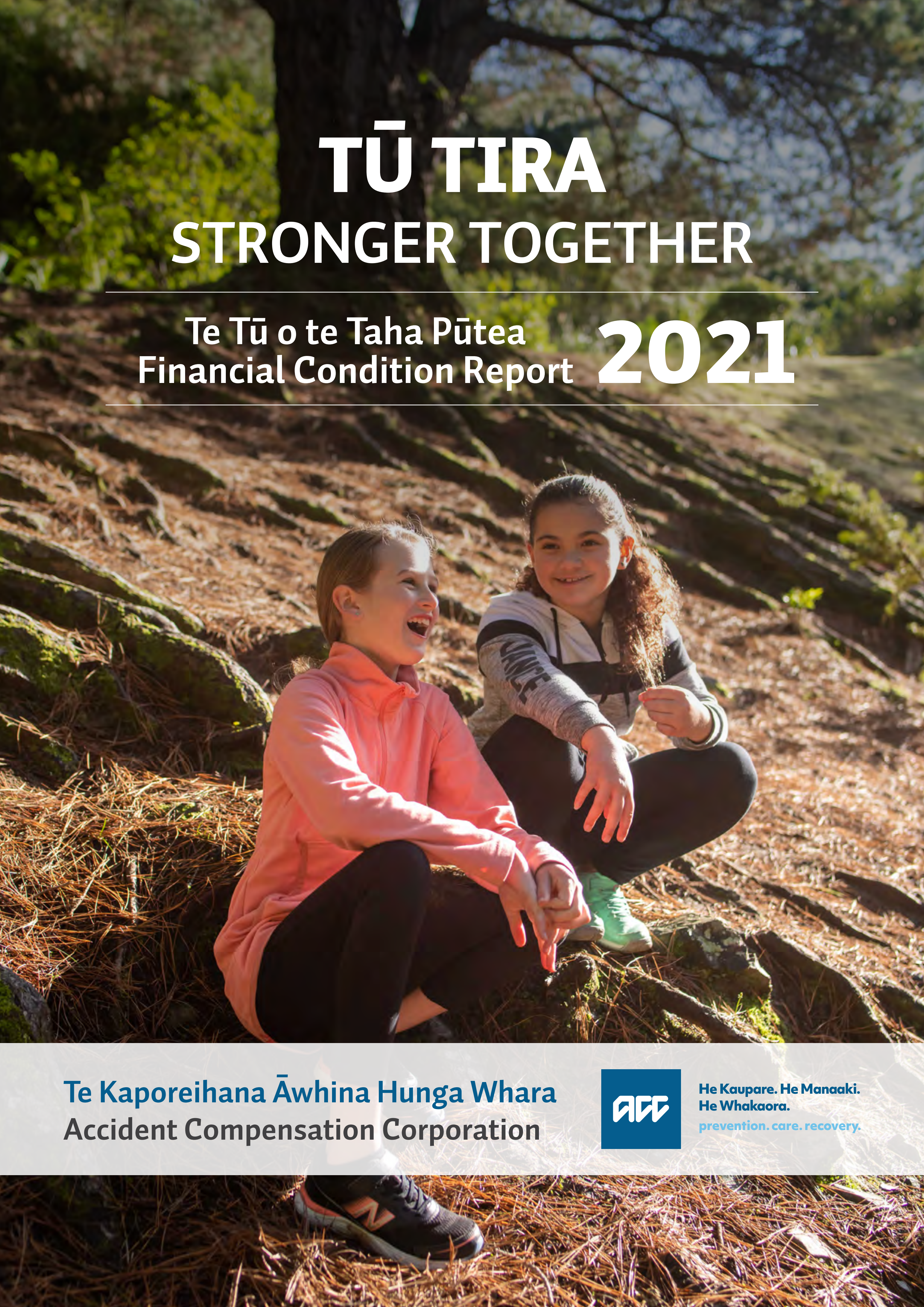

TŪ TIRA
STRONGER TOGETHER

Te Tū o te Taha Pūtea
Financial Condition Report **2021**

Te Kaporeihana Āwhina Hunga Whara
Accident Compensation Corporation

ACC

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

Contents

Financial condition supports a fair and sustainable Scheme

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

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

Purpose

At the end of each financial year, we, the actuaries at ACC, write a formal Financial Condition Report (FCR) to assess ACC's financial condition. Specifically, the report sets out the financial condition of the Scheme, how it's changed during the year and the reasons for the change. The report also identifies existing and future risks to the Scheme. Where appropriate, we make recommendations for improving customer outcomes and ensuring a stronger financial condition in the future.

In writing this report as at 30 June 2021, we've complied with the New Zealand Society of Actuaries' professional standards in a way that makes sense for ACC. In line with these standards, our objective is to present a view of the Scheme that's transparent and free from bias. That's important in helping others to build a clear picture of the financial condition of the Scheme. It's also important in establishing what's needed to ensure ACC's financial condition can support a fair and sustainable Scheme for New Zealanders now and in the future.

We define **fair** as achieving outcomes, in accordance with the purpose of the Scheme, that are equitable for individuals and groups of people with an interest in the Scheme.

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

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

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

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November 2021

Executive summary

ACC needs to improve its prevention and rehabilitation performance to deliver better customer outcomes and strengthen its financial condition

Despite deteriorating claim performance, ACC's financial condition improved due to economic conditions

The funding position of each Account increased during 2020/21

The funding positions of all the Accounts increased significantly during the year, with large impacts from rising interest rates, which were outside ACC's control. Above-benchmark investment returns further increased the funding positions. This was partially offset by worsening claim performance. Levies and appropriations, which are set by the Government, were below new year claim costs. This also partially offset the increase in funding positions.

At 30 June 2021, the levied Accounts were all above their funding targets. The non-levied Accounts remained below their funding targets.

ACC recorded a $9.6 billion surplus in 2020/21

This year the Accident Compensation Corporation (ACC) Scheme recorded a surplus of $9,561 million[1], mostly driven by an economic surplus of $12,588 million. $7,944 million of the economic surplus is a result of reductions in the outstanding claims liability (OCL) due to changes in inflation and discount rates. The remaining economic surplus is largely due to a $4,834 million investment return. The actual investment return before costs of 10.57% beat the market benchmark by 1.90% after allowing for costs.

There were significant equity gains in 2020/21 as assets recovered the COVID-19-related losses suffered in the June 2020 quarter. These gains were partially offset as interest rates rebounded during the year, following a four-year decline that reached historic lows in September 2020. The increase in interest rates resulted in a significant reduction in the OCL alongside revaluation losses for bonds. The combination of investment returns from bonds and equities was unusual this year, and returns like this might be expected around once in 20 years. Even relatively small changes in economic conditions can have material impacts on the Scheme's financial performance. The disruption created by COVID-19 has added to the uncertainty of the economic environment, including when and how long-term interest rates will move in the future.

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

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

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

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

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

1 *Note this result represents the true economic cost to the Scheme and is consistent with ACC's funding policy. It differs from the result shown in the Annual Report 2021 prepared under New Zealand accounting standards. The Annual Report includes the asset and liability for the Accredited Employers Programme (AEP), the unexpired risk liability and the OCL risk margin and excludes work-related gradual process claims incurred but not reported.*

Offsetting the economic surplus was an underwriting deficit of $3,028 million. More than one-third of this deficit was expected due to levies and appropriations being set below new year claim costs, and the different assumptions being applied to levy/appropriation pricing compared to the valuation of the OCL.

Of the remaining $1,931 million underwriting deficit, $1,092 million was a result of an increase in the expected cost of incurred new claims. This was due to changes in claim performance ($364 million) and economic conditions ($728 million) since levies and appropriations were last determined. In addition, a worse-than-expected claim performance in 2020/21 led to an $857 million deficit due to higher claims incurred. This is made up of $408 million from higher claim payments, and $450 million (excluding the risk margin) from an increase in the OCL. The $450 million increase in the OCL is known as an OCL strain and excludes the impacts of economic changes.

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

The injury prevention portfolio met most targets, but benefits need to grow significantly to achieve strategic goals

Most of the injury prevention benefits have yet to be realised

The ambition of the 2018 Injury Prevention Strategy is to improve quality of life for New Zealanders while ensuring the long-term sustainability of the Scheme for future generations. While the injury prevention portfolio met most targets this year, it hasn't yet delivered a significant impact on the financial condition of the Scheme. This is because investment occurs at the beginning of a programme's lifespan, while benefits occur over a longer period. As the portfolio matures, we expect to see more of the benefits achieved, and the gap between benefits saved and investments made reduce.

In 2020/21, ACC invested $78.9 million in injury prevention. The planned investment was $76 million. The higher-than-budgeted investment was due to investment in new injury prevention programmes. $47.5 million of this investment was for programmes now in delivery. The remaining $31.3 million was for programmes in development.

The return on investment in 2020/21 was in line with expectations, partly due to a revaluation of expected future benefits

ACC estimates the effectiveness of injury prevention programmes through return on investment (ROI), the rate of serious injury (including fatal), and the number of injuries prevented.

The ROI is a measure of how much ACC expects to receive back in claim benefits from the investments it's making. It considers both past benefits and costs, and projected future benefits and costs. Claim benefits are a good proxy for the harm prevented through avoiding or reducing the severity of injuries to New Zealanders.

This year ACC achieved its ROI targets for the parts of the portfolio that have targets. The strategic programmes have not yet had targets set. During the year, ACC updated its estimates of the lifetime value of claims saved during the year. This increased the ROI on most programmes. The increased lifetime value of claims, combined with new programmes coming to delivery, have contributed to targets being met.

Five injury prevention programmes (Neonatal, Gun Violence, Grants and Subsidies, Falls and Fractures and Motorcycle Rider Training) make up half of all the expected future claim benefits feeding into the June 2021 ROI. Of these programmes, only Motorcycle Rider Training is performing well as at 30 June 2021. ACC is actively reviewing the remaining four programmes with a view to what benefits can be achieved, and when they can be achieved. This may result in a drop in the expected ROIs for some of these programmes.

One significant suite of programmes in design is through a partnership with WorkSafe. Compared to other programmes, this was expected to generate a lower target ROI of $1.10, before increasing to the overall target ($1.80) by 2028. After a review of benefits available from this investment during 2020/21, it was found that the expected ROI had fallen significantly behind, and a large portion of the investment had been in programmes not expected to provide any claim benefits. Since 30 June 2021, measures have been put in place to enable WorkSafe to provide confidence to ACC that the original expected benefits will be generated by the end of May 2022. WorkSafe, ACC and the Ministry of Business Innovation and Employment are exploring alternative funding mechanisms for WorkSafe going forward.

During 2020/21, ACC prevented an estimated $53 million worth of claims, above the expected value of $39 million. The number of claims prevented in 2020/21 was well ahead of target (14,240 vs 13,310).

The 2018 Injury Prevention Strategy aims to achieve future claim benefits of $2.4 billion over 10 years. Existing programmes are expected to provide only one-third of this. ACC must deliver benefits already planned from existing investments. It also needs to make significant further investment to deliver on its strategy.

ACC is also trialling a new way of delivering injury prevention for sexual violence. Instead of delivering one-off, single factor programmes, ACC wants to work closer with partners to create multi-agency, multifaceted responses. The focus isn't just on perpetrators or victims of violence, but on the whole community and the systemic structural and social drivers that enable violence to occur.

This is a promising direction for injury prevention, and it's good to see that a proportion of the investment in sexual violence primary prevention is dedicated to the development of a new framework for measurement and monitoring effectiveness. Through this work, combined with already completed research and analysis, appropriate targets will be established. An effective control framework is needed to ensure success.

Rehabilitation performance continued to deteriorate over the year

Claim performance was worse than expected

In the past seven years (2014/15 to 2020/21), claim volumes and costs have been higher than expected. The OCL has increased by $3.1 billion more than forecast over this period. $3.3 billion of this is in areas at least partially influenceable by management. This has contributed to pressure on funding and on the financial condition of the Scheme. This was partially offset by non-influenceable OCL movements of $303 million over this period. These were driven by factors such as COVID-19 restrictions, pay equity settlement and valuation model changes.

Where we've categorised strain or release as influenceable, that does not necessarily mean that we believe it's fully caused by management actions, or that it can and should be fully reversed.

Strain is identified as influenceable to highlight that ACC should consider what action, if any, is appropriate to take in response, and should make deliberate choices about how much of the strain can and should be reversed.

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

In 2020/21, the OCL strain was $450 million, excluding the risk margin. This comprised $465 million of influenceable OCL strain, offset by $15 million in a non-influenceable release. Despite the continued OCL strain, claims can continue to be paid for the foreseeable future. However, the increased cost will need to be met and that burden will be on future levy payers and taxpayers. Also, the OCL strain can indicate that some injured people have not been rehabilitated as fast and effectively as in previous years. That's why ACC must improve those things that it can influence.

Deterioration in weekly compensation performance contributed most to the OCL strain

Actual claim performance is used to estimate future claim performance and the OCL. This requires a degree of judgement. The COVID-19 lockdowns have disrupted claim performance during 2020/21 and added to the uncertainty of judgements required for future claim assumptions. The payment types contributing significantly to the influenceable OCL strain and presenting the greatest ongoing risks to Scheme fairness and sustainability are:

- **weekly compensation:** in 2020/21, the influenceable OCL strain is $438 million. The influenceable OCL strain in the past seven years has been $1,973 million. Most of this strain is from claims more than one year old. The key driver of weekly compensation strain has been worsening rehabilitation rates. As a result, the number of claims receiving weekly compensation for more than a year have been growing at around 7% per annum in the past six years, significantly higher than the assumed growth in the valuation (typically between 1% and 3% per annum). While this continued to be a major driver of the strain in 2020/21, new claims commencing weekly compensation payments also caused a large strain on the OCL this year
- **serious and non-serious injury social rehabilitation:** in 2020/21, the influenceable OCL strain is $143 million. The influenceable OCL strain in the past seven years has been $2,439 million. The average cost of serious injury non-capital claims has been higher than expected, largely due to higher care hours. Due to the long-term nature of these claims, a small change in care required can have a large impact on the OCL. Higher-than-expected growth in care hours for established serious injury claims has been evident in the past few years.

COVID-19 lockdowns during the year added further demand for care hours as additional support was needed by ACC's most vulnerable clients. This was largely offset by a lower number of new serious injuries and a significant reduction in travel costs. This offset only partially reflected the lower new claims and travel cost performance. It could have been larger, but it remains uncertain how much of the reduction was driven by lockdowns, and what to expect in the future. This reinforces the need for ACC to better understand the key drivers of claim performance.

In previous reports we've noted that, despite the increase in cost, the achievement of self-reported independence outcomes has been in decline. In 2020/21, data for self-reported independence outcomes data was no longer consistently captured, making this analysis unreliable. The long-term claim recommendation we made last year highlights the importance of outcomes being achieved for seriously injured clients.

Growth in training for independence payments has been significant in the past four years, especially for non-seriously injured clients. An analysis of this service to better understand the appropriateness of outcomes has resulted in some actions being taken, including several contract changes. These changes are expected to ensure that entry criteria are being adhered to, so that the service is only offered when other ACC-funded services can't meet a client's needs. Further analysis is underway and is expected to identify additional improvement opportunities

- **sensitive claims:** in 2020/21, the influenceable OCL strain is $249 million. The influenceable OCL strain in the past seven years has been $1,413 million. Up until 2019/20, most of this strain was due to a higher-than-expected number of new sensitive claims, which had been evident since the implementation of the Integrated Services for Sensitive Claims (ISSC) contract in November 2014. 2020/21 saw a lower-than-expected number of new claims overall, noting that the expected number was high due to its having been increased in each valuation over the previous few years. This was largely driven by provider capacity constraints and may not be a true representation of the underlying demand.

  Newly reported claims with event dates more than one year ago were higher than expected and this was the largest driver of this year's OCL strain. The other key area where the OCL increased this year was the average cost, mainly due to higher counselling payments, more claims receiving weekly compensation and an increase in lump sum payments
- **elective surgery and medical treatments:** in 2020/21, the influenceable OCL release is $105 million. The influenceable OCL release in the past seven years has been $1,766 million. The main driver of this release was lower-than-expected average costs. This resulted in reductions in both average cost and superimposed inflation assumptions.

In responding to the $3 billion OCL strain in the past seven years, ACC set initial OCL targets over the next four years during 2020/21 to address the key areas of claim performance and to improve customer outcomes in the coming years. The organisation has started taking action to meet these targets, and to address our recommendation on long-term claim performance made in last year's Financial Condition Report (FCR). It's too early to say how effective these actions will be.

Despite improved funding positions, future funding needs to increase

New year claim costs were significantly higher than levies and appropriations for all Accounts

New year claim costs represent the economic costs of claims incurred in a year and are the largest component of the required funding. In the long term, income received needs to cover these costs.

In the 2018 levy consultation, recommended levy increases were not approved by Cabinet. This means that the requirement for extra funding will be deferred to a later time, and to a later group of levy payers. Since 2018, claim performance has deteriorated, increasing the expected cost of claims. These two factors mean that the gap between new year claim costs and levy rates is larger than we expected it would be when we recommended previous levy rates. It also means that increases in funding may be needed for longer.

Annual increases to levies and appropriations are limited by a **cap** defined in the funding policy.

For the levied Accounts the cap is 5% per annum (plus inflation for the Motor Vehicle Account).

The Non-Earners' Account is capped at 7.5% per year.

Uncapped rates represent the rate which ACC would recommend if no cap was applied to funding increases.

The same principle applies to the Non-Earners' Account. Pre-2015, the Account was in surplus and annual funding requests were approved. From the 2015 year onward, funding was set below the level determined by the funding policy, and the funding ratio declined to 59% by 2020. The reduction in funding position was caused by a combination of low funding, falling interest rates and deteriorating claim performance. For 2020/21, Cabinet approved an appropriation increase to meet the new year claim costs, and then an increase at the capped level of 7.5% for the following year.

Indicative uncapped levies and appropriations reduced significantly during the year

In 2020/21, the OCL has reduced and the value of our assets has increased, resulting in an increase in the fund balances for all Accounts. It's unusual to see both the asset and the liability parts of the balance sheet contributing a surplus. We'd generally expect them to partially offset each other.

These two movements have increased the funding position significantly.

The **funding adjustment** is a negative (positive) adjustment made to the levy rate to return (recover) any surplus (deficit) assets over time.

Under the funding policy, any surplus or deficit is returned or collected over time through a funding adjustment. So for the levied Accounts we're now expecting to return more money each year than previously. This results in projected levies being below the new year claim costs in the short to medium term.

For the Non-Earners' Account, we're now needing to recover less additional funds through the funding adjustment, which reduces the uncapped appropriation.

Regardless of the size of an Account's surplus or deficit, funding must ultimately move toward the new year claim costs

In 2021, a new funding policy was gazetted, which changed the cap on levied Accounts to 5% per annum[2], a reduction from the previous 15% over two years. With the cap on levy increases now set at 5%, it's important that levies are adjusted regularly. This is because it will take longer under a 5% cap to move toward the new year claim costs compared to a 15% increase over two years. In addition, there are no restrictions on the size of recommended levy reductions. While levies are below new year claim costs, a large reduction in levies to return surplus funds could need several increases at the 5% limit before the levy path can move toward new year claim costs again.

To move toward new year claim costs, continuing levy and appropriation increases are expected in the future

Although the funding positions on all levied Accounts are above target, we expect that future levies will need to increase. Once the surpluses have been returned through lower levies, the income received from future levies needs to be sufficient to cover the cost of new claims. To do this, levies need to gradually increase over time unless the cost of claims reduces.

Therefore, ACC is recommending small annual increases for each Account, except for the Work Account where the first year's levy is recommended to decrease before increasing in each subsequent year.

2 *Plus inflation for the Motor Vehicle Account.*

The funding position for the Non-Earners' Account, while improved, is still below target. Appropriations are expected to be above new year claim costs until the deficit on the Non-Earners' Account is recovered and the Account returns to target. This means the positive funding adjustment will reduce, returning the recommended levy toward the new year claim costs over time. Once the Non-Earners' Account is at the funding target, the appropriations are expected to increase each year in line with the new year claim costs.

Changes ACC is making in how it operates have yet to generate the expected improvements in customer and financial outcomes

The Integrated Change Investment Portfolio has yet to deliver sufficient customer and financial outcomes

With most of the foundational work completed in 2019/20, the ICIP programmes should have started delivering improvements in client, operational and financial outcomes. However, the results to-date have been mixed:

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

- Next Generation Case Management (NGCM) completed its nationwide delivery in September 2020. Improved client outcomes have yet to be achieved.
- The Health Sector Strategy (HSS) programmes' rollout was affected by COVID-19 restrictions. By the end of 2020/21, volumes had still not reached levels that could have material impacts on rehabilitation rates. The Strategy's main four outcomes-based purchasing pilots are behind schedule. There are still half of the expected benefits from the HSS to be delivered through future programmes not yet in development. The HSS plans to deliver a substantial part of the ICIP benefits. It's important that the HSS benefits are achieved or the ICIP won't meet its expected benefits target.
- The Business Analytics platform allows ACC to use advanced analytical techniques to deliver insights, develop predictive models and test hypotheses. The actual benefit achieved in 2020/21 from data-led interventions was $20 million, which exceeded the expected benefit of $12 million.
- A reduction in the average weekly compensation days paid is one of the main claim cost benefits targeted from the ICIP. This is to be delivered from NGCM, HSS and the Business Analytics Platform (BAP). Average weekly compensation days paid have been increasing in the past few years and are now 105.9 days. This is higher than the 2021 target of 104.4 days set last year, and the original ICIP target for 2020/21 of 94.4 days. The timeframe to meet the ultimate target of 91.9 days has been extended from 2024/25 to 2028/29. While ACC is prioritising improving performance, with further COVID-19 disruptions, there's a risk that targets won't be met.

The total original ICIP savings expected to 2021 was $166 million. The total achieved to 2021 was $36.7 million. We're focused on the claim cost benefits from ICIP as they contribute to improve client outcomes. These are average weekly compensation days savings, HSS and vocational rehabilitation savings.

Originally these ICIP outcomes were expected to have achieved a reduction in claim costs of $73.1 million by 30 June 2021. However, the actual claim cost from these to 30 June 2020 has been an increase of $24.7 million, a difference of $97.8 million. Of this, $88 million is from average weekly compensation days being higher than expected.

The COVID-19 restrictions after June 2021 will affect the result for 2021/22, making it harder to gauge progress during the year. Upcoming health system reforms are also affecting the HSS delivery. ACC is working to deliver the benefits of this major investment. This will be difficult given these challenges and the amount of ground to reclaim.

ACC is working on improving and measuring client outcomes, but there's still more to do

In recent years, ACC has increased its focus on improving access to and quality of services for key customer groups (such as Māori), and people with more complex needs (such as serious injuries or sensitive claims). To better understand whether the increased spending has led to improved client outcomes, a recommendation was made in the 2019 FCR to develop a strategic outcomes framework to define and assess the effectiveness of all ACC services. In the 2020 FCR, three new recommendations were added to improve understanding of and outcomes for both Māori and for victims of sexual violence.

ACC decided that a separate customer outcomes framework was not required and instead is developing a number of frameworks that should, together, be sufficient to form the basis of an integrated ACC customer outcomes framework. Some of these frameworks are designed to deliver more effective services to Māori and to victims of sexual violence. The frameworks in development are:

- the Health Outcomes Framework (HOFW), which was developed and tested externally with stakeholders in 2019/20. The aim is to achieve an appropriate quality of life for clients through the provision of entitlements that restore, to the maximum practicable extent, their health, independence and participation. This helps ACC to define client outcomes over and above traditional measures such as return-to-work rates
- the Māori outcomes framework (Oranga Whānau), which intends to measure outcomes through indicators that are meaningful to Māori and will help support the Ngā Hua Tautika (improved outcomes) aspirations of Whāia Te Tika (ACC's Strategy to create better experiences and outcomes for Māori)
- the Mental Health Services Plan, which as one of its aims will address our recommendations from last year's FCR on improving understanding of client needs, translating that understanding into injury prevention actions and ensuring right client outcomes are delivered at an appropriate cost.

Work is also underway to identify further opportunities to better capture and measure customer outcomes. Examples include integrating relevant outcomes from different frameworks, making use of patient-reported outcome measures, and considering different health outcome measures to support existing strategies and frameworks. The work has proven to be challenging and there are still questions around what outcome measures are useful, how practical it is to collect them and how ACC can make use of these measures to improve customer outcomes.

It's fundamental to ACC's financial condition that the right client outcomes are delivered at a cost that's reasonable and sustainable for funders of the Scheme. ACC is still not measuring client outcomes as well as it needs to, but there's significant work underway. ACC needs to continue to prioritise the work in development.

We haven't closed any recommendations that were open in the 2020 FCR

In our 2020 report, three recommendations remained open from previous FCRs, one dating back as far as 2016. We also made four new recommendations, which brought the total number of open recommendations to seven as at June 2020.

While the Scheme's long-term nature means that many of our recommendations will require longer than a year to resolve, we consider that two of the open recommendations have taken much longer to progress than is reasonable.

All seven recommendations are remaining open. These recommendations have been made in order to improve ACC's financial condition. ACC needs to prioritise resolving them and find effective ways to deliver on its response.

Recommendations made in 2020 FCR

Māori access, outcomes and experience

We recommend that ACC's work with Māori and other relevant stakeholders on improving Māori access, outcomes and experience focuses on:

- understanding and acting on the drivers of the differences between Māori and non-Māori
- ensuring all services provided can be shown to deliver the right client outcomes for Māori at a cost that's reasonable and sustainable for funders of the Scheme.

[Responsibility: Te Tumu Pae Ora]

Progress update:

A Māori Data Working Group (MDWG) has been established to support mutually beneficial relationships with Māori, and create transparency and appropriate usage of Māori data within ACC. This includes the development of partnerships with iwi, and the sharing of data relevant to iwi needs. ACC has recommended that an action plan for the MDWG be implemented to ensure visibility, that adequate progress is made, and that information collection and storage is appropriate. This includes being able to undertake research that focuses on removing barriers and increasing equitable access to services that improve experience and outcomes for iwi, hapū and whānau. The MDWG action plan will be developed before the end of 2021.

A set of five conceptual Māori outcome statements has been completed and is being communicated across ACC. Phase 2 of this work involves the collection of data that will enable the creation of a set of service-level measures. These will be used to measure and monitor the effectiveness of services designed and delivered for Māori, to ensure they're delivering the desired outcomes. The delivery of a specific set of service measures is dependent on key project criteria being met and agreement by the organisation.

The following initiatives are underway to help improve access for Māori:

- **Kaupapa Māori Health Service (KMHS) commissioning:** the planning, procurement and co-design of kaupapa Māori services.
- **Rongoā Māori:** a pathway introduced at the end of 2020 as an alternative to mainstream social rehabilitation services.

- **Tuārai:** a wellbeing model that reframes injury prevention initiatives with kaupapa Māori values.
- **Ngā Tini Whetū:** a cross-agency, whānau-centred early injury prevention intervention programme supporting tamariki and their whānau early in life.

Our response

Progress indicator: ● Moderate progress

The initiatives underway are good first steps towards ACC's ability to provide appropriate and equitable services to Māori, to improve equitable access and experience. Neither MDWG nor the set of five outcome statements is yet in a position to deliver deeper insights into the drivers of differences between Māori and non-Māori, or to show that the right outcomes are being delivered at reasonable and sustainable cost.

The next steps, including the MDWG action plan and further development of the Māori outcomes framework, are needed in order to continue to progress this recommendation. Ultimately, we need to see insights delivered and actions planned or in progress that will really make a difference for Māori customers.

This needs ongoing focus and priority in the next year.

Status: Recommendation remains open

Gain a better understanding of our sensitive claims

ACC's work on sensitive claims needs to provide a deeper understanding of the people suffering sexual abuse or assault in the community, including what their injury and claim patterns look like, and the drivers of the growth in sensitive claim volumes and costs. This understanding needs to be translated into action, where appropriate, to provide targeted prevention or services to clients, and manage the impacts on the financial condition.

[Responsibility: Chief Operating Officer]

Progress update:

Work has been completed to model future sensitive claim volumes and costs. This work has informed a detailed investment case for a systems approach to the prevention of sexual violence (approved by the Board in the first quarter of 2021/22), which aims to reduce the incidence and disparity of sexual violence and provide universal and targeted prevention.

The Board will be engaged in the second quarter of 2021/22. The purpose of this is to cover the history and the system challenges, focus on efficacy within the existing ISSC and provide a number of options for evolving the service once the contract expires in November 2024. The options will include undertaking research to gain a deeper understanding of the people suffering sexual abuse and assault and what their injury patterns look like. The results will be used to inform an evolution of the services where required.

Our response

Progress indicator: ● Moderate progress

Work undertaken to challenge the existing injury prevention investment framework has been pleasing. This has identified a new prevention approach for sexual violence. However, we have not seen significant action during the year targeted at the recommendation itself.

We've commented in previous FCRs that a greater focus is needed on the services provided to victims of sexual violence to ensure that the spend is achieving outcomes for them. Last year's report noted that a review of the ISSC was scheduled to be completed in early 2019, including a strategic component focused on outcomes being delivered. That review wasn't completed. In early 2021, the development of a Mental Health Service Plan was launched and is ongoing.

ACC is putting a reasonable amount of focus on reviewing how it responds to sensitive claims. However, there has been some slippage in timeframes meaning progress towards closing this recommendation has been slow so far.

ACC needs to identify and prioritise actions towards closing this recommendation in the coming year.

Status: Recommendation remains open

Ensure the services to victims of sexual violence are delivering the right outcomes

ACC's work on sensitive claims needs to ensure the services provided can be shown to deliver the right client outcomes at a cost that's reasonable and sustainable for levy payers and taxpayers.

[Responsibility: Chief Operating Officer]

Progress update:

The Board's endorsement of the approach to sensitive claims will be the first step in ACC beginning the work required to understand customer journeys and services accessed, and outcomes being achieved.

Following this, the approved approach will inform ACC's Mental Health Service Plan, which will include the evolution of sensitive claims services. This will likely take around two-and-a-half years to complete. The evolution of these services will be aimed at ensuring ACC can support survivors effectively while managing the impacts of the financial condition.

There are also proofs of concept in development, which are aimed at identifying, measuring and monitoring outcomes for certain claim types. Sensitive claims is one of four areas identified to apply these to initially. The results will be used to support the sensitive claims work programme and evolution, including the identification of client outcome measures. The sensitive claims proof of concept is due to go live in early 2022.

Our response

Progress indicator: ● Moderate progress

We're pleased to see an intent to apply further forms of outcomes measurement to sensitive claims. Apart from this, progress against this recommendation has been slower than we anticipated, and at this stage there's no specific plan to address the recommendation. This is waiting on Board endorsement, after which more work will be needed to design and then deliver a planned set of actions. It's important that this work considers whether the right client outcomes are being delivered through providers and if they're being delivered at a reasonable cost.

ACC needs to identify and prioritise action towards closing this recommendation in the coming year.

Status: Recommendation remains open

Increase focus on long-term performance

The operational emphasis has been on measuring short-term performance. An appropriate balance is needed to ensure long-term performance is maintained.

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

- weekly compensation
- social rehabilitation care and capital.

[Responsibility: Chief Operating Officer]

Progress update:

The Chief Operating Officer presented a paper at the May 2021 Board meeting, confirming targets, timeframes and approaches to partially reverse the six-year strain on the OCL for weekly compensation and social rehabilitation care and capital costs. In addition, the prioritisation of change activity in the past 6-12 months has been deliberately shifted to ensure a greater focus on long-term performance areas. Some encouraging signs are being seen in these areas, but we expect it to take time to see material change from an OCL perspective.

Operational measures that drive OCL strain for each area are being monitored by management monthly and by the Risk Assurance and Audit Committee quarterly.

Our response

Progress indicator: ● Moderate progress

The targets set at the May 2021 Board meeting were determined as at 30 June 2020, before the 2020/21 OCL strain was known. $490 million of the $696 million 2020/21 OCL strain relates to accidents that occurred before 30 June 2020. Targets previously confirmed will need to be adjusted to allow for this additional strain.

Some actions have been identified that aim to improve outcomes and reduce OCL strain. These actions will be monitored regularly, and may result in new actions being developed or requiring reassessment against measures to ensure focus in the right areas. There may also be a requirement to identify further operational measures to help monitor progress.

It's too early to comment on how effective the actions have been with many still being rolled out. Long-term claim performance will continue to be monitored against the OCL targets. The recommendation will remain open until there's clear evidence that the long-term performance has improved.

ACC will need to maintain focus on these longer-term claims in the coming year.

Status: Recommendation remains open

Recommendations made in previous FCRs

Strategic outcomes framework (2019 FCR)

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

- Reduce the incidence and severity of injury.
- Rehabilitate injured people more effectively.
- New Zealand has an affordable and sustainable Scheme.

[Responsibility: Chief Customer Officer]

Progress update:

Current and future state outcomes analysis was undertaken during the fourth quarter of 2020/21. As a result, it was decided that a combination of three other frameworks – the HOFW, the proposed Māori outcomes framework, and the injury prevention strategic investment outcomes framework – would be sufficient to form the basis of an integrated ACC customer outcomes framework, and that a separate customer outcomes framework isn't required.

Further work is being undertaken to trial patient reported outcomes and experience measures, which will help us understand more about what matters most to our customers (with respect to outcomes and experience), and therefore helps test the appropriateness of existing frameworks. Any lessons learned from this will be best incorporated within existing frameworks, rather than establishing new ones. This work will also inform what key aspects we should be measuring as an organisation to best reflect customer performance.

Our response

Progress indicator: ● Moderate progress

Management have maintained an appropriate focus to address this recommendation, despite not being able to close it during the year (as initially anticipated). To close this recommendation, we would need to see how the frameworks are being applied in practice, including how they are informing decision-making. This should also include identifying the data that ACC requires and, if there are data gaps, determining how this can be collected. It's likely we'll be able to close this recommendation in 2021/22, as long as focus is maintained.

Status: Recommendation remains open

Treatment injury (2017 FCR)

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

[Responsibility: Chief Operating Officer]

Progress update

A Treatment Safety Financial Incentives Framework that provides principles for improving the efficacy of financial incentives and reducing the associated risks was endorsed at the Policy Governance Committee (PGC) meeting in November 2020. The PGC requested a report back in six months to allow ACC to:

- explore a targeted treatment-safety initiative that uses financial incentives (not a levy), using the framework
- amend the framework, including expanding on the importance of relationships and considering any conflicts within the framework's principles that become apparent as ACC explores the above initiative
- apply an evaluation framework for the Supporting Treatment Safety Report[3].

This work didn't happen as planned in time for the May 2021 PGC meeting. There were delays in progressing it due to resourcing challenges. Constraints in the external operating environment (e.g. the review of the health sector and COVID-19) also hindered progress. A dedicated resource has now been assigned to lead this work, and an update with a proposed action plan will go to the PGC in November 2021.

The business intends to explore leveraging off the existing Accredited Employers Programme (AEP) to broaden its focus to include preventing treatment injuries. The business will also engage with the Health and Disability Review Transition Unit[4] to consider the potential for incentives

3 ***https://www.acc.co.nz/for-providers/treatment-safety/***
4 ***https://dpmc.govt.nz/our-business-units/transition-unit***

using the funding model it's building, and will report to the PGC on progress made at the end of this financial year.

Our response

Progress indicator: ● Unsatisfactory progress

This recommendation was reopened in the 2017 FCR to provide a broader scope after the initial 2014 recommendation was put on hold in 2015. We acknowledge the challenges the organisation has faced this year in progressing this recommendation. However, progress has been slow during the four years since it was reopened, and our progress indicator reflects that.

In order to progress this recommendation, ACC needs to prioritise the development of a plan of action, and timeframes for delivery.

Status: Recommendation remains open

Injury prevention (2016 FCR)

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

[Responsibility: Chief Operating Officer]

Progress update:

The business worked with an external consultancy firm to undertake research and analysis to assist ACC in setting overall injury prevention targets.

The findings of the research and analysis indicate that at current investment levels and ROI, ACC can expect to see a 3-5% reduction in injury rates by 2040. An increase in investment or ROI (or both) is needed to have a greater impact on the reduction in injury claims and costs.

The report noted the need to consider an equity-driven investment approach that sets out dual aims: to reduce injury; and to reduce inequity in injury incidence.

Clarity on ACC's strategic financial goals and its desire to increase its spend on injury prevention activity will be key in progressing this recommendation further and determining the scale to aspire to.

Our response

Progress indicator: ● Unsatisfactory progress

Management have not been able to address this recommendation since it was raised in the 2016 FCR. In last year's FCR it was anticipated that we would be able to close this by the end of 2020/21.

We have rated progress as unsatisfactory based on how long this recommendation has been in place, rather than just a reflection of progress during the year. The work done during the year did provide some useful insights and made some valuable observations on Māori equity in injury prevention activities. The work has not yet resulted in progress towards establishing a medium- to long-term target. It appears from the management response that a strategic choice is needed from the organisation in order to set this target and close this recommendation.

Injury prevention is a key function of the Scheme, and could be a powerful lever to mitigate rising claim costs. ACC needs to prioritise having a clear strategy in place that outlines its level of ambition for the injury prevention portfolio.

Status: Recommendation remains open

Many factors shape how ACC works and its financial condition

In this section we provide the background and context of the ACC Scheme, the environment in which it operates, and the key factors that can affect its financial condition. Key judgements of and observations on these factors, and their impacts on ACC's financial condition, are covered in later sections of the report.

