCL strain		948
Excluding	AEP OCL strain	(1)
	Risk margin on OCL strain	(106)
Including	Change in value of work-related gradual process (WRGP) claims incurred but not reported	60
Financial Condition Report OCL strain		902
	Influenceable OCL strain	955
	Non-influenceable OCL strain	(53)

Main payment types' contribution to the OCL and new year claim costs

Claim volumes, types, and costs affect the OCL, levy rates and appropriations. Chart 23 shows the contribution of the main payment types to this year's OCL as at 30 June 2023, compared to the new year claim costs in 2023/24.

CHART 23: COMPARISON OF CLAIM TYPES' CONTRIBUTION TO OCL AND NEW YEAR CLAIM COSTS



The three largest claim payment types (social rehabilitation, weekly compensation, and sensitive claims) make up 82% of the 30 June 2023 OCL, but only 60% of the new year claim costs in 2023/24.

Social rehabilitation includes capital purchases and non-capital services provided to serious injury and non-serious injury clients. It makes up almost half of the OCL because much of the support is long term, but it makes up a smaller proportion of the new year claim costs. The largest contributor to new year claim costs is weekly compensation. Many of these claims are short term, but some weekly compensation claims require support for the medium-to-long term which contributes to the OCL.

Medical and Public Health Acute Services (PHAS) payments make up a small proportion of the OCL but a larger component of the new year claim costs. This is because while the claim volumes are high, most of these are short term. In most cases, the costs of the injuries are covered immediately so there's no need to hold additional funds for future treatments.

Table 42 shows the influenceable and non-influenceable changes in the OCL by payment type during the 2022/23 financial year, excluding expected movements and economic changes. The total OCL balance is also included to provide an indication of the materiality of the OCL change for each payment type.

TABLE 42: OCL CHANGE BY PAYMENT TYPE DURING THE 2022/23 FINANCIAL YEAR

Payment type	OCL as at 30 June 2023 (\$M)	Influenceable movement (\$M)	Non-influenceable movement (\$M)	Total OCL movement (\$M)
Weekly compensation (non-fatal)	11,435	181	0	181
Serious injury care	16,269	655	(161)	493
Sensitive claims	4,244	69	0	69
Serious injury capital	2,092	63	(19)	44
Non-serious injury care	1,303	45	0	45
Non-serious injury capital	575	18	0	18
Elective surgery	3,377	(27)	0	(27)
Medical (GPs, radiology & physiotherapy)	475	(29)	0	(29)
Other-medical	1,522	(164)	0	(164)
Hearing loss	1,184	(80)	127	47
Claims handling expenses	2,427	233	0	233
Vocational rehabilitation	189	(23)	0	(23)
Fatal weekly compensation	437	(2)	0	(2)
Independence allowance	317	10	0	10
Lump sums	466	8	0	8
Ambulance & PHAS	18	0	0	0
Total	46,332	955	(53)	902

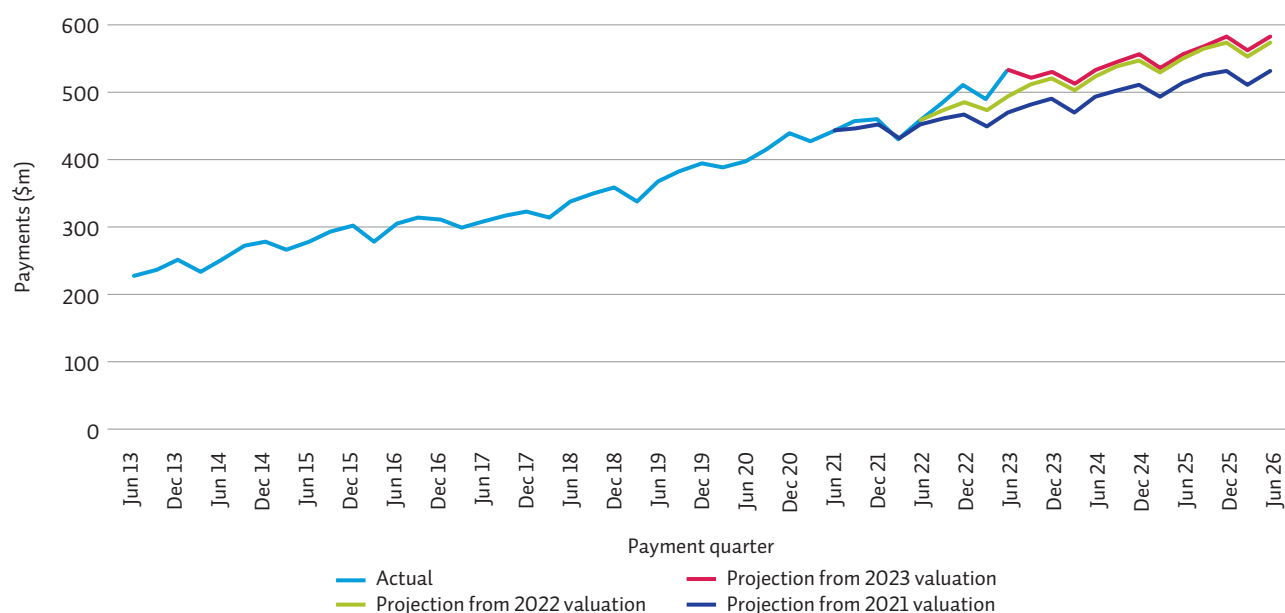
In the following sections, we discuss mainly the influenceable OCL strain in each of the payment types.

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).

Chart 24 shows the actual and projected quarterly weekly compensation payments in the June 2023 and the two previous June valuations. The projections include expected claims from future accidents. The chart shows that total payments during 2022/23 were slightly higher than those projected in 2022.

CHART 24: WEEKLY COMPENSATION CLAIM PAYMENTS



The influenceable OCL strain in weekly compensation was \$181 million

This consisted of a \$222 million OCL strain seen in higher-than-expected active claims in 2022/23. This strain was offset by a \$42 million OCL release resulting from lower-than-expected average costs.

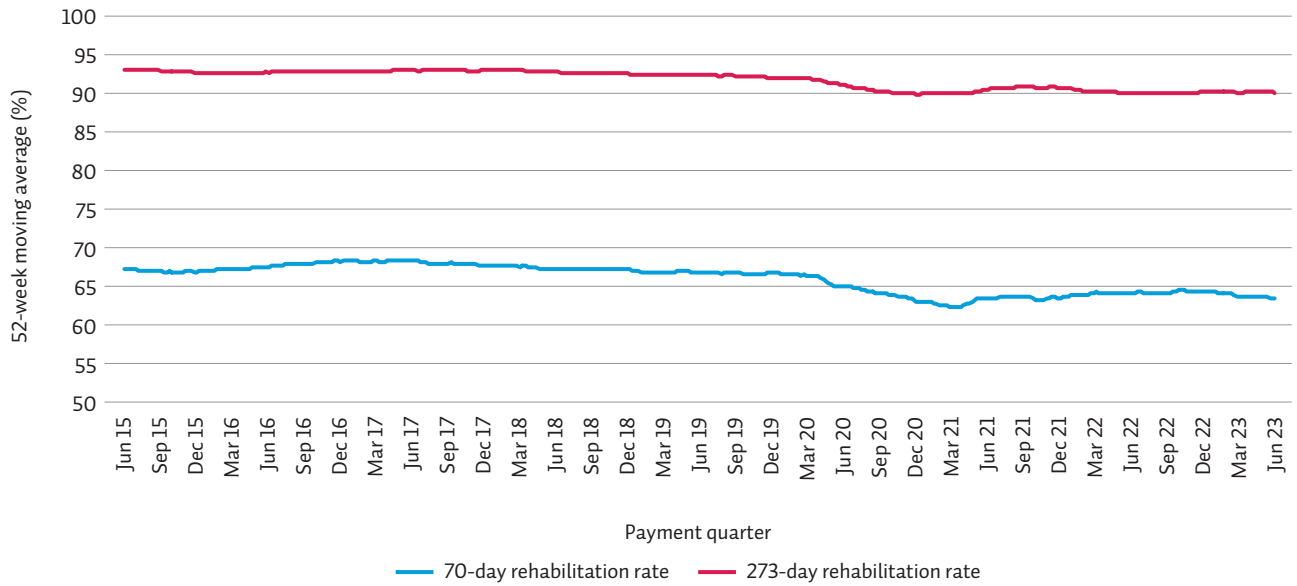
The main driver of OCL strain was lower-than-expected rehabilitation rates, particularly for claims from accidents in the past eight years. Ongoing strain in the past five years has largely been driven by rehabilitation performance in the Earners’ Account.

Short-term rehabilitation performance has remained low

Rehabilitation rates measure the proportion of clients receiving weekly compensation who return to work within the specified number of days. For this measure, ACC counts a client as having returned to work five weeks after the cessation of weekly compensation payments.

Chart 25 shows the 70-day and 273-day rehabilitation rates in the past eight years, presented as 52-week rolling average results. The 70-day rehabilitation rate deteriorated from 67.4% in June 2018 to 63.3% in June 2023. The 273-day rehabilitation rate has fallen from 92.9% in June 2018 to 90.1% in June 2023. Both these rates have shown some signs of marginal improvement since the latter stages of the COVID-19 pandemic, but this hasn’t been sustained.

CHART 25: SHORT-TERM REHABILITATION RATES

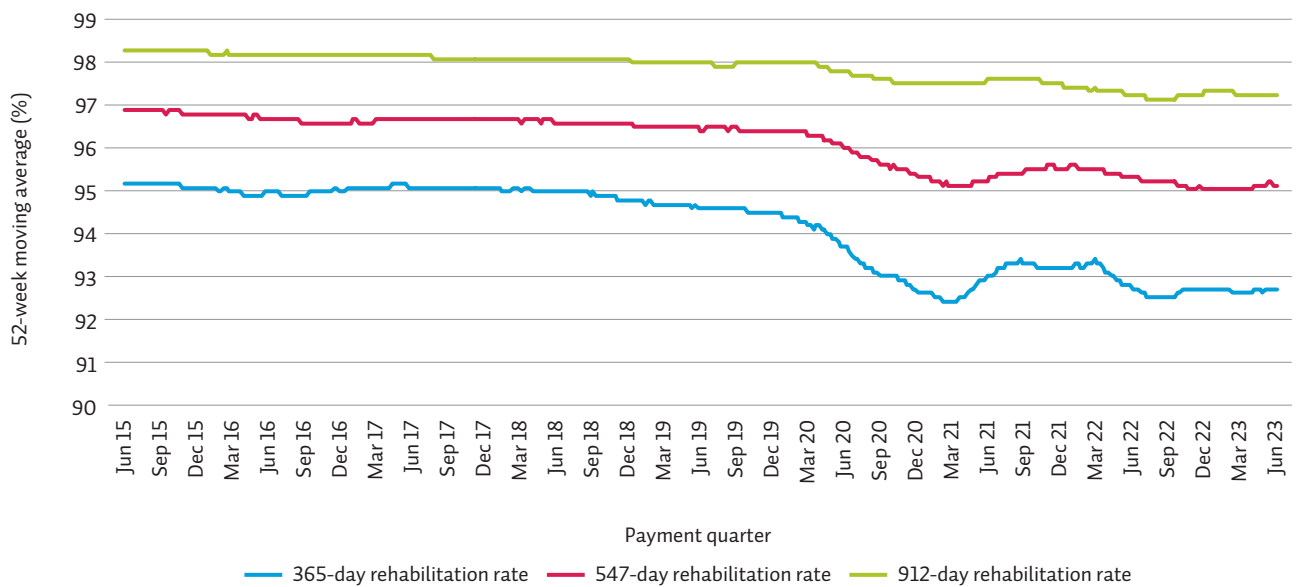


Medium-to-long-term rehabilitation rates remain low

The longer a client stays away from work while receiving weekly compensation, the more difficult it becomes to rehabilitate them. As a result, the OCL is higher for older claims. Just under 18% of weekly compensation claims are older than five years, yet they make up almost 53% of the weekly compensation OCL.

Chart 26 shows the 365-day, 547-day, and 912-day rehabilitation rates in the past eight years. In the year to June 2023, all three rates decreased and remain below their respective pre-COVID-19 pandemic levels. This lower-than-expected medium-to-long-term rehabilitation was a main driver for this year’s OCL strain.

CHART 26: MEDIUM-TO-LONG-TERM REHABILITATION RATES

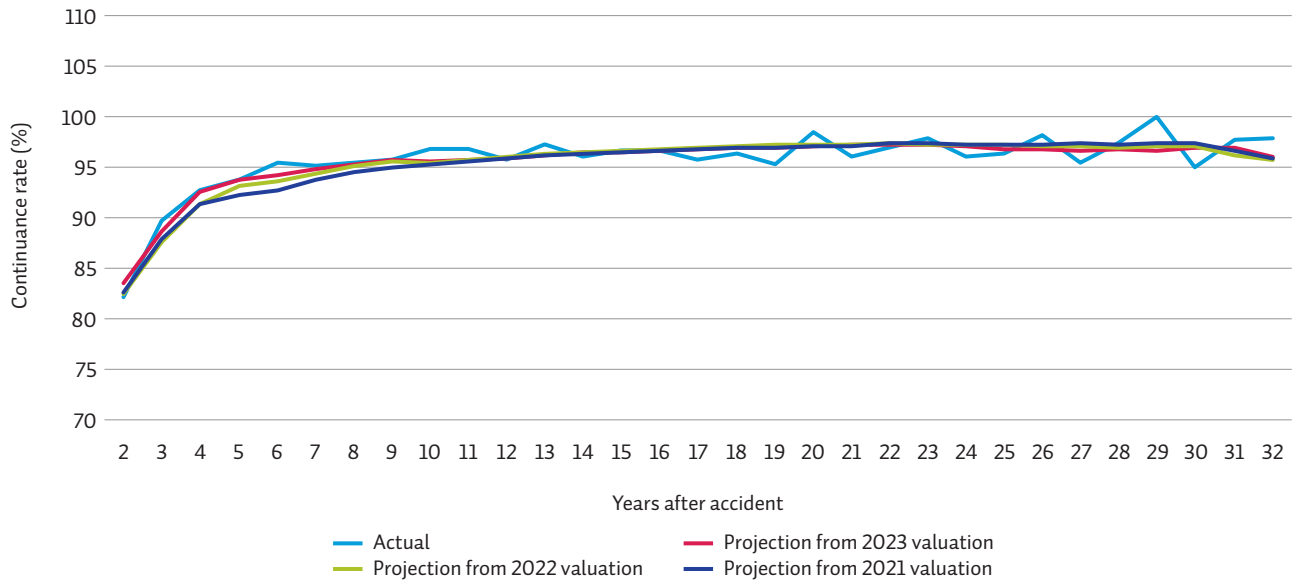


When rehabilitation rates are lower, proportionally fewer clients are expected to return to work and more clients are expected to continue receiving weekly compensation. Continuance rates are a measure that the external valuation

actuary uses to estimate the proportion of claims in one quarter that continue to the next, including an allowance for any old claims that reactivate in that quarter. This allows an estimate of how long clients are likely to continue receiving weekly compensation on average, in the OCL valuation. This relationship between rehabilitation rates and continuance rates means that lower rehabilitation rates lead to higher continuance rates and OCL strain. Similarly, higher rehabilitation rates lead to lower continuance rates and OCL release.

Chart 27 shows the actual medium-to-long-term continuance rates for weekly compensation in comparison to valuation assumptions in the past three years.

CHART 27: CONTINUANCE RATES FOR WEEKLY COMPENSATION



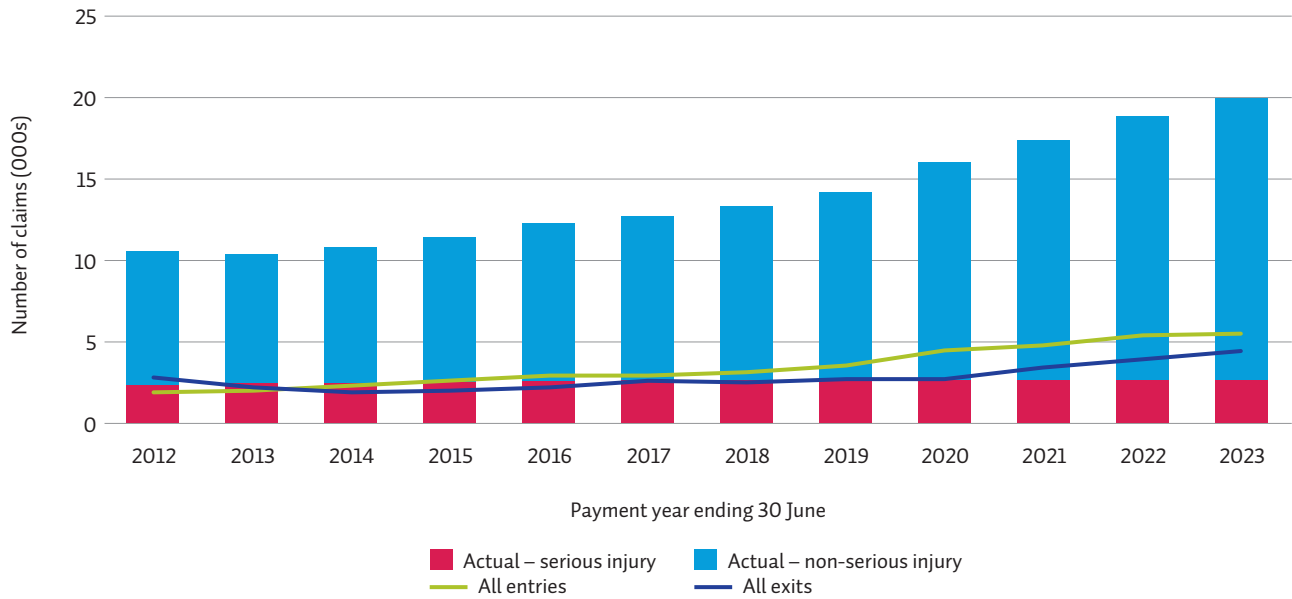
Actual medium-term continuance rates for weekly compensation claims were consistently worse than expected in the past three valuations. In 2023, this was particularly the case for claims from accidents that occurred in the past eight years. The external valuation actuary responded to this by increasing the assumptions for continuance rates for these claims.

The number of long-term weekly compensation claims for non-serious injuries continues to rise

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 number leaving the pool falling below the number of new entrants.

Chart 28 shows the historical numbers of long-term weekly compensation claims. The growth in the long-term claims pool for the 12 months to June 2023 was 5.6%. This is lower than the annual average growth in the past five years of 8.5%, but is still a high growth rate. The number of exits from the pool has increased 14.5% year-on-year as at June 2023. This compares with a 14.3% year-on-year increase in exits as at June 2022. The number of entries into the pool increased at a rate of 2% year-on-year as at June 2023 compared to a 12.7% year-on-year increase as at June 2022. Both measures are showing signs of improving performance in 2022/23 compared to prior years. However, the number of entries remains steadily higher than the exits from the pool. The growing proportion of the pool comprising non-seriously injured clients is still of concern.

CHART 28: HISTORICAL NUMBERS OF LONG-TERM WEEKLY COMPENSATION CLAIMS

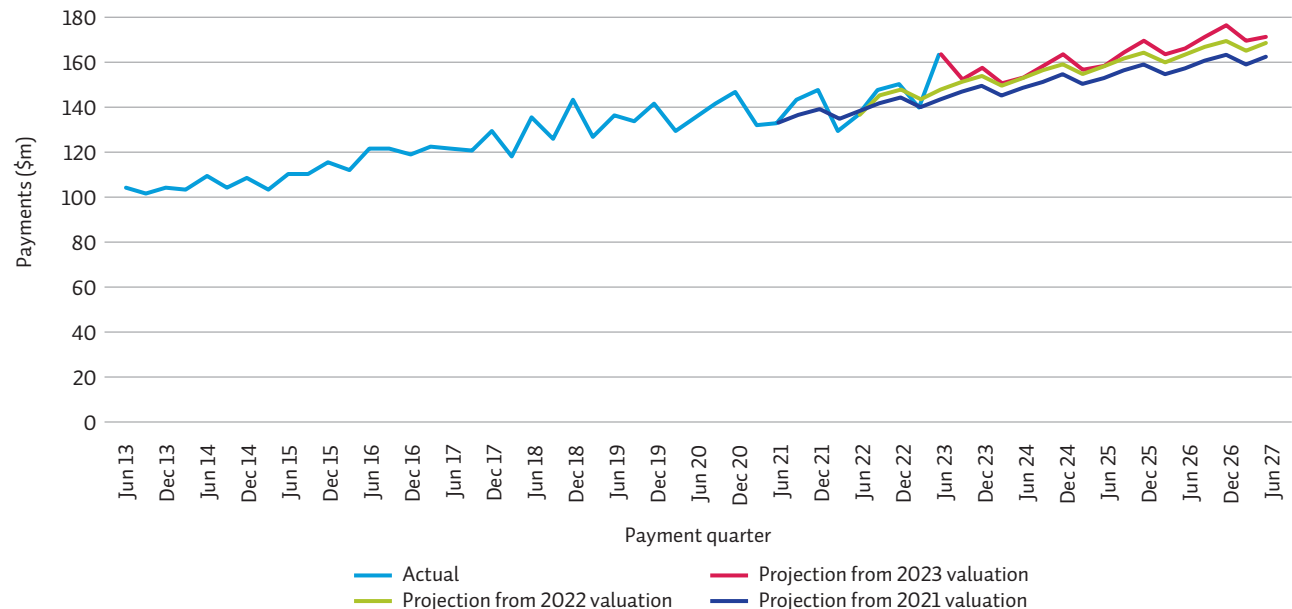


Serious injury care

Social rehabilitation care 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 care OCL.

Chart 29 shows the actual and projected serious injury care payments in the June 2023 and the previous June valuations. In 2022/23, actual payments were consistently higher than expected. Due to the lifelong nature of the support provided, even a small change can have a significant impact on the OCL.

CHART 29: SERIOUS INJURY CARE CLAIM PAYMENTS

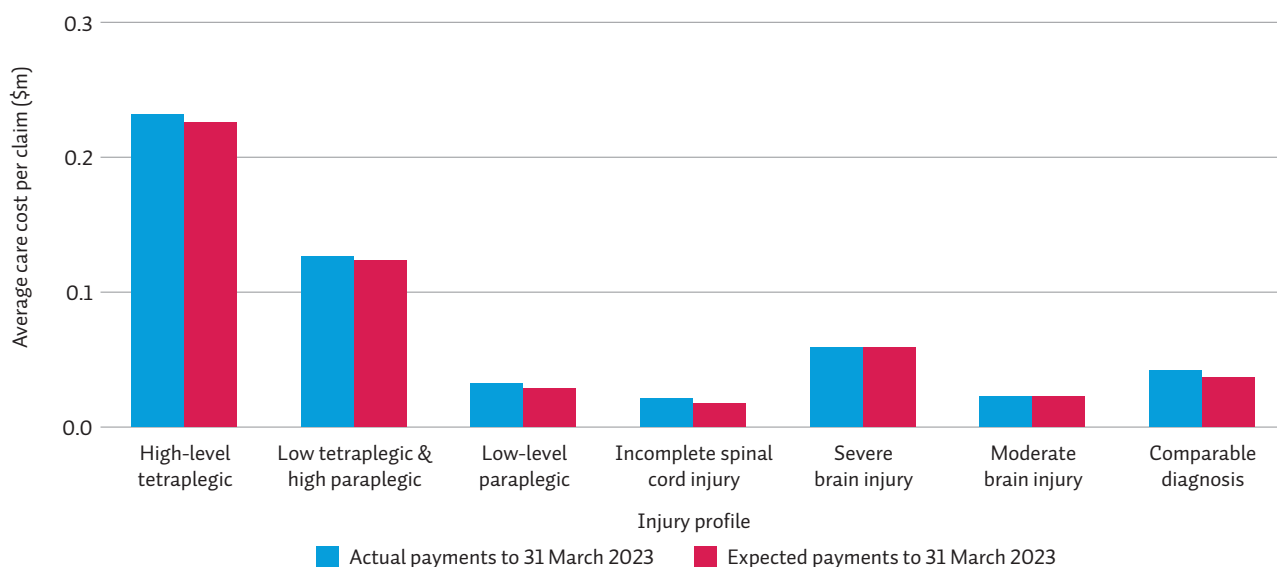


The influenceable OCL strain in serious injury care was \$655 million

This strain was driven by higher-than-expected attendant care hours and payments

A major driver of this strain was the higher-than-expected attendant care hours and payments in the past year. Chart 30 shows the actual average attendant care costs in the past year. Average attendant care costs were higher than expected across all injury profiles, with the largest increase seen in high-level tetraplegic clients. This increase in average attendant care costs resulted in an overall OCL strain of \$378 million.