The Accident Compensation Act sets out ACC's obligations and ACC is guided by the principles of Te Tiriti o Waitangi

ACC is the Crown entity set up by the Accident Compensation Act 2001 (the AC Act) to administer the Scheme. The Scheme provides no-fault personal injury cover to all New Zealanders and overseas visitors to New Zealand. The Scheme has three core functions:

1. Prevent injuries or reduce the seriousness of injuries that do happen.
2. Rehabilitate and compensate people after they've been injured and help them to become independent again.
3. Make sure the Scheme is affordable and sustainable.

ACC is guided by the three principles of New Zealand's founding document, Te Tiriti o Waitangi: partnership, participation and protection. The organisation is committed to supporting the Crown in honouring these principles. This includes addressing inequities and delivering culturally appropriate services with the aim of making meaningful differences in the lives of Māori.

Injury prevention is an important part of the Scheme

"Injury arising from accident demands an attack on three fronts. The most important is obviously prevention. Next in importance is the obligation to rehabilitate the injured. Thirdly, there is the duty to compensate them for their losses."

– Sir Owen Woodhouse in the 1967 Royal Commission report on "Compensation for Personal Injury in New Zealand"

Injury prevention has been an important part of the Scheme since the AC Act was passed in 1972. It's an effort to reduce or prevent the occurrence, or the severity, of an 'accident' as defined in the AC Act. ACC invests in injury prevention activities through levies, and government appropriations for the Non-Earners' Account, only if they're likely to result in cost-effective reductions in levies or appropriations through reduced claim costs. The Government can also allocate money to ACC for injury prevention.

The Scheme supports injured New Zealanders

Every year around one-third of New Zealanders are injured and lodge claims with ACC. About 90% of injuries are minor; people only need simple medical treatment and recover quickly. At the other extreme, a few hundred people every year are seriously injured and their injuries leave them permanently impaired. These seriously injured people usually require social rehabilitation support, such as home or nursing care, to various levels throughout their lives.

ACC financially supports medical treatment and rehabilitation for clients covered by the Scheme. It also compensates earners for loss of income as they recover, or their dependants if they die, and covers mental injuries in certain situations. Injured children receive compensation for loss of potential earnings if they remain incapacitated from when they turn 18 and in other specific circumstances.

New Zealanders provide the funds for this support

Claims for injuries are assigned to one of five Accounts based on where, or how, each injury occurred. Levies or appropriations fund prevention, rehabilitation, support and compensation. The Accounts funded through levies (the 'levied Accounts') are the:

- Motor Vehicle Account, which is funded through vehicle licensing charges and a levy on petrol
- Earners' Account, with a levy charged as a percentage of salary collected as part of PAYE (Pay As You Earn) tax
- Work Account, which is funded through a levy charged to employers as a percentage of payroll, and the self-employed as a percentage of taxable earnings.

The Non-Earners' Account is funded by taxpayers through government appropriations. The Treatment Injury Account is funded through appropriations and a portion of the Earners' levy.

Overall, for every $1 of levy and appropriations collected, ACC expects to return $0.92 to clients via claim payments.

The way ACC operates helps it to meet its obligations

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.

The Ministry of Business, Innovation and Employment oversees ACC policy, and the New Zealand Treasury monitors performance and Board appointments for the Minister. ACC is accountable through the Board to the Minister.

More details are in ACC's:

- Statement of Intent 2021-2025
- Service Agreement 2020/21
- Annual Report 2021.

An effective risk culture helps ACC to deliver the right outcomes for clients, levy payers and taxpayers

ACC's risk appetite is set by the Board. ACC's Enterprise Risk function has an important role to play in embedding risk management maturity and helping ensure the organisation is operating within the agreed limits. 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. If risks are well managed, the Scheme is in a strong position to fulfil its purpose, withstand shocks and endure into the future.

Further details about the framework, the highest-priority enterprise risks and treatment plans can be found in ***Appendix B***.

ACC invests in injury prevention to lessen the impacts of injury

ACC's investment in injury prevention is based on it delivering against the Injury Prevention Strategy, approved by the Board in 2018. The strategy sets out a plan to increase ACC's investment in injury prevention.

ACC invests across several areas of society to reduce injury incidence and severity for New Zealanders. It manages a portfolio of targeted interventions that directly affect the Scheme and strategic interventions that address broader societal harms, including injury. Investment risk is managed through a balanced portfolio of investments.

ACC partners with many organisations to deliver injury prevention programmes.

ACC's support for injured New Zealanders is flexible, according to their needs

The claim management process aims to deliver high-quality outcomes for injured people by rehabilitating them back to work and/or independent living where possible. When people can't be rehabilitated, ACC aims to provide ongoing support to enable them to be as independent as possible.

ACC claims are lodged directly by general practitioners (GPs) and other treatment providers such as physiotherapists and chiropractors. The vast majority of these claims require only a few treatments. In these cases, ACC's only involvement is to make payments for the medical services provided. And it's generally the same for clients who present to public hospitals during the acute phase of their injuries. Unless further support from ACC is required, the cost of treating these injuries is covered by a consolidated payment that ACC makes to the Crown.

However, some injured people require access to a wider range of treatment services or weekly compensation. In these situations, they're assessed and assigned to one of four recovery teams: Enabled, Assisted, Supported or Partnered (see ***Appendix A.6***). Clients may transition between the teams, depending on the level of support they require.

Clients needing support for longer have a greater impact on ACC's financial condition

The types of support to ACC's clients that have the biggest financial impact on the Scheme are:

- social rehabilitation care and capital, such as home help, childcare and aids and appliances. These supports are often provided for a client's lifetime. Small changes in amounts provided have significant impacts on the claim liabilities, levies and appropriation
- weekly compensation – changes in the duration of weekly compensation provided can have big impacts on the OCL and levies, particularly for longer-term claims
- sensitive claims volume and cost growth – increasing awareness of the support available for clients with these claims has led to increases in the number of newly reported sensitive claims. The rehabilitation needs of these clients are often complex and long term
- elective (non-emergency) surgery – changes in medical technology and the associated increases in the costs of surgery can affect the OCL, levies and appropriations. This is compounded by the increasing need for repeat surgeries to replace worn-out implants and devices.

Reviews of decisions are a critical part of a fair and transparent Scheme

Clients who are dissatisfied with ACC's cover or entitlement decisions can ask for a review.

Reviews can be lodged against any decision ACC makes on a claim. They can relate to an initial decision on cover, a decision on certain treatments or a decision on a specific entitlement. More than one review can be lodged for an individual claim. The biggest proportion of review applications relates to cover decisions, followed by decisions for elective surgery.

Before involving an external party, ACC investigates a claim for which a review request has been lodged. Around two-thirds of all review requests are resolved without the need for an external review provider and 40% are resolved before a review hearing. If an issue can't be resolved between ACC and a client, the case will be sent to an independent company for review of the decision.

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

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

ACC recommends levies and appropriations in line with the Government's funding policies. Levy recommendations are consulted on widely. See ***Appendix A.4*** for details on the funding policies.

There are two main components to the funding:

First, the **new year claim costs** represent the lifetime costs of ACC rehabilitating and supporting people injured during the year. New year claim costs are influenced by economic changes, claim frequency and severity, expense forecasts and exposure changes. See ***Appendix A.3*** for detail on how the exposure is modelled for each Account.

Secondly, the **funding adjustment** ensures there's enough money to pay for the ongoing costs of past claims, while not over-collecting funds. The funding adjustment for each Account is calculated to move the funding position to target over a period prescribed in the funding policies, usually 10 years[5]. Simply put, the funding position is the amount of 'assets' (mainly investments) each Account has available to cover the 'liabilities' (the OCL).

This calculation applies to each individual levy year and is iterative. Therefore, when applied to multiple levy years the Account moves towards the funding target over time but doesn't reach the target after 10 years[5]. The funding adjustment is influenced by the same factors as the new year claim costs.

The expected future claim benefits from planned injury prevention programmes, and the forecast benefits from the Integrated Change Investment Portfolio (ICIP),

5 *Any surplus in the Non-Earners' Account is calculated to return over three years.*

are deducted from these amounts. The increase in the recommended levy or appropriation is then capped at 5%[6] for the levied Accounts and 7.5% for the non-levied Accounts.

ACC consults businesses, communities and individuals on recommended levies, and provides explanations for the drivers and assumptions behind them. The Board then reviews the feedback and recommends levy rates to the Minister for ACC. The final levy rates are set by Cabinet.

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

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

Private insurers are legally required to have enough funds to meet minimum solvency requirements set by the Reserve Bank of New Zealand, but ACC is different. It's a statutory monopoly with the right to collect levies and is therefore not subject to the same minimum solvency requirements. So instead of discussing regulatory solvency, as a private insurer would, we consider the funding position of each of the Accounts compared to funding targets set by the Government.

ACC isn't a profit-making body. It collects levies and receives government appropriations. ACC invests to meet the costs of claims and expenses. Over time, all levy and investment income must be spent on:

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

Movements upwards or downwards in net assets are not the same as profit or loss. Instead, we refer to these movements as 'surplus' and 'deficit'.

Each of ACC's five Accounts has a target funding position set through its funding policy.

If the funding position of an Account is above or below its target, the funding policies outline the pathway required to return the Account towards its target through changes in levies and appropriations. These changes are made using the funding adjustment as discussed on ***page 22***. If a funding target is met, it means sufficient funds are being held to cover the lifetime cost of claims that have already occurred.

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

When the Accounts are not at target it means either that previous levy payers and taxpayers paid too much or that future funders will need to subsidise a shortfall. We expect each Account to have volatility around the target given the nature of the Scheme. However, if Accounts remain significantly over- or underfunded for too long, it can become difficult to bring the Accounts back to target. This could lead to problems with intergenerational equity as the Scheme moves away from the principles of full funding.

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

Changes in how ACC operates affect its financial condition

ACC has invested to improve how it operates, including through initiatives aimed at improving customer access, outcomes and experience.

Defining, measuring and delivering improved outcomes for customers remains a priority

The AC Act directs ACC to rehabilitate injured people with the goal of achieving "an appropriate quality of life through the provision of entitlements that restores to the maximum practicable extent a claimant's health, independence, and participation." It also states that individual rehabilitation plans must be updated to include the outcomes that would be achieved through the provision of particular social rehabilitation treatments.

When ACC manages support effectively, everyone benefits – clients through faster rehabilitation and improved independence, and levy payers and taxpayers through lower funding requirements. Defining expected outcomes and knowing what works (and what doesn't work) to achieve these outcomes plays an important role in managing ACC's financial condition to support a fair and sustainable Scheme.

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

It's important that the Scheme is accessible to everyone

An accessible Scheme is one where:

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

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

The foundations for improving Māori access, outcomes and experience are being built

Whāia Te Tika is ACC's Māori strategy for creating better ACC experiences and outcomes for Māori. It aims to deliver culturally appropriate, evidence-based, cost-effective services to and with Māori by focusing on five key areas:

1. **Improving access for Māori to services:** Disparities and barriers are reduced, so that Māori can get the right services at the right time.
2. **Preventing injuries for Māori:** Injury prevention initiatives recognise and target the risks faced by Māori.
3. **Improving rehabilitation outcomes for Māori:** Improve outcomes for Māori together with all segments of the population.
4. **Building trust and confidence with Māori:** Engage and partner with Māori in service design and delivery.
5. **Building cultural capability:** Build a culturally diverse workforce and leadership.

The organisation is developing Oranga Whānau, a Māori outcome framework aligned with the HOFW. This development and its alignment with the HOFW will enable the coordinated tracking of progress made under Whāia Te Tika. Oranga Whānau prioritises te ao Māori, mātauranga Māori and kaupapa Māori and will map measures against outcomes that are meaningful to Māori.

Like other initiatives, Whāia Te Tika has associated costs in the short term. It's likely that if access to the Scheme improves for Māori, claim costs will go up. It's also possible that the costs of delivering kaupapa Māori services will be different from the costs of existing services. In addition, it may not be solely Māori clients who choose these services as they become available. These situations are all appropriate, as long as the increased spend delivers the right outcomes.

ACC is making changes to improve how it responds to family and sexual violence

The organisation is developing a Mental Health Service Plan with the following objectives:

- **Clients:** better meet the mental-health-related needs of all client groups.
- **Supplier management:** help providers improve performance and deliver the desired mental health outcomes.
- **Performance:** deliver good client outcomes at a cost that is reasonable and sustainable for levy payers and taxpayers.
- **Commissioning:** establish a clear role within the mental health system.

The Mental Health Service Plan will cover the entire mental health portfolio, including sensitive-claim-specific services such as ISSC and Sexual Abuse Assessment and Treatment Services. The service plan has three components:

- **Ecosystem:** to understand the current state of the ecosystem.
- **Vision:** to articulate ACC's vision or ambition for the portfolio of services.
- **Activities:** to outline the key activities that will move the organisation towards the desired future state.

ACC is one of the lead government agencies coordinating primary prevention and perpetrator programmes under the Joint Venture for Family Violence and Sexual Violence. The joint venture response aims to reduce the impacts of family and sexual violence and focus collective efforts where they can make the biggest difference. The services that ACC provides for victims of family and sexual violence are intended to:

- reduce harm
- improve people's wellbeing
- be Te Tiriti o Waitangi based
- ensure equity in access and outcomes
- be trusted and valued.

The organisation is moving away from delivering one-off sexual violence prevention programmes and more towards partnering for a primary prevention system that is more effective, aligned and sustainable. Primary prevention will be about the whole community and the systemic structural and social drivers that permit violence occurring, rather than focusing on the behaviour of perpetrators.

Most of ACC's transformation programme has been delivered, with final initiatives to be delivered by June 2022

Since 2014, ACC has been transforming to deliver better customer experiences and outcomes. Change is being delivered through the ICIP, which encompasses a large range of initiatives that aim to:

- put customers at the centre of everything ACC does by creating a more transparent, data-led, modern and efficient organisation
- improve New Zealanders' overall trust of and confidence in ACC
- create greater operational efficiency and resilience
- improve customer outcomes.

The three main projects delivering claim cost benefits under the ICIP are the Health Sector Strategy (HSS), Next Generation Case Management (NGCM) and Business Analytics. Detail on these projects, their progress and the expected claim cost benefits are on ***pages 78 to 80*** of this report.

Changes to the environment in which ACC operates also affect its financial condition

In addition to changes in ACC's internal operations, there are factors outside the organisation's control that affect its financial condition, and some of these effects can be significant.

Changing economic conditions add uncertainty to ACC's financial condition

Movements in key economic factors such as inflation, interest rates and investment returns affect the funding position of each Account. For example, when interest rates fall the OCL increases.

In an ideal world, ACC would invest its funds to ensure that asset and liability values responded similarly to economic stresses and mostly offset each other. And, at a high level, the objective of ACC's asset allocation strategy is to manage investment asset returns against OCL risks.

However, in practice it's not possible to invest Scheme assets to match claims liabilities closely. This is because some clients have injuries so severe that they require ACC support throughout their lives, and investments with maturities that are long enough to match those payment profiles aren't available in New Zealand.

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 position.

Changing economic conditions add uncertainty to ACC's financial condition in other ways too. For example, fewer employment opportunities in a weakened economy can make rehabilitation more challenging. Economic conditions can also influence the volumes and types of claims that are made and change the funding base. See ***Appendix A.3*** for detail on the funding base for each Account.

Large external events can also have an impact

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

Reinsurance can be used as a means of protecting insurers from large claim risks. In 2017, a scenario analysis was undertaken to assess the need for reinsurance as a way to reduce risk to ACC's funding position. The analysis considered the financial impacts of various catastrophic events. Based on the findings of the report, the Board agreed that reinsurance wasn't required. This is because:

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

Unless there's a significant change in Scheme circumstances, reinsurance should be reviewed again by 2022.

Large events are not always 'one-off' incidents; they can also encompass more enduring situations. For example, climate change is an external event that may have long-term effects on ACC's financial condition, through its impact on the global economy and general population health. Similarly, the COVID-19 pandemic had an immediate impact and its effects are likely to remain for some time.

ACC has taken steps to respond to climate change

In 2020, ACC released a climate change framework. It outlined ACC's commitment to "be proactive in leading New Zealand's commitment to net zero emissions by 2050, including supporting efforts to limit average temperature rise to less than 1.5 degrees above pre-industrial levels." It will be achieved through two main pathways:

1. **Corporate:** aiming for a 60% reduction in emissions by 2025[7].
2. **Investments:** reducing the carbon intensity of the global equity portfolio by at least 50% by 2030 compared to 2019 levels. The expected investment return has not changed as a result of this.

To date, ACC has reduced the carbon intensity of its listed equity portfolio by 45% compared to 2019 levels. In addition, the organisation has reduced its carbon emissions by 64% compared to the 2019 baseline, meaning it's already meeting the 2025 target.

The Annual Report 2021 reflects the requirements of the Task Force on Climate-related Financial Disclosures for the first time. This global framework helps organisations to disclose climate-related risks and opportunities more effectively. At present, the data and information needed to fully satisfy these requirements are not available. ACC is working towards fulfilling the disclosure requirements in the future.

In 2021, the Minister of Finance and Treasury proposed a framework for responsible investment that could be used by all Crown financial institutions. ACC, in conjunction with Annuitas and Treasury, have been involved in this work. Since June 2021, significant progress has been made in developing the proposed framework. Government Ministers have provided broad support for the framework and target-setting approach, although the framework has yet to be finalised. Clarity on the framework will reduce the risks associated with the impacts of the Government's climate change policies on ACC's investment activities.

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

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

The COVID-19 pandemic is ongoing and the level of uncertainty remains high

Since it began in late 2019, the worldwide COVID-19 pandemic has led to significant loss of life and major economic disruption globally.

The lockdowns and border restrictions as a result of COVID-19 have disrupted New Zealand businesses, and the uncertainty created has affected parts of the economy significantly, particularly the tourism and hospitality industries. New Zealand entered a recession in June 2020 and has since seen signs of recovery. Despite this, particularly given the subsequent lockdowns during 2021,

7 *The scope of this has not yet been formally defined.*

the impacts of the COVID-19 restrictions on the economy are expected to continue for some time.

When the 2020 lockdown restrictions were lifted, people's spending and behaviour quickly returned to pre-COVID-19 levels. This saw the rate of injuries return to, and in some cases exceed, normal levels.

While overall job losses were less severe than expected, restrictions caused disruptions to operations for ACC and providers. Some new ways of providing services were trialled during the periods of restrictions, such as telehealth. However, the claim patterns in 2020/21 indicated varying delays in providing some services to some clients. For example, the volume of elective surgeries and medical treatments increased immediately post-restrictions, and there are likely to be some impacts on the rehabilitation outcomes for these clients.

Many clients, particularly those with respiratory conditions or compromised immunity, were unable to access group activities or schools during some COVID-19 lockdown restrictions, so they received extra in-home care. This was expected to be temporary, but it took longer than expected for care levels to return to normal. Additional in-home care will likely be needed during subsequent lockdowns, including those in place from August 2021. We expect this to have only short-term financial impacts, as long as care levels return to their pre-COVID-19 lockdown levels. We discuss this further on ***page 50***.

The financial impacts of these behavioural changes on the five Accounts are hard to predict, with multiple drivers operating in opposite directions. For example, there were fewer new weekly compensation claims lodged during the lockdowns as many people with less serious injuries were able to self-recover while they stayed at home. This means the claims that did lodge with ACC in that period tended to have more serious injuries and needed longer to rehabilitate.

The COVID-19 pandemic is still developing, with new variants evolving in various parts of the world, and further national lockdowns. It's too early to attempt an assessment of the full financial impacts.

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

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

A number of changes that may materially affect ACC's financial condition are on the horizon. These include:

- wage increases for travel time for in-home carers, from the minimum wage to a worker's average wage under the pay equity settlement and increases in hourly funding to ensure workers are paid for tea breaks. These may increase the OCL by about $350 million
- care-rate increases to allow for changes in sick leave provisions, and the inclusion of a new public holiday to celebrate Matariki. These may increase the OCL by about $500 million
- recent proposals to extend cover to a limited type of birthing injury. Although the estimated cost of the change is less than $100 million, it could call into question other areas not covered by ACC. For example, if the Scheme were expanded to cover a wider range of birth injuries or cover the babies also affected by the events, the cost would be in the order of hundreds of millions of dollars a year, and this would need to be funded by increased appropriations. Some of this would, in effect, transfer costs from other parts of the health system to ACC.

Court cases can affect the cover ACC provides

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

There were a number of appeal court cases in progress at 30 June 2021, but none is expected to have any material impact on the financial condition of the Scheme at this point.

In the 2020 FCR, we reported that ACC was appealing a High Court decision (*Calver v ACC*) about compensation for disease due to exposure to asbestos that wasn't work-related. In this case, ACC declined a client's claim for mesothelioma resulting from childhood exposure to asbestos from her father's work clothes. This was on the grounds that sicknesses and diseases are not 'personal injuries' for ACC purposes unless they result from work-related gradual

Work-related gradual process claims are a result of injuries that have occurred due to prolonged exposure in the workplace that result in some form of harm. The most common examples of such claims are asbestosis and hearing loss.

processes or treatment injuries. We were concerned at the time that the original court decision could lead to an expansion of Scheme cover with an unknown increase in claims, the OCL, and levies and appropriations.

The Court of Appeal dismissed ACC's appeal in May 2021. It held that mesothelioma isn't *caused by a disease* as it is itself a disease that's known to be caused by the ingestion of asbestos fibres, so it's not subject to the statutory exclusion. This means that in rare cases where the cause of a disease is known, ACC cover is likely to be available. We don't expect this will have a significant impact on the OCL or future levies or appropriations.

The Government's health and disability system reform may change how ACC operates in the future

Following the release of the Health and Disability System Review in 2020, the Government announced a health system reform that is to fundamentally change the way health services are structured and delivered. This is to ensure that all New Zealanders get the services they need and to meet future challenges. The new health system will be a single health service charged with providing consistent, high-quality health services for all people.

The Ministry of Health will re-focus on policy, strategy and regulation. A new body, Health New Zealand, will take over the planning and commissioning of services and the functions of the existing 20 district health boards (DHBs) to remove duplication and provide true national planning. A Māori Health Authority will work alongside Health New Zealand to improve services and achieve equitable health outcomes for Māori.

The impacts of the reform on ACC are not yet known. However, it may also present opportunities, such as a joint funding of 'localities', that will deliver primary and community services based on the needs and priorities of local communities.

Despite deteriorating claim performance, economic factors have improved ACC's financial condition

ACC's funding position is a good indicator of the financial condition of the Scheme. When the financial position is near target, ACC is in a good position to:

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

Throughout this report, results are stated on a basis consistent with how ACC is funded, representing the true economic costs to the Scheme. This means that in some cases figures differ from those in the Annual Report 2021, which are prepared on the required accounting basis. The figures reported in this FCR include:

- work-related gradual process claims incurred but not reported

but exclude:

- the asset and liability for the AEP
- the unexpired risk liability
- the OCL risk margin.

For a reconciliation of these presentations, see ***Appendix E***.

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

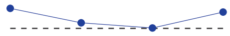
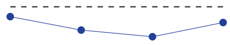
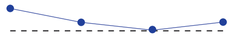
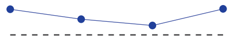
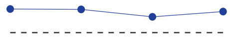
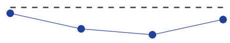
The funding position of each Account increased during 2020/21, with the non-levied Accounts below target

During 2019/20, ACC's funding policy for the levied Accounts was updated. The change made the target funding position for the levied Accounts consistent with the fully funded portion of the Non-Earners' Account. The target funding ratio (the ratio of assets held to liabilities) for all Accounts is now 100%. This means each Account should aim to hold net assets equal to the OCL excluding the risk margin.

Both the Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account have pre-2001 claim liabilities funded under Pay As You Go (PAYG). The funding targets for PAYG claims are effectively 0%, as claim payments are only met in the years they occur.

Table 1 shows the past four years' funding ratios based on the funding policies for all Accounts.

TABLE 1: FUNDING RATIOS IN PAST FOUR YEARS UNDER FUNDING POLICIES

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

At 30 June 2021, the overall funding ratio for all Accounts was 101%, an increase of 17% since 30 June 2020, but a drop of 7% since 30 June 2018 when levies were last set. Since 2018, funding positions have shown a similar pattern across the Accounts, with reductions in 2019 and 2020 followed by recovery in 2021. For the Work Account, the recovery resulted in the funding position returning to the same level as 2018. The Earners' portion of the Treatment Injury Account was the exception. In 2019, this Account had an OCL release in 2019 that partially offset the economic impact of falling interest rates and minimised the funding position reduction.

The increase of 17.3% in the overall funding ratio in the year was driven by the following:

1. Based on June 2020 forecasts, a 1.8% reduction in the overall funding ratio was expected during 2020/21. When levies were last set in 2018, all three levied Accounts had funding positions above their targets. This means the levies were set lower in 2018 than the expected lifetime cost of new claims to reduce the surplus in each Account and move closer to the target funding positions. For the Non-Earners' Account and Non-Earners' portion of the Treatment Injury Account, the Government approved $1,755 million of funding in Budget 2020 to meet the expected lifetime cost of new claims in the 2020/21 year.

2. Higher-than-expected claim payments during 2020/21 resulted in an OCL strain. This was primarily due to a deterioration in rehabilitation performance for weekly compensation claims and higher sensitive claim average costs. The higher claim payments and OCL strain together reduced the overall funding ratio by 1.3%. This was partially offset by higher-than-expected levy revenue, which increased the overall funding ratio by 0.6%.

3. The increase in interest rates during the year led to a significant decrease in the OCL. It also resulted in negative investment returns due to unrealised revaluation losses on ACC's bond portfolio. However, significant unrealised revaluation gains on growth assets resulted in a higher-than-expected overall gross return on ACC's investment portfolio of 10.57%. The net impact of economic assumption changes and actual investment returns resulted in a 19.9% increase in the total funding ratio. This combination of returns and assumption changes were unusual and might be expected around once in 20 years.

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

These factors are discussed in more detail later in this report.

We expect the future funding position to increase for the non-levied Accounts and reduce for the levied Accounts

We forecast the Scheme will return a deficit in each of the next four years. This is discussed further on ***page 68*** and in ***Appendix G***.

The levies for the 2020 to 2022 years were set when the levied Accounts were overfunded and have been rolled forward for one year longer than the usual levy window. In addition, most of the prescribed levy rates have been set below the levels calculated under the funding policy.

Funding positions for 2023 onwards have been forecast assuming levies and appropriations will increase according to the funding policies. Levies in future years are expected to be lower than the cost of claims because we're expecting to return surplus funds. Future levy increases may also be limited by a cap. As a result, the existing gap between new year claim costs and levy income will take several years to close.

Table 2 shows the forecast funding ratios presented both by Account and in total.

TABLE 2: FORECAST FUNDING RATIOS

		As at levy/financial year end[8]				
	30 June 2021	2022	2023	2024	2025	Target
Motor Vehicle Account	122%	120%	119%	117%	116%	100%
Non-Earners' Account	50%	53%	55%	58%	61%	
Fully funded portion	78%	79%	81%	83%	85%	100%
Earners' Account	112%	109%	105%	103%	101%	100%
Work Account	131%	130%	128%	126%	124%	100%
Treatment Injury Account	68%	68%	68%	68%	68%	
Earners' portion	159%	154%	148%	142%	137%	100%
Non-Earners' fully funded portion	61%	61%	62%	63%	64%	100%
Total	**84%**	**85%**	**84%**	**83%**	**84%**	

The starting funding positions for the Accounts increased significantly in 2020/21. The levied Accounts are all above the funding target, so are forecast to produce deficits as funds are returned to levy payers through levies being set below the new year claim costs. Although the funding positions for the Non-Earners' Accounts have increased, they remain well below target. Future increases in the Non-Earners' appropriation are required to ensure these Accounts return to their funding targets.

8 *For the Work and Earners' Accounts, and the Earners' portion of the Treatment Injury Account, the levy year ends 31 March. For all other Accounts the levy/financial year end is 30 June.*

ACC recorded a $9.56 billion surplus in 2020/21

Surpluses were recorded in all Accounts for 2020/21, totalling $9,561 million. Table 3 shows the underwriting deficit has increased over the past three years and the significant impact that economic changes have on the overall surplus. A more detailed analysis of these results can be found in ***Appendix E***.

TABLE 3: RESULTS FOR THE PAST THREE YEARS

$M	2018/19	2019/20	2020/21
Surplus/(deficit) from underwriting activities	(1,691)	(2,413)	(3,028)
Total economic changes	(5,041)	(2,396)	12,588
Total surplus/(deficit)	**(6,733)**	**(4,809)**	**9,561**

The year's surplus can be broken down into two major components:

1. An underwriting deficit of $3,028 million. This can be broken down into three key components:
    a. An expected deficit of $1,096 million. This deficit is primarily driven by the 2018 approved levies being set below the expected cost of the 2020/21 claims, and different assumptions (such as different discount rates) being applied to levies as compared to the OCL.
    b. The expected deficit for 2020/21 accident year claims increased from what were originally expected when levies and appropriations were determined. This resulted in a $1,092 million deficit. Worsening claim trends contributed $364 million to the deficit and economic changes in this period contributed a further $728 million.
    c. Actual claims incurred during 2020/21 were higher than expected at 30 June 2020. This contributed a further $839 million to the deficit. Cash claim payments added $408 million, OCL strain contributed a further $450 million and there was a small offset of $18 million due to lower-than-expected expenses during the year.
2. An economic surplus of $12,588 million. This year's surplus followed economic deficits of $2,396 million in 2019/20 and $5,041 million in 2018/19. Nearly three-quarters of the surplus in 2020/21 was due to a reduction in the OCL, caused by an increase in risk-free interest rates during the year partially offset by an increase in inflation rates. The remainder was largely driven by ACC achieving an annual investment return before costs of 10.57%. This was significantly higher than the risk-free rate of less than 1%.

Our forecasts are sensitive to changes in economic conditions and claim behaviour

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

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

Table 4 shows how a 1% move in interest rates could change the OCL (excluding the risk margin), the investment portfolio and the funding position, as at 30 June 2021. It also shows how changes in major claim risks could change the OCL and the resulting change in the funding ratio.

TABLE 4: SENSITIVITY OF FUNDING POSITION

	Change in OCL ($M)		Change in assets ($M)		Change in funding ratio (%)	
	+1%	-1%	+1%	-1%	+1%	-1%
Interest/discount rates	(7,095)	9,654	(2,566)	2,713	10.7	(11.8)
Asset values			505	(505)	0.8	(0.8)
Inflation rate	9,626	(7,219)	–	–	(16.3)	17.1
Weekly compensation continuance rates	945	(819)	–	–	(1.9)	1.7
Sensitive claims continuance rate	648	(516)	–	–	(1.3)	1.1
Serious injury care superimposed inflation	3,356	(2,514)	–	–	(6.4)	5.4
Elective surgery superimposed inflation	804	(602)	–	–	(1.6)	1.2
Medical and non-serious injury care superimposed inflation	566	(441)	–	–	(1.1)	0.9
Elective surgery active claims	1,219	(829)	–	–	(2.4)	1.7

ACC's claim payments can't be closely matched with investment assets, so the funding positions are highly sensitive to interest rate changes. At lower interest rates, the sensitivities to changes are significantly greater. Although interest rates at 30 June 2021 were higher than at 30 June 2020, rates remain at historically low levels. Therefore, a 1% change in the rates would continue to cause significant changes to the OCL and the assets.

As shown in Table 4, a 1% rise in interest rates would decrease the value of the OCL and the investment assets by different amounts. The impact at 30 June 2021 would be a $4,529 million increase in net assets and a 10.7% increase in the overall funding ratio, from 101.1% to 111.8%. On the other hand, a 1% fall in interest rates would reduce net assets by $6,941 million and the overall funding ratio would reduce from 101.1% to 89.3%.

After economic assumptions, a 1% increase in superimposed inflation for serious injury social rehabilitation would create the largest OCL increase. If this happened, investment assets wouldn't change, and the overall funding ratio would fall by 6.4%.

Changes in the OCL, the assets and therefore the funding position have implications for levies and appropriations. We discuss the sensitivities to the same factors for levy rates and appropriations on ***pages 69 to 71***.

To understand how the uncertainty of these assumptions affects the future funding position, we've simulated pathways using variations in the above assumptions. The full results of this analysis can be found in ***Appendix G***.

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

While the injury prevention portfolio met most targets, programmes are having mixed success and significant growth is needed to achieve strategic goals

Since 2014, the injury prevention portfolio has had a period of building programmes and achieving a return on that investment. The annual investment in injury prevention and the aggregate return on investment (ROI) have significantly increased over this period.

The ROI measures how much ACC expects to receive back in claim benefits for the investment it's making. Claim benefits are a good proxy for the harm prevented through avoiding or reducing the severity of injuries to New Zealanders. The injury prevention portfolio ROIs are a mixture of:

- past benefits achieved and costs paid
- projected future benefits and costs.

A second measure of effectiveness is the rate of serious and fatal injuries (the number of serious and fatal claims per New Zealander in the areas in which ACC has injury prevention programmes).

The third measure of effectiveness was the number of injuries prevented.

A new measure added this year was investment in Kaupapa Māori programmes. These will be assessed from next year.

The 2018 Injury Prevention Strategy split the programme into five portfolios – targeted investments, strategic investments, treatment safety, workplace investments and Māori investments. ROI measurement has been split into:

- programmes of less than 20 years' duration, which include targeted investments and treatment safety
- workplace programmes
- strategic programmes (longer-term programmes) for which no ROI targets have yet been set.

Māori investments can belong to any of the ROI categories.

There has been a recommendation open since 2016 to develop medium- to long-term targets that appropriately allow for the broader benefits of injury prevention activities. These targets should also help determine the contribution injury prevention is making to mitigate claims growth.

ACC had hoped to develop new targets in 2020/21, which would have closed this recommendation. An external provider was engaged to undertake research and analysis to assist ACC in setting overall targets for the injury prevention portfolio. The results of this work were not sufficient to inform appropriate strategic targets.

ACC should apply an appropriate focus to ensure that these targets are developed, and this recommendation can be closed in 2021/22.

TABLE 5: INJURY PREVENTION PORTFOLIO RESULTS

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Return on investment							
0- to 20-year programmes	Target	n/a	n/a	$2.05	$2.08	$2.12	$2.15
	Achieved	$2.11	$1.99	$2.18			
Workplace programmes (excluding WorkSafe)	Target	n/a	n/a	n/a	$1.60	$1.65	$1.70
	Achieved	$1.63	$1.43	$1.73			
Workplace programmes (including WorkSafe)	Target	n/a	n/a	$1.30	n/a	n/a	n/a
	Achieved	$1.63	$1.43	$1.33			
Strategic (not yet determined)	Target	n/a	n/a	n/a	n/a	n/a	n/a
	Achieved	n/a	n/a				
Rate of serious injury							
0- to 20-year programmes	Target	n/a	n/a	9.3	9.1	8.9	8.7
	Achieved	8.9	9.3	9.4			
Workplace programmes	Target	n/a	n/a	0.22	0.20	0.18	0.16
	Achieved	0.35	0.16	0.20			
Strategic (not yet determined)	Target	n/a	n/a	n/a	n/a	n/a	n/a
	Achieved	n/a	n/a				
Number of claims saved							
	Target	11,000	12,100	13,310	14,641	16,105	23,000
	Achieved	12,353	15,314	14,240			
Investment in Kaupapa Māori programmes ($M)							
	Target				7	8	12

ROI targets, and the number of claims saved targets, have been met.

The ROI measures use estimates of the lifetime value of claims to calculate the value of expected future claim savings and the value of actual claims saved during the year. These estimates were updated this year from the previous update in December 2017. This year's update had a significant impact on the ROI achieved, increasing the 0- to 20-year programmes by $0.20 and the workplace programmes by $0.16. Economic changes affect the estimated claim values, particularly for claims of long duration. The change due to economics for the 0- to 20-year programmes was $0.14 of the $0.20. For workplace programmes this impact was lower at $0.03, as the claims saved by these programmes are shorter in duration and less affected by economic change. Other impacts from this update included claim case-mix changes and underlying increases or decreases in claim costs.

Increased lifetime value of claims, combined with new programmes coming to delivery, have contributed to targets being met.

Going forward, these estimates will be updated annually.

The target rate for fatal and serious injuries was not met for 0- to 20-year programmes in 2020/21. This was a result of higher-than-expected fatal claims for older adult falls. Analysis is underway to see what impact the Falls and Fractures injury prevention programme is having on this target.

Last year, we indicated an increase in the proportion of estates claiming for fatal injuries for older adults who may not have claimed in the past. Many of these will have been the result of falls. A comparison with University of Otago historical data (up to 2016) indicated ACC may only have been receiving claims for approximately two-thirds of fatal claims. The lag in data available means ACC cannot yet determine if a further increase in estates claiming had an impact on the 2020/21 claims.

The return on investment in 2020/21 was in line with expectations, partly due to a revaluation of expected future benefits

ACC has 85 injury prevention programmes in development or delivery, split over five investment portfolios. Approximately two-thirds of these programmes are in delivery and one-third is in development. Investments and claim benefits are broken down into past and future-projected periods. All costs for programmes that stop before they reach their planned end are included in the respective portfolios and overall ROIs, including any that don't reach delivery.