CHART 30: ACTUAL VERSUS EXPECTED AVERAGE ATTENDANT CARE COSTS FOR EXISTING SERIOUS INJURY CLIENTS

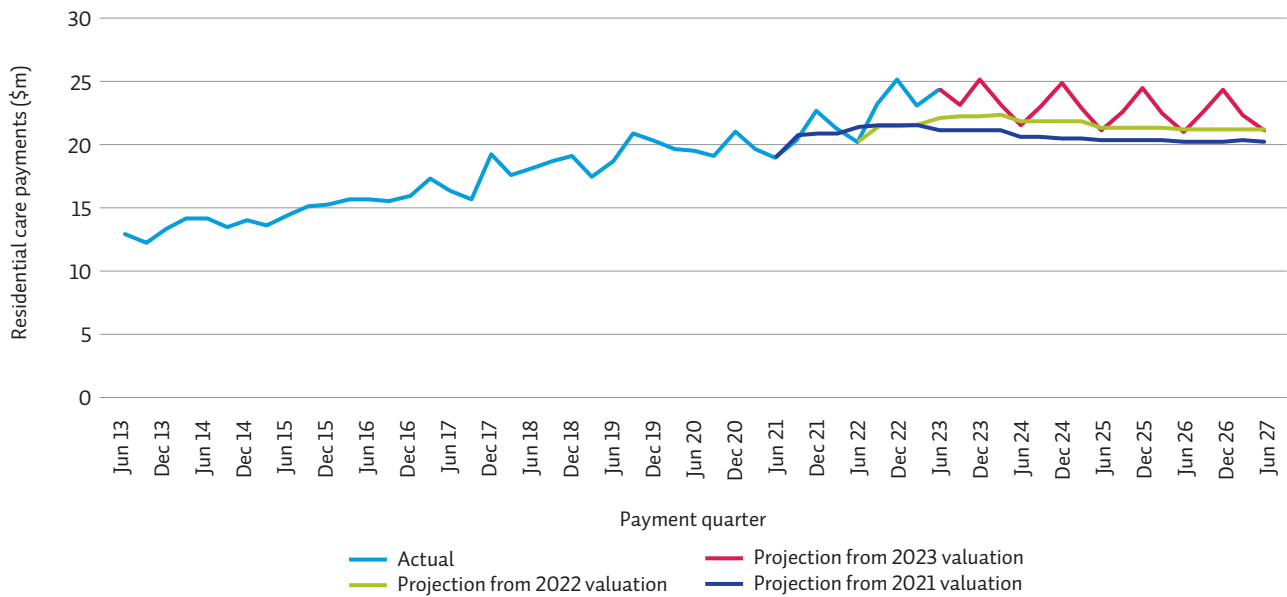


The higher-than-expected care hours in the past year, and changes to the care growth assumptions based on this, resulted in an increase to the total projected care hours for seriously injured clients. The modelled care hour growth assumptions for severe brain injury, moderate brain injury, comparable diagnosis, and incomplete spinal injury profiles were updated to reflect the recent performance. These modelling changes resulted in a further strain of \$145 million.

Higher utilisation and increases to future levels of residential care also contributed to the strain

There was an additional strain of \$83 million due to increased utilisation of residential care services in the past year by seriously injured clients. Chart 31 shows the actual and projected residential care payments for accidents prior to 30 June 2023 from the past three valuations. The payments in 2022/23 were considerably above projections from the 2021 and 2022 valuations.

CHART 31: CURRENT VALUE RESIDENTIAL CARE PAYMENTS FOR ACCIDENTS PRIOR TO 30 JUNE 2023



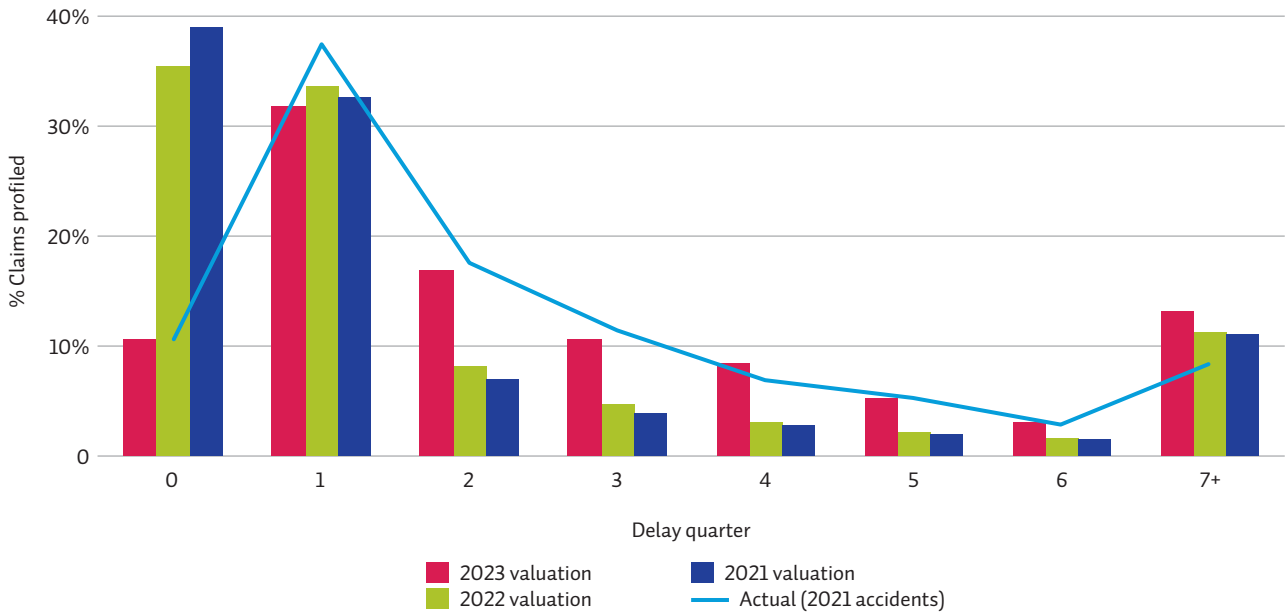
There was also an additional strain of \$199 million due to increases in the assumed starting costs of residential care for existing serious injury clients who aren't currently in residential care. These are the clients who are expected to transition into residential care in the future.

The uncertainty around reporting delays for serious injuries contributed a further \$74 million of strain

The number of new serious injury claims reported in the past year was much lower than expected, particularly for the 2023 accident year. However, ACC doesn't believe there's an internal delay in profiling serious injury claims, so this is likely due to delays in the healthcare system. The external valuation actuary adjusted the new claim assumptions to reflect the recent pattern of new claims reported over a longer period of time, which resulted in a \$74 million strain.

Chart 32 shows the time to profile serious injury claims, comparing the actual time for serious injury claims that occurred in 2021, with projections in the three most recent annual valuations. This shows that although claim numbers have been lower than expected in the first two delay quarters, they've been higher than expected further out from the date of the accident.

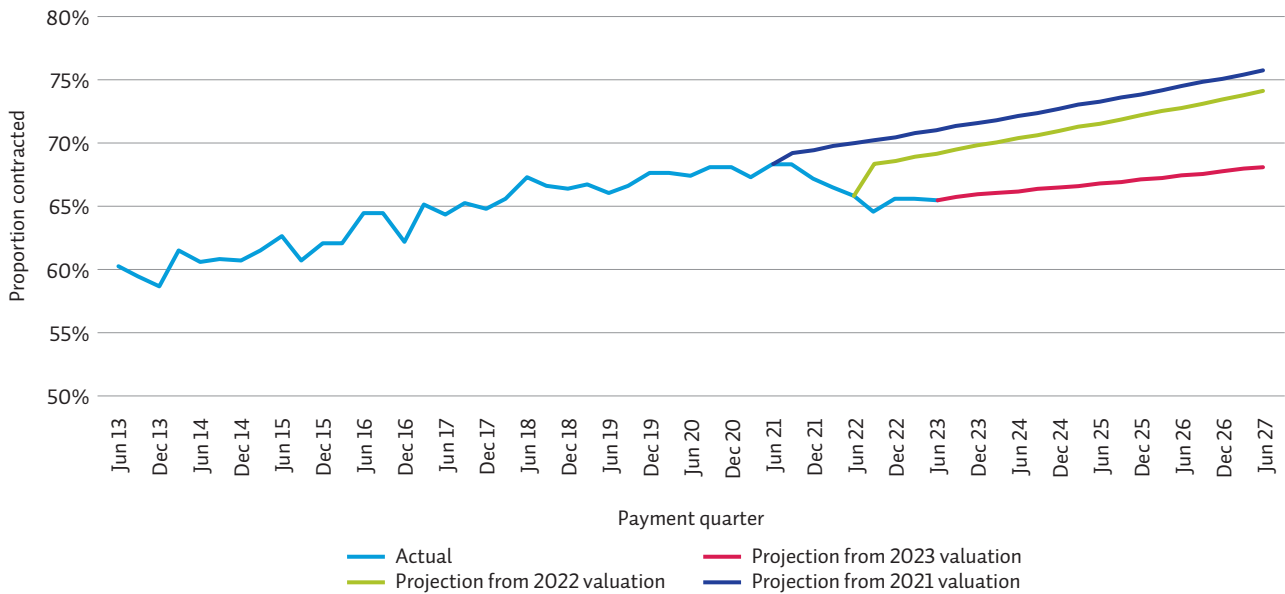
CHART 32: SERIOUS INJURY CLAIM PROFILING REPORTING PATTERN



The strain was offset by changes to the mix of attendant care received and lower-than-expected travel payments

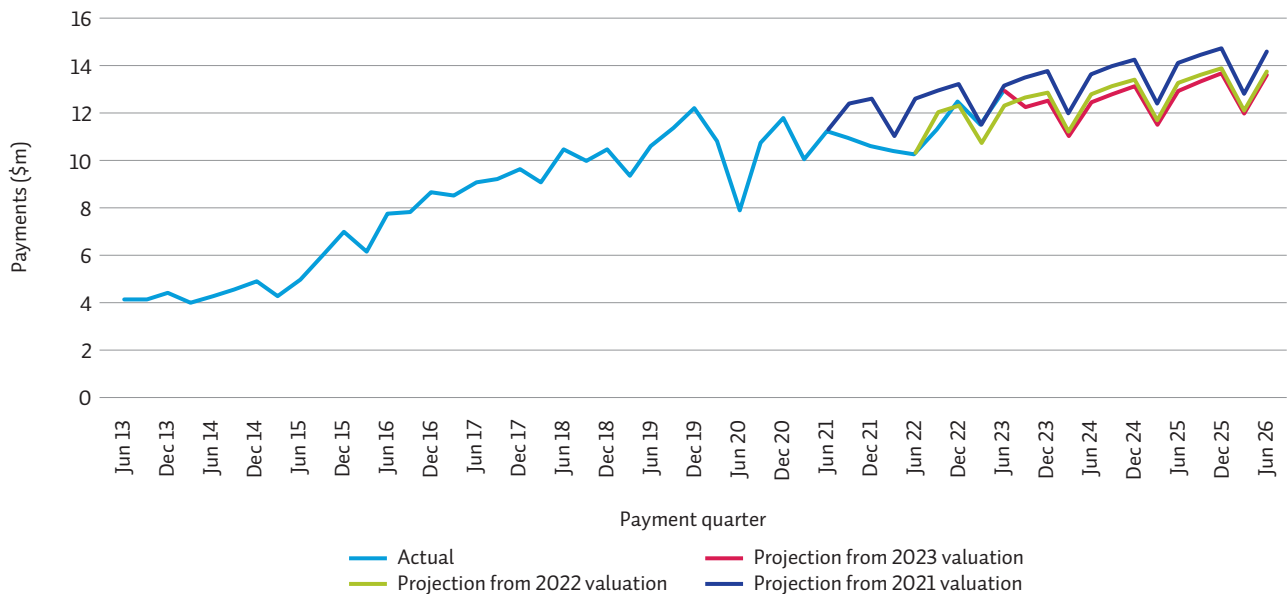
The valuation calculations assume that the proportion of care provided by contracted carers will increase over time for existing serious injury clients. This net transfer rate to contracted care from non-contracted care has been lower than assumed for the past few years. The external valuation actuary updated the provider mix assumption to reflect these trends. This resulted in an OCL release of \$139 million, as contracted carers are paid more than non-contracted carers.

CHART 33: PROPORTION OF TOTAL CARE HOURS PROVIDED BY CONTRACTED CARERS FOR EXISTING CLIENTS



There were significantly lower-than-expected travel payments, which reduced the liability by \$96 million. However, the external valuation actuary doesn't expect the future level of travel payments to be as low as they were in the past year. Chart 34 shows the actual and projected total travel payments for serious injury claims in the June 2023 and the two previous valuations.

CHART 34: SERIOUS INJURY CLAIM TRAVEL PAYMENTS



A number of non-influenceable factors combined to produce an overall OCL release of \$161 million

Deaths of seriously injured clients, particularly those who are older and with higher care needs, were higher than expected in the past three years. Deaths in the past year and the change in future assumed mortality rates for seriously injured clients resulted in an OCL release of \$268 million.

Modelling changes to the serious injury model reduced the liability by \$228 million. The largest change related to the assumed mix of care provided by contracted carers. The external valuation actuary changed the assumed limit for the proportion of care that will be provided by contracted carers for individual serious injury clients from 100% to 80%. This change resulted in an OCL release of \$189 million, as contracted carers are paid more than non-contracted carers.

These OCL releases were offset to a degree by the strain from rate changes. Most of the contracted rate changes were the result of increases relating to pay equity settlements for care workers in residential care settings. The rest were from increases to contracted and non-contracted attendant care provider rates from 1 July 2023, and recent legislative changes linking increases in travel allowances to carers' rates. These increases resulted in an OCL strain of \$335 million.

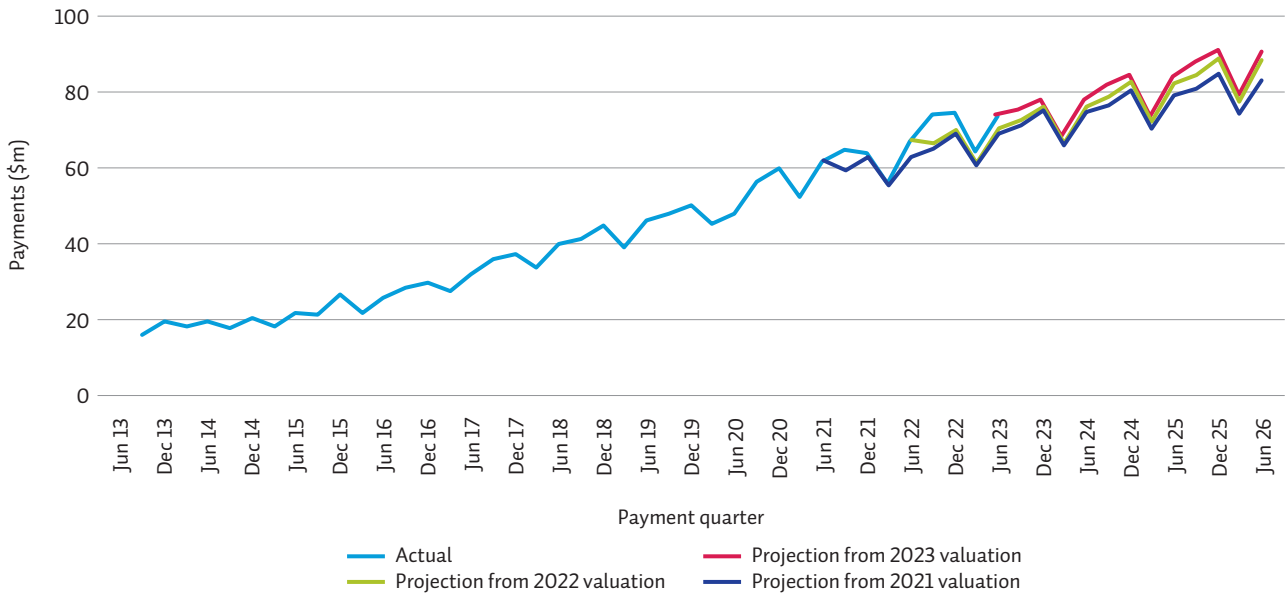
Sensitive claims

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.

Chart 35 shows the actual and projected quarterly sensitive claim payments in the June 2023 and the two previous June valuations. The projections include projected claims for future periods. The chart shows that total payments during 2022/23 were higher than previously projected and resulted in an OCL strain. The primary driver of this was higher-than-expected backdated weekly compensation payments, particularly in the Earners' Account.

CHART 35: SENSITIVE CLAIM PAYMENTS



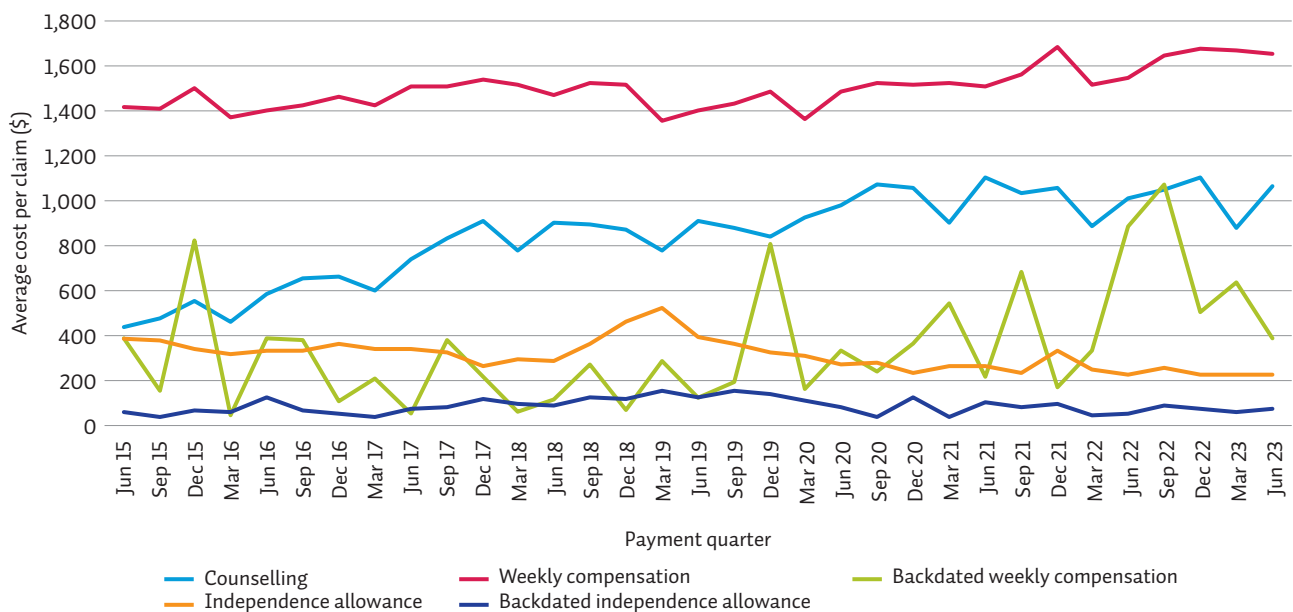
The influenceable OCL strain in sensitive claims was \$69 million

Higher-than-expected average cost of claims resulted in an OCL strain of \$173 million

There was significant growth in the average costs for sensitive claims in the past year, which resulted in an OCL strain of \$173 million. The higher-than-expected average claim costs occurred in both the Earners’ Account and the Non-Earners’ Account.

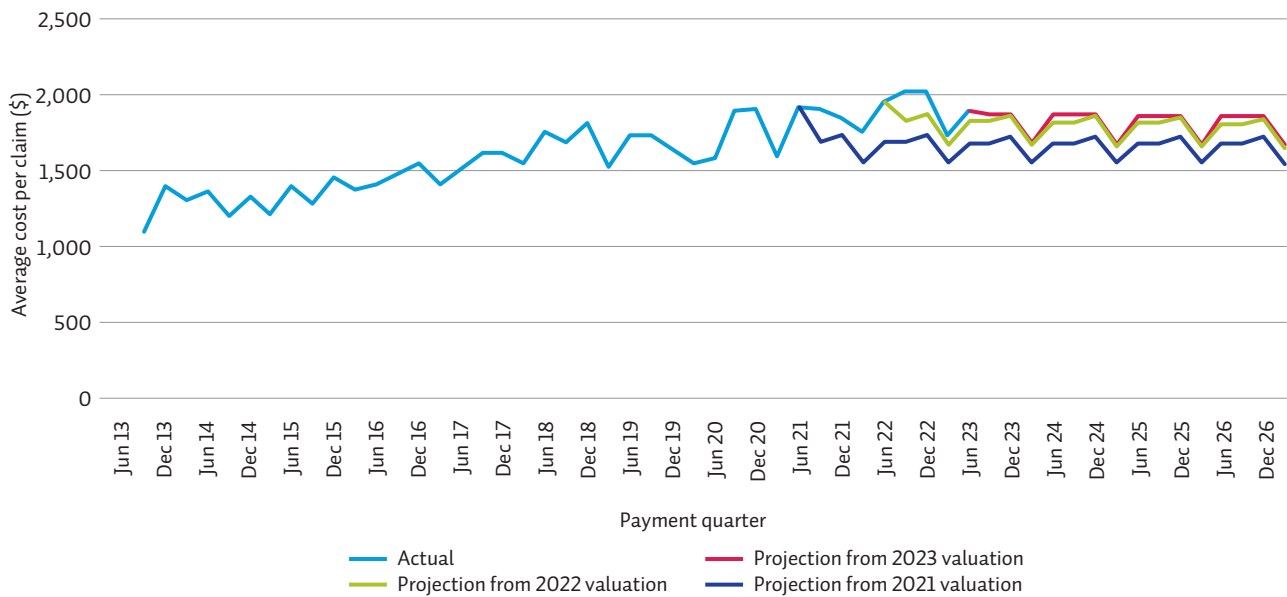
However, the OCL strain was mainly driven by the Earners’ Account, where the most significant change in the year was for claims incurred over five years ago. The level of backdated weekly compensation payments for these claims with longer durations has been increasing since March 2022, as shown in Chart 36.

CHART 36: AVERAGE COSTS FOR SENSITIVE CLAIMS MORE THAN FIVE YEARS FROM DATE OF FIRST TREATMENT IN THE EARNERS’ ACCOUNT



The higher-than-expected average claim costs in the Non-Earners' Account can be seen in Chart 37.

CHART 37: AVERAGE COSTS FOR SENSITIVE CLAIMS IN THE NON-EARNERS' ACCOUNT



The strain was offset by an OCL release of \$104 million

The OCL release was driven by lower assumed future continuance rates (\$105 million release) and lower levels of new claims, particularly for older accident periods (\$53 million release). This was partially offset by higher-than-expected total claim payments in 2022/23 (\$55 million strain).

While the improvements to continuance rates are minor, the current continuance rates are very close to 100%. This means a slight reduction in the rates could have large OCL impacts.

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 strain in 2022/23 was the result of higher-than-expected active claims (\$15 million influenceable strain), and higher-than-expected average costs (\$49 million influenceable strain) offset by a non-influenceable mortality release (\$19 million release).

Payments were consistently above expectation throughout the past year. Much of this was driven by much higher payments made for equipment in the December 2022 quarter due to earlier supply issues and delays in receiving required equipment. This is a catch up from much lower payments in the March 2022 quarter.