TABLE 6: INJURY PREVENTION PORTFOLIO RETURN ON INVESTMENT FOR ALL PROGRAMMES IN DELIVERY AS AT 30 JUNE 2021

	Year ending 30 June 2020					Year ended 30 June 2021				
Portfolio ($M)	Past		Projected		ROI	Past		Projected		ROI
	Investment	Benefit	Investment	Benefit	Total	Investment	Benefit	Investment	Benefit	Total
Targeted investments	268.6	249.9	35.0	334.5	**$1.92**	316.2	312.7	72.4	546.2	**$2.21**
Strategic investments	63.6	0.0	0.0	19.3	**$0.30**	80.4	0.0	0.0	19.8	**$0.25**
Treatment safety investments	37.8	0.0	5.5	154.4	**$3.57**	47.3	0.0	5.1	117.5	**$2.24**
Māori investments	1.8	0.0	0.0	0.0	**$0.00**	4.6	0.0	0.0	0.0	**$0.00**
Workplace investments	48.7	32.9	29.7	89.6	**$1.57**	63.3	48.9	32.6	117.5	**$1.74**
WorkSafe					**n/a**	32.3	3.2	0.0	5.4	**$0.27**
	420.6	**282.9**	**70.0**	**597.9**	**$1.80**	**544.0**	**364.8**	**110.0**	**806.3**	**$1.79**

Note that the 2019/20 values differ from last year's report as some programmes were reclassified from strategic investments to targeted investments.

Targeted investments portfolio

This portfolio targets specific injuries. These tend to be short- to medium-term programmes that should provide consistent ROIs. The ROI for targeted investments increased from $1.92 to $2.21 in 2020/21. $0.20 of this increase was due to an update in the estimate of the lifetime value of claims (see above).

ACC's core, well-performing programmes continued to deliver

TABLE 7: TARGETED INVESTMENTS PORTFOLIO: PERFORMANCE OF WELL-PERFORMING PROGRAMMES TO 30 JUNE 2021

Programme	Lifetime investment ($M)	ROI 2019/20	ROI 2020/21	Expected claims saved 2020/21	Actual claims saved in 2020/21	Lifetime value of claims saved in 2020/21 ($M)
Rugby Union, Netball, Touch	43.3	$3.45	$3.54	4,892	7,061	11.4
Ride Forever	44.9	$2.16	$3.03	395	412	13.7
Drive	44.0	$2.16	$3.04	165	165	4.0

ACC's long-term, proven sports programmes have continued to perform well. These include rugby union, netball and touch. ACC reinvested in netball during the year, increasing the expected future claim savings.

As part of the National Road Safety Committee, ACC is the lead agency for motorcycle safety and young driver safety. ACC's programmes in both these areas have outperformed expectations since their inception.

ACC's Drive programme with Waka Kotahi NZ Transport Agency helps young drivers build up their skills and confidence and gives them the knowledge to stay safe on the road. The estimated claim benefits have been higher than anticipated in the four years since inception.

Two sports programmes continued to have lower claim benefits than expected

Rugby League and Football again performed below expectations this year:

- Following a review, the expected claim benefits for Football were halved last year for a period of three years, with a return to original benefits until 2027/28. Performance has been below the reduced expected benefits. ACC and New Zealand Football are working together to redesign the programme with the football community.
- The expected benefits from the Rugby League programme have been reduced to nil until 2026/27. No new programme is planned at this stage.

The combined lifetime investment in these two programmes is $19.1 million, and the ROI moved from $2.23 to $2.13 in 2020/21. These ROIs remain high because of the historical success of these programmes which have both been running since 1999. Success has dropped off in recent years and a new approach is being considered for football going forward.

A new way of using data to better target programmes is in development

Injury Prevention to the Frontline is aiming to use data better to identify injury risks. The target audience is identified by analytical solutions. Once it's set up, ACC will be able to use the infrastructure to enable targeted injury prevention activity directly through frontline services and other client-facing channels. The targeted injury prevention interventions and messaging will encourage and self-enable customers to be proactive in protecting themselves from future injury. It also allows ACC's frontline team to provide a more holistic service (prevention, care and recovery). The programme is having no impact on the ROI yet because it's still in development.

Strategic investments

These investments aim to create large-scale, long-term sustainable societal change in behaviours and environments. These sorts of programme address broader societal issues than ACC claims. We haven't included any estimate of these wider benefits.

At June 2020, there was a lifetime investment in this portfolio of $80.4 million. To date, all the programmes in this portfolio are sexual violence prevention programmes. The calculated ROI is low for these types of investment, as most programmes in delivery have no benefit profile. Once long-term targets have been developed, as per the 2016 FCR recommendation, this will change. We need these measures so we can understand the success of these programmes. The ROI decreased from $0.30 to $0.25 in 2020/21 because there were further investment programmes in delivery but no benefit profile increases.

In 2018, Cabinet established a joint venture of 10 government agencies to lead a whole-of-government response to family violence and sexual violence. ACC is the lead agency for sexual violence primary prevention, which includes a coordination, advocacy and investment role that goes beyond the scope of just the impacts of sexual violence on the ACC Scheme through sensitive claims.

In November 2020, ACC decided to transition away from delivering one-off sexual violence prevention programmes and instead to work more closely with its partners to create a sustainable primary prevention system. It has designed a Te Tiriti-informed framework to deliver this. The joint venture has agreed to adopt this framework.

ACC is reviewing its strategy to consider where multi-agency, multifaceted responses to managing societal issues could be used in other injury prevention areas. The framework allows ACC to advocate for further investment from central government and show where investment and delivery are more appropriately owned by others.

ACC's existing sexual violence injury prevention programme, Mates & Dates, will continue until 2022. This programme teaches young people healthy relationship skills and behaviours to help prevent sexual and dating violence. As part of the new framework, ACC will work with the Ministry of Education and other key stakeholders to develop an alternative available to schools from 2023.

A proportion of the investment in sexual violence primary prevention is dedicated to the development of a new framework for measuring and monitoring effectiveness. Through this work, combined with already completed research and analysis, appropriate targets will be established. An effective control framework is needed to ensure success.

Treatment safety investments

Treatment safety programmes aim to improve patient safety across the health system. To date, ACC has invested $47.3 million in these injury prevention programmes, with no claim savings yet. Four programmes that were expected to start saving claims this year – Neonatal Encephalopathy, Pressure Injuries, Infection and Adverse Events – had their expected benefits pushed out by another year. The reasons for the delay in delivering benefits included a longer-than-expected time to co-design projects with stakeholder groups. The impacts of COVID-19 and the review of the health sector affected the sector's ability to focus on these initiatives. The impact of this on the ROI was a reduction of $0.03, from $3.57 to $3.54.

Workplace investments

Workplace programmes aim to reduce the incidence and severity of workplace injuries. In 2021, Work Account claim frequencies increased steeply due to the high employment growth in more active industries (see ***Appendix C***). ACC has injury prevention programmes in these areas and is expanding its construction programme.

Some programmes in the work portfolio are performing well (see Table 8).

TABLE 8: WORK PORTFOLIO: PERFORMANCE OF WELL-PERFORMING PROGRAMMES TO 30 JUNE 2021

Programme	Lifetime investment ($M)	ROI in 2019/20	ROI in 2020/21	Expected claims saved in 2020/21	Actual claims saved in 2020/21	Lifetime value of claims saved in 2020/21 ($M)
Forestry	4.1	$2.34	$2.60	24	115	1.1
Farming	7.6	$2.46	$3.28	195	1,100	4.8
Construction	14.2	$2.97	$3.80	210	1,140	6.0

Since 2015, Farmstrong has implemented initiatives that help farmers and growers to improve their wellbeing, so they deal better with the pressure and stresses of farming and through this prevent injuries.

The construction industry is the largest claiming workplace sector for ACC. It's a fast-growing industry and a new prevention opportunity was taken this year that will supersede the current programme. Construction Health and Safety New Zealand (CHASNZ) was formed in March 2018 with the purpose of uniting the industry's approach to reducing harm and improving health and safety performance. In 2020/21, ACC committed to investing $9.2 million over five years for CHASNZ to lead a programme of work aimed at reducing injuries. The expected ROI on this investment is $3.80.

Investments in WorkSafe programmes have not gone to plan

ACC collaborates with WorkSafe on workplace injury prevention. ACC agreed to fund WorkSafe $150 million from September 2018 to September 2028. WorkSafe committed to provide an ROI to ACC of $1.10, which was expected to increase to ACC's organisational target over time. After a 2020/21 review of the benefits available from this investment, the ROI was calculated by ACC at $0.27. Of the $45 million investment so far, $20.4 million has been invested in programmes not expected to provide any reductions in injuries.

A nine-month transitional contract between ACC and WorkSafe was put in place from September 2021. ACC is to invest a further $12.5 million, and in that time WorkSafe must provide confidence to ACC that it has a plan to generate an ROI of $1.10 from the full amount invested by 30 June 2022. WorkSafe must also demonstrate that it's set up to deliver and measure benefits in the remaining period of the contract. WorkSafe, ACC and the Ministry of Business, Innovation and Employment are exploring alternative funding mechanisms for WorkSafe going forward.

Māori investments

ACC now has a dedicated team focused on Māori injury prevention. There's also a new target for investment in Kaupapa Māori programmes (see Table 5 on ***page 37***).

There are several prevention initiatives in design and delivery that aim to positively affect Māori and reduce their incidence and severity of injury:

- **Tuārai:** a wellbeing model that reframes injury prevention initiatives with kaupapa Māori values. Its design and implementation were led by Tairāwhiti iwi providers.
- **Ngā Tini Whetū:** a cross-agency programme supporting at-risk whānau, averting intervention from Oranga Tamariki and ACC.
- **Oranga Whakapapa:** kaupapa Māori-informed side of Healthy Consensual Relationships.
- **Whāngaia Ngā Pā Harakeke:** part of the joint venture against sexual violence community response.

ACC partners with Te Puni Kōkiri, Oranga Tamariki and iwi to design and deliver the programmes. They're all still in development, and don't have benefits in the ROI yet.

Most of the injury prevention benefits have yet to be realised

During 2020/21, ACC prevented 14,240 injuries (vs a target of 13,310). This translated to $53 million worth of claim savings (vs an expected $39 million). In 2019/20, ACC prevented 15,547 injuries, worth $40 million. The claims saved this year were larger-than-average value claims. Higher-than-expected numbers of claims were saved in construction and farming. The claims prevented this year is only one contributor to the ROI achieved. The ROI considers both historic and future expected investments and benefits.

In 2020/21, ACC invested $78.9 million in injury prevention vs a budgeted investment of $76 million. $47.5 million of this investment was for programmes in delivery. The remaining $31.4 million was for programmes in development.

In general, investment occurs at the beginning of a programme's lifespan, while benefits occur over a longer period. As the portfolio matures, we expect to see more of the benefits achieved and the gap between benefits saved and investments made reduce. Table 9 shows the gap in the past four years.

TABLE 9: GAP BETWEEN INJURY PREVENTION BENEFITS AND INVESTMENTS

	Year ending 30 June			
$M	2018	2019	2020	2021
Investments during the year	69	75	103	79
Benefits during the year	24	40	40	53
Future benefits	233	427	598	806

The year to 30 June 2020 includes only three-quarters of a year's benefits, as COVID-19 lockdowns meant one quarter's results could not be used. Also, there was a one-off $25.4 million investment in gun violence.

Five programmes are expected to deliver over half the expected future claim benefits, but only one of them is performing well

Five injury prevention programmes made up 50% of the expected future benefits in the June 2020 ROI. Those same five programmes make up just over half the expected future benefits at June 2021. Table 10 shows the expected future claim benefits and the status of those five programmes.

TABLE 10: INJURY PREVENTION PROGRAMMES WITH THE TOP FIVE EXPECTED FUTURE CLAIM BENEFITS

Injury prevention programme	Future claim benefits ($M)	Percentage of total future benefits	Delivery status
Falls and Fractures	144	18%	Remedial action underway
Motorcycle Rider Training	94	12%	Performing well
Gun Violence	72	9%	First-year performance below target
Grants and Subsidies	67	8%	No benefits returned yet
Neonatal	64	8%	No benefits returned yet
Total	**424**	**55%**	

Of these programmes, only Motorcycle Rider Training is performing well. ACC is undertaking work to enable the other programmes to reach expectations.

Despite further investment, the Falls and Fractures programme has yet to achieve targets

ACC pays around $200 million per annum for fall-related claims from people over the age of 65. As these claims make up a significant proportion of claims for that age group, it's important that ACC has a successful programme in this area.

The Falls and Fractures programme is run in conjunction with the DHBs and local systems such as GPs. This programme targets older people who have already had falls or those at risk of falling, aiming to prevent injury and re-injury. ACC has invested $50.3 million in this programme in the six years to 30 June 2021. It expects to make a further investment of $36.8 million in the next nine years.

In 2019/20, ACC determined that the expected claim benefits from this programme were not going to be achieved. ACC committed to an additional investment of $7.5 million and reduced its estimates of future claim benefits by $20.6 million. If no further investment had been made, the programme would not have been able to continue and most future benefits would have been lost.

Following this, ACC reviewed all aspects of the programme in consultation with key stakeholders. Incorporating the findings of the review, in 2020/21 a further $14 million investment through the programme was confirmed until at least 2024 on a stage-gated approach. The expected benefits have increased to $144 million. Of this, the addition of Nymbl and other benefits contributes around $70 million, and the increase in lifetime claim values added around $30 million. These increases resulted in an expected ROI of $1.63. If all future benefits and payments were removed the Falls and Fractures ROI would drop from $1.63 to $0.30 and the total ROI for the 0- to 20-year programme would fall by $0.16 to $2.02.

The Falls and Fractures programme was expected to save 3,500 claims in 2020/21, but it's estimated that only around 1,500 claims were actually saved. Despite this, it's estimated that the programme achieved $4.3 million in claim savings vs an expected $3.9 million.

The Falls and Fractures programme has three main components:

1. The Fracture Liaison Services that are delivered by DHBs to people who have come into the hospital system with fractures. These are the highest value claims and this is where most of the value of claim savings happened this year. We expect to see improvements in this area of the programme, with new contracts with the DHBs coming into place in the next two years.
2. Community strength and balance classes, which are available to all New Zealanders over the age of 65. An analysis of the clients attending these classes has indicated that they have a lower risk profile than average. In addition, clients are attending these courses routinely, and while this strengthens the programme's efficacy for them it may be limiting the number of new clients who can attend. ACC is working to ensure that more people at risk of falls are participating in these classes.
3. An online app called Nymbl, which is subsidised by ACC. Clients on this programme are not the same people who attend strength and balance classes, so a new cohort is being reached. Results indicate that the programme is providing benefits for those at risk who use the programme enough. Unfortunately, people who are not in the right age group (under 65), or who don't use the programme enough to get benefits, are increasing its cost while not contributing to the benefits achieved. ACC is working to better target the app and find ways to increase its use by people who will benefit from it.

The Motorcycle Rider Training programme continued to perform well

Ride Forever is a comprehensive programme about staying safe on a motorcycle. Claim benefits have been higher than anticipated for the four years since its inception. Last year, the expected benefit profile was increased and targets were still achieved. The lifetime investment in Ride Forever is $44.9 million, and the ROI increased in 2020/21 from $2.16 to $3.03. The expected lifetime benefits are $135.8 million. During the year, approximately 400 claims were saved, with a lifetime value of $13.7 million.

Gun Violence benefits were not achieved this year, but it's too soon to say if this is a problem

Following the mosque attacks in Christchurch, the Government introduced a buy-back scheme to remove military-style semi-automatic firearms from circulation. ACC expected to save 46 firearms claims this year (from annual claims of around 250) but it only managed to save 15. However, given the very small numbers involved there can be significant variations in the number of claims saved. The expected savings from this programme are attributed in part to saving a significant event during its 20-year period. The ROI for this programme increased during the year from $2.60 to $2.70, largely due to updated lifetime claim values.

Grants and Subsidies didn't return any of the expected benefits this year

Grants and Subsidies (formerly Targeted Financial Incentives) aims to use non-levy-based economic incentives to implement changes in workplaces that reduce the incidence and severity of injury. These incentives vary, for example, they include investing in health and safety knowledge and delivery, and purchasing crush-protection devices for quadbikes.

ACC has been accepting applications for Grants and Subsidies for a few years and was expecting to start delivering claim benefits this year. However, earlier in the year the timing of these benefits was pushed out as it had taken longer than expected to co-design and bring programmes to delivery with partners not experienced in injury prevention. The lifetime investment in Grants and Subsidies is $34 million, with an ROI of $1.95 as at June 2020. Post-June 2021, some of the programmes have moved into delivery, with estimated claim savings being brought into the ROI. It's likely the ROI for this programme will drop with benefits not being as high as initially estimated.

Benefits for Neonatal Encephalopathy were also delayed

The Neonatal Encephalopathy (NE) programme aims to reduce the incidence and severity of NE claims by at least 10% by 2023. NE is a major cause of brain trauma in new-born babies. When NE is caused by treatment, ACC covers the injury for life. Because of the long-term nature of these injuries, the expected claim cost benefits from this programme are high. The lifetime investment in this programme is $9.6 million, with an ROI of $6.67.

The ROI reduced from $13.10 in 2019/20, mainly because of a large reduction in the value of claims. This was caused largely by an improvement in the methodology used to calculate the lifetime value of claims, giving more accurate values. Moving the benefit profile out by one year (see below) also had a small impact.

Growth is necessary for ACC to meet strategic targets

The **injury prevention portfolio** is planning to **deliver $1.4 billion in net benefits** through claim prevention in the next eight years. The **OCL strain** has been **$3 billion** in the past seven years.

The 2018 Injury Prevention Strategy aims to invest $1 billion to achieve future claim benefits of at least $2.4 billion over 10 years from June 2019. In the past two years, ACC has invested $181.4 million and made claim savings of $87.5 million. The programmes now in delivery have expected claim benefits over their lifetime of $800 million. There will need to be a significant expansion of these programmes, and new programme development, to achieve the claim benefits target.

ACC sought external advice on setting overall targets for the injury prevention portfolio, to help address our recommendation made in the 2016 FCR. The findings of the research and analysis indicate that at current investment levels and ROI, ACC can expect to see a 3-5% reduction in injury rates by 2040. An increase in investment or ROI (or both) is needed to have a greater impact on the reduction in injury claims and costs. If ACC wants to make a bigger impact on injury rates in New Zealand, the existing approach may need to change. Longer-term, more strategic investments may be needed.

TABLE 11: TOTAL TARGET RETURN ON INVESTMENT

	Target ROI ($)			
	2019/20	2020/21	2021/22	2022/23
2019/20	1.80	1.85	1.90	1.95
2020/21	1.80	1.75	1.80	1.90

The overall target ROI for the next four years was not adjusted this year. This is partially in recognition that the strategic portfolio ROI measurements are still in development. We expect target returns for the strategic portfolio to be added as they're developed. These targets were set prior to estimates of lifetime claim values being updated. Going forward, ACC will update these targets annually, after the lifetime claim estimates have been updated.

The injury prevention portfolio needs to deliver planned benefits along with further growth to reduce pressure on the Scheme

The ambition of the 2018 Injury Prevention Strategy is to improve quality of life for New Zealanders while ensuring the long-term sustainability of the Scheme for future generations. However, the Scheme is experiencing ongoing and significant growth in claim liability. Injury prevention is an important mitigation for this, alongside improved rehabilitation performance.

The injury prevention portfolio is maturing. The majority of initiatives in delivery have incurred most of the costs needed to prevent injury, but most of the expected benefits are still in the future. Existing programmes are expected to provide 33% of the future benefits targeted in the Injury Prevention Strategy. The expansion of these programmes will contribute further to the future benefits, but other intervention areas and approaches will be required to get the full benefits targeted.

ACC must deliver the benefits already planned from existing investments. Five programmes are responsible for over half the expected future benefits and only one of these is performing well. ACC needs to ensure that the other four programmes realise their planned benefits.

The issues that have arisen in realising the benefits of several large programmes highlight the need to set and monitor clear outcomes from development through to delivery when working in a partnership.

One way to improve the effectiveness of existing programmes is to use data to better target programmes. Injury Prevention to the Frontline is an example of this. Another example is Nymbl, where data captured makes for a much better analysis of results and allows ACC to refine the target audience over time.

The sexual violence primary prevention framework aims to create a more effective, aligned and sustainable primary prevention system. This will focus not just on perpetrators but rather on the community and systemic structural and social drivers that permit violence to occur. Programmes will be supported by changing societal attitudes, and helping communities that have the resources to deliver their own solutions.

Ultimately, this multi-agency, multifaceted approach could be used to tackle many large societal issues. It's a promising direction for injury prevention, and we're pleased a proportion of the investment in sexual violence primary prevention is dedicated to the development of a new framework for measurement and monitoring effectiveness.

Injury prevention is a key function of the Scheme, and could be a powerful lever to mitigate rising claim costs. ACC needs to prioritise having a clear strategy in place that outlines its level of ambition for the injury prevention portfolio.

Rehabilitation performance continued to deteriorate and ACC needs to manage this better

Claim performance was worse than expected

The total OCL strain in 2020/21 was $450 million (excluding the risk margin and the OCL movement in the AEP), including a $144 million release for incurred but not reported work-related gradual process claims.

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

When claim volumes or costs move above or below what's expected, and we can link the movement to areas over which management has at least partial influence or control, we consider that movement influenceable. If the movement is fully beyond the control of ACC management, it's considered non-influenceable. This year's $450 million OCL strain comprises $465 million influenceable strain offset by $15 million non-influenceable release. It brings the total influenceable strain in the seven-year period (2014/15 to 2020/21) to over $3 billion[9].

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

This year's $465 million influenceable OCL strain can be broken down into two main drivers that affect estimates of future claim volumes and costs:

1. **Active claims:** increases in the number of new claims and how long clients require assistance resulted in a $578 million OCL strain.
2. **Average cost of claims:** overall, the average amount paid per claim was lower than expected, resulting in a $113 million OCL release.

Weekly compensation was the key driver of the $578 million active claim strain. As in previous years, 2020/21 saw a deterioration in rehabilitation performance for weekly compensation claims, which led to a higher number of claims staying on the Scheme. In addition, a higher number of new claims started weekly compensation compared to both the actual new claims for 2019/20 and the previously projected new claims for 2020/21. While various COVID-19 restrictions during 2020/21 have had some impacts on the claim performance, the deteriorating trend has been present in most of the past seven years.

The $113 million average cost of claims release is from elective surgery and medical treatment claims, where superimposed inflation continued to track lower than expected. Some payment types, such as sensitive claims, had higher-than-expected average costs that partially offset the release.

9 *Throughout this section, OCL movements during 2020/21 are quoted including work-related gradual process claims incurred but not reported and excluding risk margin and the liability for the AEP. This is on a basis consistent with how ACC is funded. Total OCL movements in the past seven years to 2020/21 include risk margin and the liability for the AEP and exclude gradual process claims incurred but not reported. This is consistent with the confirmed OCL targets, timeframes and approaches to address our recommendation on increasing focus on long-term performance.*

During 2020/21, a number of non-influenceable drivers caused the OCL to reduce by $15 million. These drivers were:

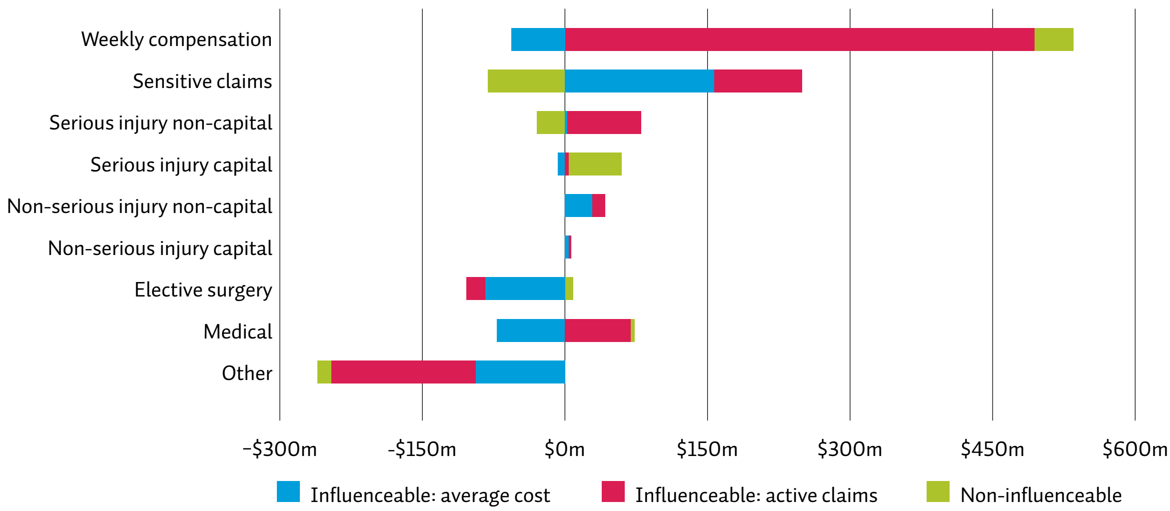
- a GST data correction made for some lump sum and independence allowance payments ($98 million release), which is discussed later in this section
- mortality for serious injury claims being different from expected ($34 million release)
- changes in projected population and claim frequencies ($48 million strain), which are discussed in more detail in ***Appendix C***
- improvements to models to help ensure a better and more accurate reflection of claim performance ($61 million strain), which are discussed in more detail in ***Appendix C***
- the inclusion of an OCL provision for the court case *Calver v ACC* ($8 million strain), which is discussed in more detail on ***page 27***.

The 2020/21 claims performance was impacted by the various COVID-19 restrictions during the year. Some of the OCL movements could be attributable to these restrictions. It's not possible to isolate and separately quantify these impacts from other influenceable factors. For this reason, we have not included a non-influenceable OCL movement for COVID-19 this year.

Weekly compensation was the largest driver of the OCL strain

Graph 1 shows how each of the three main drivers affected each claim payment type leading to the $450 million total OCL strain. In the following analysis, OCL impacts are influenceable unless indicated otherwise. For a description of each payment type and what services they include, see Table 22 in ***Appendix A***.

GRAPH 1: COMPOSITION OF THE 2020/21 OCL STRAIN BY CLAIM PAYMENT TYPE



New claim volumes and lower rehabilitation rates in weekly compensation resulted in a significant OCL strain

The OCL for weekly compensation at 30 June 2021 was $11.5 billion, including an OCL strain of $478 million for 2020/21. During the year, weekly compensation payments were $1.7 billion, 14% higher than expected, mainly driven by a higher-than-expected number of active claims. In the previous seven years to 30 June 2021 the OCL strain was $2.1 billion in total.

The breakdown for the 2020/21 OCL is shown below:

Active claims: $494 million OCL strain
There was a significantly higher-than-expected number of active weekly compensation claims in the 2020/21 year in all Accounts. These additional active claims led to an increase in payments and an OCL increase of $267 million. They were mostly from accidents less than five years old and were a combination of new claims and existing claims continuing to receive compensation for longer than expected. A higher number of new claims led to changes in the valuation assumptions. Longer durations needed for existing claims to rehabilitate led to changes in the valuation continuance rate assumptions. These resulted in OCL increases of $140 million and $87 million respectively. For older accidents (i.e. more than five years old), claims had a better rehabilitation performance than expected in the Motor Vehicle Account. This resulted in an OCL release of $58 million in that Account.

Average cost of claims: $55 million OCL release
Rehabilitation performance resulted in more compensation days paid during a quarter, particularly for accidents that occurred in the past two years. This was most evident in the Earners' Account and increased the OCL by $47 million. This increase was more than offset by $59 million and $47 million decreases, respectively, from the Work Account and the Non-Earners' Account. These two Accounts have had lower-than-expected average cost per claim for claims older than five years.

For weekly compensation the **average cost of claims** is affected by both the **average weekly compensation earnings** and the **average number of days** in a quarter that a claim is paid.

Non-influenceable change: $40 million OCL strain due to updated population exposure and claims frequency.

Clients remaining on the Scheme for longer than expected has been evident in the past seven years. ACC's 70-day and 273-day rehabilitation performance measures have seen a significant deterioration in this period. The long-term claims pool, which refers to claims that have received more than 365 days' cumulative weekly compensation, grew from 11,483 in June 2015 to 17,388 in June 2021, or around 7% per annum. This was significantly higher than the assumed growth in long-duration claims in the valuation, which is typically between 1% and 3% per annum. This rehabilitation performance has led to significant strains since 2015.

2020/21 also saw a significant increase in the number of new weekly compensation claims, which was (at least in part) caused by catch-ups from earlier restrictions due to COVID-19. Nevertheless, it increased the workload pressure for frontline staff and added further risk to the rehabilitation performance, particularly for short-duration claims. A deterioration in the short-term duration rehabilitation performance, over time, leads to a larger number of claims staying on claim for longer. This puts further pressure on the long-term rehabilitation performance.

ACC has several initiatives underway to improve rehabilitation performance, specifically targeting short-term rehabilitation performance. These initiatives include process improvements and staff training. Rehabilitation rates for claims of most durations started to improve from the second half of the year. However, more is required (especially for long-term claims) to improve the overall rehabilitation performance. The most recent COVID-19 lockdown from August 2021 is likely to put more pressure on meeting performance targets.

Sensitive claim payments were higher than expected

The OCL for sensitive claims was $4.3 billion at 30 June 2021, including an OCL strain of $169 million for 2020/21. During the year, sensitive claims payments were $213 million, 4% higher than expected, mainly driven by average cost. This differed from the previous few years when higher claim payments were mainly driven by significant growth in claim volumes. In the previous seven years to 30 June 2021 the strain was $1.4 billion in total.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $92 million OCL strain
The number of new claims from older incident periods increased by more than expected during 2020/21. This resulted in revised new claim assumptions and an OCL strain of $233 million. Partially offsetting that was a reduction of $92 million due to changes in the continuance rate assumptions for claims under five years since the incident. This was to reflect the better-than-expected rehabilitation performance for this claim cohort. In addition, there was a lower-than-expected number of sensitive claims, unlike in previous years. This was particularly evident in claims from 2019/20 and 2020/21 and led to an OCL release of $49 million.

Average cost of claims: $158 million OCL strain
The average payments were higher than expected in 2020/21, particularly for the Earners' Account. This led to an OCL increase of $168 million in that Account. This was driven by higher payments for medical services (primarily counselling), more claims receiving weekly compensation and an increase in lump sum payments.

Non-influenceable changes: $80 million OCL release
This comprised:

- $82 million release due to the GST data correction
- $2 million strain due to updated population exposure and claim frequency assumptions

Uncertainty remains around the growth in sensitive claim costs and volumes. In previous years, new claim growth was consistently higher than expected, even though each year we've increased our expectations. The 2020/21 year saw lower-than-expected new claim volumes. This was (at least in part) driven by provider capacity constraints, and new sensitive claims not being able to start to receive help during COVID-19 restrictions. In the past 18 months, the average wait time grew to over nine weeks for those providers who hold waitlists.

It can take several years for victims of sexual violence to seek help. Capacity constraints are likely adding further delays to the time it takes for these clients to receive the help they need. A longer time taken in receiving help can lengthen the time needed for rehabilitation. ACC should continue to work with professional bodies and cross-agency workforce groups to improve workforce capacity and reduce barriers for those seeking help.

During 2020/21, ACC started to address recommendations made in the 2020 FCR. Actions are underway to support injured victims of sexual and violent crimes to receive more timely and targeted support. Work is also underway focused on monitoring and measuring sensitive claims outcomes. A new injury prevention programme is set to be delivered in 2021/22 to improve healthy and consensual relationships.

Seriously injured clients received more care hours than expected

The OCL for serious injury non-capital was $18.3 billion at 30 June 2021, including an OCL strain of $52 million for 2020/21. During the year, serious injury non-capital payments were $479 million, 1% below expected, driven by significantly lower travel costs and fewer new claims, while attendant care continued to increase. In the previous seven years to 30 June 2021, the strain was $775 million in total.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $38 million OCL release
There were significantly fewer new serious injuries in 2020/21, which was partially due to a delay in identifying serious injury claims. The new claim assumptions were updated to allow for longer delays. The overall impact was a small reduction in the assumed ultimate number of claims for accidents in 2020/21, which reduced the OCL by $38 million.

Average cost of claims: $119 million OCL strain
The main drivers were:

- care hours: $157 million OCL strain. Average care hours for claims less than seven years old were 5.3% higher than expected. This also led to increases in the average care hour assumptions for shorter durations. For claims older than four years, average care hours were slightly better than expected, but the OCL reduction from older claims was not sufficient to offset the increase from newer claims, and the overall OCL impact due to care hours was a $157 million strain.
- residential care: $58 million OCL strain, mainly due to more spinal-cord injury clients being transferred to residential care than expected. These claims have higher average cost.
- travel: $108 million OCL release. For most of 2020/21, travel expenses were significantly lower than expected. It's not clear at this stage how much of this was due to COVID-19 restrictions, and the level of uncertainty around post-pandemic travel behaviour in the long run is high. As a result, the valuation travel cost assumptions have been partially adjusted to reflect the actual costs in the past year.

Non-influenceable changes: $29 million OCL release due to mortality being different from expected.

The average attendant care hours have had higher-than-expected growth for a few years. In 2020/21, the growth was initially accelerated as additional support was needed by ACC's most vulnerable clients during and immediately after the COVID-19 restrictions. It began to stabilise later in the year as restrictions eased. Attendant care is the most significant component of the OCL for serious injury claims.

The number of new claims and travel costs were both significantly lower than expected during the year. While it's likely COVID-19 restrictions were a factor, in both cases, it was not clear how much COVID-19 had contributed or what to expect for future periods. Because of this uncertainty, ACC's valuation actuaries only gave partial credit to the actual claim performance during the year in modelling future expectations. If full credit was given, this would have generated a larger OCL release ($263 million) for these drivers. This further highlights the need for ACC to better understand key drivers of claim performance.

The 2020 FCR discussed bulk funding providers for care services provided to serious injury claims. In December 2020, Phase I of the new funding model was implemented for clients with low-complexity needs. Phase II for clients with moderate-complexity needs is under development and ACC is working through issues raised by the sector. Under a bulk funding model, providers will have greater autonomy in choosing how best to deliver client services. This is expected to result in greater efficiency and better rehabilitation outcomes for them. However, ACC will have less involvement in decision-making at an individual level and less visibility on how funds are being used. Establishing the right outcome measures will therefore be key to the success of these developments.

Capital costs for seriously injured clients were higher than expected

The OCL for serious injury capital at 30 June 2021 was $2.4 billion, including an OCL strain of $53 million for 2020/21. During the year, serious injury capital payments were $95 million, 5% higher than expected. In the previous seven years to 30 June 2021, the strain was $361 million in total.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $7 million OCL release
As mentioned above, with serious injury non-capital the number of new claims for the 2020/21 accident year was below expected, and assumptions were updated to allow for longer reporting delays. As a result, the number of active claims was just below that expected, giving a small OCL release.

Average cost of claims: $5 million OCL strain
Capital spending should reasonably be expected to reduce care levels, at least in some circumstances. However, past claims patterns have shown that higher projected capital costs in serious injury are generally associated with higher levels of care. The assumptions for average care hours for newer claims were increased this year, and this resulted in an increase in assumptions for average capital costs for these claims too.

Non-influenceable changes: $55 million OCL strain
This comprises:

- $61 million strain due to a change in how the average cost for serious injury clients with moderate brain injuries at longer durations was determined
- $5 million release due to mortality being different from expected.

While the OCL strain in 2020/21 wasn't large, it must be viewed in the context of continuing liability increases in the past few years. Capital purchasing decisions are often made to improve clients' independence, with some expectation that the number of care hours clients need will reduce. However, higher-than-expected capital payment growth is happening at the same time as higher-than-expected attendant care hour growth.

During the year, work was done to assess how decisions for capital items were made and if the intended outcomes were being achieved. This has identified actions to improve performance. These actions include contract changes and working with suppliers to co-design processes to address growth in equipment costs. Further actions are being considered to manage growth in large capital items, including housing and vehicle modifications/purchases. This includes a process aimed at minimising non-injury related housing modifications.

Non-serious injury non-capital payments were higher than expected

The OCL for non-serious injury non-capital at 30 June 2021 was $1.3 billion, including an OCL strain of $41 million for 2020/21. During the year, non-serious injury non-capital payments were $260 million, 12% higher than expected. Non-serious injury non-capital payments were higher than expected in the seven years to 30 June 2021, and the total OCL strain over this period was $308 million.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $13 million OCL strain
This comprises:

- $13 million OCL strain due to a higher number of active claims during the year, particularly claims less than three years from the accident
- $19 million OCL release due to changes in new claim assumptions. A lower volume of new claims with accident dates more than five years old in the Motor Vehicle Account was partially offset by a higher volume of new claims less than three years old across all Accounts
- $19 million OCL strain due to changes in continuance rate assumptions. A higher number of active claims was driven by a deteriorating rehabilitation performance, particularly in the Motor Vehicle Account. This was partially offset by a better rehabilitation performance in the Earners' Account.

Average cost of claims: $29 million OCL strain
Average costs were higher than expected for non-serious injury non-capital claims in most accident periods and Accounts. The key drivers of this strain included:

- more care hours provided per claim
- a continued growth in training for independence programmes, particularly for accidents older than five years

Non-influenceable changes: $1 million OCL release due to updated population exposure and claim frequency assumptions.

The growth in training for independence payments for non-seriously injured clients has been significant in the past three years. An investigation of entry criteria, the suitability of the service for various cohorts of clients, and outcome measures led to contract changes at the start of 2021/22. These changes aimed to ensure that entry criteria for the service were being adhered to. Further analysis has indicated that while training for independence is working well for the right clients, some clients are receiving the service when it's not the best option to meet their needs. There's also a lack of expectations among clients and providers on the service's purpose, duration and goals. These insights will support decisions on whether further change is required to ensure clients achieve the right outcomes at an appropriate cost.