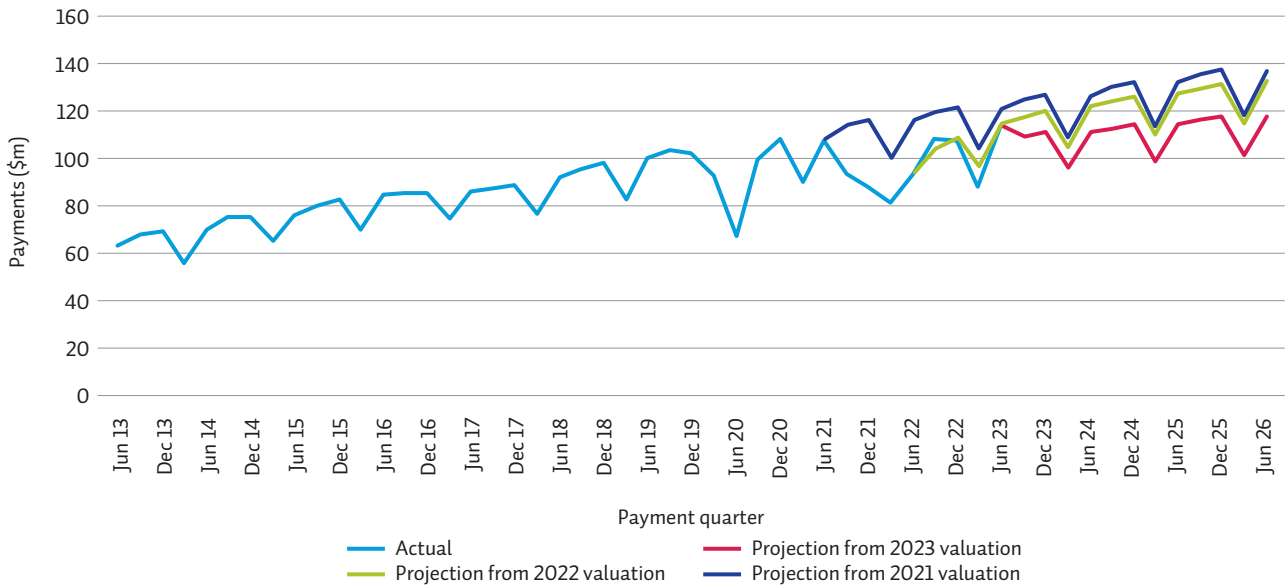
Other-medical payments

Other-medical covers payments made to medical providers that are not classed as general practice, radiology, or physiotherapy.

The OCL release in the year was the result of lower-than-expected average costs (\$167 million influenceable release), slightly offset by higher-than-expected active claims (\$3 million influenceable strain).

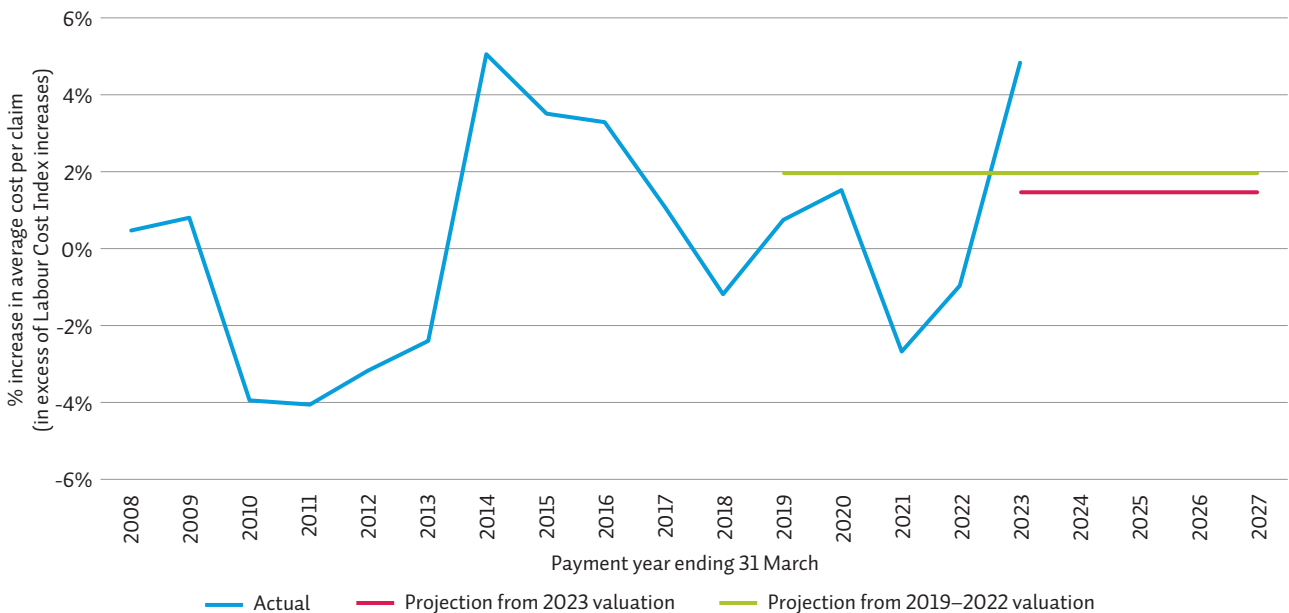
Chart 38 shows the actual and projected claim payments for other-medical services in the June 2023 and the previous two valuations. Since June 2021, payments have consistently been lower than expected.

CHART 38: CLAIM PAYMENTS FOR OTHER-MEDICAL SERVICES



Other-medical payments have a superimposed inflation rate applied to recognise the growth in cost above inflation. In response to lower-than-expected increases in average costs, the external valuation actuary has lowered the superimposed inflation rate assumption from 2% to 1.5%, as shown in Chart 39. This resulted in an OCL release of \$105 million and was the largest driver of the \$167 million OCL release. One of the drivers of this reduction was a contract change to acupuncture services in 2021/22 that reduced the number of treatments available without requiring further ACC approval.

CHART 39: SUPERIMPOSED INFLATION RATE FOR OTHER-MEDICAL SERVICES



Claims handling expenses

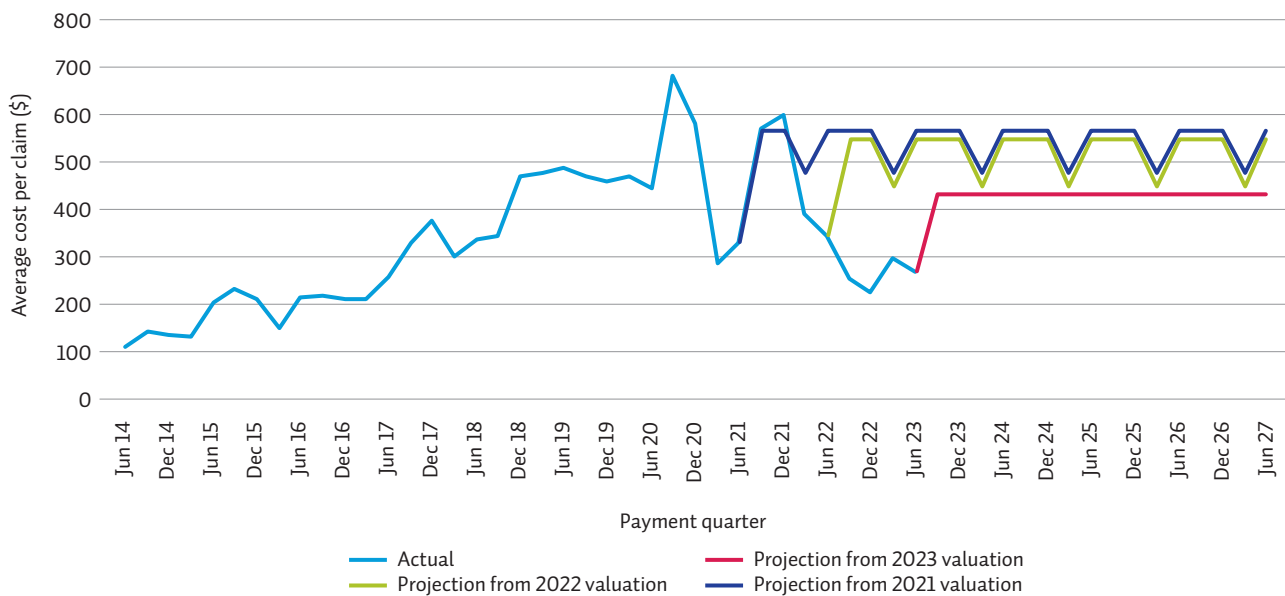
The total OCL strain for claims handling expenses (CHE) in the year was due to increases in the average cost of managing claims. At an Account level, the liability has increased for all Accounts, with the largest increases in the Motor Vehicle, Work and Earners' Accounts. These increases are mainly due to increased budgeted personnel costs. The impact of the ICIP expenses and how these flowed through to the claims handling expenses is discussed in 'Appendix B – Financial results' and the 'Claim performance' section of the main report.

Hearing loss

The OCL strain for 2022/23 comprised an \$80 million influenceable OCL release and a \$127 million non-influenceable OCL strain.

The influenceable OCL release of \$80 million was driven by an increase in new hearing aids with rechargeable batteries instead of disposable batteries that need regular replacement. This reduces the future average cost of operating the hearing aids. Chart 40 shows the actual and projected hearing loss average cost for new claims.

CHART 40: HEARING LOSS AVERAGE COSTS FOR NEW CLAIMS

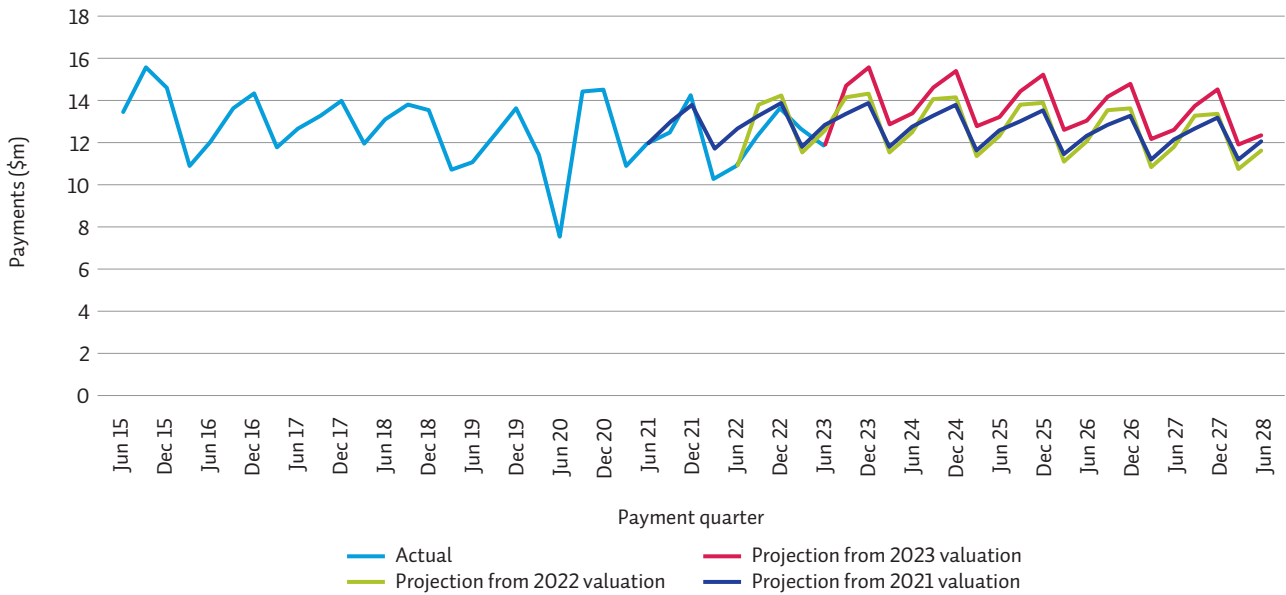


This OCL release was offset by a larger non-influenceable strain of \$127 million. This was mainly driven by two factors that have increased the number of active claims:

- The lowering of the hearing loss thresholds from 6% to 5%, effective from October 2022. The lower threshold has increased the number of accepted claims.
- Audiologists lodging claims directly without ACC's pre-approval. This policy change has allowed more claims to be processed earlier.