Non-serious injury capital payments were higher than expected

The OCL for non-serious injury capital at 30 June 2021 was $0.6 billion, including an OCL strain of $7 million for 2020/21. During the year, non-serious injury capital payments were $70 million, 26% higher than expected, mainly driven by the high number of claims in the periods immediately after COVID-19 lockdowns. The overall OCL increase was small because most of the high claims volume was considered a catch-up and only temporary. As was the case for serious injury, non-serious injury capital payments grew significantly in the seven years to 30 June 2021, and the total OCL strain is $270 million for this period. Most of the past strain related to a higher-than-expected number of active claims.

The breakdown of the 2020/21 OCL strain is shown below:

⬆ **Active claims:** $1 million OCL strain
The number of active claims during 2020/21 was 13% higher than expected, particularly for accidents within the past five years. The Earners' and Non-Earners' Accounts were the largest contributors. The effect of post-COVID-19-lockdown catch-ups was evident in 2020/21. This was considered temporary and was excluded when setting the active claim assumptions in the 2021 valuation. The overall OCL strain for active claims was therefore small ($1 million).

⬆ **Average cost of claims:** $5 million OCL strain
The average cost per claim was higher-than-expected in all accident periods, particularly accidents pre-2005. However, capital payments can be irregular, especially for older accident years. This, combined with uncertainties such as global supply constraints due to COVID-19, meant the average cost assumptions were not increased to fully reflect actual costs.

⬇ **Non-influenceable changes:** $1 million OCL strain due to updated population exposure and claim frequency assumptions.

The work underway for serious injury capital will also cover capital decisions for non-serious injuries.

The average cost of elective surgery claims was lower than expected

The OCL for elective surgery was $3.8 billion at 30 June 2021, including an OCL release of $93 million in 2020/21. During the year, elective surgery payments were $442 million, 11% higher than expected, mainly driven by higher-than-expected claim volumes. The higher volumes happened mainly in the period immediately after the COVID-19 lockdown so are considered temporary. The 2020/21 OCL release was due to lower-than-expected superimposed inflation on the average cost. In the seven years to 30 June 2021, average payments were lower than expected and resulted in an OCL release of $1.4 billion for the seven years in total.

The breakdown of the 2020/21 OCL strain is shown below:

⬇ **Active claims:** $20 million OCL release
The number of claims from accidents prior to 1985 were 13% lower than expected and led to the OCL release. This was only partially offset by impacts from more active claims in total than expected. This is because the high volume of active claims happened during the period immediately after the level 4 COVID-19 lockdown started in March 2020 so is considered mostly temporary.

⬇ **Average cost of claims:** $83 million OCL release
The actual superimposed inflation observed in the past year was 4.7%. While this was higher than the valuation assumption of 3%, it was mainly driven by higher average costs in the quarters immediately after the COVID-19 lockdowns. It was likely due to post-restriction catch-ups so wasn't factored into the June 2021 valuation. The average cost was otherwise lower than expected and caused the OCL to reduce.

⬆ **Non-influenceable changes:** $10 million OCL strain due to updated population exposure and claim frequency assumptions.

Ignoring volatility during the periods immediately following COVID-19 restrictions, the actual volume of elective surgery claims has been lower than expected for the past few years. Historical experience suggests that when some surgeries cease being performed, other surgeries eventually take their place, keeping claim numbers relatively consistent. There's a risk that future trends in surgeries, through either technological advancement or changes in treatments, may result in an increase in the number or cost of surgeries.

After the initial lockdown restrictions eased, elective surgery claim volumes started to bounce back. There continued to be volatility as the country entered into further restrictions several times. In the second half of 2020/21, claim volumes were at or slightly below expected. The most recent lockdown from August 2021 will cause further delays in elective surgeries, potentially affecting future rehabilitation performance and increasing weekly compensation payments.

As is the case for serious injury care services, ACC is trialling a form of bulk funding for elective surgeries. Escalated Care Pathway project pilots began in 2020, designed to provide efficient, coordinated, multidisciplinary and provider-managed assessments and treatments for clients with hip, shoulder and knee injuries. The expected benefits include faster rehabilitation and fewer future re-injuries compared to how surgeries have traditionally been provided. Programme progress to date is behind schedule so it's not clear at this stage if the benefits will be achieved as expected.

The average cost of medical claims was lower than expected

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

1. general practice
2. radiology
3. physiotherapy
4. other-medical, which includes specialist consultancy, acupuncture and dental treatment.

The OCL for all medical claims at 30 June 2021 was $2.3 billion, including an OCL strain of $2 million for 2020/21. During the year, medical payments were $892 million, 6% higher than expected, mainly driven by higher-than-expected active claim volumes. In the seven years to 30 June 2021, the release was $488 million in total.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $69 million OCL strain
Key drivers of the change in OCL due to active claims were as follows:

- Other-medical claims were staying on the Scheme for longer but fewer new claims for older accident periods were being reported. The net impact was an OCL strain of $31 million.
- There were more imaging claims for most accident durations, which was more evident in older accident periods in the Earners', Non-Earners' and Motor Vehicle Accounts. Assumptions were increased to reflect this, resulting in an OCL strain of $36 million.

Average cost of claims: $71 million OCL release
Apart from very recent claims (accidents within the past year or so), the average cost for the other-medical payment type was lower than expected. The average assumptions were reduced to reflect this, and it was the main reason for the OCL release.

Non-influenceable changes: $4 million OCL strain due to updated population exposure and claim frequency assumptions.

Only a small number of medical claims are long term, and they account for most of the $2.6 billion OCL. Despite this, short-term medical claims can put significant pressure on the funding of the Scheme due to the volume of claims paid.

Once the COVID-19 lockdown restrictions eased, medical claim volumes mostly returned to, and in some cases exceeded, pre-lockdown levels. It remains unclear if the backlog built up during the lockdowns cleared completely. Given the most recent lockdown from August 2021, there may continue to be some volatility in claim volumes in the near future.

During the lockdowns people relied on telehealth consultations more extensively. This service will be implemented on a more permanent basis where clinically appropriate. The pricing of this service is being refined. The technology could improve access to the Scheme and reduce the need for travel in some circumstances.

Other payment types generated OCL releases

The OCL for all other payment types (including work-related gradual process claims) at 30 June 2021 was $5.4 billion, including a total OCL release of $260 million. The payment types included vocational rehabilitation, independence allowance, lump sums, hearing loss, asbestosis, claims handling expenses and provisions. Payments from these payment types totalled $1.6 billion in 2020/21, 1% lower than expected.

The breakdown of the 2020/21 OCL strain is shown below:

Active claims: $151 million OCL release
This was primarily driven by the $130 million OCL release for incurred but not reported work-related gradual process claims. Short-duration hearing loss claims stayed on the Scheme for less time than expected, which resulted in changes in the continuance rate assumptions.

Average cost of claims: $93 million OCL release
The main contributor to the release was claims handling expenses. These expenses had lower-than-expected growth and a change in allocation by Account based on new and active claim counts. This resulted in more claim management costs being allocated to payment types that were short term in nature and a decrease in payment types that were long term in nature. The overall impact was an OCL reduction of $70 million for the average cost of claims handling expenses.

Non-influenceable changes: $15 million release
This comprises:

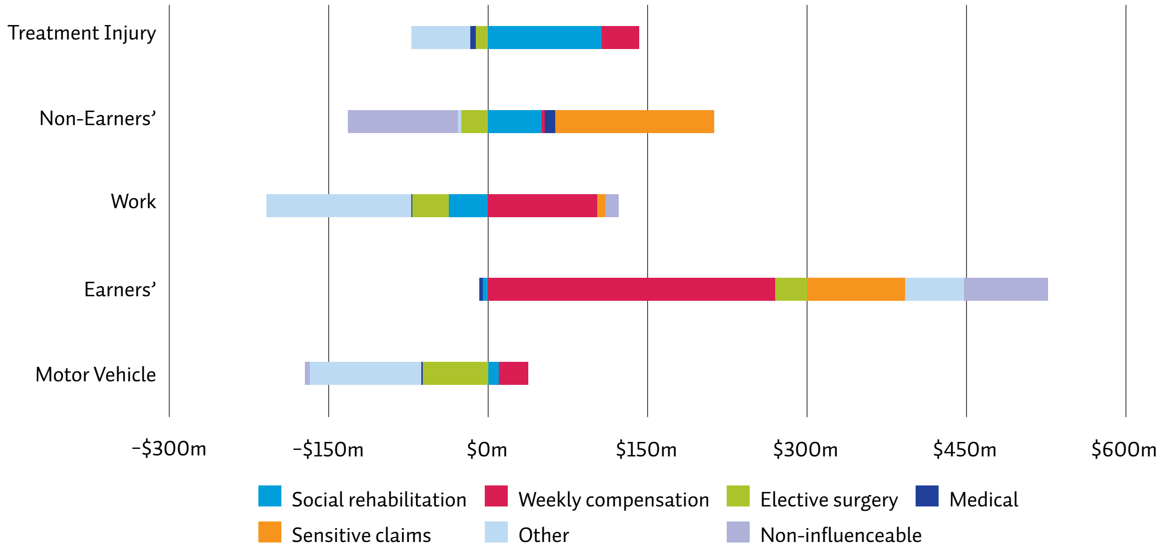
- $16 million reduction due to the GST data correction
- $7 million reduction due to updated population exposure and claims frequency assumptions
- $8 million increase due to the *Calver vs ACC* court case.

As it was with sensitive claims, the data correction also affected the lump sum and independence allowance payment types and led to an $16 million OCL reduction in these two payment types.

In 2020/21, the Earners' Account had a significant OCL strain

Graph 2 shows the $465 million influenceable OCL strain by Account and main payment type, and the $15 million non-influenceable OCL release by Account.

GRAPH 2: COMPOSITION OF THE 2020/21 OCL STRAIN BY ACCOUNT



Weekly compensation claims continued to have a major impact on the Earners' Account

The OCL strain in the Earners' Account was $519 million for the year, with $439 million being influenceable. $270 million of this was in weekly compensation, mainly due to higher new claim volumes and lower rehabilitation performance. The rest of the influenceable strain was spread across most other payment types. It was partially offset by medical payments, where a lower average cost resulted in a small release.

The non-influenceable OCL strain was $80 million.

The OCL strain in the Treatment Injury Account was mainly driven by higher average hours of attendant care

The Treatment Injury Account had a $70 million total OCL strain during the year and it's almost all influenceable. Most of the strain was from the Non-Earners' portion of the Treatment Injury Account and driven by higher-than-expected average hours of attendant care provided.

The non-influenceable OCL strain was minimal (<$1 million).

New sensitive claims from old accident periods had a large impact on the Non-Earners' Account

The Non-Earners' Account OCL strain was $80 million in 2020/21, with an influenceable strain of $184 million. The influenceable strain was largely driven by an increase in new sensitive claim volumes assumed for older accident periods ($157 million). A lower rehabilitation performance for weekly compensation and sensitive claims also contributed to the strain.

The non-influenceable OCL release was $104 million.

A reduction in the number of claims incurred but not reported for hearing loss was the main driver for the OCL release in the Work Account

In 2020/21, there was an OCL release in the Work Account of $85 million. $98 million of the release was influenceable. The largest driver of the release ($127 million) was in the number of claims incurred but not reported for hearing loss, with changes in the short-duration continuance rate assumptions to reflect a better-than-expected rehabilitation performance for new and recent claims.

The non-influenceable OCL strain was $13 million.

The allocation of claims handling expenses led to a sizeable OCL release in the Motor Vehicle Account

The OCL release in the Motor Vehicle Account was $135 million for the year, with $130 million of the release being influenceable. The largest driver of the release ($91 million) was claims handling expenses. The Motor Vehicle Account was allocated a lower amount for claims handling expenses than in previous years based on the number of new and active claims. The lower average costs of elective surgery and medical payments also contributed to the release.

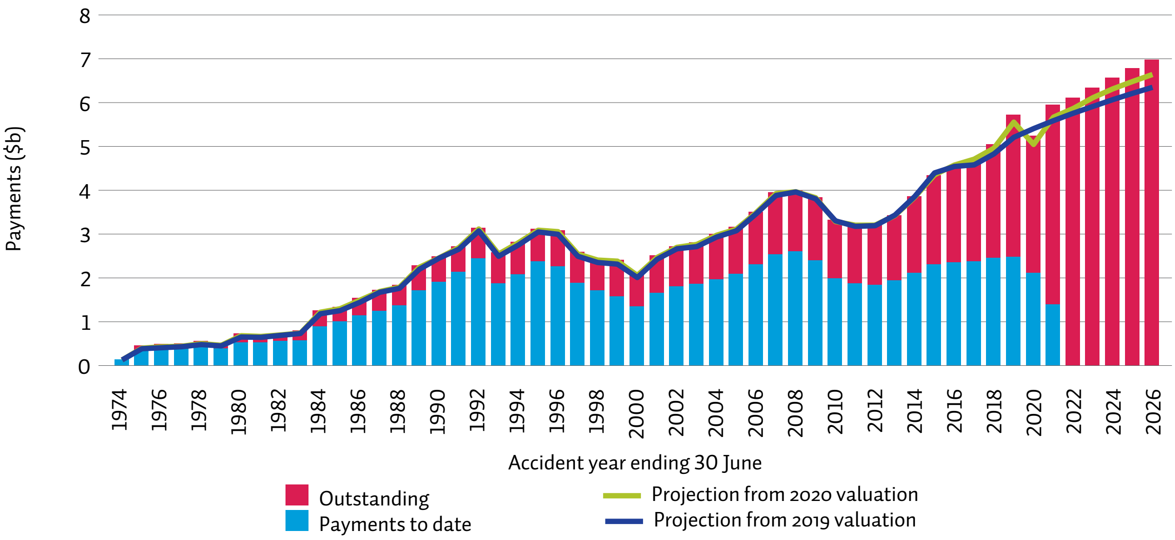
The non-influenceable OCL release was $5 million.

The bulk of this year's OCL strain came from the most recent accident years

Graph 3 shows the projected total cost of all claims by accident year. It compares the incurred cost from the 2021 valuation with projections from the previous two valuations. These costs are expressed in 2021 dollar values and exclude:

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

GRAPH 3: INCURRED COST BY ACCIDENT YEAR



The expected total incurred cost in 2020/21 for claims from the past three accident years (between 2018/19 and 2020/21) was increased from the previous valuation. Recent claims are undeveloped and have the largest proportion of incurred cost outstanding. This means we know less about their behaviour and they're more affected by assumption changes. A higher-than-expected number of claims for weekly compensation and higher-than-expected average costs for seriously injured clients were key drivers of the increase.

Incurred costs for the 2018/19 accident year increased significantly in the 2020 and 2021 valuations. The 2018/19 accident year saw a higher-than-expected number of new serious injury claims reported in 2019/20, which generally have a large OCL. In the past two years, there has been a worse-than-expected performance in serious injury and weekly compensation claims. This has led to changes in the valuation assumptions and increases in the OCL, particularly for 2018/19 accident-year claims.

A deterioration in claim performance during 2020/21 also led to an increase in the expected total incurred cost for the 2019/20 and 2020/21 accident years. The increase was particularly large for the 2020/21 accident year, mainly due to the significant growth in new weekly compensation claims. Changes in projected population exposure and claim frequencies also had an impact in the 2020/21 accident year.

For future years, the external actuary (see ***Appendix D.3***) has increased the expected total incurred cost. This is largely due to changes in the projected population exposure and claim frequencies. One of the key drivers of the changes was a better economic outlook compared to last year when COVID-19 had just broken out. 2020/21 showed that the impacts of COVID-19 restrictions on unemployment and the economy weren't as severe as previously forecasted. However, there remains significant uncertainty around the pandemic and its impacts on the economy.

Claim performance is negatively affecting ACC's financial condition

Claim performance in the past seven years has resulted in an OCL strain of more than $3 billion. Table 12 shows that the largest contributors to this strain were weekly compensation, sensitive claims and social rehabilitation non-capital payments. These figures are inclusive of the AEP and the risk margin and exclude work-related gradual process claims incurred but not reported.

TABLE 12: CONTRIBUTORS OF OCL STRAIN IN THE PAST SEVEN YEARS

OCL strain ($M)	Influenceable	Non-influenceable	Other	Total
Social rehabilitation non-capital	1,439	(356)		1,083
Social rehabilitation capital	600	31		631
Weekly compensation	1,973	141		2,114
Sensitive claims	1,413	31		1,443
Elective surgery and medical	(1,766)	(102)		(1,868)
Other*	(388)	(48)	157	(279)
Total	**3,271**	**(303)**	**157**	**3,125**

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

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

In 2020/21, ACC responded to this deterioration and implemented actions with the aim of reversing the trend. We're encouraged by the effort to date but note that it's too early to say if these efforts will be successful. The focus on improving claim performance is central to the sustainability of the Scheme and needs to be maintained.

ACC improved its handling and understanding of client reviews

Last year, we reported on changes that ACC had made at the beginning of 2019/20 to improve the client review process and increase access for clients wishing to dispute ACC decisions. In 2020/21:

- the ACC-funded navigation service, co-designed with customers and sector experts, continued to provide independent advice on the support available from ACC and the process involved in making a claim. 3,337 customers used navigation services in the year
- ACC review specialists had 60 days to consider the appropriateness of the organisation's decisions before the review had to be passed to a resolution provider (changed from 45 days in 2019). Prior to 2018, a review specialist had only 28 days to aim for early resolution without going to a third party. Where there's clearly no further opportunity for early resolution, reviews are referred to external resolution providers well before the 60 days
- ACC implemented an early intervention initiative where a review specialist assists in supporting a client in resolving an issue in its early stages, prior to the need for the lodgement of a formal review. The initiative provides early support to clients and real-time capability building for frontline staff
- a review of Alternative Dispute Resolution (ADR), conciliation and evaluative mediation services was conducted from July 2019 to February 2021. The review included an analysis of whether ADR was providing value to customers and the organisation. The review resulted in an ADR Strategy being introduced in October 2020. As part of the strategy, more information is provided to clients about ADR as an alternative to resolving issues with ACC. Document requirements were also cut back substantially to enable less complex cases to reach ADR providers sooner. The strategy put measures in place to help customers achieve the best outcomes and experience.

12% of **reviews** were **lodged** by clients identified as **Māori**. This has been the average for the past five years.

Clients identified as **Māori** lodged **reviews** on <7% of the **decline decisions** issued to them.

37% of **reviews** lodged by clients identified as **Māori** and completed in 2021 went to **formal hearing** and received an outcome**.**

63% of **reviews** lodged by clients identified as **Māori** and completed in 2021 were withdrawn or settled.

Increased access to and awareness of dispute and resolution services are likely helping to drive the increase in the number of reviews, as well as the increase in the number of reviews lodged as a proportion of decline decisions. Table 13 shows that the volume of review lodgements is getting closer to 10,000 a year and now accounts for about 8.5% of decline decisions compared to under 7% in 2015.

TABLE 13: REVIEW LODGEMENTS AND OUTCOMES

	Year ending 30 June						
	2015	2016	2017	2018	2019	2020	2021
Number of reviews lodged	6,514	6,534	7,228	7,582	8,082	8,641	9,329
% of decline decisions	6.8%	7.0%	7.2%	7.0%	7.2%	8.1%	8.5%
Number of reviews completed	6,874	6,398	6,447	7,805	8,378	9,543	9,316
Number withdrawn or settled	2,892	2,893	2,799	3,457	4,192	5,795	6,319
% withdrawn or settled	42%	45%	43%	44%	50%	61%	68%
Number found in favour of clients	1,084	1,003	1,156	1,424	1,464	1,216	872
% found in favour of clients	16%	16%	18%	18%	17%	13%	9%
Number found in favour of ACC	2,872	2,469	2,451	2,884	2,696	2,478	2,106
% found in favour of ACC	42%	39%	38%	37%	32%	26%	23%

Of reviews completed, the volume of withdrawals and settlements that don't require an external third party has been rising since 2017. In 2020/21, this figure stood at 68% of all review lodgements, up from 61% in 2019/20. It was the highest that withdrawals and settlements have been in 10 years. This was likely driven by the extended timeframe for resolution specialists to work on cases prior to their going to third parties and new initiatives that the organisation had put in place.

As withdrawals and settlements continue to increase, the number of reviews that are receiving outcomes (in favour of ACC or in favour of clients) at formal hearings is declining and in 2020/21 was at its lowest levels since 2012. Of all completed reviews in 2020/21, 9% were found in favour of clients, down from 13% the previous year. Reviews found in favour of ACC was at 23% in 2020/21, compared to 43% in 2014. Of reviews receiving an outcome in a formal hearing, the proportion found in favour of ACC has generally been at least twice that found in favour of clients since 2012.

Elective surgery reviews make up about one-quarter of review lodgements. The results for elective surgery reviews in 2020/21 were similar to the overall results. Settlements and withdrawals are on the rise and in 2020/21 were at their highest levels in a decade at 65%. The number of reviews that are receiving outcomes (in favour of the client or in favour of ACC) at formal hearings is the lowest they have been in a decade. Outcomes found in favour of the client was 12% while outcomes found in favour of ACC was 23%.

Elective surgery reviews used to make up about one-third of all review lodgements until 2017/18, but the rate of growth in elective surgery lodgements has slowed down since. However, while the proportion of elective surgery reviews has reduced, the proportion of surgery decline decisions that result in a review application being lodged remains close to a quarter at 24%. This is almost three times the overall proportion of 8.5% and about six times the cover-decision proportion of 4%.

Cover-decision review volumes have been growing at a significantly higher rate than elective surgery reviews, and now make up about 31% of reviews. This may be due to many review lodgements being about getting cover, although it may be for more specific entitlements. Cover-decision review lodgements are no exception to the new trend of increased withdrawals and settlements, which in 2020/21 were at their highest (67%) since 2012. Similar to the overall result, the number of reviews that are receiving outcomes at formal hearings is at the lowest they've been in 10 years, with those in favour of the client at 9% and those in favour of ACC at 23%.

Despite improved funding positions, future funding needs to increase

As described on ***page 22***, the combination of the two funding components, new year claim costs and funding adjustment, gives an uncapped levy or appropriation recommendation.

At 30 June 2021, levy rates are at levels below new year claim costs. In part this is because the levied Accounts were in surplus the last time levies were set, and Cabinet deliberately set levies lower than new year claim costs in order to refund this surplus over time. In the long term, levies and appropriations are expected to need to increase to catch up with increasing new year claim costs. The Government approved an appropriation for the Non-Earners' Account for 2020/21 to meet the new year cost of claims. Since then the new year claim costs have increased by more than the 7.5% cap on appropriation increases, meaning the appropriation for the Non-Earners' Account is below new year claim costs in 2021/22. The funding is expected to increase each year and is projected to exceed new year claim costs by 2022/23.

In April 2021, a new funding policy for the levied Accounts was gazetted. This revised funding policy requires ACC to recommend a separate levy in each of the years on which it's consulting, based on the prescribed calculation. Previously the levy was averaged over the consultation period. It also changes the cap on levy increases to 5% per annum (plus inflation for the Motor Vehicle Account). Previously this was 15% over two years (plus inflation for the Motor Vehicle Account). This lower cap, combined with the annual levy rates, means that recommended increases for levy payers are expected to be smaller but more regular. Separate to the funding policy it was agreed that the consultation would be on a three-yearly cycle.

In September 2021, the consultation process for the recommended 2022/25 levy rates began. A consultation was planned for 2020 but due to the disruptions and uncertainty caused by the COVID-19 pandemic and subsequent lockdowns this was delayed by a year.

In this consultation ACC recommended increases to the Motor Vehicle Account and the Earners' Account (including the Earners' portion of the Treatment Injury Account) for each of the three levy years covered by the consultation. The recommended levy for the Work Account reduces in the first year and increases in the subsequent two years, returning the rate to the 2021/22 prescribed rate by the third year.

Indicative uncapped levies and appropriations reduced significantly during the year

Table 14 shows the changes in the indicative 2022/23 levy rates between those calculated using the June 2020 basis and the recommended consultation rates calculated at June 2021.

TABLE 14: CHANGE IN INDICATIVE 2022/23 LEVY RATES FROM JUNE 2020 TO JUNE 2021

	Motor Vehicle $	Earners' $	Earners' portion of Treatment Injury $	Work $
2019/22 prescribed levies	**113.94**	**1.16**	**0.05**	**0.67**
2022/23 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2020	210.10	1.55	0.08	0.76
New year claim costs				
New year claim costs at 30 June 2020	217.33	1.53	0.12	0.86
Change from:				
Claims frequency and severity	8.01	0.04	0.00	0.04
Discount rate/investment forecasts	(16.52)	(0.03)	(0.01)	(0.02)
Base inflation	9.48	0.03	0.00	0.02
Other	0.28	(0.02)	(0.00)	0.01
New year claim costs at 30 June 2021	**218.58**	**1.55**	**0.12**	**0.91**
Funding adjustment				
Funding adjustment at 30 June 2020	(7.23)	0.03	(0.04)	(0.10)
Change from:				
Claims frequency and severity	0.85	0.03	0.01	0.02
Discount rate/investment forecasts	(78.54)	(0.14)	(0.02)	(0.12)
Base inflation	16.99	0.03	0.00	0.03
Other	(22.69)	(0.05)	(0.01)	(0.08)
Funding adjustment at 30 June 2021	**(90.62)**	**(0.10)**	**(0.06)**	**(0.25)**
2022/23 indicative uncapped levies before ICIP and injury prevention benefits as at 30 June 2021	127.96	1.45	0.06	0.66
Reduction due to ICIP and injury prevention	(7.76)	(0.04)	(0.01)	(0.03)
Reduction due to capping	0.00	(0.19)	(0.00)	0.00
2022/23 indicative levies as at 30 June 2021	**120.20**	**1.22**	**0.05**	**0.63**

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

The indicative uncapped levy rates for 2022/23 are lower than those estimated in June 2020. This is primarily because of the large increase in the funding positions, resulting in an increased funding adjustment to return this surplus over time.

For the Non-Earners' Account, the Government pre-approved the appropriations for 2020/21 to 2023/24 in May 2020. This funding was intended to meet the expected new year claim costs for the 2020/21 year, with a subsequent 7.5% increase in each of the following three years. For 2022/23, this resulted in a pre-approved appropriation of $2,026 million.

In October 2020, an increase of 7.5% for the 2024/25 year was pre-approved.

As it was for the levied Accounts, there has been a large increase in the funding position for the Non-Earners' Account. Despite this the Account is still in deficit, but it's much smaller than it was at 30 June 2020. This has reduced the funding adjustment calculated for the 2022/23 appropriation from $289 million at June 2020 to $97 million at June 2021. It significantly reduced the uncapped appropriation and meant that future increases in the appropriation are expected to be lower and capped for less time. We now expect the increases in the appropriation to be uncapped from the

2023/24 appropriation year. These lower amounts will likely replace the previously pre-approved appropriations from 2023/24 onwards.

Table 15 shows the changes in the indicative 2022/23 appropriation between those calculated using the June 2020 basis and those calculated using the June 2021 basis.

TABLE 15: CHANGE IN CALCULATIONS FOR 2022/23 NON-EARNERS' APPROPRIATION FROM JUNE 2020 TO JUNE 2021

Key drivers of appropriation	Non-Earners' Account only $M	Non-Earners' portion of Treatment Injury Account $M	Non-Earners' combined Accounts $M
2021/22 approved funding	**1,762.9**	**263.1**	**2,025.9**
Estimated 2022/23 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2020	2,030.6	471.7	2,502.3
New year claim costs			
New year claim costs at 30 June 2020	1,741.8	309.7	2,051.4
Change from:			
Claim frequency and severity	6.3	(1.6)	4.7
Discount rate /investment forecasts	(43.2)	(49.5)	(92.8)
Base inflation	49.6	20.4	70.0
Other	17.9	0.3	18.3
New year claim costs on 30 June 2021 basis	**1,772.3**	**279.2**	**2,051.6**
Funding adjustment			
Funding adjustment at 30 June 2020	288.8	162.0	450.8
Change from:			
Claim frequency and severity	1.3	3.2	4.5
Discount rate /investment forecasts	(254.0)	(177.8)	(431.9)
Base inflation	74.2	46.2	120.4
Other	(13.4)	1.4	(11.9)
Funding adjustment on 30 June 2021 basis	**96.9**	**35.1**	**132.0**
Estimated 2022/23 uncapped appropriation before ICIP and injury prevention benefits as at 30 June 2021	1,869.2	314.3	2,183.6
Reduction due to ICIP and injury prevention	(70.4)	(14.7)	(85.1)
Reduction due to capping	(47.6)	(36.5)	(84.2)
Additional funding	11.7	0.0	11.7
2022/23 indicative appropriation as at 30 June 2021	**1,762.9**	**263.1**	**2,025.9**

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

Following the COVID-19 lockdown in 2020, the economy was expected to deteriorate and the unemployment rate was expected to increase. Our 2020 indicative levies and appropriations allowed for this. Our expectations later changed as these scenarios didn't eventuate and we reversed these assumptions. This isn't obvious by looking at the tables above for two reasons. First, the Earners' and Work levies are expressed as rates per $100 earned, so we would expect them to stay stable with changes to the number of people working. Secondly, unemployed people make up only a small proportion of the non-earner population, so changes in this assumption don't have a noticeable impact on the expected claim cost. The sensitivities shown later in Table 19 indicate that a 1% decrease in the number of non-earners would reduce the appropriation by $21 million.

Claim frequency and severity forecasts are putting pressure on future funding

Changes in 2020/21 to the expectations of claim frequency and severity increased the new year claim costs by up to 5% for the 2022/23 year compared to the previous year's assumptions.

Higher growth in the costs of both existing injuries and injuries expected to occur in 2022/23 increased both the new year claim costs and the funding adjustment for all Accounts, except for the new year claim costs for the Non-Earners' portion of the Treatment Injury Account where there was a small reduction.

Changes to the claim frequencies since 2019/20 are discussed in more detail in ***Appendix C.11***.

Increased risk-free interest rates and investment forecasts as well as changes in the mix of assets reduced expected costs

The changes in risk-free interest rates and investment return forecasts in 2020/21 have significantly lowered the indicative uncapped levies and appropriations. This was due to:

- higher investment forecasts, which reduce the expected lifetime cost of future claims. This reduced the new year claim costs by between 2% and 8%. This was largest for the Non-Earners' portion of the Treatment Injury Account (8%) and the Motor Vehicle Account (7%). These Accounts have a larger proportion of long-term claims and are therefore most sensitive to these changes
- a change in the mix of assets, which further increased the forecast return. The allocation to equities increased for most Accounts, e.g. the allocation to equities in the Earners' Account increased from 41% to 46%. Equities have a higher expected return, but also higher risk
- higher risk-free interest rates, which reduced the OCL, and all else being equal increased the funding surplus. This allowed ACC to recommend returning more surplus funds through lower levies than would otherwise have applied. For the Non-Earners' Account, it reduced the deficit, reducing the extra income needed to fund it.

In addition to market movements, a methodology change resulted in a 0.3% increase in the expected investment returns. Previously we had assumed market returns for the forecast investment return rates. ACC's investments have consistently achieved higher-than-market returns. The additional 0.3% recognises the value added by ACC's investment team.

Higher expected inflation partially offset these favourable economic factors

Future expectations of inflation rates have increased. This means the expected cost of claims will increase at a faster rate than our expectations in June 2020. This increases the overall expected new year claim costs, and therefore the levy rates and appropriation, and partially offsets the reductions in levy rates from increased risk-free interest rates and investment forecasts.

In general, this has a larger impact on longer-term claims. The Motor Vehicle Account and Non-Earners' portion of the Treatment Injury Account have higher proportions of longer-term claims than the other Accounts, so the impacts on the claim costs in these Accounts are higher.

Unusually large investment returns increased the asset balances on all Accounts by more than expected

There are four main components to the 'other' movement:

1. The difference between the actual starting asset balance and the balance projected in the previous year.
2. Changes in operating expenses or their allocations.
3. Underfunding from the approved levy rates or appropriation in the previous year.
4. Model development.

The largest driver of the 'other' change in 2021 was the change in asset balance for the levied Accounts, explaining between 60% and 90% of the 'other' changes. The main driver of this was higher-than-expected investment returns. During 2021, the assets on the Accounts returned between 8% and 16%. This was considerably higher than our expected returns of between 3% and 6%.

Model development, specifically for work-related gradual process claims, resulted in a $0.02 movement between the new year claim costs and the funding adjustment for the Work Account. The overall net impact of this was negligible.

Expected injury prevention and ICIP benefits reduce the estimates of levies and appropriations

ACC offsets the calculated levies and appropriations with the expected financial impacts of injury prevention and the ICIP.

We estimate these activities will reduce the calculated levies in the 2022/23 year by about $118 million and the Non-Earners' appropriation by $78 million.

Table 16 shows the expected reductions in levies and appropriations for each of the next five years.

TABLE 16: EXPECTED REDUCTIONS IN LEVIES AND APPROPRIATIONS FROM INJURY PREVENTION AND THE ICIP

$M	2021/22	2022/23	2023/24	2024/25	2025/26
Expected reduction from injury prevention					
Levies	43.3	48.7	49.8	51.5	52.8
Appropriation	39.1	41.6	42.2	41.4	42.1
	82.4	**90.3**	**91.9**	**92.9**	**94.8**
Expected reduction from ICIP					
Levies	38.0	69.1	107.1	137.5	155.1
Appropriation	28.3	36.7	43.3	50.2	55.4
	66.3	**105.8**	**150.3**	**187.7**	**210.5**
Total reduction from injury prevention and ICIP	**148.7**	**196.1**	**242.3**	**280.6**	**305.3**

Last year we estimated the reduction in the 2022/23 calculated levies and appropriation was $225 million. This was $29 million more than we're now expecting.

The main reasons for this change are:

- a delay in the projected benefits from the ICIP reducing the expected 2022/23 benefits by $55 million. To date, the benefits delivered through the ICIP response have not been in line with expectations. While most of the ultimate targets are expected to be achieved, the pathway to achieving these targets has changed
- an increase in projected injury prevention benefits of $26 million. This is primarily from new initiatives introduced in 2020/21.

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

Funding needs to increase toward the new year claim costs for a number of years

Prescribed levies and appropriations are below the new year claim costs

New year claim costs represent the economic costs of claims and are the largest component of the required funding. In the long term, income received needs to cover these costs.

The expected income from prescribed levies and appropriations isn't expected to cover the estimated new year claim costs for any Accounts. This is because of one, or a combination of four, reasons:

1. An Account may have a surplus that is returned through reducing future levies.
2. The increases may be limited by the cap and therefore will take time to return to the true cost.
3. Cabinet may set funding below the level calculated under the funding policy.
4. The new year claim costs may increase faster than was expected when the levies were recommended.

In the 2018 levy consultation, the recommended levy increases were not approved by Cabinet. This meant that the requirement for extra funding was deferred to a later time, and to a later group of levy payers. In the same period, claim performance deteriorated, increasing the expected cost of claims. These two factors mean that the gap between new year claim costs and levy rates is larger than we expected it would be when we recommended the previous levy rates. They also mean that increases in funding may be needed for longer.

The same principle applies to the Non-Earners' Account. Pre-2015, the Account was in surplus and annual funding requests were approved. From the 2015 year onward, funding was set below the level determined by the funding policy and the funding ratio declined to 59% by 2020. The reduction in funding position was caused by a combination of low funding, falling interest rates and deteriorating claim performance. For 2020/21, Cabinet approved an appropriation increase to meet new year claim costs, then an increase at the capped level of 7.5% for the following year.

The funding position improved for all Accounts, reducing the uncapped funding requirements

The recommended levy is based on the new year claim costs. This is adjusted by both the funding adjustment and capping applied under the funding policy to move the Accounts towards their target funding position, while limiting the impact of any large levy increases.

In 2020/21, the OCL reduced by between 5% and 14%, varying by Account, mainly because of increasing risk-free interest rates. But the value of ACC's assets increased by between 6% and 9% because of large investment returns during the year, partially offset by both higher-than-expected claim costs and the use of existing assets to fund the income gap between claim costs and income.

It's unusual to see both the asset and the liability parts of the balance sheet contributing a surplus; we'd generally expect them to partially offset each other. These two movements have increased the funding position significantly. So we're now recommending returning more money for the levied Accounts and requesting less for the Non-Earners' Accounts each year through the funding adjustment.

Regardless of the size of an Account's surplus or deficit, funding must ultimately move toward the new year claim costs

As the surplus on levied Accounts is returned, the funding adjustment reduces, and recommended levies increase toward new year claim costs. With the cap on levy increases now set at 5%, it's important that levies are adjusted regularly. This is because it will take longer under a 5% cap to move toward the new year claim costs compared to a 15% increase over two years as previously applied.

If the funding does not increase toward the new year claim costs in line with the funding policy, the surplus will reduce more quickly than expected to cover the additional underfunding of claims, possibly to the point that the Account falls into deficit. It also implies increases in levies will be at cap for longer in order to move towards new year claim costs.

Similarly, as the deficit on the Non-Earners' Account is recovered, the positive funding adjustment will reduce, returning the recommended levy toward the new year claim costs over time.

Graph 5 on ***page 72*** shows this future scenario for the Motor Vehicle Account.

New year claim costs being higher than approved funding contribute to a projected deficit

We expect ACC to return large underwriting deficits for each of the next four years. Recommended levies are below the cost of claims for 2022/23 to 2024/25 for two reasons: they enable ACC to return surplus funds; and because levy increases are capped. Increases in appropriations are also capped in line with the funding policy. This, as well as upward pressure on costs, results in a forecast underwriting deficit.