Chart 41 shows the actual and projected hearing loss claim payments in the June 2023 and the previous two valuations. Projected claims payments from the 2023 valuation are expected to increase as a result of the lowering of the hearing loss thresholds.

CHART 41: HEARING LOSS CLAIM PAYMENTS



Other payments

The remaining payment types contributed a net OCL release of \$1 million during the year, all classified as influenceable. These payment types comprised non-serious injury care, non-serious injury capital, elective surgery, medical (GPs, radiology & physiotherapy), vocational rehabilitation, fatal weekly compensation, independence allowance, lumps sums, and ambulance & PHAS. We consider each of these in turn below.

Non-serious injury care

There was a \$45 million strain as at 30 June 2023 due to an increase in the assumed average cost per claim, particularly for older accident periods. This reflects, amongst other factors, the increased growth in contracted attendant care payments seen over the past year.

There’s uncertainty around future increases to attendant care rates due to ongoing negotiations for pay equity. The most recent pay equity increase was made on 1 July 2021. Any increases to care rates as a result of these negotiations will likely result in additional OCL strain in the future.

Non-serious injury capital

Recent international shipping delays due to the COVID-19 pandemic and the Ukraine conflict have significantly impacted the ability to import capital equipment provided to clients. This resulted in a higher-than-expected average cost per claim and an \$18 million OCL strain.

Elective surgery

There was a \$27 million OCL release in 2023 for elective surgery payments, largely driven by a reduction in the average cost assumptions for the Treatment Injury (non-levied portion) and Non-Earners’ Accounts. There was also a reduction in the assumed number of active claims in the Motor Vehicle Account, reflecting claim performance for older accident periods.

Medical

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

- General practice
- Radiology
- Physiotherapy
- Other-medical.

Excluding other-medical payments (covered earlier), there was a \$29 million OCL release for medical payments in 2023. This is broken down by provider below.

- **General practitioners:** Claim numbers have been lower than expected since March 2020. The average cost per claim has also been increasing more slowly than expected. This resulted in a combined \$7 million OCL release.
- **Radiologists:** Lower-than-expected number of active claims and average costs generated a \$14 million OCL release.
- **Physiotherapists:** Consistently lower-than-expected average costs led the external valuation actuary to lower the expected growth rate of average costs, generating a \$7 million OCL release.

Other

Other payment types not previously mentioned include:

- Vocational rehabilitation
- Fatal weekly compensation
- Independence allowance and lump sums
- Ambulance & PHAS payments (a consolidated payment ACC makes to the Crown to cover the treatment in public hospitals of injuries during the acute phase).

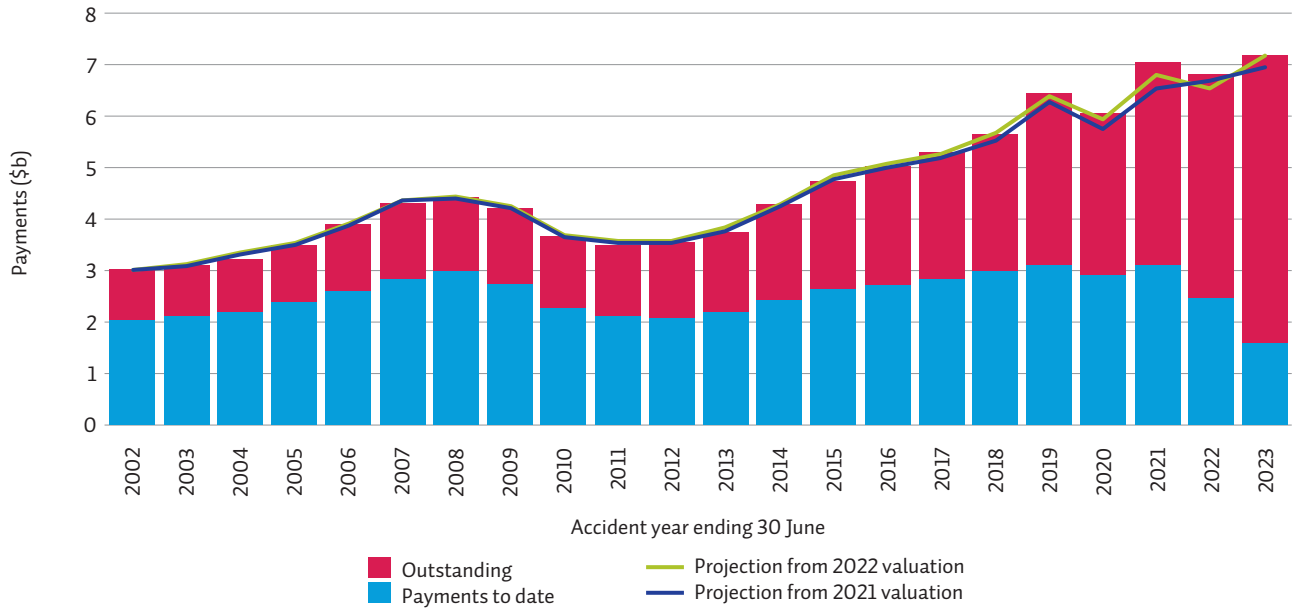
The total OCL movement from these payment types as at June 2023 was an \$8 million release. This was made up of an increased number of claims receiving lump sums and longer continuance rates for independence allowance claims, more than offset by a lower number of active vocational rehabilitation claims.

Accident year view

Chart 42 shows the projected total cost of all claims by accident year. It compares the incurred cost (the sum of payments to date and the OCL) from the 2023 valuation with projections from the previous two valuations. These costs are expressed in 2023-dollar values and exclude:

- Accredited Employers Programme (AEP) claims
- ambulance & PHAS payments
- 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).

CHART 42: INCURRED COST BY ACCIDENT YEAR



The expected total incurred cost for each accident year calculated at this valuation is different when compared with the two previous valuations. Accident years since 2020 have seen the most material increases in total incurred costs compared to the previous two valuations. The estimated costs of recent claims will be more volatile than older claims. This is because we know less about their behaviour and they're more affected by assumption changes over time.

Claim frequency projections

Claim frequency is a measure of the number of claims as a proportion of the population covered. Any increase (or decrease) reflects growth in the claim numbers above (or below) the growth in the relevant population.

The historical claim frequencies in this section include estimates of the number of claims for accidents that have happened in each year, but haven't yet been reported.

Future claim frequencies have been projected using a combination of past claim number trends and the Treasury's Budget Economic and Fiscal Update (BEFU) 2023. The economic outlook in BEFU 2023 is expected to be worse than last year's projections. Economic activity is slowing after a period of strong growth. While the unemployment rate is low, at 3.6% in June 2023, it's expected to increase to 5.6% by 2024.

COVID-19 restrictions had a noticeable impact on claim frequency. While the country was in lockdown, the potential for people to be injured reduced significantly. All Accounts saw a drop in claim frequencies in 2019/20 and 2021/22 during restriction periods. After the restrictions ended, claim frequencies quickly returned to normal and continued pre-COVID-19 trends. We've ignored the claim experience from periods of the COVID-19 restrictions for projecting future claim frequencies.

Some claims receive support through bulk-funded Public Health Acute Services (PHAS). Most of these claims aren't counted in our frequency calculations, as they don't require any further treatment or support from ACC. Those who do go on to receive further treatment or support are counted when that treatment or support is provided. We refer to claims that receive compensation and/or rehabilitation support in addition to medical treatment as entitlement claims.

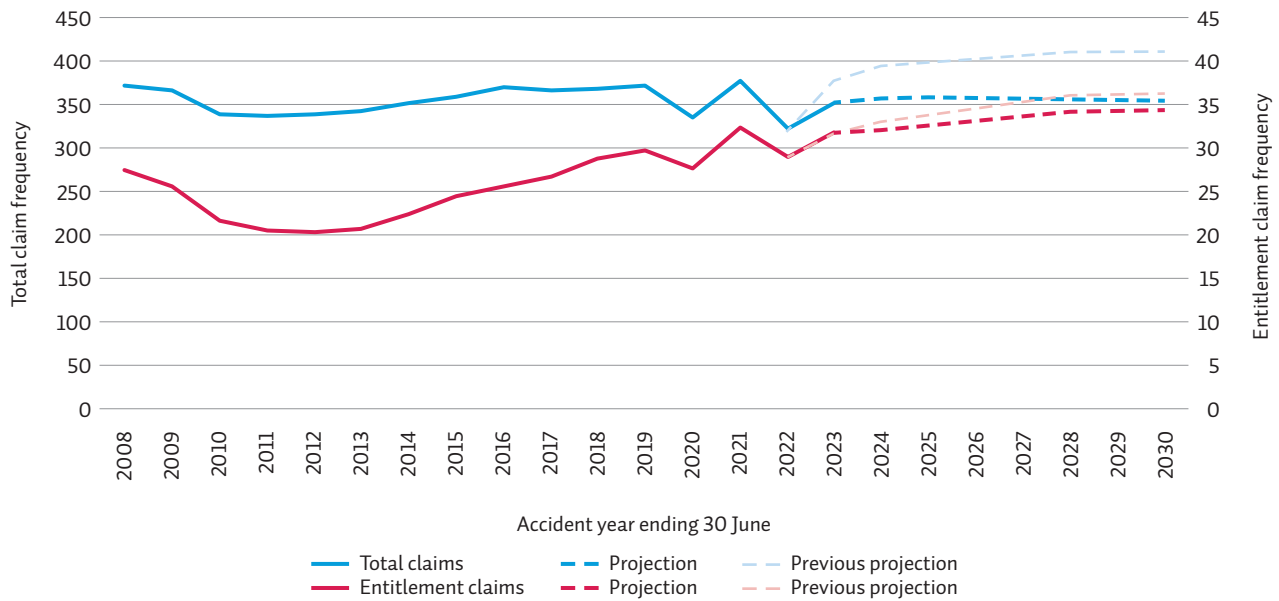
We exclude work-related claims from employers in the AEP, as they're not covered by the levies set for the Work Account, but rather are paid for directly by the employers.

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

For the total Scheme, we're projecting entitlement claim frequency to increase faster than total claim frequency

Chart 43 shows the total historical and projected claim frequencies for ACC's five Accounts.

CHART 43: TOTAL SCHEME ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



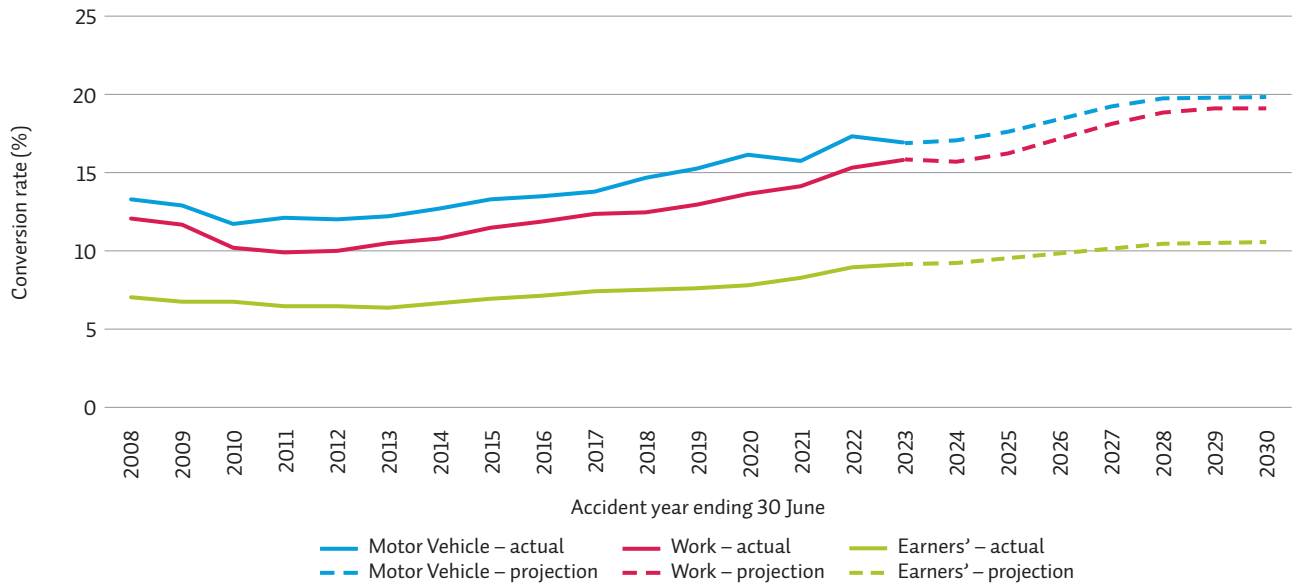
The COVID-19 restrictions led to reductions in both total claims and entitlement claims in 2019/20 and 2021/22. We saw a quick recovery of claims in 2020/21 following the removal of restrictions. Last year we expected a similar recovery of claim frequencies. However, this didn't eventuate for total claim frequencies and the actual frequency was lower than expected. As a result, we've reduced the claim frequency projections from last time.