The forecast underwriting results, and the total deficit, for the next four years are shown in Table 17.

TABLE 17: PROJECTED DEFICIT

$M	2021/22	2022/23	2023/24	2024/25
Surplus/(deficit) from underwriting activities	(2,222)	(2,133)	(1,977)	(1,822)
Total economic changes	1,303	1,243	1,219	1,175
Total surplus/(deficit)	**(919)**	**(890)**	**(759)**	**(648)**

The projected deficits assume that levies and appropriations will increase in line with the funding policy. Despite these funding increases, we expect to see significant deficits in the coming years.

The main contributors to the forecast underwriting deficit of $2,222 million are:

1. Different assumptions in determining levies/appropriations and OCL (such as different discount rates) result in a projected deficit of $1,169 million.
2. New year claim costs are expected to increase. Since the levies and appropriations were set, claim costs have increased. This is due to both changes in economic assumptions and higher claim costs leading to changes in valuation assumptions. This contributes $698 million to the expected deficit, with $544 million from changes in claim performance and $154 million from changes in risk-free interest rate and inflation movements.
3. Income is expected to be lower than new year claim costs. In 2021/22, we expect this to create a deficit of $461 million for the levied Accounts and $42 million for the Non-Earners' Account.
4. The OCL is expected to reduce for the Non-Earners' PAYG claims. For 2021/22, we expect this to contribute an underwriting surplus of $148 million.

The total contribution from economic factors of $1,303 million partially offsets the forecast underwriting deficit. Investment returns are expected to contribute $1,552 million in 2021/22. This is offset by an expected deficit of $259 million from investment management costs and other economic impacts.

A more detailed analysis of these results can be found in ***Appendix E***.

In the 2020 FCR, we discussed the uncertainty around the size of the cap on increases. Our projections assumed that a 15% cap on increases would be applied and we indicated that a lower cap would mean that an expected deficit would continue for longer. In line with the new funding policy, the projections are now based on a 5% annual cap, so the forecast income increases more slowly than was expected in last year's projections.

The funding estimates are most sensitive to changes in economic assumptions

Our indicative levies and appropriations are calculated using best-estimate assumptions; this means they're equally likely to be too high or too low. Changes in any of these assumptions affect our forecasts, including the forecast level of funding.

Given the uncertainty in each of the assumptions, instead of there being one possible levy for each future year there's a range of possible outcomes. To understand the possible variability in the levy rates and appropriations, we've simulated future funding pathways by varying the model assumptions shown in Table 18 and Table 19.

The key findings from the simulations are:

- restricted levy increases and unrestricted reductions limit the Accounts' ability to respond to changes and still meet target in the future
- the 2025/26 capped levy for the Earners' Account could vary from $1.41 to $1.47 with 80% confidence. The lower end of this range is higher than the 2021/22 levy of $1.21 indicating that increases are necessary
- the probabilities of the Accounts being significantly underfunded in 2026 are:
  - there's a 34% probability that the Earners' Account will be below 80% in 2026
  - there's a 23% probability that the Motor Vehicle Account will be below 80% in 2026
  - there's an 8% probability that the Work Account will be below 80% in 2026
  - there's a 59% probability that the Non-Earners' Account will be below 80% in 2026.

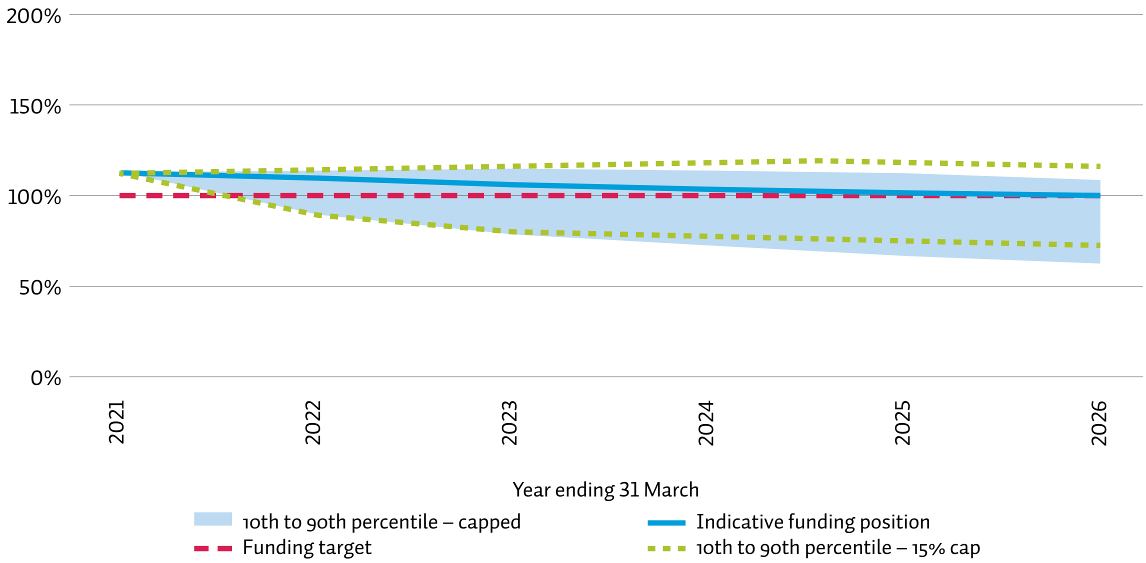
Restricted levy increases and unrestricted reductions influence the Accounts' ability to reach the funding target

Changing the cap on levied Accounts to 5% per year has changed these simulated funding pathways significantly. The pathways in the 2020 FCR were based on a 15% annual cap. In these scenarios we re-estimate the assumptions each year, so the rates could display significant volatility unlike the expected pathways when recommending levy rates. This means an increase in one year could easily be followed by a reduction in the next year, depending on the simulated movements in the underlying assets during the year.

With a 15% cap, any reductions in the rate could be followed by annual increases of 15% – if the factors driving the decrease reversed. Now that the levies can only increase by 5% per annum, ACC is unable to recommend increasing levies as quickly as before, and this limits the recovery of the Accounts. This situation is exacerbated by there being no limit on levy decreases, so a sharp reduction in rates will need many small, capped increases to recover to the original rates.

This is particularly evident for the Earners' Account as shown in Graph 4.

GRAPH 4: PROJECTED FUNDING POSITION FOR THE EARNERS' ACCOUNT



Graph 4 shows that under a 5% cap, there's a lower likelihood of the Earners' Account being at or above the funding target by 2026. As discussed above, there's a 34% probability that the Account will be below 80%.

The area between the green lines shows the 10th to 90th percentile of funding positions assuming a 15% cap were applied. The downward bias under the smaller cap of 5% underscores the need for regular levy increases when the funding policy requires them.

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

Table 18 and Table 19 show the expected impacts on levies and appropriations of a 1% increase or decrease in key assumptions. The movements don't indicate the upper or lower levels of all possible outcomes. These sensitivities are calculated independently of each other.

TABLE 18: SENSITIVITY OF LEVY RATES

Impact on levy rates ($)	Motor Vehicle Account		Earners' Account		Earners' portion of Treatment Injury		Work Account	
	1%	-1%	1%	-1%	1%	-1%	1%	-1%
Risk-free discount rates and investment returns	(63.32)	81.32	(0.13)	0.16	(0.02)	0.02	(0.11)	0.13
Asset values	(3.77)	3.77	(0.01)	0.01	(0.00)	0.00	(0.01)	0.01
Inflation rates	96.36	(76.88)	0.20	(0.17)	0.03	(0.02)	0.17	(0.15)
Number of new weekly compensation claims	0.90	(0.90)	0.01	(0.01)	0.00	(0.00)	0.01	(0.01)
Weekly compensation continuance rates	12.61	(10.40)	0.02	(0.01)	0.00	(0.00)	0.04	(0.03)
Sensitive claims continuance rate	n/a	n/a	0.02	(0.02)	n/a	n/a	n/a	n/a
Elective surgery superimposed inflation	6.35	(4.55)	0.04	(0.03)	0.00	(0.00)	0.02	(0.01)
Medical superimposed inflation	4.51	(3.31)	0.02	(0.01)	0.00	(0.00)	0.01	(0.01)
Care superimposed inflation	47.98	(35.16)	0.04	(0.03)	0.01	(0.01)	0.02	(0.01)
Elective surgery active claims	7.18	(4.83)	0.03	(0.02)	0.00	(0.00)	0.02	(0.02)

TABLE 19: SENSITIVITY OF NON-EARNERS' APPROPRIATION

Impact on Non-Earners' appropriation ($M)	Non-Earners' Account		Non-Earners' portion of Treatment Injury Account		Total Non-Earners'	
	1%	-1%	1%	-1%	1%	-1%
Risk-free discount rates and investment returns	(169.04)	239.55	(132.07)	176.15	(301.11)	415.70
Asset values	(5.74)	5.74	(3.67)	3.67	(9.41)	9.41
Inflation rate	293.85	(221.93)	194.24	(190.71)	488.09	(412.64)
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 claims continuance rate	45.92	(34.58)	n/a	n/a	45.92	(34.58)
Elective surgery superimposed inflation	21.20	(14.93)	6.99	(5.27)	28.20	(20.20)
Medical superimposed inflation	20.76	(17.18)	1.83	(1.52)	22.59	(18.71)
Care superimposed inflation	125.73	(85.47)	149.33	(100.51)	275.07	(185.98)
Elective surgery active claims	19.65	(13.08)	5.65	(4.06)	25.30	(17.14)
Number of non-earners	9.60	(9.60)	1.02	(1.02)	10.62	(10.62)

No sensitivities have been calculated for weekly compensation scenarios for the Non-Earners' Account, as non-earners are not eligible[10] for weekly compensation payments.

No sensitivities were applied to care inflation rates in periods before June 2022. These periods are affected by the pay equity settlement for care workers.

10 *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.*

Last year we indicated the Motor Vehicle Account was the most sensitive to economic changes

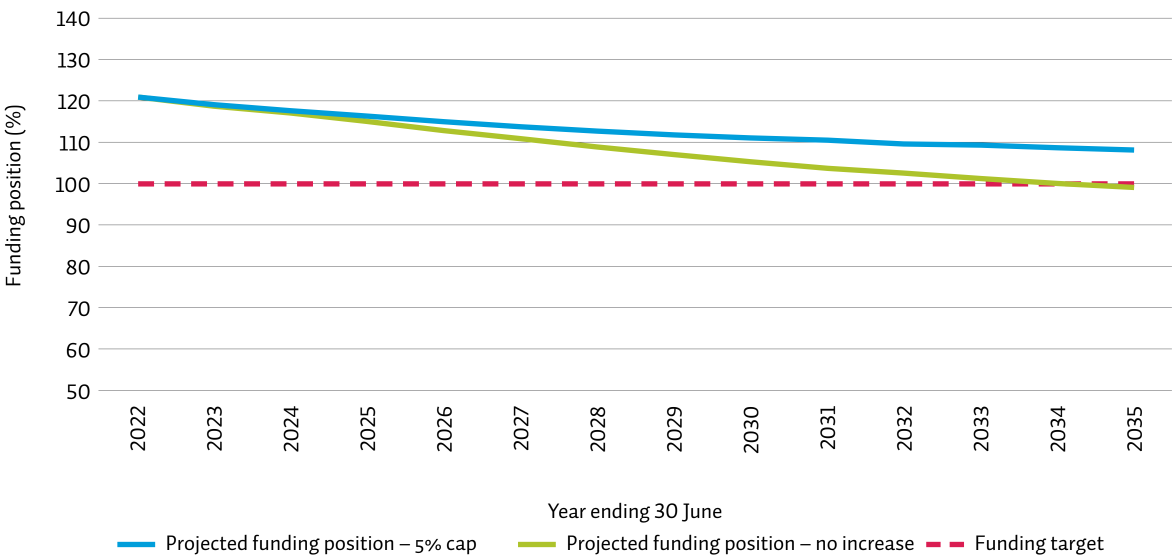
Last year the estimated uncapped levy for the Motor Vehicle Account for 2022/23 was $210 and we forecast that the Account would need capped increases for the next four years at 15% per annum. Applying a 5% per annum cap extended this to 16 years of capped increases.

The increase in risk-free interest rates coupled with high investment returns in 2020/21 reduced the recommended 2022/23 uncapped levy to $120.20, and the increase from the prescribed rate is below cap.

This levy is $98.38 (45%) lower than the expected new year claim costs, and the reduction is all from the funding adjustment. Over time, the levy will need to increase towards the new year claim costs. Despite the 2022/23 levy increase being uncapped, we expect six years of capped increases between 2023/24 and 2028/29 will be needed to return the levy to the new year claim costs in the long term.

Graph 5 shows the projected levy pathways resulting from the levy consultation recommendations, and an alternative scenario assuming levies remain at the 2021/22 prescribed rate until 2025/26.

GRAPH 5: FUNDING PATHWAY FOR THE MOTOR VEHICLE ACCOUNT



If rate increases for the next three years are not approved, the Account is expected to fall into deficit in 2034 as the increases in future rates beyond the 2021 consultation period would be limited by the cap. This means future increases would be at cap for longer than they would have otherwise been. It also means that future levy payers will need to fund a deficit because today's levy payers have been given too much of the surplus.

We also indicated a 3 cent increase in the uncapped Work levy; we're now recommending a 4 cent decrease

In the 2021 consultation we're recommending a 4 cent decrease in the Work Account levy for the 2022/23 levy year, from $0.67 to $0.63, followed by an increase in the subsequent two years.

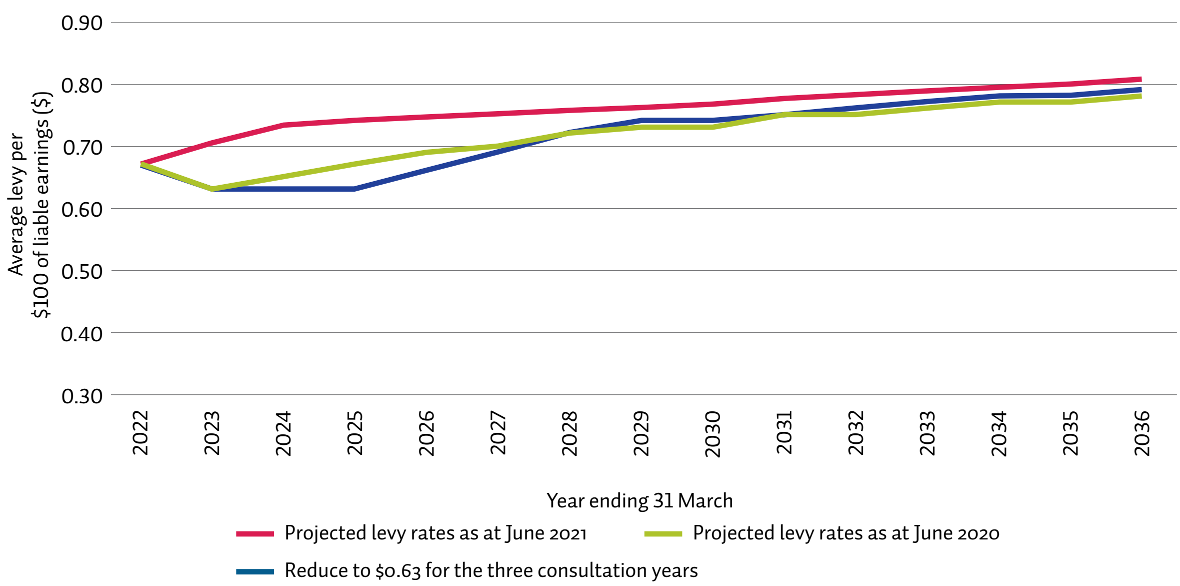
Last year we indicated that the uncapped rate should increase by 3 cents to $0.70 in 2022/23, 0.73 in 2023/24 and 0.74 in 2024/25[11].

This downward movement in the projected levy pathway is, as with the Motor Vehicle Account, mainly due to the increase in risk-free rates coupled with high investment returns during the year increasing the Account's surplus and therefore the funding adjustment. The benefits of the additional surplus are more pronounced in the first few years and don't change the expected long-term claim behaviour. Therefore, in the long term, as with the Motor Vehicle Account, the levies are expected to increase.

Graph 6 shows the projected levy rates calculated at June 2020 compared to the rates calculated at June 2021. It shows the downward shift between 2020 and 2021 but an eventual lift back to a similar rate.

The graph also shows the levy rates if the Government approved a reduction to $0.63 then held this rate for the subsequent two consultation years. If the rates were held lower than recommended, future increases would need to be larger for a few years before the rates caught up. The Work Account can recover more quickly than other Accounts as future increases are not expected to be capped.

GRAPH 6: LEVY PATHWAY FOR THE WORK ACCOUNT



11 *This is assuming a 5% annual cap to be consistent with the funding policy.*

To move toward new year claim costs, continuing levy and appropriation increases are expected in the future

Although the funding positions on all levied Accounts are above target, we expect that future levies will need to increase. Once the surpluses have been returned through lower levies, the income received from future levies needs to be sufficient to cover the new year claim costs. To do this, levies need to gradually increase over time, unless the cost of claims reduces.

The funding position for the Non-Earners' Account, while improved, is still below target. Appropriations are expected to be above new year claim costs until the deficit on the Non-Earners' Account is recovered and the Account returns to target. This means the positive funding adjustment will reduce, returning the recommended levy toward the new year claim costs over time. Once the Non-Earners' Account is at the funding target, the appropriations are expected to increase each year in line with the new year claim costs.

Table 20 shows the estimated future levy rates and appropriations for all Accounts. Where the value is shaded blue, the funding is limited by a cap in that year. For all Accounts, the prescribed levies are low compared to historical rates (refer to ***Appendix G.2***).

TABLE 20: FUTURE LEVY RATES AND APPROPRIATIONS BY ACCOUNT

	Indicative levy rates and appropriation			
	2022/23	2023/24	2024/25	2025/26
Motor Vehicle Account ($ per vehicle)	120.20	128.83	138.08	147.99
Earners' Account ($ per $100 of liable earnings)	1.22	1.27	1.33	1.39
Earners' portion of the Treatment Injury Account ($ per $100 of liable earnings)	0.05	0.06	0.06	0.06
Work Account ($ per $100 of liable earnings)	0.63	0.65	0.67	0.69
Non-Earners' Account ($M)	1,751	1,864	1,924	2,002
Non-Earners' portion of Treatment Injury Account ($M)	263	282	304	319

The recommended annual increases in the funding are gradual, in line with the funding policy. However, as discussed throughout this section, they're necessary to ensure that the funding of the Accounts is sustainable in the long term.

Changes ACC is making in how it operates have yet to generate sufficient improvements in customer and financial outcomes

ACC is working on measuring client outcomes, but there's still more to do

Throughout this report, and in previous FCRs, we've highlighted the need for ACC to better understand and measure client outcomes. It's still not clear whether these outcomes have improved sufficiently to justify the increased spending in recent years.

A recommendation was made in the 2019 FCR that ACC develop a strategic outcomes framework to define and assess the effectiveness of all ACC services. The HOFW was developed and tested externally with stakeholders in 2019/20.

ACC aims to support an appropriate quality of life for clients through the provision of entitlements that restore, to the maximum practicable extent, their health, independence and participation. In order to know if it's achieving this goal, ACC must measure these outcomes through the client's recovery process. The HOFW defines what needs to be measured to capture a picture of a client's rehabilitation progress.

As well as the HOFW, a Māori outcomes framework (Oranga Whānau) and a Mental Health Services Plan are in development.

Work is underway to map out the further work needed to design an integrated customer outcomes framework (using the relevant outcomes from the above frameworks) and the indicators and measures that are appropriate for each outcome.

ACC is also working on a consolidated view of client outcomes collected through patient-reported outcome measures (PROMS) that ACC requests in its contracts. This will be used to inform the construction of ACC's PROMs collection framework for all health providers from which ACC purchases services.

ACC is starting to consider different health outcome measures to support the HSS and the HOFW. It's trialling the collection of health outcome measures via its client feedback management system (Heartbeat). This is the first in a series of proofs of concept to understand how ACC can systematically collect and use health outcome measures to improve customer outcomes.

This work is largely based on Western concepts of health and focuses mainly on aspects of physical and mental health. It doesn't include broader domains of wellbeing and other domains that may be more important to some people, including Māori. The ACC Māori outcomes framework and Māori health frameworks, such as Te Whare Tapa Whā, will help inform the additional measures that are important to include to reflect concepts of Hauora Māori and wider wellbeing.

While there's significant work underway, ACC is still not measuring client outcomes as well as it needs to. It's important that good progress be made on work in development. It's fundamental to the ACC's financial condition that the right client outcomes are delivered at a cost that's reasonable and sustainable for funders of the Scheme.

Work is underway to improve Māori access, outcomes and experience

We reported in last year's FCR that the overall claim rate for Māori has been consistently lower than that for non-Māori for many years, with the exception of serious injury and sensitive claims, where it's higher. While this is still the case, further analysis has shown that individuals who self-declare as Māori in the New Zealand Census don't always self-declare as Māori when interacting with ACC. This is partially offset by individuals who self-declare as Māori with ACC but not in the Census. What this means for claim rates needs further work to understand any disparity for Māori.

Understanding and acting on the drivers of the differences between Māori and non-Māori claim rates is important to the success of the Whāia Te Tika strategy. It may be that there are good reasons for some differences between Māori and non-Māori claim rates, based on need. ACC needs to understand where there are differences that are due to equity or access issues, as these need to be addressed.

ACC's Executive was joined by the Tumu Pae Ora (Chief Māori and Equity Officer) towards the end of April 2021. The new Pae Ora structure has been put in place, with additional resources being provided in mid-October to help deliver mahi that will make a real difference for Māori, more effectively address equity issues and ensure that the organisation has the tools and frameworks it needs to deliver Whāia Te Tika.

At the end of 2020, changes were made to improve access to rongoā Māori services as an alternative to mainstream social rehabilitation services. By introducing a rongoā Māori pathway, the organisation aims to increase equitable access and improve the client experience for Māori. Rongoā Māori services are not only reaching Māori but also non-Māori, who make up about 33% of clients accessing the services. Of the rongoā Māori clients, about 27% of those identified as Māori and 14% of non-Māori accessed very few ACC services prior to accessing the new pathway. There were more than 1,000 rongoā Māori clients in 2020/21.

Rongoā Māori services are reaching some clients with sensitive and serious injuries, where clients identified as Māori are over-represented. About 23% of those utilising rongoā Māori services overall are sensitive claim clients, while about 2.8% have serious injuries. Among clients identified as Māori, about 24% have sensitive claims and approximately 3.4% are seriously injured.

Rongoā Māori services are generally used in conjunction with other services. Of rongoā Māori sensitive claim clients, about 82% of those identified as Māori are also accessing ISSC, approximately 4% are receiving forms of counselling or therapy and at least 7% are receiving other social rehabilitation services. The proportion of social rehabilitation costs attributed to rongoā Māori services was less than 0.1% in 2021, with the service aiming to reach more clients in the following year and expecting the spend to nearly double.

In last year's FCR, we reported on the commissioning of kaupapa Māori services. The development of this pathway, which takes a regional approach, started in 2021. The design process will be Māori-led through local kaupapa Māori suppliers. The initial focus of kaupapa Māori services is on clients with complex and high-level needs. The services will be procured in 12 regions beginning with the Tainui rohe (region), which represents areas with the greatest opportunity to improve customer outcomes and service. The Tainui rohe was selected due to ACC's relationships with iwi and hapū in the rohe, the capacity of local Māori, the high incidence of serious and sensitive injuries in the region and the risks of commissioning in the rohe.

As at 30 June 2020, Māori made up around **16.7%** of New Zealand's **population.** However, since 2019:

- **13%** of all clients lodging claims have identified as Māori
- about **25%** of **serious injury** costs have related to clients who have identified as Māori
- about **21%** of the **weekly compensation** support paid following accidental **deaths** has been provided to whānau of people who have identified as Māori
- about **20%** of **sensitive claim** costs have related to clients who have identified as Māori.

Rongoā Māori is traditional Māori care and healing.

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

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

Oranga Whānau, discussed above, will measure outcomes through indicators that are meaningful to Māori and will help support Ngā Hua Tautika (improved outcomes) aspirations of the Whāia Te Tika strategy. The framework aims to develop service-level measures to track progress in areas that matter for Māori.

As detailed in our update on progress against recommendations on ***page 14***, we have yet to see a clear measurement of Māori-specific services delivering the right client outcomes for Māori at a cost that's reasonable and sustainable for funders of the Scheme.

Work is underway to get a better understanding of access and outcomes for people who experience sexual abuse or assault

Historically, sensitive claims have been notable for their access barriers. The introduction of the ISSC contract in November 2014 was a move to a supplier/provider-led model. Through this, ACC aimed to address access barriers and equity, supplier and consistency issues.

The number of providers available to support clients with sensitive claims has increased significantly since 2014, when providers numbered just over 700. This number more than doubled by 2018 and almost tripled by 2021. Despite this, the ongoing growth in sensitive claims, combined with an ageing provider base, means capacity pressures are being felt across the service.

We've commented in previous FCRs that a greater focus is needed on the services provided to sensitive claim clients to ensure that the spend is achieving good outcomes for clients. Last year's report noted that a review of the ISSC was scheduled to be completed in early 2019, including a strategic component focused on outcomes being delivered. That review wasn't completed and was replaced in early 2021 by the Mental Health Service Plan which is under development. The service plan aims to address the recommendations from last year's FCR on sensitive claims.

ACC is one of 10 government agencies included in the Joint Venture for Family Violence and Sexual Violence. As lead partner in the Joint Venture, the Ministry of Justice is developing a new national strategy and action plans in partnership with Māori.

The ICIP has yet to deliver sufficient customer and financial outcomes

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

The ICIP is a large-scale change programme that has been underway since 2014, with an expected total cost of $669 million and a benefit target net present value of $300 million by 2030. The original benefits to be delivered were:

- a reduction in annual weekly compensation costs of $30 million per annum by 2025/26
- an annual $75 million benefit from the HSS by 2025/26
- better analysis through the Business Analytics platform, leading to actions for improved client outcomes and less fraud, waste and abuse
- efficiency gains.

The net return of the ICIP is at the bottom of the investment/benefit cycle, with most of the investment complete (78% as at 30 June 2021), but it's yet to deliver significant financial benefits.

Most of the foundational work has been completed, with significant investments in modernising systems to minimise operational risks. During 2019/20, the new case management model (NGCM) was delivered along with some of the HSS pilots. Functionality was also added to the Business Analytics platform. These programmes were to have started delivering improvements in client, operational and financial outcomes by now.

In addition to establishing the outcomes frameworks, the organisation has been working on operational and systemic procedures to help deliver better client outcomes. The largest of these is NGCM. Improving outcomes for clients was a key objective in the design of this model, but these haven't yet been delivered from this change.

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

Average weekly compensation days are one of the main claim cost benefits expected to be delivered by the ICIP. Average weekly compensation days have been steadily increasing in the past few years, from a base of 97.4 days in 2014/15 to 105.9 days in 2020/21 (vs the 2019/20 Service Agreement target of 104.4 days). ACC's ultimate target is returning injured people to work an average of 5.5 days sooner than the 2014/15 base. The timeframe to achieve this has been moved from 2024/25 to 2028/29. This benefit is to be delivered from the HSS and NGCM.

Table 21 shows how average weekly compensation days targets have changed over time.

TABLE 21: TARGET OF AVERAGE WEEKLY COMPENSATION DAYS

					Year ending 30 June					
	Baseline	2016	2017	2018	2019	2020	2021	2022	2023	2024
Original ICIP targets	97.4	100.22	99.43	99.31	96.9	96.4	94.4	93.4	92.4	91.9
Actuals then 2021/22 targets	97.4		98.3	98.3	100.6	102.2	105.9	100.6	98.4	96.4

While there has been some improvement in performance since June 2021 (down to 104.8 days), this would still not achieve this year's target. The COVID-19 restrictions after June 2021 will affect the result for 2021/22, making it harder to gauge progress during the year. While ACC is prioritising improving performance, being this far behind schedule and with further COVID-19 disruptions, there's a risk that targets won't be met.

The HSS isn't achieving the benefits required to make planned impacts on rehabilitation outcomes

In the 2020 FCR, we said that the HSS outcomes-based programme's rollout had been affected by COVID-19 lockdowns, reducing ACC claim volumes and at the same time putting pressure on the wider health sector. One year on, volumes have still not reached levels that could have material effects on rehabilitation rates.

While there are some encouraging signs, more evidence of effectiveness is required to build confidence in the four outcomes-based purchasing pilots.

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

Escalated Care Pathways aims to generate savings in weekly compensation through faster recoveries, avoiding costs associated with re-injury and avoiding unnecessary surgery. Referral volumes had reached around 40% of target by July 2021.

ACC is working with providers to help implement plans for increasing referral volumes, including the option of an ACC referral programme (currently, providers are responsible for referring clients into Escalated Care Pathways). While weekly compensation savings are well behind target, in line with the rest of ACC, savings in re-injury costs are indicating a better recovery path.

Non-acute rehabilitation is a pilot programme through which rehabilitation will be provided within community settings. It was developed with DHBs and, along with improving rehabilitation, is expected to reduce demand for hospital beds. However, the funding model, case-mix and outcomes frameworks are still in development.

ACC expected to deliver non-acute rehabilitation progressively to all DHBs from the third quarter of 2020, but the transition of DHBs to a national health authority has caused a delay. No benefits are expected to come through until 2023.

General Practitioner Referred Magnetic Resonance Imaging (MRI) enables ACC clients with qualifying knee, lumbar spine and cervical spine injuries to be referred directly for MRIs by GPs. It removes the need for ACC clients to visit specialists before they can access MRIs, reduces the time to diagnosis and supports clients' recovery back at work.

After delivering a positive client and provider experience through testing, including increased access by Māori and Pasifika clients, ACC offered the service to all 30 primary health organisations (PHOs) in November 2020. As at the end of June 2021, ACC had contracts with four lead PHOs (which cover 16 PHOs across New Zealand) and another four PHOs had notified ACC of their intention to join. Referral rates were approximately 55% of expected as at June 2021.

Clients who've been referred are using, on average, nine fewer weekly compensation days than those with the same injury going through the standard process at the same time.

Integrated Home and Community Support (IHCS) services deliver personal, childcare and home care services intended to help injured clients return to independence or reach their maximum levels of participation in everyday life. They're provided by five contracted suppliers, of which many have their own networks of specialised, regional or kaupapa Māori organisations.

ACC is moving to a 'case-mix' funding model for IHCS, purchasing outcomes instead of services. This should enable providers to be more flexible in meeting client needs, while allowing ACC to control financial risks and promote efficiencies.

In 2020/21, most suppliers experienced a sharp decrease in demand due to COVID-19 restrictions, so the model's implementation was split into multiple phases, starting with low-complexity clients. Phase 1 went live in December 2020, and a post-implementation evaluation has yet to be completed. Feedback from providers new to case-mix funding indicate it has required more work than anticipated. Phase 2 (for more complex clients) has been put on hold.

From the inception of HSS a significant proportion of the benefits to be delivered relied on new programmes not yet in development. While ACC now has a plan to deliver some of these benefits, further initiatives are required to realise the overall projected benefit profile for the HSS. Opportunities to deliver just over half of the expected benefits ($177.5 million present value) have yet to be developed. Next year was originally to be the last year of investment in the ICIP investment cycle. This is likely be extended.

The HSS plans to deliver a substantial part of the ICIP benefits. It's important that the HSS benefits are achieved or the ICIP won't meet its expected target for benefits.

The Business Analytics Platform (BAP) is returning benefits

The BAP is the third component of the ICIP that aims to deliver claim cost benefits. The functionality of this platform allows ACC to use more advanced analytical techniques to develop predictive models and test hypotheses. It's successfully leading to actions for less fraud, waste and abuse.

The October 2020 expected benefit for 2020/21 was $12 million from data-led interventions. There were no original expected benefits for the BAP. The actual benefit achieved was $20 million. The target for data-led interventions for the 2021/22 year is $22 million, followed by $23 million the following year and $24 million the year after that.

Benefits must be delivered from the HSS and NGCM

The claim cost benefits of the ICIP are behind the original expected benefit timeframes. In October 2020 targets were reset. The ICIP did meet these new financial targets during 2020/21, with efficiency and other gains offsetting losses from expected claim cost savings. We focus on claim benefits from the ICIP as these are the benefits that give an indication of improving outcomes for clients. Claims benefits are achieved from average weekly compensation days savings, HSS and vocational rehabilitation savings

Originally these ICIP outcomes were expected to have achieved a reduction in claim costs of $73.1 million by 30 June 2021. However, the actual claim cost from these to 30 June 2020 has been an increase of $24.7 million, a difference of $97.8 million. Of this, $88 million is from average weekly compensation days being higher than expected.

The COVID-19 restrictions after June 2021 will impact the result for 2021/22, making it harder to gauge progress during the year. ACC is working to deliver the benefits of this major investment. This will be difficult given these challenges and the amount of ground to reclaim.

ACC must continue to increase its focus on improving customer and financial outcomes

Claim performance is a good proxy for how well ACC is delivering customer outcomes. While ACC's financial condition improved during 2020/21 due to economic conditions, claim performance deteriorated further.

The main drivers remain deteriorating rehabilitation performance in weekly compensation, sensitive claims staying on the Scheme for longer than expected, social rehabilitation care hours being higher than expected, and higher spending on large social rehabilitation capital items. These tend to be longer-term claims.

There are also signs that delivery of planned ICIP and injury prevention benefits is at risk.

In addition to these performance and customer outcomes challenges, ACC needs to deliver more effective services to key customer groups (such as Māori) and people with more complex needs (such as serious injuries or sensitive claims).

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

There are seven open recommendations made in previous FCRs that cover many of these areas. As discussed earlier in this report, we have seen some progress against most of these during the year. There are signs that ACC is bringing a more appropriate level of focus to some of these recommendations than has been the case in the past. In some cases, though, progress has been slow.

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

As at 30 June 2021, ACC's risk profile is 'medium'. This has come down from 20 June 2020 when it was 'high'. Six out of the 19 individual enterprise risks are rated high (see ***Appendix B.4***), including:

- Māori access and outcomes.
- Customer outcomes.
- Claim cost management.
- Benefits from the ICIP investment.

We've discussed throughout this report how ACC is responding to these risks. The six high-rated enterprise risks have remained the same for over a year, reflecting that ACC hasn't yet effectively mitigated them. These risks tie closely to our open recommendations.

Glossary of key terms

ACC Accounts:

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment and compensation claim that ACC pays. For information on the coverage and funding for each Account see ***Appendix A.2***.

Appropriation:

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

Claim frequency:

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

Claim payment types:

Types of payment ACC makes to provide compensation and rehabilitation to clients, shown in ***Appendix A.1***.

Claim severity:

The average lifetime cost of a claim.

Client:

A person who makes a claim under the Scheme.

Continuance rates:

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

Customer:

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

Deficit:

An excess of expenditure over income.

Enterprise Risk Management/ Enterprise Risk Management Framework:

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

Full funding:

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

Funding adjustment:

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

Funding policy:

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

Funding position:

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

Funding ratio:

The ratio of assets held to liabilities.

Health Outcomes Framework (HOFW):

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

Health Sector Strategy (HSS):

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

Influenceable strain/release:

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

Integrated Change Investment Portfolio (ICIP):

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

- Next Generation Case Management (NGCM) – see ***Appendix A.6*** for detail
- Health Sector Strategy (HSS) – see ***page 79*** for detail
- Business Analytics Platform (BAP) – see ***page 80*** for detail.

Kaupapa Māori:

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

Levied Accounts:

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

Levies/Levy:

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

Levy payers:

Funders of the levied Accounts. See ***Appendix A.3***.

Long-term claims pool:

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

New year claim:

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

New year claim costs:

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

Non-serious injury:

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

OCL strain/release:

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

Outcomes-based purchasing:

A model under which providers are accountable for client outcomes rather than delivering specific services.

Outstanding claims liability (OCL):

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

Pay As You Go (PAYG):

Claims are funded as costs arise.

Risk-free rate:

The Treasury prescribes the risk-free rates used in financial accounting for all Crown entities. Risk-free rates reflect the yields of New Zealand Government bonds. The long-term risk-free rate is based on long-term historical norms.

Risk margin:

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

Rongoā Māori:

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

Serious injury:

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

Service Agreement:

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

Superimposed inflation:

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

Surplus:

An excess of income over expenditure.

Unexpired risk liability:

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

Acronyms

AC Act:

Accident Compensation Act 2001

AEP:

Accredited Employers Programme

CPI:

Consumer price index

DHB:

District health board

FCR:

Financial Condition Report

GP:

General practitioner

HOFW:

Health Outcomes Framework

HSS:

Health Sector Strategy

ICIP:

Integrated Change Investment Portfolio

IHCS:

Integrated Home and Community Support Services

ISSC:

Integrated Services for Sensitive Claims

LCI:

Labour cost index

MRI:

Magnetic resonance imaging

MDWG

Māori Data Working Group

NGCM:

Next Generation Case Management

NZ IFRS 4 (PBE):

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

OCL:

Outstanding claims liability

PAYE:

Pay As You Earn

PAYG:

Pay As You Go

ROI:

Return on investment

SAA:

Strategic asset allocation

Appendix A – Additional background information

A.1 Types of payment ACC makes to rehabilitate and compensate clients

Table 22 summarises the main payments the Scheme makes to rehabilitate and compensate people with covered personal injuries.

TABLE 22: SCHEDULE OF SERVICES

Medical			
Public health acute services			Accidental injury costs from acute inpatient care, emergency department, outpatient, complex burns, pharmaceuticals and laboratories.
General practitioners (GPs)			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 include counselling for claims that need support beyond physical injuries.
Compensation			
Weekly compensation – non-fatal			Loss of earnings based on 80% of weekly income (capped) before incapacity from the injury occurred and loss of potential earnings for minors.
Death benefits			Funeral grants and support for spouses and/or dependants.
Lump sum and independence allowance			Additional support to compensate for permanent impairment due to injury. This includes work-related gradual process claims that result from ongoing exposure to an element (e.g. asbestos). For injuries that occurred on or after 1 April 2002 are paid by lump sum. Eligible claims for injuries before 1 April 2002 receive quarterly independence allowance payments. These payments may also be paid to clients with gradual process, sensitive or treatment injury claims, if the exposure occurred on or before 31 March 2002.
Rehabilitation			
Vocational			Programmes to support clients' returns to independence.
Social rehabilitation	Serious injury	Capital	Mainly housing and motor vehicle modifications for people with serious injuries.
		Non-capital	Care costs (such as attendant care and assessments) and other costs related to serious injury.
	Non-serious injury	Capital	Mainly equipment, orthotics for splints, medical consumables and residential modification costs for people with non-serious injuries. Includes ongoing aids and appliances for hearing loss suffered through traumatic events or prolonged work exposure to loud noise.
		Non-capital	Providing care, assessments and other social rehabilitation support for people with non-serious injuries.

A.2 ACC's five Accounts

ACC manages five Accounts, each funded differently. Combined, these Accounts fund every accident, treatment and compensation claim that ACC pays. The funding of each Account is matched with where injury risks happen. Table 23 summarises the coverage and levies/funding of each Account.

TABLE 23: ACCOUNT DESCRIPTION

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

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

A.3 Exposure and funding base

Exposure is the number of people with the potential to claim. The funding base refers to those with the ability to pay levies and appropriations. Although the two are usually linked, they're not the same.

Exposure

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

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

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

Changing economic conditions can influence these factors. When economic conditions change, the activities people participate in and their attitudes to making claims can also change. For example, an economic downturn tends to be associated with a reduction in physical injuries due to a decline in the number of people participating in leisure activities.

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

Each Account has a different measure for exposure because each covers different types of claims and people. The way exposure is used to measure those with the potential to claim is explained below, by Account:

- **Earners' Account:** the number of people working and earning in New Zealand (including those receiving weekly compensation payments) is estimated from the labour force of New Zealand less those who are unemployed. Quarterly estimates for both the labour force and the number unemployed come from the Treasury's budget releases. We call this the Earners' Account population or the earner population.
- **Non-Earners' Account:** the remaining New Zealand population is estimated from the Treasury's total population less the Earners' Account population. Non-working tourists are included in the population. We call this the Non-Earners' Account population or the non-earner population.
- **Work Account:** the number of people working and earning in New Zealand, estimated as for the Earners' Account. People working for accredited employers or not working while receiving weekly compensation are not included in the Work Account exposure.
- **Motor Vehicle Account:** the estimated number of vehicles on the road is based on Waka Kotahi NZ Transport Agency historical levels of vehicle registrations. These are also used to forecast future registrations. This includes rental vehicles that tourists may use to travel around New Zealand.
- **Treatment Injury Account:** this Account covers the whole New Zealand population. It's split between the earner population and the non-earner population.

Funding base

New Zealand levy payers and taxpayers fund ACC in a different way for each Account. For each of the levied Accounts, we calculate the levy using a 'levy base' that's linked to the way of collecting funds. For example, motor vehicle owners and drivers fund the Motor Vehicle Account through vehicle registrations and a levy on petrol. So, changes in the amount of petrol consumed or the number and types of vehicles registered affect the levy base and the levy for this Account.

ACC uses external estimates and forecasts to quantify the levy base. Often changes in levy bases will also be reflected in changes in the volume and types of claims made, but these are not always fully aligned. For example, an increase in the number of electric vehicles on New Zealand roads will decrease the levy available from petrol consumption, but won't necessarily decrease the number of claims from motor vehicle accidents.

Levies and appropriations are set in advance, based on the expected claim volumes, types and costs, and (for the levied Accounts) the levy base. There can be a difference in the timing of when changes are reflected in claims and the levy base. When these timings change unexpectedly, the funding collected can be different from what's needed, affecting ACC's financial condition. For example, a significant and unexpected increase in unemployment will mean more claims need to be funded by the Non-Earners' appropriation than we allowed for in our calculations.

The funding bases for each Account are:

- **Earners' Account:** ACC uses total liable earnings paid to workers. This includes liable earnings for self-employed people, shareholder employees and people receiving weekly compensation payments from ACC. Liable earnings are limited to a maximum of $130,911 to 31 March 2021 and this is subject to change each year. Inland Revenue sends ACC information monthly about 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.
- **Non-Earners' Account:** ACC receives an annual appropriation from the Government, which comes from the general tax pool.
- **Work Account:** ACC uses liable earnings as per the Earners' Account, less liable earnings paid to those employed by accredited employers and weekly compensation paid to clients. It does not include those not working while receiving weekly compensation.
- **Motor Vehicle Account:** ACC uses the number of vehicle registrations and the level of petrol consumption in New Zealand. We use the historical level of petrol consumption, supplied by the Ministry of Business, Innovation

and Employment, to project future consumption. Levies are paid alongside the registration of vehicles and a petrol levy is collected as oil enters the country.

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

A.4 Funding policies

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

Funding policy for the levied Accounts

The Government's funding policy for the levied Accounts (the Motor Vehicle, Earners' and Work Accounts) is in a statement gazetted in April 2021 (Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts). The policy, as worded in the gazette, is outlined below.

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

a. ACC must base the aggregate levy rate for a year on the expected lifetime cost of claims in relation to injuries occurring in that year ("expected lifetime cost of claims in the levy year").

b. Each Account must target a funding ratio of 100%. The funding ratio is calculated by dividing the assets by the liabilities.

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

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

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

   including:

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

   and excluding:

   - liability for the AEP
   - the OCL risk margin

c. ACC must include an adjustment to the aggregate rate that takes the Account's funding ratio to the target defined in b. smoothly over a ten-year horizon. This is to be achieved by setting the adjustment at a fixed proportion of expected lifetime injury costs in the levy year, and for each year over a ten-year horizon.

d. Any annual increase to the aggregate levy rate for each Account must not exceed 5% (in addition to inflation adjustments for the Motor Vehicle Account).

e. Steps a. to d. are repeated for each levy period in the period for which ACC is recommending levies.

Funding policy for the Non-Earners' Account

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

TABLE 24: NON-EARNERS' ACCOUNT FUNDING POLICY FROM 2019/20

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

A.5 Products available to business customers

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

The Work Account offers three products – the Accredited Employers Programme (AEP), CoverPlus Extra (CPX) and Experience Rating. The Motor Vehicle Account offers one product – the Fleet Saver Discount. No products are offered in the Earners' Account, the Non-Earners' Account or the Treatment Injury Account.

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

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

Accredited Employers Programme

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

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

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

Full Self Cover

Around 72% of all Accredited Employers (AEs) have full self cover. This means that the employer is solely responsible for the lifetime cost of any injury incurred at work by their employees during the 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 employer pays ACC an amount equal to the estimated remaining lifetime cost of all open claims. Any claims which are notified, or are re-opened after the end of the claim-management period, are not included in the handback calculations. Payments on these claims are invoiced to the employer as they emerge.

The average discount for AEs on the FSC plan is around 92%.

Partnership Discount Plan

The remaining 28% of AEs are on the PDP plan. Each employer selects a claim-management period of one or two years. For the duration of this period, AEs 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 for AEs on the PDP plan is between 50% and 60%, depending on the duration they select to manage claims.

CoverPlus Extra

This is an optional cover product, which allows self-employed workers to choose how much of their income is covered if they have an accident and can't work. The level of compensation paid, and the levy charged, varies according to the cover amount.

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

There are two options for CPX cover:

1. **Full compensation:** under this option, ACC pays 100% of the agreed compensation until the client gets back to full-time work. This option incurs additional costs for providing 100% weekly compensation while they're unable to work full time, rather than reducing the weekly compensation for a partial return to work.
2. **Lower levels of weekly compensation:** under this option, the level of compensation paid reduces as the client gradually returns to work. No amount is paid once the client is able to substantially do their pre-injury work, which is the same as the standard weekly compensation ACC offers 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. Which category a business falls into is determined by the amount of levy paid in the previous three years.

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

- Those who have had no weekly compensation days paid and no accidental death claims will receive a 10% discount.
- Businesses with over 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 unit.

Businesses that pay over $10,000 in levies each year are experience rated. The Work Account levy may be increased by up to 75% or decreased by up to 50%. The experience rating is determined by considering their 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 Safety incentive programme designed to improve the safety performance of commercial vehicle fleets.

Businesses with five or more vehicles weighing more than 3,500kg, 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. Around 105,000 businesses are eligible for this product, but only 8.7% have opted to be part of it.

There are three levels of accreditation, depending on the level of on-road and workplace safety practices. The discount available differs for each accreditation level. Bronze Fleet Saver Members receive a 15% reduction to levies, silver a 25% discount, and gold a 40% discount.

A.6 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.

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

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

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

1. **Enabled recovery** (approximately 15% of claims): clients primarily manage their own recovery using an online portal to select services and regularly check in.
   Example: An office worker with a wrist fracture who's still able to work most of the time.
2. **Assisted recovery** (approximately 52% of claims): clients primarily manage their own recovery. Members of the ACC team contact them if there's something specific to discuss.
   Example: A teacher with a dislocated shoulder who requires additional services to assist with their recovery.
3. **Supported recovery** (approximately 16% of claims): clients have a dedicated ACC contact who works with them on their recovery.
   Example: A farmer with a disc prolapse. Coordination by ACC will help manage multiple providers, challenging work environments, and additional services that may be needed throughout the farmer's recovery.

4. **Partnered recovery** (approximately 17% of claims): clients build relationships with dedicated ACC contacts who support them in managing their injuries and recovery.
   Example: A client with paraplegia who needs expert support to coordinate specialised services. This support may continue for an indefinite period.

ACC screens all claims at the point of registration to establish which recovery teams are best suited to the clients and their needs. These decisions aren't based purely on injury diagnosis. 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.

Appendix B – 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.

B.1 ACC 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/NZS ISO 31000:2009 Risk Management: Principles and guidelines*.

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

- effective and efficient continuity of operations
- safeguarding of assets
- preservation and enhancement of reputation
- reliability of internal and external reporting
- compliance with applicable laws and regulations
- a culture consistent with our risk tolerance.

The Executive and the ACC Board's Risk Assurance and Audit Committee monitor and evaluate ACC's framework, maturity and internal control environment. ACC's assurance function and external co-source partner independently advise on the:

- risk and controls environment
- effectiveness of risk management.

B.2 ACC 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.

B.3 The Five Lines of Assurance risk model

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

The model:

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

The Five Lines of Assurance are described in Table 25.

TABLE 25: FIVE LINES OF ASSURANCE

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

B.4 The six priority risks for ACC

Table 26 shows the Board's and the Executive's six highest-priority enterprise risks during 2020/21. It also includes most of the actions agreed as at 30 June 2021 that management is taking in response.

TABLE 26: ACC'S HIGH-PRIORITY ENTERPRISE RISKS AS AT 30 JUNE 2021

Risk	Management actions include
Benefits ACC fails to identify and/or realise the short- and long-term outcomes and benefits of the transformation investment effectively.	• Embed an ACC data model standard to exchange data with other agencies and across sectors to improve interoperability and productivity. • Implement an Enterprise Prioritisation Framework to assess enterprise-wide priorities, improve decision-making and promote risk-taking, where warranted. • Review and implement the Enterprise Benefits Management Framework, which reflects greater maturity and volume of change.
Customer outcomes If we don't define and measure outcomes effectively, we may not fulfil our obligations under Te Tiriti o Waitangi and may fail to meet the current and future needs of our customers in the context of ACC's strategic outcomes.	• Development and implementation of a Health Outcomes Framework (HOFW) as a tool for identifying and structuring the health outcomes that matter for our customers. • Design and development of a customer outcomes framework for defining and assessing the effectiveness of all ACC services. • Creation of a Whāia Te Tika Action Plan to improve Māori client access, experience and outcomes.
Claim cost management ACC does not adequately anticipate, monitor and respond to claim cost performance trends, resulting in pressures on levy rates.	• Address performance of the Long-Term Claims Pool by initiatives that (among other things) improve rehabilitation times and ensure clients receive optimal care. • Alignment of ACC's services to clinical evidence, where overall spend and average cost per claim is reduced while maintaining efficacy for the customer. • Initiatives related to expenditure on some capital cost items to ensure that the expenditure is as efficient as practicable.
Response and business interruption management Failure to respond to and recover from a business interruption effectively.	• Deliver Business Continuity Work Programme, which will improve the organisation's ability to operate during a business disruption event and recover in a timely manner. • Organisational review of preparedness for cyber security incidents.
Māori access and outcomes ACC fails to make progress in implementing initiatives that are meaningful, scalable or timely enough to improve Scheme access and outcomes and engagement with Māori materially.	• Increase the number and range of kaupapa Māori services available to communities and injured clients. • Increase cultural intelligence and capability across ACC. • Measure our progress and evaluate our impact through insights gained by the creation of a Māori Customer Advisory panel and engagement in research of Māori client access, experience and outcomes.
Model Reliance on material models to facilitate key organisational decisions results in unintended outcomes due to a limitation in that model as a result of a lack of judgement applied to the interpretation of the model's output, poor model calibration, model design flaw or documentation.	• Finalise model policy and standards. • Complete gap assessment between existing model practices and framework. Take steps to address any gaps. • Establish and embed model governance and ongoing compliance monitoring.

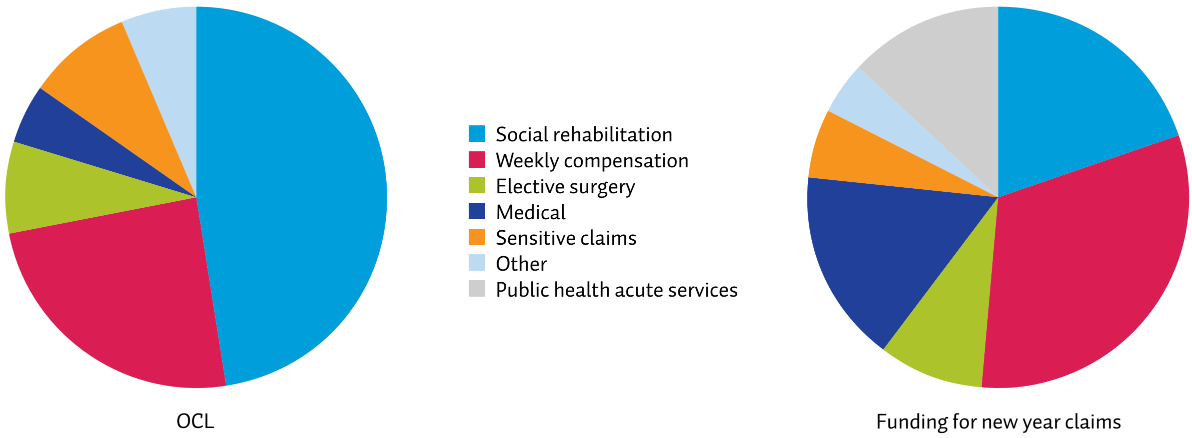
Appendix C – Claim volumes, types and costs

C.1 Comparison of contribution of payment types' contribution to the outstanding claims liability (OCL) and funding for new year claims

Claim volumes, types and costs affect the OCL, levy rates and government appropriations.

Graph 7 shows that the contribution of claim types to this year's OCL at 30 June 2021 is different from the lifetime costs of new claims in 2022/23.

GRAPH 7: COMPARISON OF CLAIM TYPES' CONTRIBUTION TO OCL AND FUNDING FOR NEW YEAR CLAIMS



The five largest claim payment types (social rehabilitation, weekly compensation, elective surgery, medical and sensitive claims) made up 94% of the 30 June 2021 OCL and 83% of the funding for new year claims.

Social rehabilitation includes capital purchases and non-capital services provided to serious injury and non-serious injury claims. It made up half of the OCL, because this kind of support is long term, but it made up a smaller proportion of the funding for new year claims. On the other hand, the medical payment type made up a small proportion of the OCL, but a larger component of the new year claim costs. This is because volumes were high, but in most cases the costs of the injuries were covered immediately so there was no need to hold additional funds.

Table 27 shows the influenceable and non-influenceable changes in OCL (including work-related gradual process claims incurred but not reported) by payment type during the 2020/21 financial year. The changes in OCL exclude expected OCL movement and movement due to changes in economic assumptions. The total OCL balance is also included to provide an indication of the materiality of the OCL change for each payment type.

TABLE 27: CHANGE IN OCL BY PAYMENT TYPE DURING THE 2020/21 FINANCIAL YEAR

$M	OCL balance as at 30 June 2021	Influenceable change in OCL during 2020/21	Non-influenceable change in OCL during 2020/21	Total change in OCL during 2020/21
Weekly compensation – non-fatal	11,523	438	40	478
Sensitive claims	4,280	249	(80)	169
Serious injury non-capital	18,320	80	(29)	52
Serious injury capital	2,442	(3)	55	53
Non-serious injury non-capital	1,251	42	(1)	41
Non-serious injury capital	625	6	1	7
Elective surgery	3,761	(103)	10	(93)
Medical	2,306	(2)	4	2
Other	5,438	(244)	(15)	(259)
Total	**49,947**	**465**	**(15)**	**450**

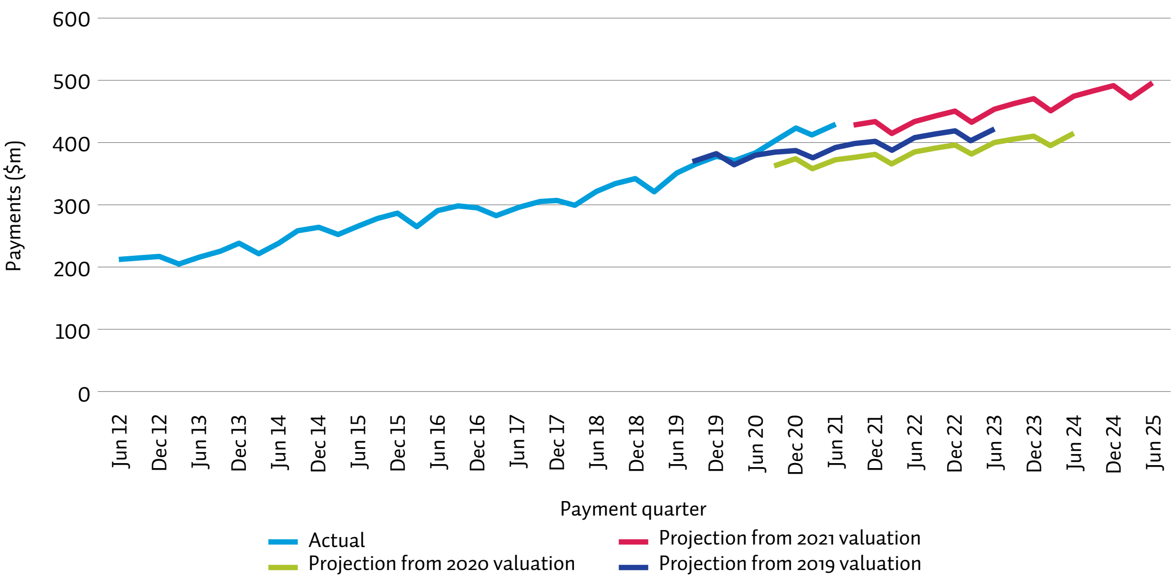
C.2 Weekly compensation

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

The OCL for weekly compensation at 30 June 2021 was $11.5 billion. Of this, $4.8 billion is for claims less than five years old and $6.8 billion is for claims older than five years.

Graph 8 shows the actual and projected quarterly weekly compensation payments in the June 2021 and the two previous June valuations. The projections include claims from expected future accidents. The graph shows that total payments during 2020/21 were much higher than previously projected. The 2020 valuation projections were below those from 2019 valuation due to the COVID-19 restrictions significantly reducing the number of new claims, but this has since rebounded.

GRAPH 8: NON-FATAL WEEKLY COMPENSATION CLAIM PAYMENTS

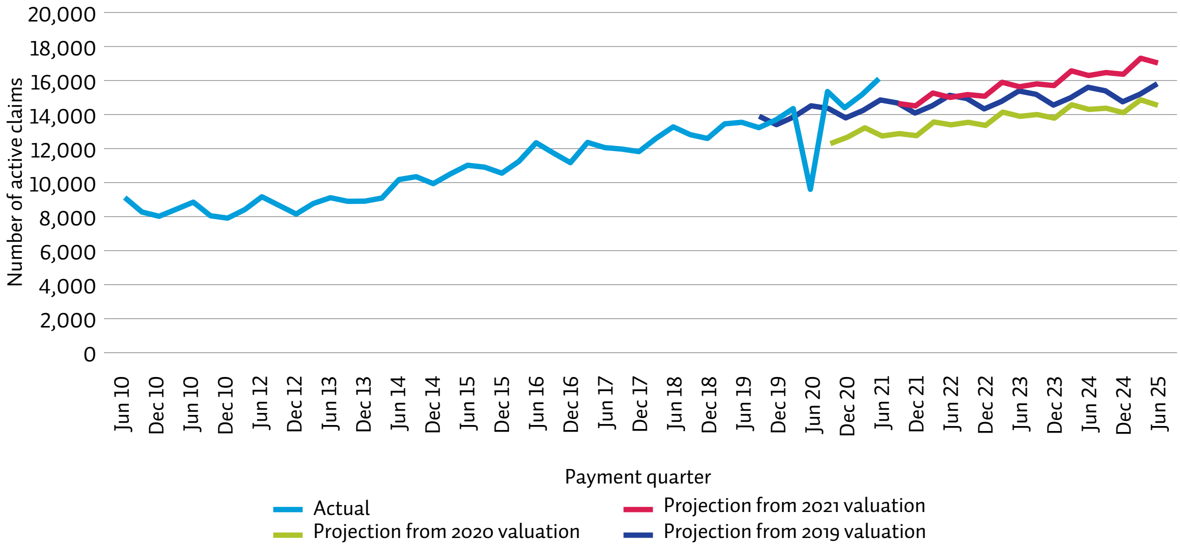


The influenceable OCL strain in weekly compensation was $438 million

This year's influenceable strain in weekly compensation followed six years of influenceable strain, totalling just under $2 billion. Key drivers in the past have included higher-than-expected new claim volume growth and lower-than-expected rehabilitation rates. These continue to be the drivers for the OCL this year, which caused it to increase by $494 million. This increase is mostly from claims less than five-years old and is across most Accounts, particularly for the Earners' Account. For claims older than five years, the rehabilitation performance is slightly better than expected in most Accounts, particularly the Motor Vehicle Account. The better-than-expected rehabilitation performance for claims older than five years led to an OCL release of $55 million overall.

Graph 9 shows the number of weekly compensation claims less than five years old in the Earner's Account is higher than expected. The resulting OCL strain was $180 million, the largest contributor to the $494 million OCL increase. The high number of active claims since June 2020 is mainly due to high numbers of new claims after the COVID-19 restrictions and significantly worse short-term rehabilitation rates. The valuation assumes the claims pattern will return close to pre-COVID-19 levels. The result is the projected number of active claims starts close to the volume seen in March 2020.

GRAPH 9: EARNERS' ACCOUNT ACTIVE CLAIMS <5 YEARS POST-ACCIDENT



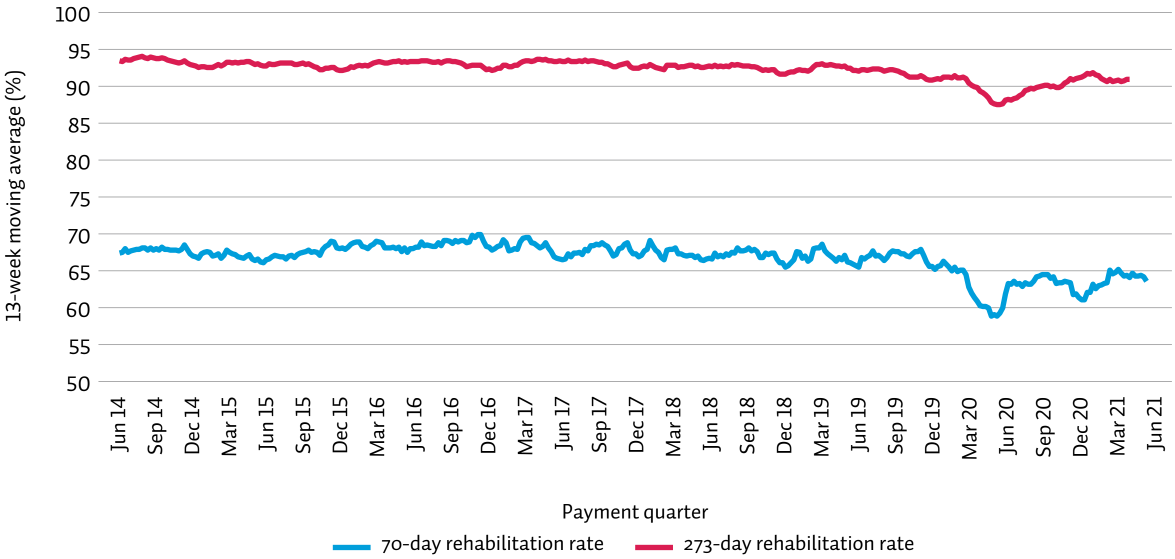
The short-term rehabilitation performance is deteriorating

High new claim volumes and the deterioration in the rehabilitation performance for claims under five years old is putting pressure on frontline claim management.

Graph 10 shows the 70-day and 273-day rehabilitation rates in the past seven years. The 70-day rehabilitation rate has consistently deteriorated from around 70% down to around 63% and the 273-day rehabilitation rate from almost 95% to around 90%.

'n'-day rehabilitation rates measure the proportion of clients receiving **weekly compensation** who return to work within 'n' days. A client is considered to have returned to work five weeks after the cessation of weekly compensation payments. This is presented as a 52-week rolling average result.

GRAPH 10: SHORT-TERM REHABILITATION RATES



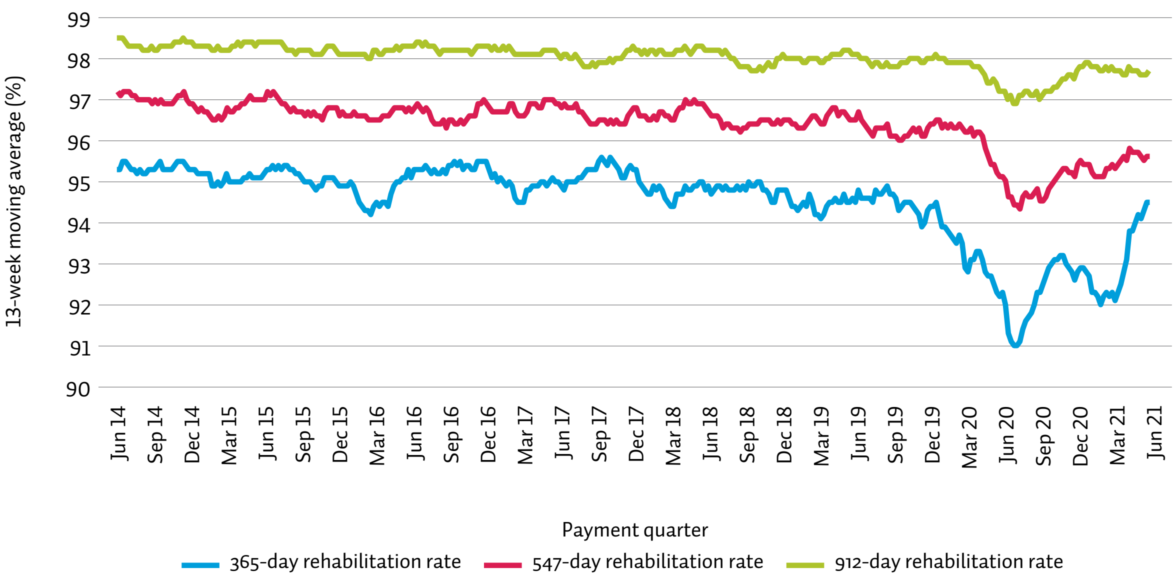
Medium- to long-term rehabilitation performance is under pressure

It becomes more difficult to rehabilitate weekly compensation claims the longer they stay with the Scheme. As a result, the OCL is larger for older claims. 17% of weekly compensation claims are older than five years, yet they make up almost 60% of the weekly compensation OCL.

The rehabilitation performance for longer-duration claims was mostly at or slightly better than expected in 2020/21. However, in the six years to June 2020 much of the OCL strain in weekly compensation related to worse-than-expected rehabilitation performance, particularly in the longer durations. The deterioration in short-term rehabilitation performance in the past few years increases the risk to rehabilitation performance for longer durations.

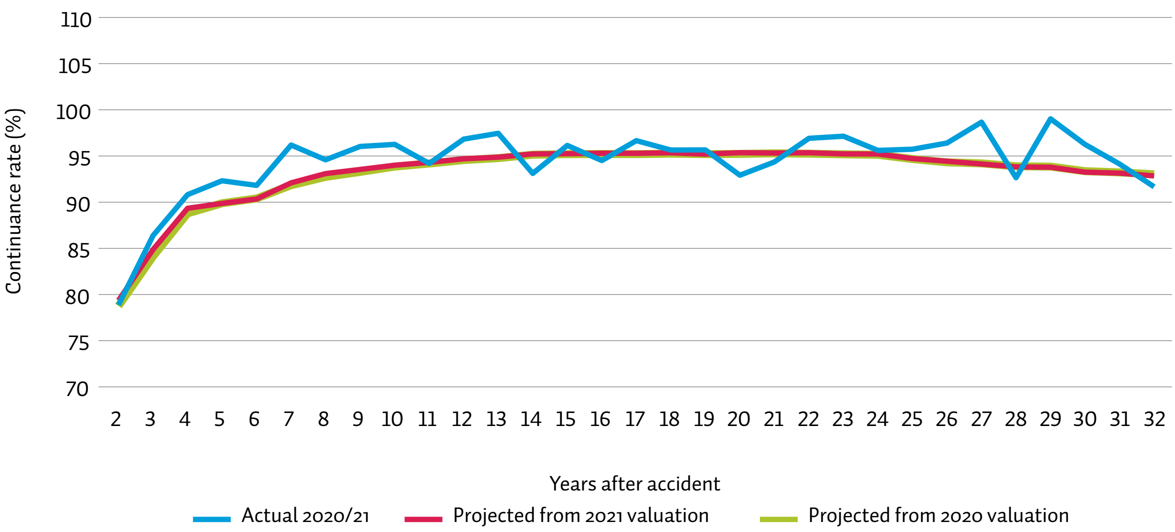
Graph 11 shows 365-day, 541-day and 912-day rehabilitation rate measures in the past seven years. Like short durations, these longer-duration rehabilitation rates have all deteriorated during the past seven years.

GRAPH 11: MEDIUM- TO LONG-TERM REHABILITATION RATES



Graph 12 shows the actual continuance rates at different durations in comparison to the 2020 and 2021 valuation assumptions.

GRAPH 12: CONTINUANCE RATES FOR WEEKLY COMPENSATION



The actual continuance rates for claims with accidents within the past 13 years are worse than projected from both 2020 and 2021 valuations. The valuation actuary responded to this by slightly increasing the continuance rate assumptions for these durations in the 2021 valuation. Some of this performance was attributable to impact of COVID-19 restrictions and was not fully reflected.

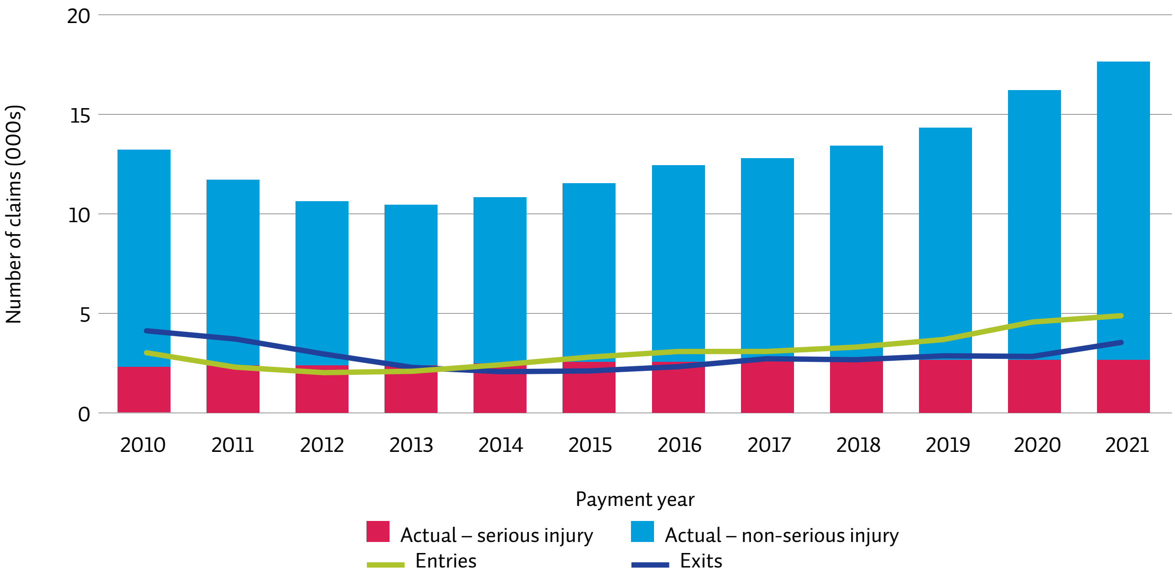
Actual continuance rates for claims with accidents older than 20 years are also worse than projected. Assumptions at these durations are considered long-term assumptions and small changes can result in a large OCL movement. These are typically set taking a long-term view to reduce volatility in the OCL. If long-term claim performance continues to be poor this will put pressure on the long-term assumptions and may result in a significant OCL change.

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

The long-term claims pool refers to claims that have received more than 365 days' cumulative weekly compensation. Deteriorating short-term rehabilitation rates have increased the number of clients entering the long-term claims pool in the past few years, while deteriorating longer-term rehabilitation has seen the numbers leaving the pool falling below the number of new entrants.

Graph 13 shows the historical numbers of long-term weekly compensation claims. The growth in the long-term claims pool for the 12 months to June 2021 was 8.8%. During the past two years, the number of new entries to the pool was much higher than the number of exits. Some of this was attributable to an active decision made during the COVID-19 restrictions to suspend entitlement and vocational independence decisions during Alert Levels 4 and 3. This is likely to be evident again in 2021/22 as New Zealand entered Alert Level 4 on 17 August 2021. It was also a product of a decline in both short and long-term rehabilitation performance. Of concern is the growing proportion of the pool comprising non-seriously injured clients. It's worth noting that the number of exits is beginning to improve in 2020/21, both in numbers and as a proportion of the total pool.

GRAPH 13: LONG-TERM WEEKLY COMPENSATION CLAIMS



C.3 Sensitive claims

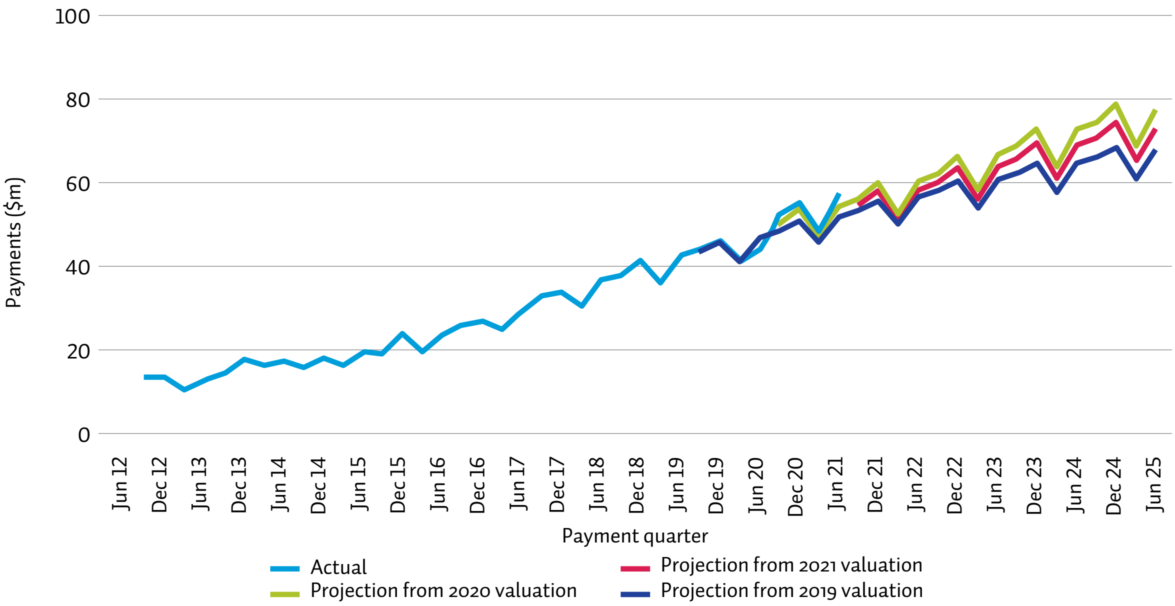
Sensitive claims are claims for physical and/or mental injury suffered as a result of sexual abuse or sexual assault. Sensitive claim clients receive six main types of payment:

1. weekly compensation payments
2. other-medical counselling services
3. independence allowance
4. lump sums
5. vocational rehabilitation
6. non-serious-injury care.