It's generally expected that entitlement and total claim frequencies will trend at similar rates. However, entitlement claim frequency increased at an average 5% per annum between 2012/13 and 2022/23, compared to 1% per annum for total claims over the same period.

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.

Chart 44 shows the past and projected weekly compensation conversion rates for the levied Accounts. These Accounts hold the bulk of weekly compensation claims.

CHART 44: WEEKLY COMPENSATION CONVERSION RATE



The Motor Vehicle and Work Accounts generally have more severe accidents, so the weekly compensation conversion rates are 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.

Over this time, people have moved to getting weekly compensation payments earlier in their recovery journey and for longer periods. While short-term weekly compensation claims are growing faster than long-term weekly compensation claims, both types of claims have grown significantly over time.

The increase in weekly compensation conversion rates is consistent when examined by the following groups:

- gender
- age
- region
- injury site
- injury complexity
- industry type
- occupation
- activity type.

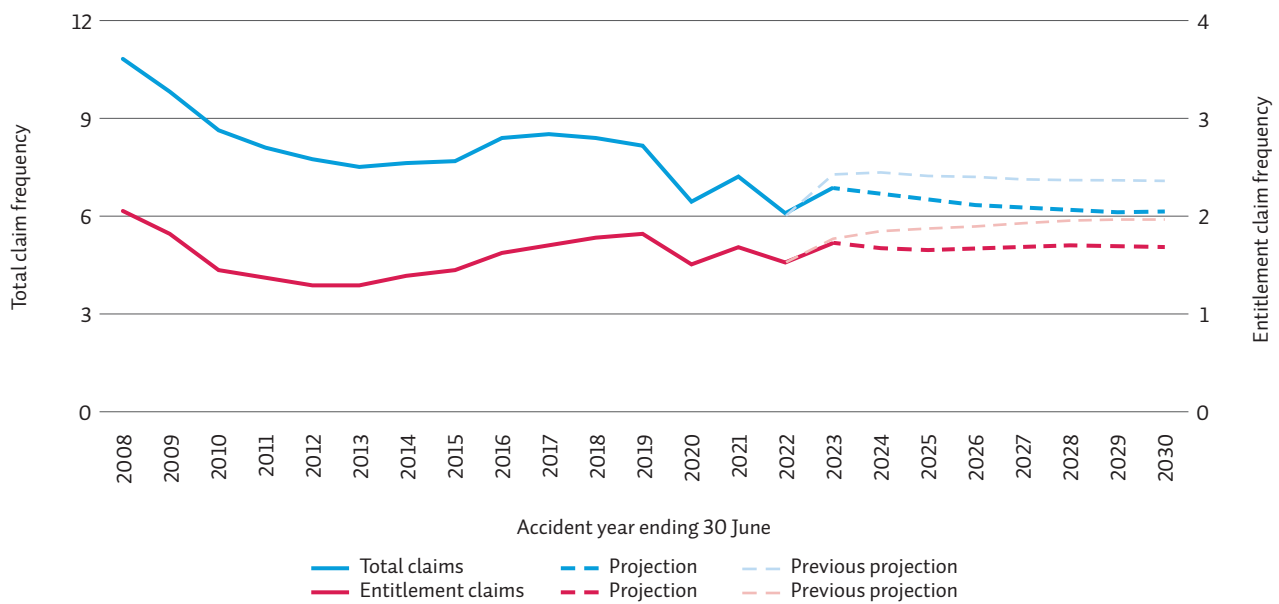
There’s no evidence of a shift to more high-complexity injuries that require entitlement payments.

From our investigations so far, we haven’t determined any external reasons to explain the growth in the conversion rate. While we can continue our investigative work, the growth may be the result of something not captured by data, for example, behavioural changes in clients, or medical service providers, or ACC operational changes. As such, it may be difficult to uncover the reasons for this growth.

Motor Vehicle Account total claim frequency is expected to reduce

Chart 45 shows the annual historical and projected claim frequencies for the Motor Vehicle Account.

CHART 45: MOTOR VEHICLE ACCOUNT ESTIMATED CLAIM FREQUENCY RATES PER 1,000 MOTOR VEHICLES



The Motor Vehicle Account total claim frequency, measured per 1,000 registered motor vehicles, has been decreasing over time. The sudden reductions in the 2019/20 and 2021/22 total claim frequency were due to COVID-19 restrictions. Since then, claims have picked up, but the decreasing trend has continued. Changed behaviour towards working from home since COVID-19 may have contributed to this. We expect total claim frequency to continue to reduce, in line with the historic trends.

Over the period shown on the chart, total claim frequency has been decreasing for all age groups, with the biggest reductions (57%) seen in younger age groups. Better roading infrastructure, improvements in car safety and an awareness of safe driving could be contributing to this.

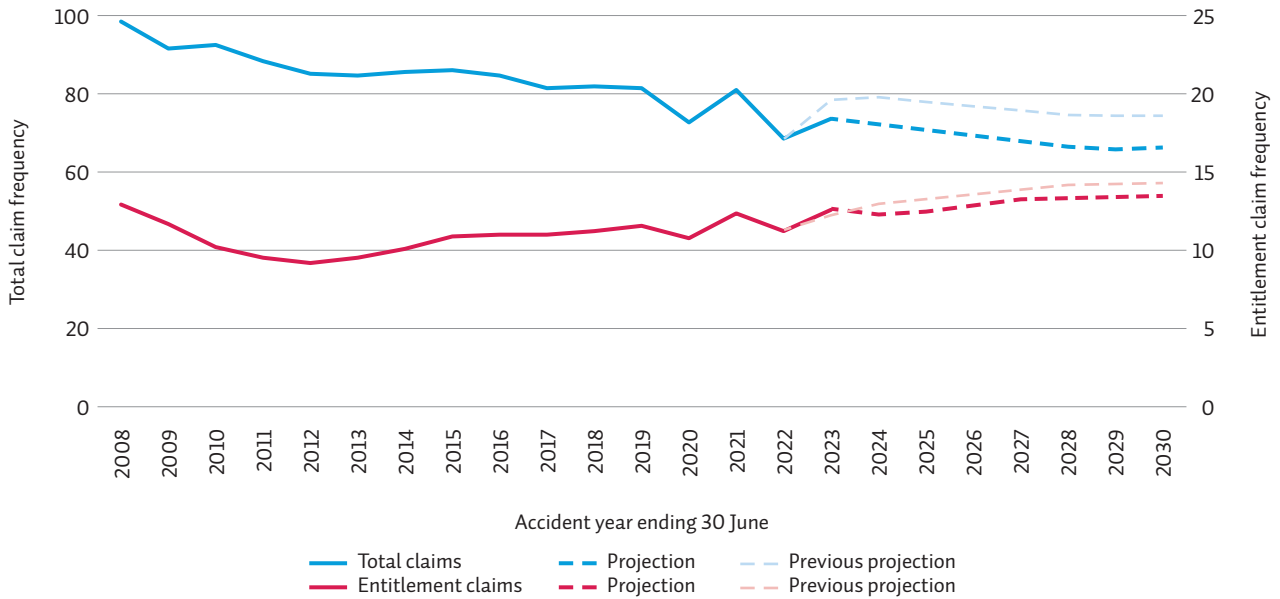
In addition, the number of cars per person in New Zealand has been gradually increasing, by around 15% since 2006. In the same period the distance travelled per person has decreased by 6%. The combination of more cars and shorter distance travelled per person has likely contributed to a decrease in the claim rates per car. As people drive shorter distances and less often, the number of claims will decrease, and this will also affect the frequency.

Last year we projected the entitlement claim frequency to increase in line with the historic trend. However, the actual number of new weekly compensation claims in the year to 30 June 2023 was lower than expected. This was reflected in the future assumptions for new weekly compensation claims, which are projected to be lower than last year’s projections. The new projected entitlement claim frequency is expected to be stable, despite the projected decreasing total claim frequency. This is consistent with the growth in the weekly compensation conversion rate (see Chart 44).

Total claim frequency for the Work Account is expected to reduce, but entitlement claim frequency is expected to increase

Chart 46 shows the annual claim frequencies, including projections, for the Work Account.

CHART 46: WORK ACCOUNT ESTIMATED CLAIM FREQUENCY¹⁹ RATES PER 1,000 EMPLOYED PEOPLE



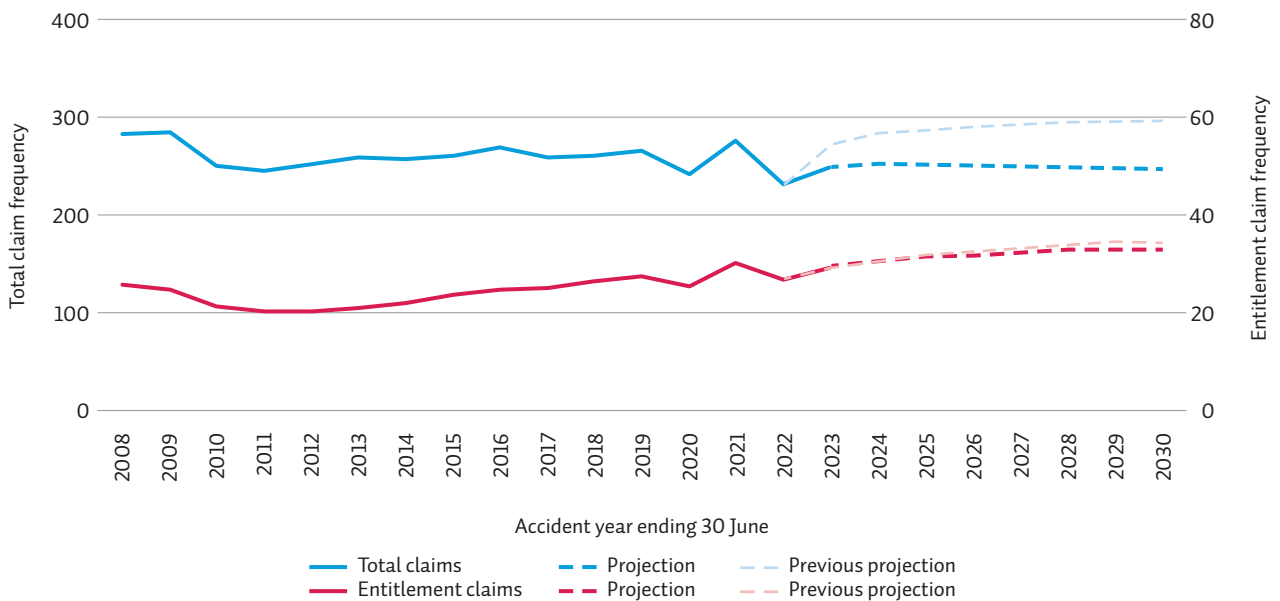
Total claim frequency for the Work Account has been reducing and we expect this trend to continue. The number of claims reported in 2022/23 was lower than expected. Therefore, total claim frequency projections have decreased compared to last time. We don't know what's driving the decreasing total claim frequency for the Work Account.

Entitlement claim frequency has been gradually increasing since 2011/12, in line with the increasing weekly compensation conversion rate. Going forward we expect entitlement claims to continue to increase in line with the current weekly compensation conversion rate trend.

Earners' Account claim frequencies are expected to be lower than previous projections

Chart 47 shows the annual claim frequencies, including projections, for the Earners' Account.