The OCL for sensitive claims at 30 June 2021 was $4.3 billion. The OCL strain in the past seven years is $1.4 billion in total, mainly driven by higher growth of new claim volumes.

Graph 14 shows the actual and projected quarterly weekly compensation payments in the June 2021 and the two previous June valuations. The projections include projected claims from future periods. The graph shows that total payments during 2020/21 were higher than previously projected and resulted in an OCL strain. The projected number of future claims has reduced, reflecting lower-than-expected new claim growth in 2020/21, resulting in total future claim payments below what was projected from the 2020 valuation.

GRAPH 14: SENSITIVE CLAIM PAYMENTS

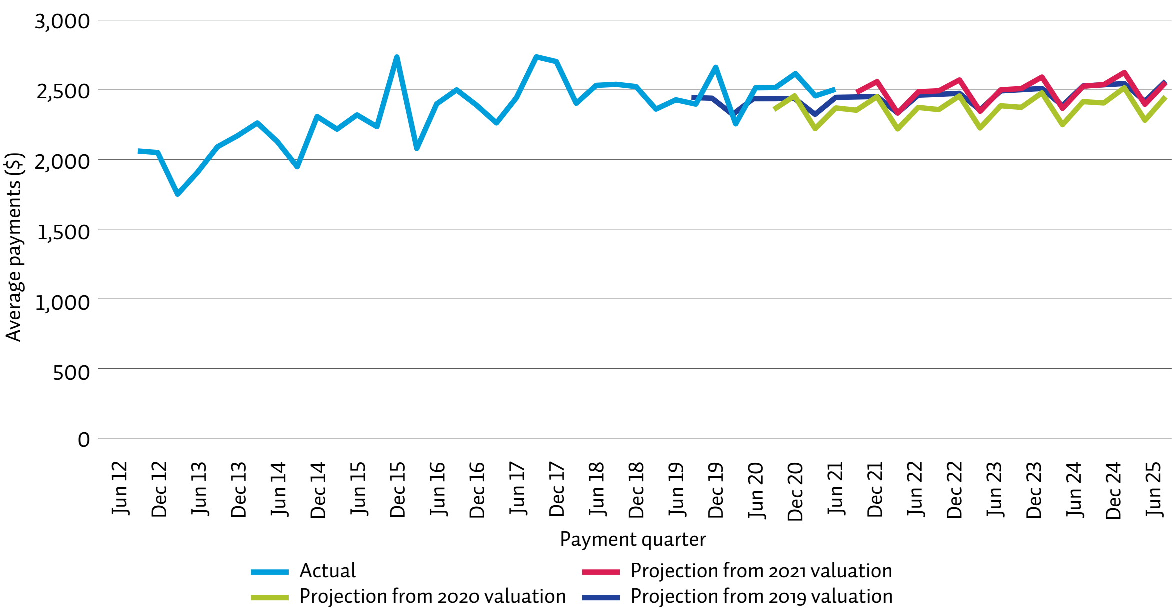


The influenceable OCL strain in sensitive claims was $249 million

Growth in new sensitive claims has been high since June 2014 and this has contributed to the overall growth in claim costs. In 2020/21, average claim costs were higher than expected, particularly for the Earners' Account. This resulted in an OCL strain of $158 million, which was partially offset by lower-than-expected claim volumes, especially from new claims. There are provider capacity issues across the sector which might be masking the underlying volume. The OCL release due to lower claim volumes was $49 million.

Graph 15 shows the average claim cost for sensitive claims in the Earners' Account.

GRAPH 15: SENSITIVE CLAIMS AVERAGE PAYMENTS FOR THE EARNERS' ACCOUNT

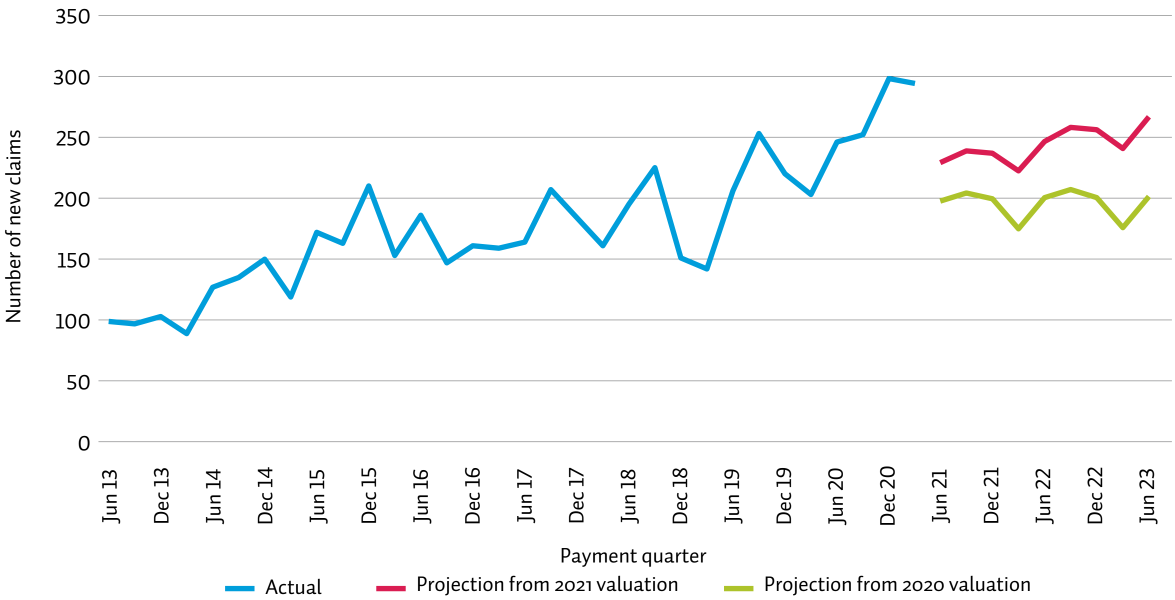


There was a data coding issue during the year that caused the incident date for many new sensitive claims to be incorrectly recorded. This mainly impacted claims where the incident occurred more than two years ago. This resulted in a large increase of new sensitive claims with an older incident date. Data cleaning has initially focused on new claims with an incident date older than five years. Further data cleaning is underway which may result in additional changes.

Given this data uncertainty, it was decided to partially allow for the high number of new claims with older incident dates when setting the assumptions for new claim volumes. This resulted in an OCL increase of $233 million.

Graph 16 shows the number of new sensitive claims from incidents older than two years.

GRAPH 16: NUMBER OF NEW SENSITIVE CLAIMS FROM INCIDENTS OLDER THAN TWO YEARS



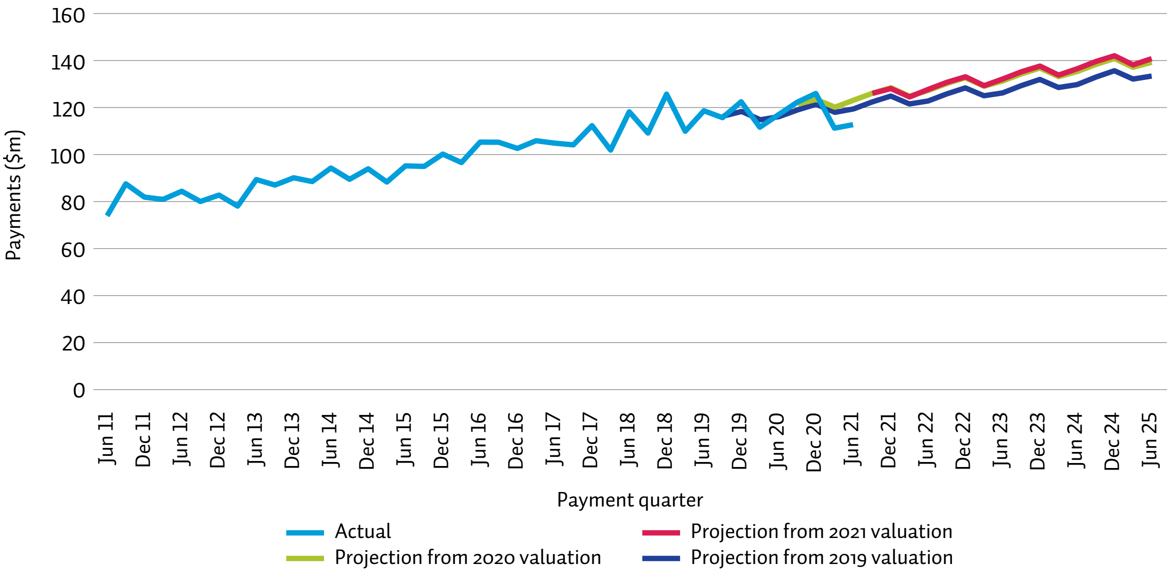
C.4 Serious injury non-capital

Social rehabilitation non-capital payments are for care support (attendant care, home help, childcare and residential care) and non-care support (active rehabilitation, training for independence, supported activities, assessments and travel). Attendant care support accounts for over 60% of the serious injury social rehabilitation OCL.

The OCL for serious injury non-capital at 30 June 2021 was $18.3 billion. The OCL strain in the past seven years is $775 million in total, mainly driven by growth in attendant care hours.

Graph 17 shows payments for seriously injured clients receiving non-capital services. In 2020/21, non-capital claim payments were below expected in the second half of the year. Due to the lifelong nature of the support provided, even a small change can have a significant impact on the OCL.

GRAPH 17: SERIOUS INJURY NON-CAPITAL CLAIM PAYMENTS

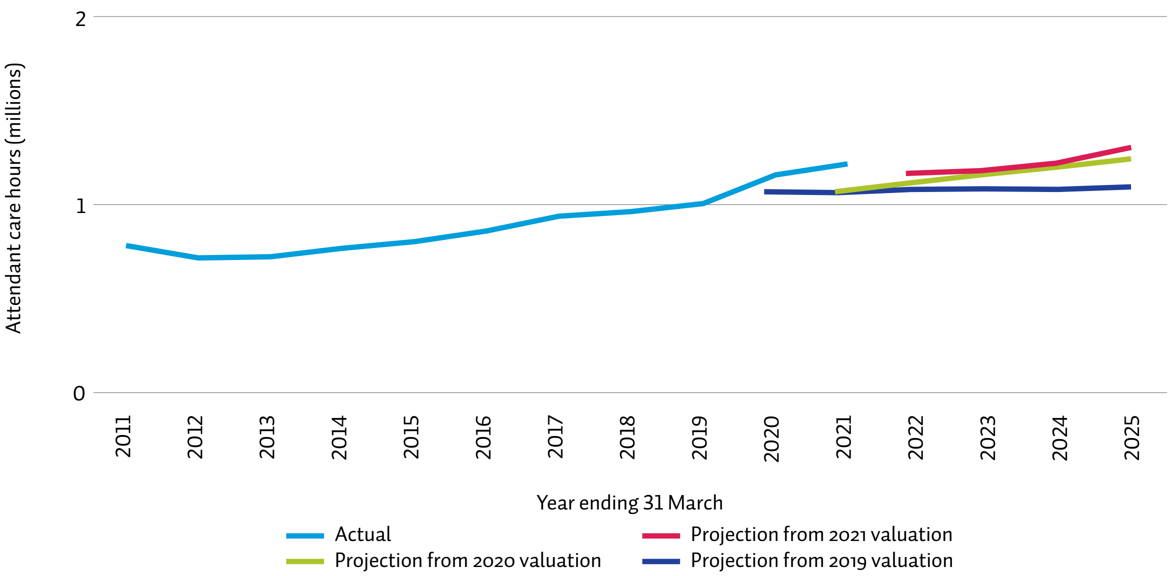


The influenceable OCL strain in serious injury non-capital was $92 million

Higher-than-expected care hours have been the major driver for the influenceable OCL strain in serious injury non-capital in the previous five years. In 2020/21, higher-than-expected attendant care hours resulted in an OCL strain of $157 million. This was mainly for claims less than four years old. For claims older than four years, the average care hours were slightly lower than expected, but the associated OCL release wasn't sufficient to offset the strain from newer claims. Higher-than-expected payments made for residential care has also led to an OCL strain of $58 million.

Graph 18 shows that the care hours for serious injury claims less than four years old were higher than previously projected.

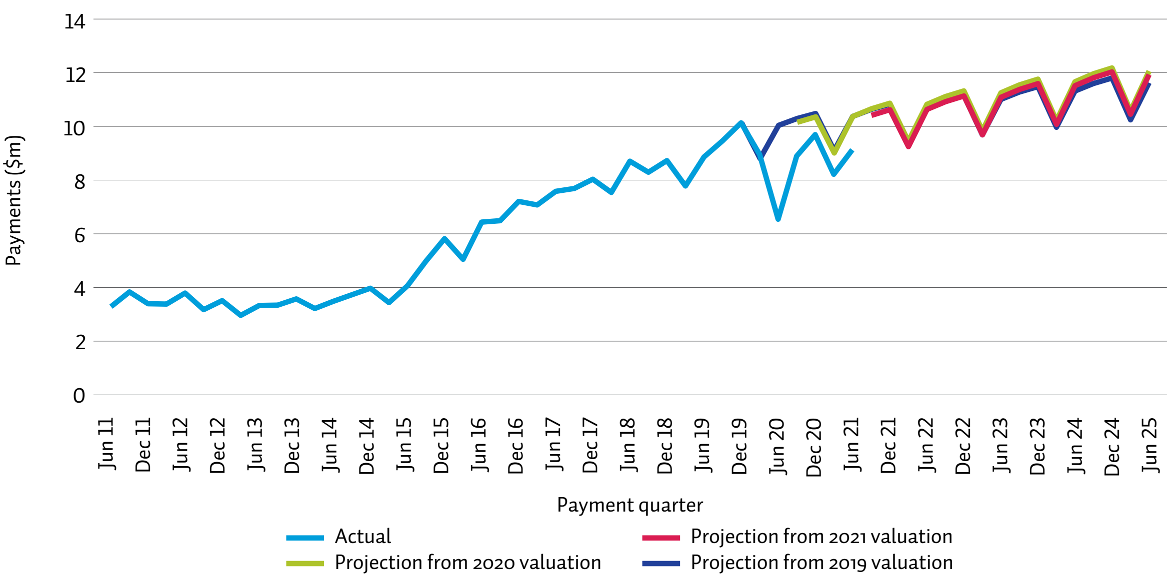
GRAPH 18: SOCIAL REHABILITATION: SERIOUS INJURY CARE HOURS LESS THAN FOUR YEARS POST-ACCIDENT



Significantly lower travel costs incurred during the year has led to a reduction in assumed future travel costs and reduced the OCL by $108 million. This reduction only partially reflects actual claim performance during the year, as it was not certain if the low cost would continue indefinitely or if it was (at least in part) driven by temporary behaviour changes during the pandemic period. Had the full travel claim performance been reflected, there would have been a further $263 million OCL release.

Graph 19 shows a significantly lower-than-projected travel cost during the 2020/21 year.

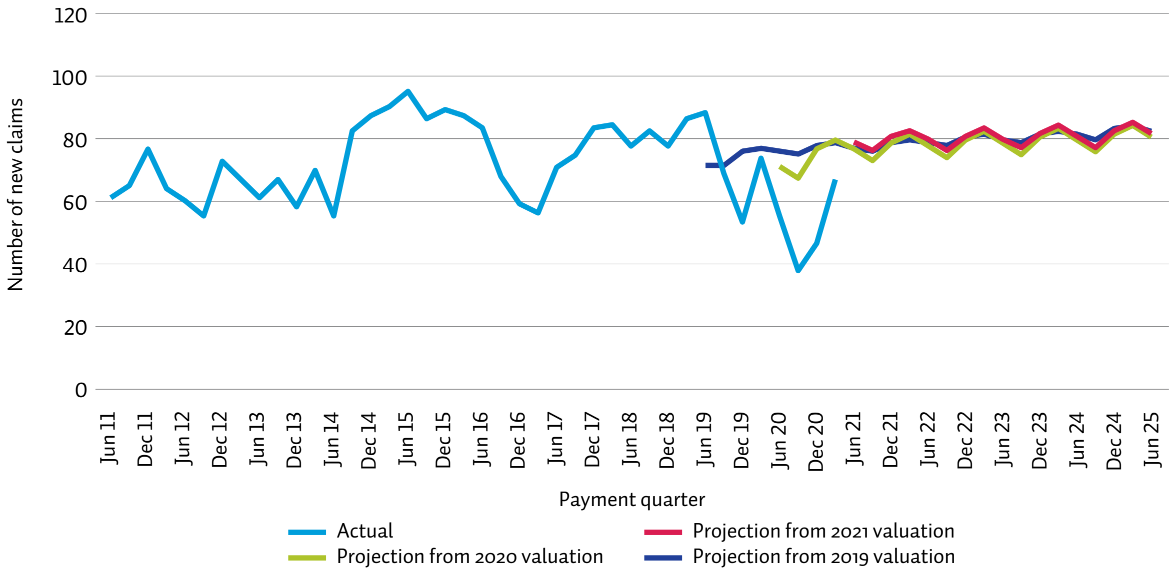
GRAPH 19: SERIOUS INJURY NON-CAPITAL CLAIM TRAVEL PAYMENTS



The number of new serious injury claims reported this year was 197, significantly lower than the expected number of 294. Some of this would be due to fewer accidents as a result of the COVID-19 restrictions during the year. But there's a backlog of potential serious injury claims waiting to be profiled. The number of claims incurred but not reported was increased to account for the delay in serious injury profiling so the ultimate number of claims were assumed to only reduce slightly. Overall, new serious injuries claims resulted in an OCL release of $38 million.

Graph 20 shows that the number of new serious injury claims during the 2020/21 year was unusually low.

GRAPH 20: SERIOUS INJURY: NUMBER OF NEW CLAIMS



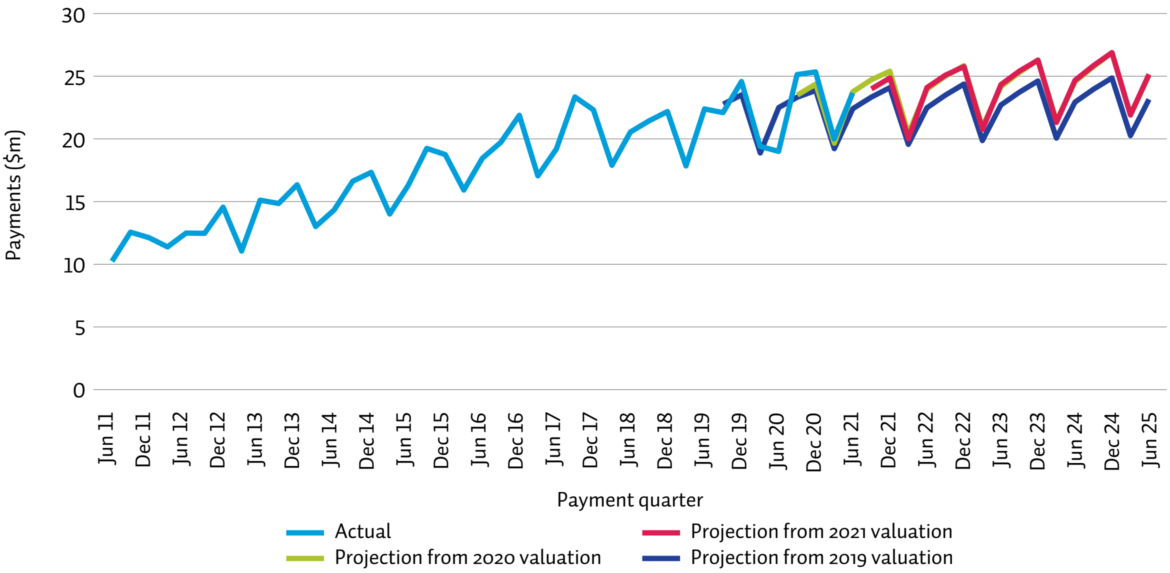
C.5 Serious injury capital

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

The OCL for serious injury capital at 30 June 2021 was $2.4 billion, with an OCL strain in the past seven years of $361 million. This is mainly driven by increases in spend in large capital items, such as housing and vehicle modifications. Capital items, in some cases, are supplied to increase the independence of the client and it's reasonably expected that an increase in capital spending should result in a decrease in the amount of care needed. However, during the past seven years, increases in capital spending have generally been accompanied by increases in average attendant care hours.

Capital payments for seriously injured clients during 2020/21 were as expected. This is shown in Graph 21.

GRAPH 21: SERIOUS INJURY: CAPITAL CLAIM PAYMENTS



The influenceable OCL release in serious injury capital was $3 million

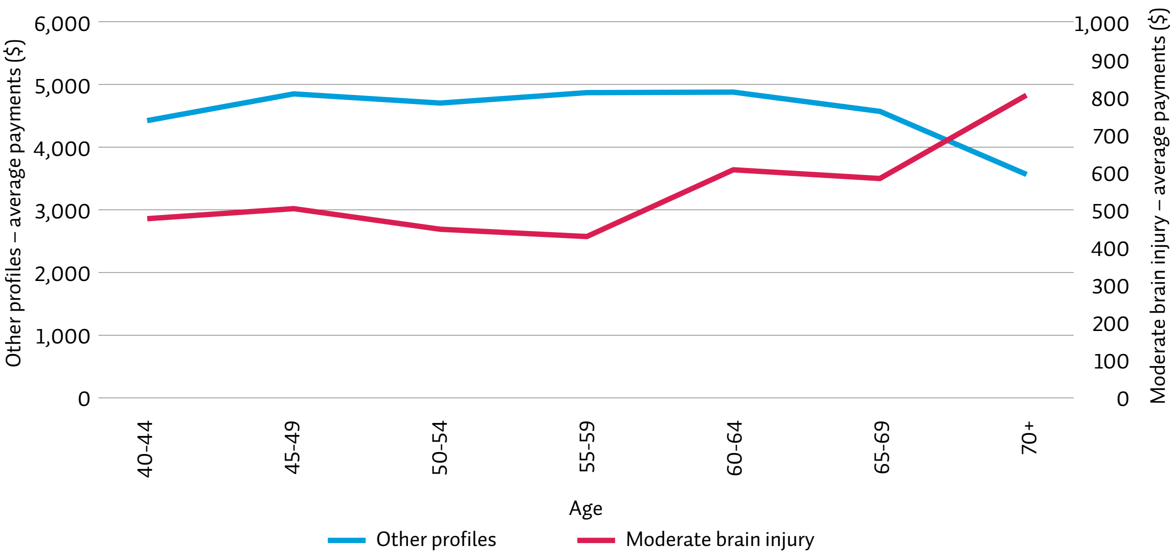
This year's influenceable OCL movement in serious injury capital was small, but it should be considered in relation to continued growth in capital payments since 2014. The number of new claims was lower than expected and led to an OCL release of $7 million. However, the payments made to new and recent claims were higher and the OCL strain for average capital payments was $5 million.

A modelling change resulted in a non-influenceable OCL strain of $61 million

Previous valuations have used a claim pattern determined from all serious injury profiles. Over all profiles, average capital payments decrease for clients over the age of 60. For the 2021 valuation, moderate brain injuries were separated out, as they have a different pattern. For this injury profile, the average capital payments increase for clients over the age of 60. This resulted in a modelling change and an OCL strain of $61 million.

Graph 22 shows the comparison of average capital payments between moderate brain injury claims and other profiles.

GRAPH 22: CAPITAL: AVERAGE PAYMENTS PER CLAIMS IN THE PAST FIVE YEARS



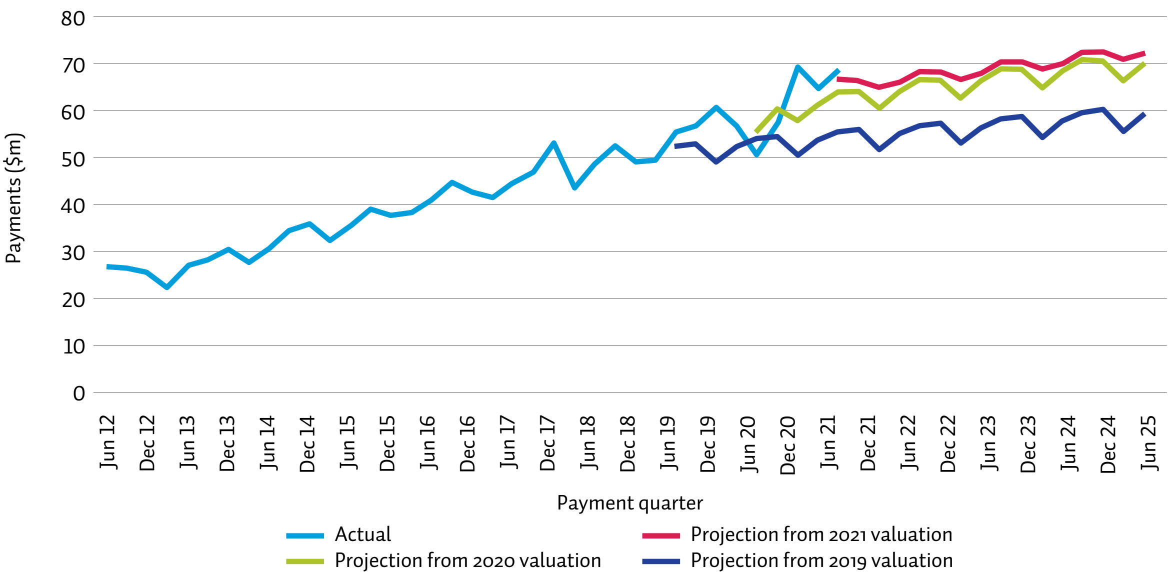
C.6 Non-serious injury non-capital

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

The OCL for non-serious injury non-capital claims at 30 June 2021 was $1.3 billion. The OCL strain in the past seven years is $308 million in total, driven by a combination of higher growth of new claim volumes and lower rehabilitation performance.

Graph 23 shows that payments for non-seriously injured clients receiving non-capital services were higher than expected. This trend has been evident in the previous few years and projected future payments have been increased as a result. Until 2019/20, most of the higher payments are associated with newer (less than two-year-old) injuries and the impact on the liability isn't as significant as it would be for older claims.

GRAPH 23: NON-SERIOUS INJURY NON-CAPITAL PAYMENTS

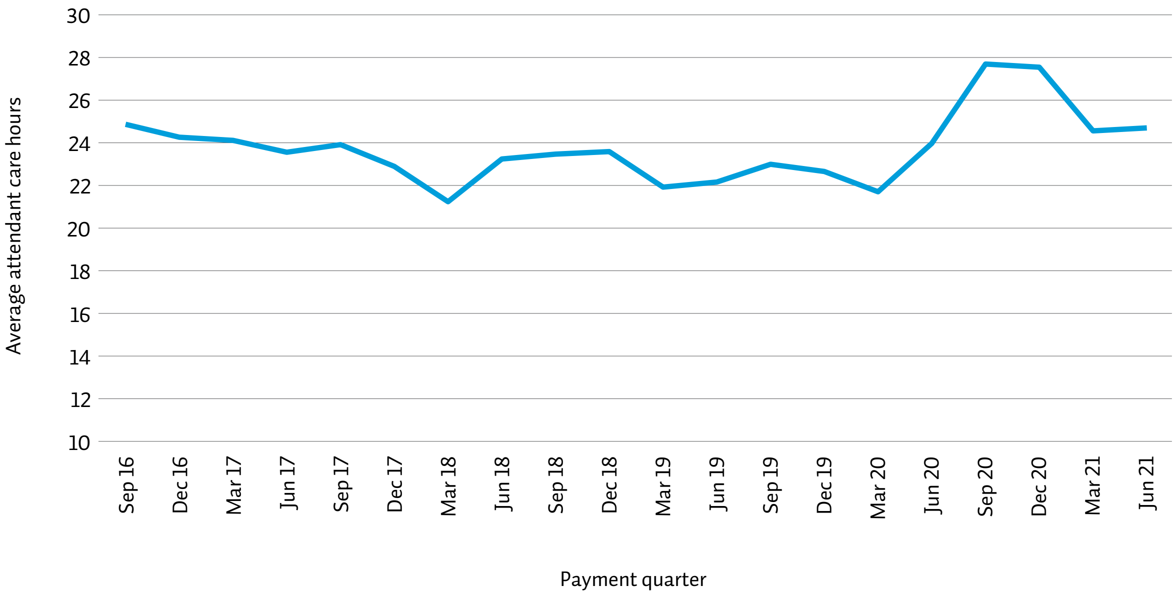


The influenceable OCL strain in non-serious injury non-capital was $42 million

2020/21 saw higher-than-expected average costs across most accident cohorts. In particular, higher-than-expected average cost for claims older than five years increased the OCL by $29 million and is the main driver for the OCL strain. The higher-than-expected average cost was in part driven by more care hours provided during the year. Additional support was provided to ACC's most vulnerable clients during and immediately after the COVID-19 restrictions. It's expected the level of support will reduce to pre-COVID-19 levels, but this has not yet occurred. Growth in training for independence programmes is another driver for the higher-than-expected average cost.

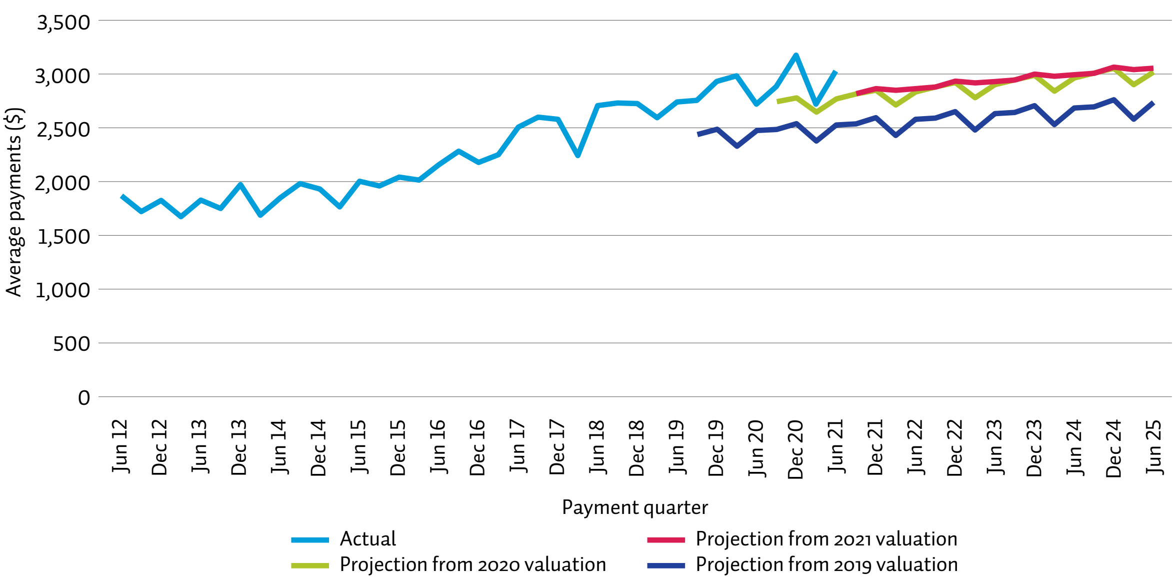
Graph 24 shows the average care hours for non-serious injury claims per quarter.

GRAPH 24: NON-SERIOUS INJURY AVERAGE ATTENDANT CARE HOURS



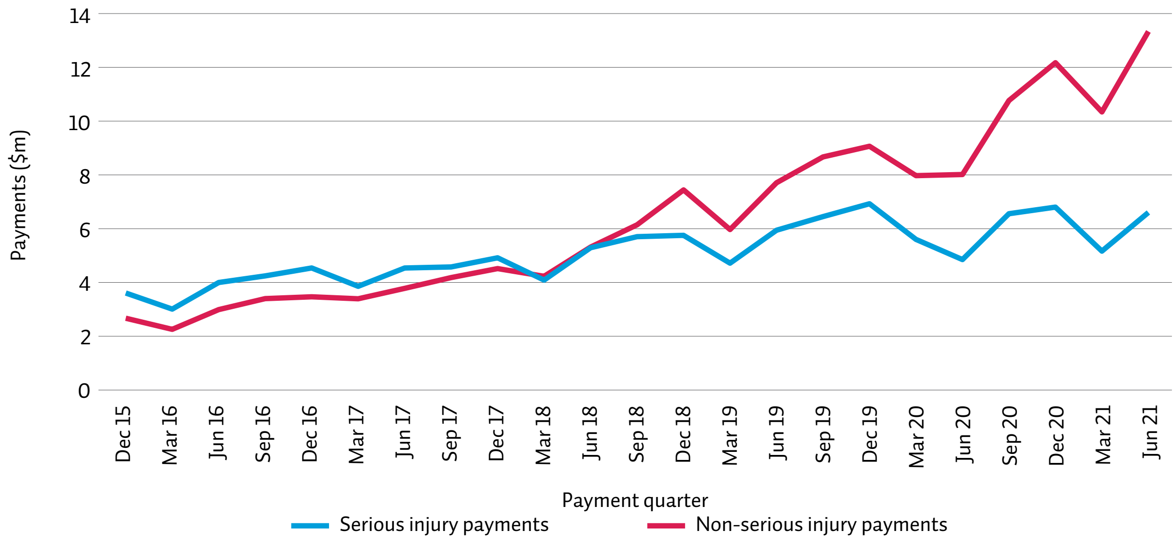
The OCL valuation assumes the level of care support will return to pre-COVID-19 levels. Average cost assumptions for claims older than five years are set taking a long-term view as changes in these assumptions can result in a large OCL movement. The average cost assumptions for claims older than five years were slightly raised despite the actual claim performance. This is shown in Graph 25.

GRAPH 25: NON-SERIOUS INJURY CARE: AVERAGE PAYMENTS FOR CLAIMS MORE THAN FIVE YEARS AFTER ACCIDENT



Graph 26 shows the payments made for training for independence programmes by serious injury and non-serious injury claims. The growth in payments for non-serious injury claims has been significant in the past four years without clear improvement in the rehabilitation outcome.

GRAPH 26: PAYMENTS FOR TRAINING FOR INDEPENDENCE PROGRAMMES

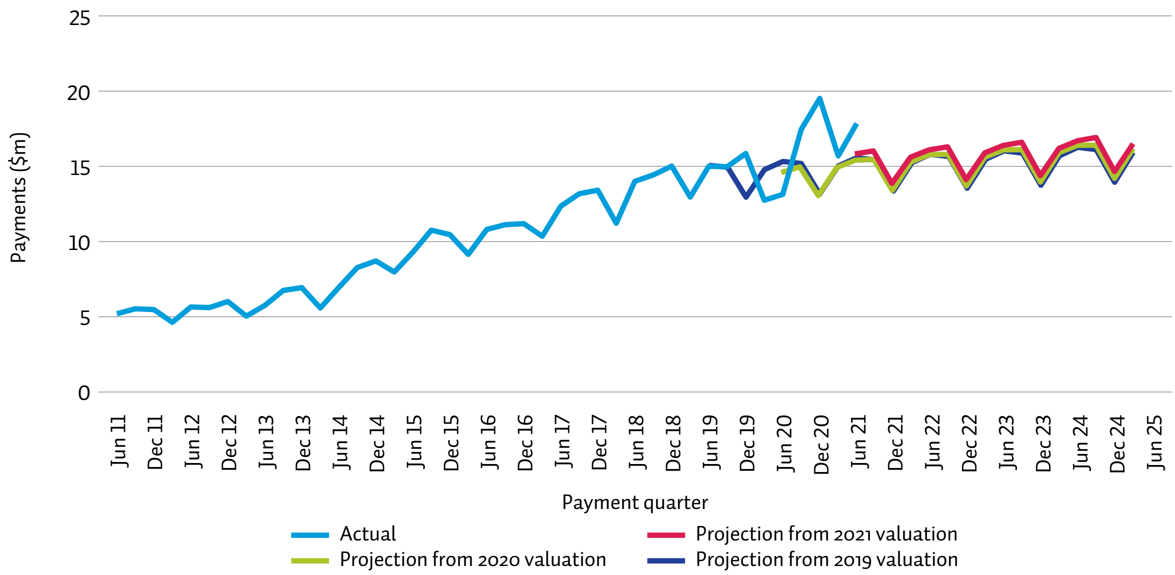


C.7 Non-serious injury capital

The OCL for non-serious injury capital claims at 30 June 2021 was $625 million. The OCL strain in the past seven years is $270 million in total, mainly driven by higher active claim volumes.

Graph 27 shows non-serious injury capital payments were much higher than expected this year and the high growth since June 2014.

GRAPH 27: NON-SERIOUS INJURY CAPITAL CLAIM PAYMENTS



The influenceable OCL strain in non-serious injury capital was $6 million

Claim payments were 24% higher than expected in 2020/21. This was driven almost equally by claim volumes and average cost. Like non-serious injury non-capital, most of the volume increase is likely driven by catch-ups caused by COVID-19 restrictions and isn't a true indication of claim trends. The June 2021 valuation has assumed that claim volumes will return to pre-lockdown volumes. This resulted in an OCL strain of $1 million for active claims. Higher average claim costs resulted in an OCL strain of $5 million. The claims contributing to higher average cost are mostly from accidents within the past two years and have smaller OCL impacts.