CHART 47: EARNERS' ACCOUNT ESTIMATED CLAIM FREQUENCY RATES PER 1,000 EARNERS



¹⁹ Excludes WRGP claims.

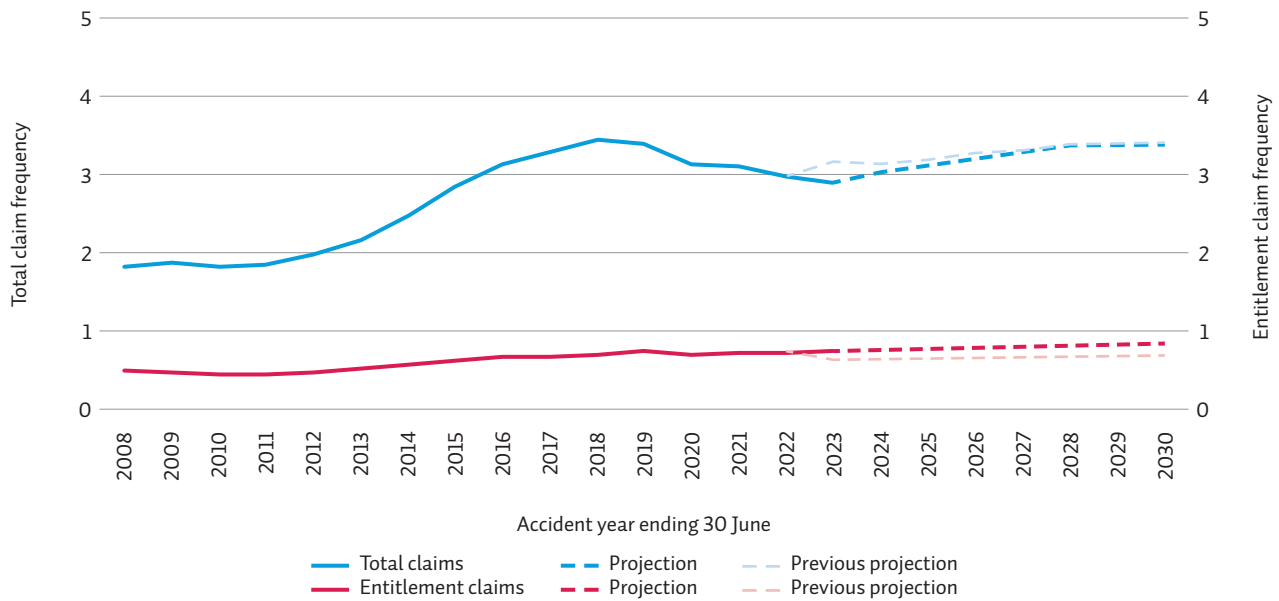
The total claim frequency in 2022/23 was significantly lower than expected. This has resulted in a decrease to the future forecast claim frequency, which is expected to remain similar to what was observed in 2022/23.

The frequency of entitlement claims is projected to continue growing at the rate observed in the past 10 years. We don't know what's driving the increasing trend. This can also be seen in the growth in the weekly compensation conversion rate (see Chart 44).

Treatment Injury Account claim frequencies are expected to increase slowly over time

Chart 48 shows the annual historical and projected claim frequencies for the Treatment Injury Account.

CHART 48: TREATMENT INJURY ACCOUNT ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



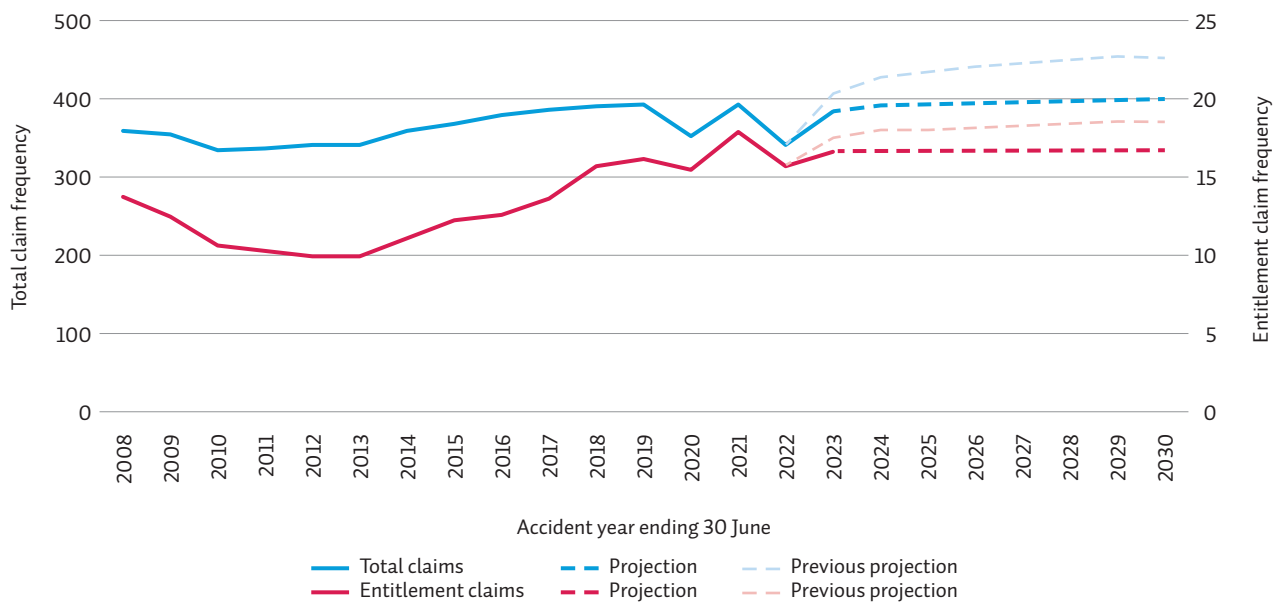
Surgery is a major source of treatment injury claims, and there were reductions/delays in that activity during the periods of COVID-19 restrictions. As a result, there were fewer claims for treatment injuries in those periods. Prior to 2017/18, the total claim frequency increased significantly. It's thought that this was related to medical providers submitting more treatment injury claims to ACC due to an increasing awareness. 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 injuries that are more severe, so medical treatment and support can't be delayed easily. Entitlement claims have almost tripled since 2006, in line with total claims. We expect the entitlement claims to grow, consistent with the total claims.

Non-Earners' Account claim frequencies are expected to increase gradually

Chart 49 shows the annual historical and projected claim frequencies for the Non-Earners' Account. It excludes claims receiving support solely through bulk-funded PHAS, which are a large portion of the new year claim costs in this Account.

CHART 49: NON-EARNERS' ACCOUNT ESTIMATED CLAIM FREQUENCY RATES PER 1,000 NON-EARNERS



Total claim frequency is projected to increase gradually. The increase in claim frequency that was expected for 2022/23 didn't occur and so future projections are lower than those made last year.

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 was largely due to the increase in the number of sensitive claims.

Appendix G – Risk management

Taking appropriate risks to achieve strategic objectives is a normal and necessary part of doing business. Embedding risk management practices in all areas gives decision-makers the confidence to make more informed and better decisions.

This appendix outlines, at a high level, the risks ACC faces and the associated risk frameworks it uses to achieve its objectives. The financial risks ACC faces, how they're identified and managed, and how they affect ACC's balance sheet and influence funding recommendations, are discussed in more detail elsewhere in this report.

ACC's risk management framework and processes

ACC's 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. The framework is aligned with AS/NZ ISO31000:2018 Risk Management – Guidelines.

The objective of the framework is to enable ACC to deliver value and successfully achieve its strategic and performance objectives. Appropriate risk management enhances informed decision-making and enables the right kinds of risks to be taken. It does this by helping to ensure:

- effective and efficient continuity of operations
- safeguarding of assets
- the preservation and enhancement of reputation
- reliability of internal and external reporting
- compliance with applicable laws and regulations
- a culture consistent with ACC's risk tolerance.

The Executive and the Board's Risk Assurance and Audit Committee monitor and evaluate ACC's framework, maturity, and internal control environment. ACC's assurance function and external co-source partner independently advise on the:

- risk and controls environment
- effectiveness of risk management.

ACC Risk Appetite Statement

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

- be innovative and pursue opportunities based on potentially high benefits, despite greater risk
- accept uncertain outcomes or variability
- trade-off against the achievement of other objectives.

Conversely, in areas where ACC's appetite is averse, ACC will take 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.

The Three Lines Model

ACC has transitioned from a 'Five Lines of Assurance' risk model to a more traditional 'Three Lines Model'. As described in Table 43, the model allocates clear accountabilities and responsibilities for the management of risk, ensures clear separation of duties between first- and second-line risk activities, and supports the independence of internal and external assurance.

TABLE 43: THREE LINES MODEL

Line of defence	Role
First Line	Owns and is accountable for identifying and managing risk and compliance in delivering ACC services and achieving strategic objectives. (For example, staff and management)
Second Line	Provides independent expertise, challenge, monitoring, and advice related to managing and improving risk management practices, to help ensure end-to-end consistency of practice by providing direction, guidance, frameworks, tools, and techniques to the first line. (For example, Risk and Compliance Office)
Third Line	Provides independent assurance across the first and second lines, but remains independent from them, including from management, through primary accountability to the ACC Risk and Audit Committee. (For example, external auditors)

The eight priority risks for ACC

ACC's last reported overall risk profile as at 31 March 2023, was classified as 'high'. This is unchanged from 30 June 2022. Seven out of the 16 individual enterprise risks were also rated 'high'. Table 44 shows the Board's and the Executive's eight highest-priority enterprise risks for 2022/23.

'Cyber security' and 'Customer experience and trust' are now included in the eight priority risks. 'Benefits' and 'New Zealand Income Insurance Scheme implementation and impact on the ACC Scheme' are the two risks from 2021/22 that have dropped out. Five of these eight risks have been rated high for more than two years, indicating that ACC hasn't yet mitigated them effectively.

The Executive and Board are in the process of refreshing ACC's suite of enterprise risks and the RAS in line with Huakina Te Rā. This process is expected to identify a revised set of management actions to manage these risks.

TABLE 44: ACC'S HIGH-PRIORITY ENTERPRISE RISKS AS AT 30 JUNE 2023

<p>Cyber security</p> <p>If ACC does not take appropriate measures to safeguard its systems and information from cyber security threats then it may not effectively prevent or remediate potential cyber security incidents, resulting in data breaches or prolonged service disruptions.</p>	<p>Privacy</p> <p>If ACC does not collect, store, use, disclose, retain, and protect personal information in accordance with the Privacy Act 2020, the Health Information Privacy Code 2020, related legislation and recognised best practice then ACC's credibility and public trust could be diminished. A breach of the Privacy Act 2020 could also result in an investigation by the Office of the Privacy Commissioner, the Human Rights Review Tribunal proceedings, and/or fines or sanctions, impacting ACC's ability to deliver social insurance services in New Zealand.</p>
<p>Injury prevention impact</p> <p>If ACC does not take a system and enterprise-wide prevention-based approach and make aligned strategic decisions, it will not be able to meet the ambitions and goals of Huakina Te Rā.</p>	<p>Claims cost management</p> <p>ACC does not adequately understand, anticipate, monitor, and respond to claims cost performance trends that results in pressure to increase levy rates to sustain the Scheme.</p>
<p>Māori customer access and outcomes</p> <p>If ACC fails to enable Huakina Te Rā by not implementing initiatives that are meaningful, scalable, or timely enough to improve Māori scheme engagement, access, experience, and outcomes, then Māori health inequities will remain.</p>	<p>People and Culture (including key person risk)</p> <p>If ACC does not have the organisational leadership, capability, or capacity in its workforce to effectively deliver business performance and transformative change, then ACC will not be able to perform the necessary services to successfully provide for the needs of customers and providers.</p>
<p>Customer experience and trust</p> <p>If ACC fails to respond to and prioritise what matters most to its customers, then their experience and trust in ACC could decline. ACC risks losing credibility with its customers, stakeholders, and partners, and potentially its mandate to deliver social insurance services in New Zealand.</p>	<p>Customer outcomes</p> <p>If ACC does not 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 its customers (injured people, levy payers, safer communities) in the context of ACC's strategic outcomes.</p>



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