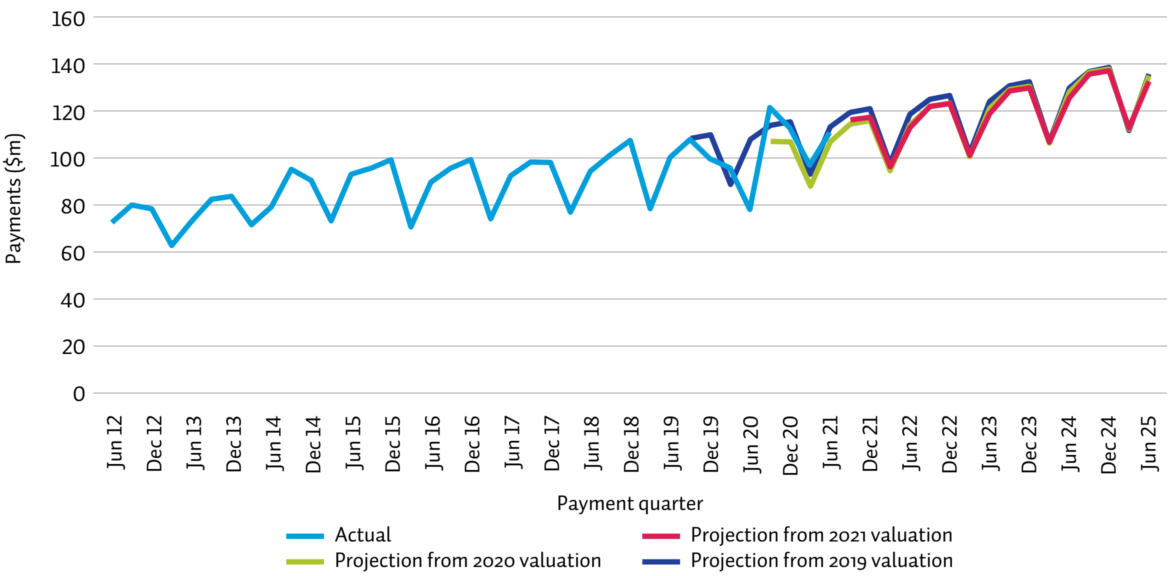
C.8 Elective surgery

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

The OCL for elective surgery claims at 30 June 2021 was $3.8 billion. The OCL release in the past seven years is $1.4 billion in total, mainly driven by lower superimposed inflation on the average cost per claim.

Graph 28 shows that elective surgery payments in 2020/21 were, on average, around 11% higher than expected. This is different to the previous four years where payments were below expected. The higher-than-expected claim payments were mainly driven by higher claim volumes immediately after the first COVID-19 lockdown (during the September and December 2020 quarters). It's likely this was mostly caused by surgery catch-ups and this claim pattern isn't expected to continue.

GRAPH 28: ELECTIVE SURGERY CLAIM PAYMENTS



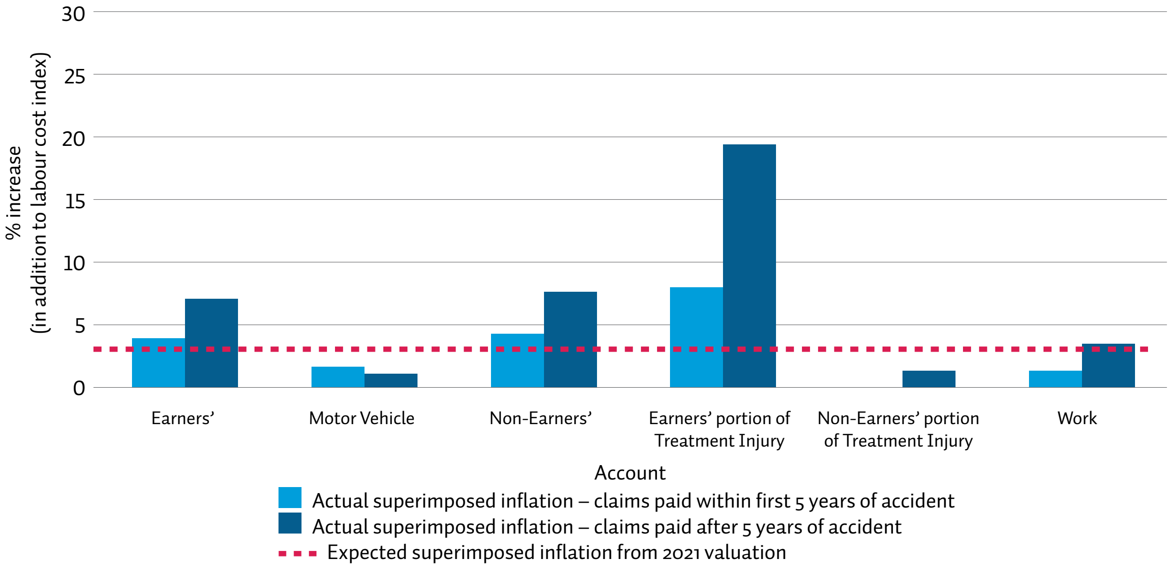
The influenceable OCL release in elective surgery was $103 million

Reductions in average cost assumptions were the main driver for the $103 million OCL release. The actual superimposed inflation observed during 2020/21 was 4.7%, overall, higher than the valuation assumption of 3%. This was driven by the Earners' and Non-Earners' Accounts, which saw large average cost increases in the September and December quarters, following the COVID-19 Alert Level 4 lockdown. This situation was considered temporary and not reflected in the valuation. The Motor Vehicle Account and Non-Earners' portion of the Treatment Injury Account had much lower superimposed inflation for the year, and this was the main reason for the OCL release.

The Earners' portion of the Treatment Injury Account experienced much higher superimposed inflation during the year. But due to the small number of active claims (less than 300 active claims in 2020/21), the average cost in this Account is highly volatile.

Graph 29 compares actual superimposed inflation by Account.

GRAPH 29: ELECTIVE SURGERY SUPERIMPOSED INFLATION BY ACCOUNT



The number of active claims from accidents within the past two years has been significantly higher than expected. This is likely driven by catch-ups from COVID-19 restrictions. Accidents older than 10 years have seen a volume below what was expected. The overall OCL movement due to the number of active claims was a release of $20 million.

C.9 Medical

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

1. general practice
2. radiology
3. physiotherapy
4. other-medical, which includes specialist consultancy, acupuncture and dental treatment.

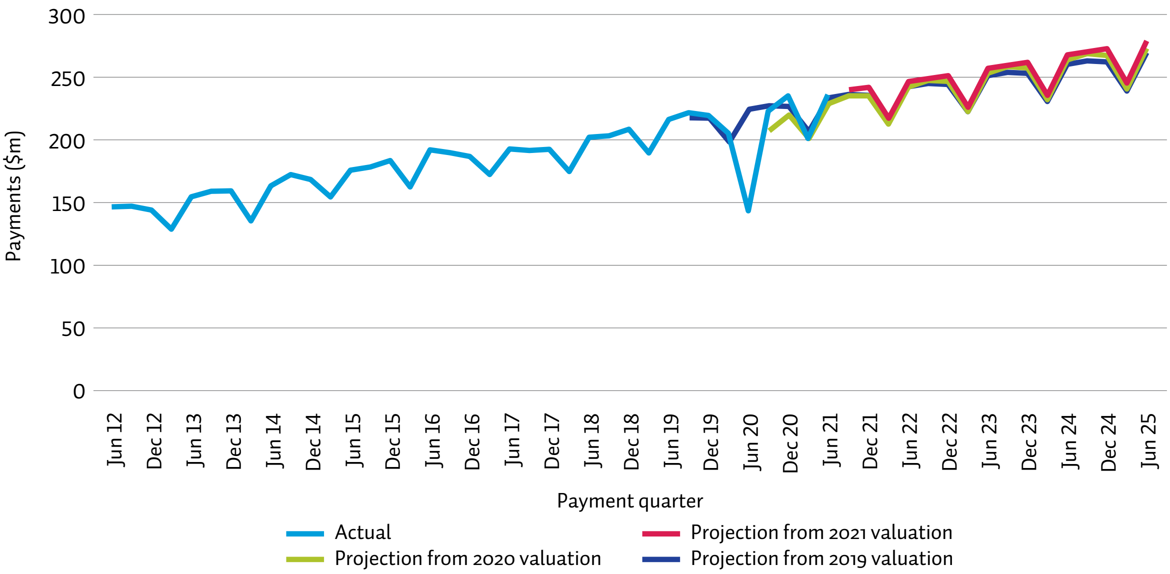
These payments are in addition to those provided under bulk funding to the Ministry of Health for public health acute services.

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

The OCL for medical claims at 30 June 2021 was $2.3 billion. The OCL strain in the past seven years is $488 million in total, mainly driven by higher growth of new claim volumes.

Graph 30 shows that medical payments were around 6% higher than expected.

GRAPH 30: CLAIM PAYMENTS FOR MEDICAL SERVICES



The influenceable OCL release in medical claims was $2 million

Medical, as a whole, had 8% higher-than-expected claim volumes during 2020/21, leading to an OCL strain of $69 million. This is offset by a $71 million OCL release from 2% lower-than-expected average claim costs, mainly in the other-medical payment type.

The OCL movements in the four medical payment types were:

1. **Other-medical:** clients are remaining on the Scheme for longer than expected, but there were fewer new claims in the older accident periods. The net effect was a $31 million strain. Lower average cost has led to an OCL release of $69 million. Total influenceable OCL release for other-medical was $39 million.
2. **Imaging:** both claims volumes and average cost were higher than expected. Higher claims volumes were observed for both new and old accident periods. The claims less than two years old are likely to be partially driven by catch-ups from the first COVID-19 lockdown. Claims older than two years are more likely to give a better indication of the underlying claim trends and have resulted in active claim assumptions being updated. This increased the OCL by $36 million and is the main driver of the $35 million total influenceable OCL strain for imaging.
3. **General practitioner:** claim volumes were higher than expected, driven mostly by new claims. Allowing for the likely impacts from catch-ups after the first COVID-19 lockdown, the OCL release was $1 million.
4. **Physiotherapy:** claims volumes were higher than expected across most accident periods. Factoring in the potential impacts from post-lockdown catch-ups to accidents from the past two years, the OCL active claim assumptions were adjusted and caused a $3 million OCL strain.

C.10 Projected population

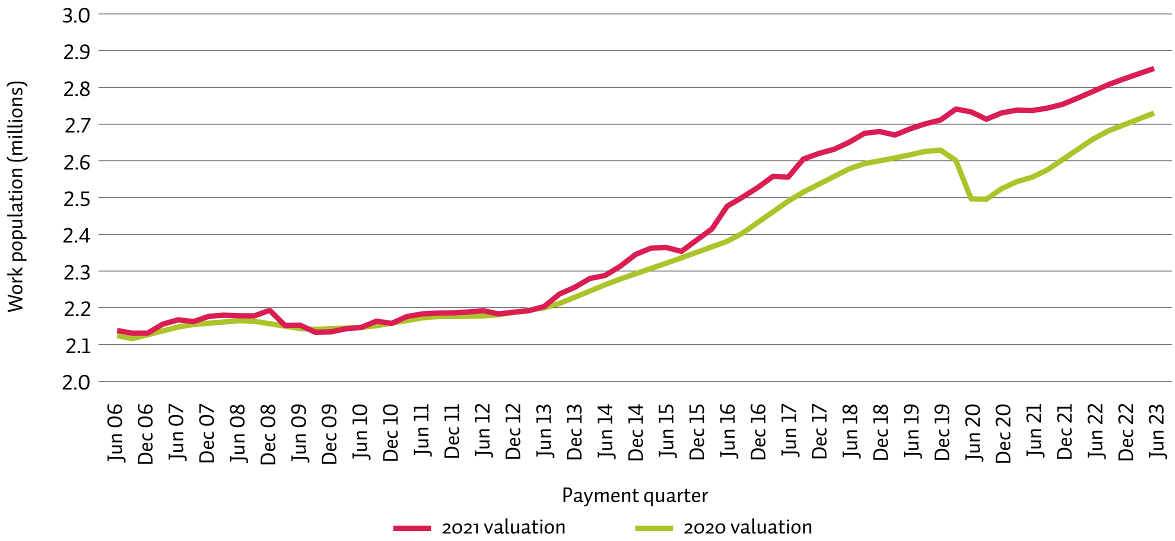
The valuation models use population data to estimate the number of new claims or active claims (for those payment types that don't have a new claims valuation model). The population information is based on a combination of Statistics New Zealand data for past periods and Treasury estimates for future periods. Separate populations are used for different Accounts, with the key populations being:

- Working population – used for the Earners' and Work Accounts.
- Non-work population – used for the Non-Earners' Account.
- Vehicle numbers – used for the Motor Account.

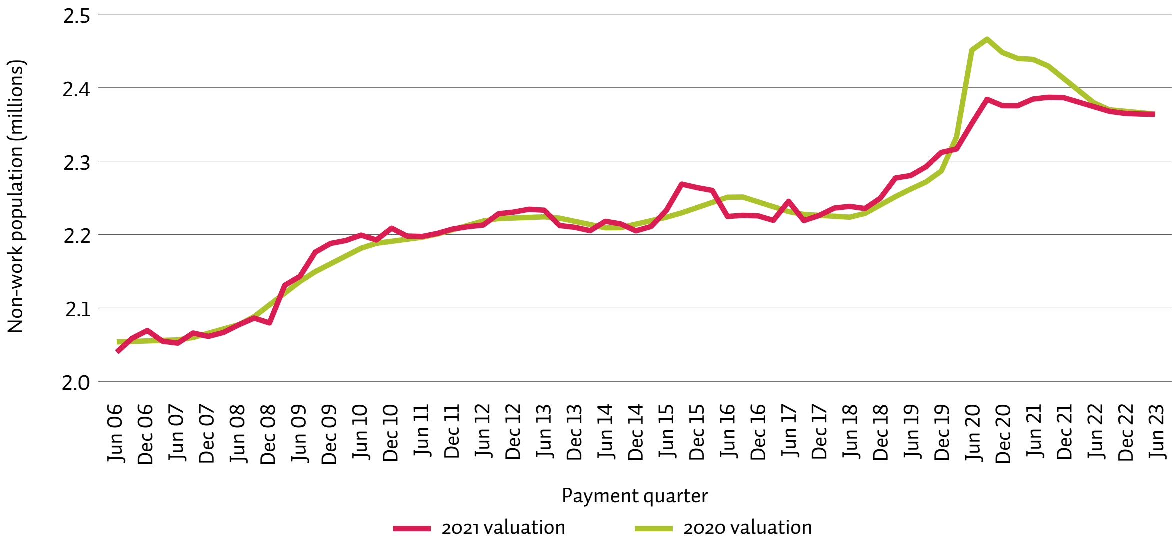
At the 30 June 2020 valuation there was considerable uncertainty around the future levels for the working population due to the unknown impact that COVID-19 would have on employment. Treasury forecast a sharp decline in the working population during 2020, with a slow recovery over the following two years. The actual working population in the 2020/21 year has shown a faster recovery and no significant change in the overall working population during the year. In addition, during 2020/21, Statistics New Zealand re-based their population data series. This resulted in an increase in the historical working population from September 2013 to June 2020.

These two changes to the historical and projected population data resulted in a significant change in the working and non-work population projections. These changes are shown in Graph 31 and Graph 32.

GRAPH 31: WORKING POPULATION



GRAPH 32: NON-WORK POPULATION



The June 2021 valuation models have been updated to reflect the latest population data. This change has resulted in an increase in the liability of $35 million, with most of this ($32 million) being for weekly compensation.

C.11 Claim frequency projections

Claim frequency is a measure of the number of claims as a proportion of the population covered. Any increase (or decrease) reflects growth in the claim numbers above (or below) the growth in the relevant population.

The claim frequencies in this section allow for the number of claims for accidents that have happened in the year in question, but that have not been reported.

The COVID-19 lockdown in 2020 had a distinct impact on claim frequencies. All Accounts saw a sharp drop in claim rates for the 2020 financial year. While the country was in lockdown, the potential for people to be injured significantly reduced. Once lockdown ended, claim rates quickly returned to normal and in some cases are now at higher than pre-lockdown levels. These movements have been reflected in our projections. Future claim frequencies have been projected in line with ACC's budget and the Treasury's expectations of economic recovery. Last year the expectation was that the economy would deteriorate and the unemployment rate would increase. However, any changes were short-lived and as at June 2021 the unemployment rate has returned to pre-pandemic levels. This year we have allowed for a reversal of these trends. This mainly affects the allocation of people between the Work and Earners Account, and the Non-Earners' Account.

Some claims are handled through bulk-funded public health acute services. We don't count these claims initially for our calculations, as the vast majority require no further support from ACC. Those who do go on to receive further support are counted when it's provided.

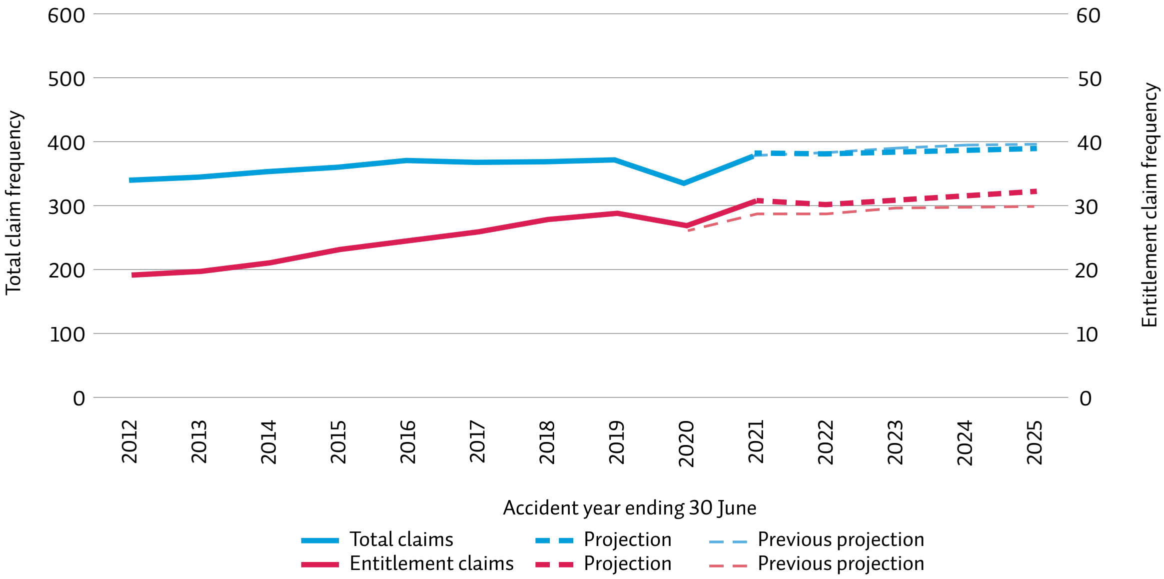
We also exclude work-related claims from employers in the Accredited Employers Programme (AEP), as these are not covered by the levies set for the Work Account, but rather are paid for directly by the employers.

Work-related gradual process claims are excluded, where applicable, from the following graphs.

Total Scheme claim frequency rates are gradually rising

Graph 33 shows the total historical and projected claim frequencies across ACC's five Accounts.

GRAPH 33: TOTAL SCHEME: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



Entitlement claim frequencies during 2020/21 were much higher than expected and higher than before COVID-19 lockdowns. We won't adopt the unusually high frequencies of 2021 into projections unless they're sustained. We project entitlement claim frequencies to return to the trend observed before the COVID-19 lockdowns, but higher compared to the previous projection. This results in the projected entitlement claim frequencies reducing during 2021/22 before the increase with the historical trend. This is particularly noticeable in the Earners' Account frequencies discussed later in this section.

During 2020/21, there was an increase in weekly compensation claims. For most Accounts, this corresponded to an increase in the proportion of people working in higher-risk industries such as construction and other trades. People working in more active jobs generally receive entitlement claims more frequently and for longer than those in sedentary jobs. This is because their work is more physically demanding and they can't easily work through their rehabilitation. We don't expect this to change soon.

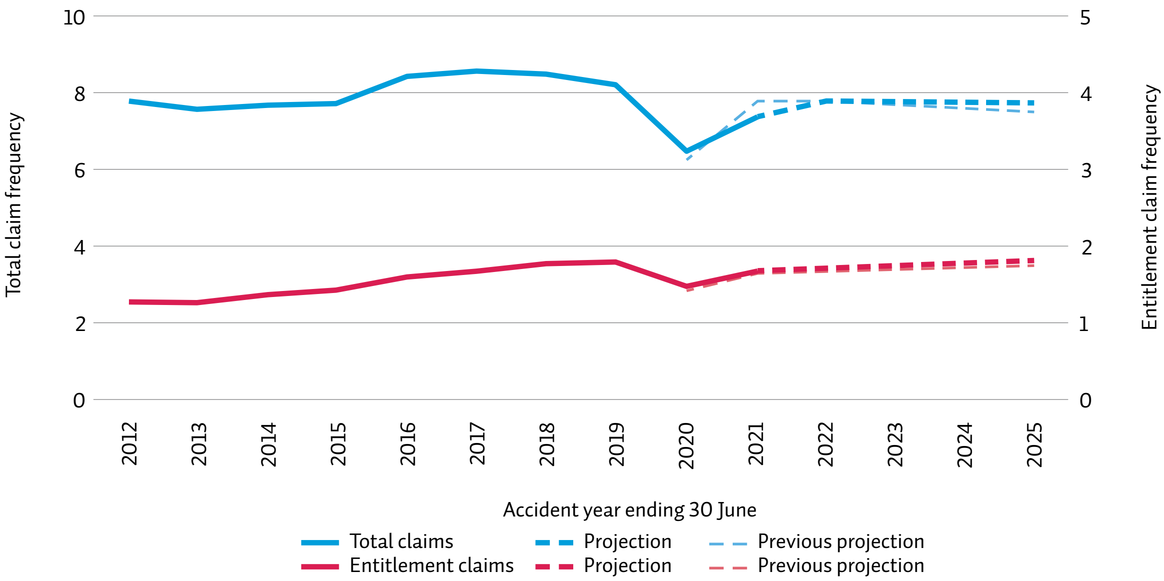
The actual trends in the Treatment Injury Account during the past few years differ to the other Accounts. The root cause of this isn't well known, but it's a relatively small Account so the Scheme frequencies above don't reflect this pattern.

Motor Vehicle Account total claim frequencies are expected to slowly reduce, but the entitlement claim frequencies are expected to increase

The Motor Vehicle Account covers injuries involving moving motor vehicles. It includes injuries to pedestrians and cyclists hit by motor vehicles on public roads, with a few exceptions. The Account is funded by levies paid by motor vehicle owners and petrol users.

Graph 34 shows the annual historical and projected claim frequency rates for this Account.

GRAPH 34: MOTOR VEHICLE ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 MOTOR VEHICLES



The number of vehicles being driven, and therefore the number of claims in the Motor Vehicle Account, reduced during the COVID-19 lockdown. Claim frequencies increased after lockdown, but not to the pre-lockdown level. This is reflected in the total claim frequency in 2021 being lower than expected.

In addition, the Australasian New Car Assessment Program (ANCAP) regularly introduces new safety requirements. Over time, as older cars are replaced, we expect to see these new safety requirements reduce the number of motor vehicle claims. We have seen the frequency of total claims reduce steadily since 2017, but we have not seen the same trend in entitlement claims. We're not sure why this is, as we would expect the improved safety of cars to lead to some improvements in the frequency of serious claims.

The 2021 projections are similar to last year's projections, as we expect fewer kilometres travelled on the road, resulting in fewer accidents. This is a result of New Zealanders increasingly transitioning to working from home for parts of the working week, which has reduced commuting volumes.

Entitlement claim frequencies are expected to increase slowly in line with historic trends, albeit at a lower level for the reasons stated above.

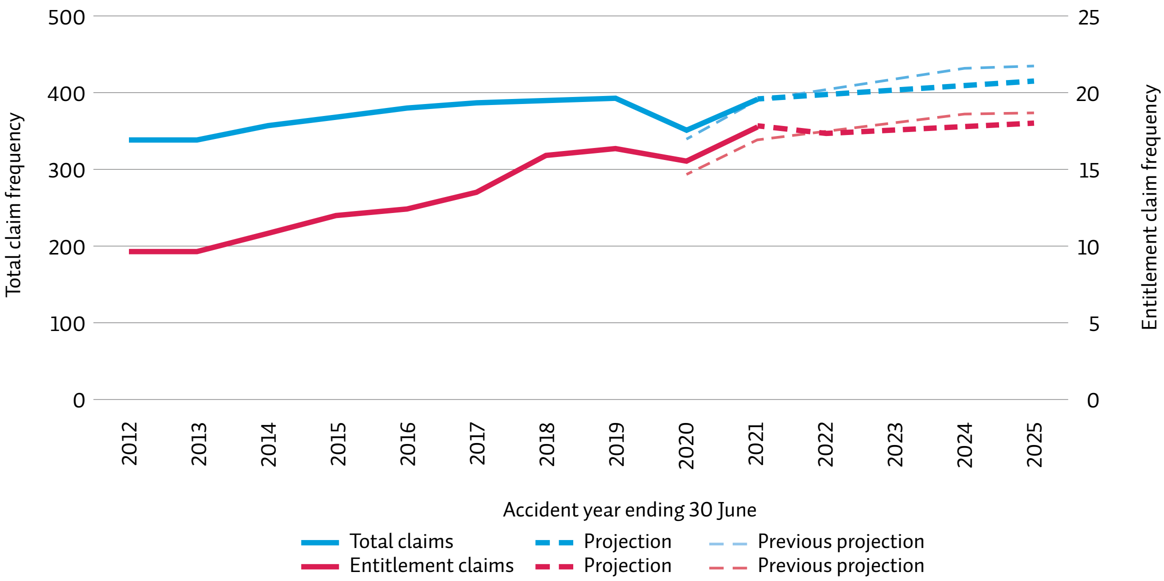
Non-Earners' Account claim frequencies have reduced since last year

The Non-Earners' Account is funded through government appropriations from general taxation to cover personal injuries to people who aren't employed. Many of these are children or superannuitants. The Account covers a wide range of injuries, including those at home, during sport, in and on the water, and in public and commercial places. It excludes injuries to non-earners that are covered by the Motor Vehicle and Treatment Injury Accounts.

Around 4% of claims receive additional entitlement support, mostly for home care and assistance. The remaining 96% receive short-term medical treatment only. Bulk-funded public health acute services are a large portion of the new year claim costs in this Account, but they're excluded from these frequencies.

Graph 35 shows the annual historical and projected claim frequency rates for this Account.

GRAPH 35: NON-EARNERS' ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 NON-EARNERS



Working age non-earners, who make up around 37% of the non-earner population, have around a 15% higher average claim frequency than the overall Non-Earners' Account.

Last year we estimated an increase in the number of non-earners due to the expected economic decline following the COVID-19 lockdowns. This didn't eventuate, and we now expect to see fewer working age non-earners than we did last year. This lowers the expected claim frequency for both total claims and entitlement claims.

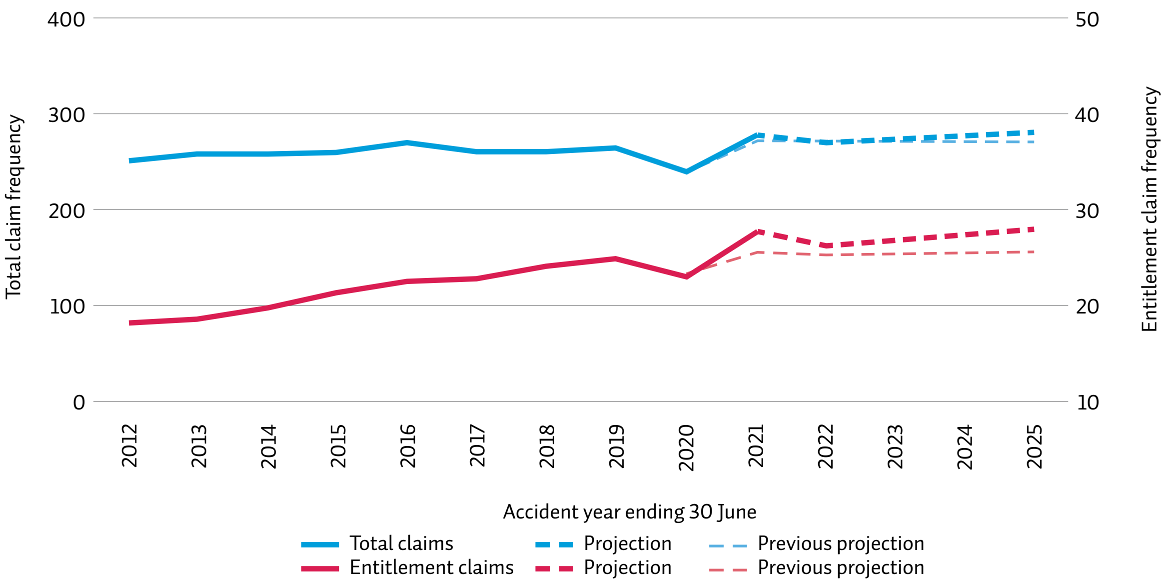
Claim frequencies for entitlement claims in the Earners' Account are expected to increase

The Earners' Account is funded by levies paid by earners to cover injuries that are not related to their employment happening on or after 1 July 1992 when the Account was established. The Account covers a wide range of injuries, including those in the home, during sport, in and on the water, and in public and commercial environments. It excludes injuries to earners that are covered by the Motor Vehicle, Work and Treatment Injury Accounts.

Around 90% of all claims in the Earners' Account only receive payments for short-term medical treatment. The remaining 10% receive additional entitlement support.

Graph 36 shows the annual claim frequencies, including projections, for the Earners' Account.

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



The total claim frequency projections for the Earners' Account have not changed during 2020/21.

Entitlement claim frequencies during 2020/21 were much higher than expected and higher than before COVID-19 lockdowns. As described on ***page 120***, from 2021/22 we have allowed for the return to the trend observed before the COVID-19 lockdown. This results in the entitlement claim frequency reducing during 2021/22 before the increase with the historical trend.

This increase in entitlement claims is partially driven by more weekly compensation claims than expected. This appears to be related to the New Zealand workforce moving toward more manual and active work like construction and other trades. Generally, we expect people employed in active work to require more entitlement support than those in sedentary jobs because their work is both riskier and it's harder to continue working while physically incapacitated. They're also more likely to be injured.

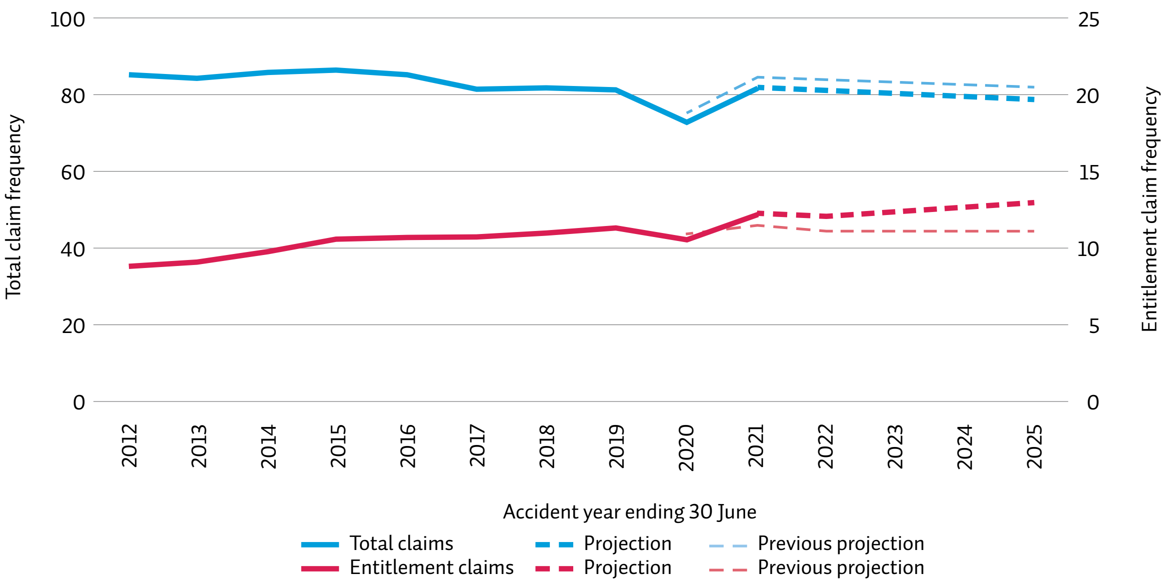
Total claim frequencies for the Work Account are expected to reduce slowly, but entitlement claim frequencies are expected to increase

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

Almost 85% of work claims require medical treatment only. About 50% of the new year claim costs for the Work Account fund weekly compensation payments.

Graph 37 shows the annual claim frequencies, including projections, for the Work Account.

GRAPH 37: WORK ACCOUNT: ESTIMATED CLAIM FREQUENCY[12] RATES PER 1,000 EMPLOYED PEOPLE



Historically, the total claim frequencies for the Work Account have been reducing and we expect this trend to continue. There's no evidence that changing employment industries is having the same impact on total claim frequencies as it is on entitlement claim frequencies.

Entitlement claim frequencies have been relatively stable until 2020 where there was a reduction due to the COVID-19 lockdown. In 2021, there was a steep increase due to the high employment growth in more active industries. We expect this to slowly increase the claim frequencies for entitlement claims.

We've seen lower-than-expected total claim frequencies for the Treatment Injury Account, but we expect this to increase slowly over time

Approximately 80% of the Treatment Injury Account's OCL relates to non-earners. Serious injury claims drive most of the cost for the Non-Earners' portion of the Account. The clients needing support for the longest periods are those with birth-related treatment injuries. These clients may need attendant care for decades into the future.

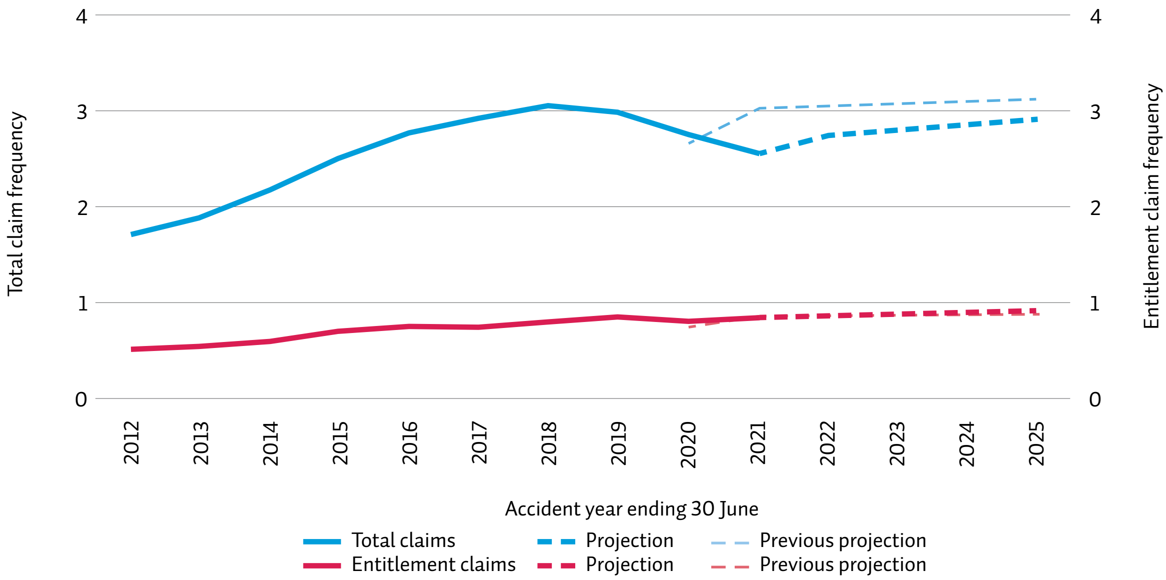
Most earners' treatment injuries only result in follow-up medical treatment. These claims are very short, and clients have usually recovered by the time the OCL is valued.

Before 2005, the Account was called the Medical Misadventure Account and mostly covered serious injuries. On 1 July 2005, the Account was renamed the Treatment Injury Account. From then on clients didn't have to prove that an injury was both rare and severe, or caused by medical error, for ACC to accept their claims.

Graph 38 shows the annual historical and projected claim frequency rates for this Account.

12 *Excludes work-related gradual process claims.*

GRAPH 38: TREATMENT INJURY ACCOUNT: ESTIMATED CLAIM FREQUENCY RATES PER 1,000 PEOPLE



Total claim frequencies for the Treatment Injury Account reduced in 2020 through the COVID-19 lockdown. Since then, the frequencies of total claims have continued to reduce. The root cause of this trend in isn't well known. We're projecting that the frequency will return to a similar level to that previously projected, but gradually over a longer timeframe.

We have seen a reduction in total claims, but not in entitlement claims. This doesn't necessarily mean that less treatment injuries are occurring. It may be that people are less inclined to seek help since the COVID-19 pandemic began. People with treatment injuries may choose to delay treatments when their injury doesn't require immediate attention. Entitlement claims, however, often relate to more serious injuries so medical treatment and support can't be delayed as easily.

Appendix D – Valuation of the outstanding claims liabilities

D.1 The OCL decreased by 10% between June 2020 and June 2021

ACC's outstanding claims liability (OCL) at 30 June 2021 was $56,737 million, including risk margin, a decrease of $6,509 million from 30 June 2020. The initial forecast was an increase of $2,134 million.

We expect an increase in the OCL every year, partly because the Scheme has yet to fully mature. We expect the rate of new claims to exceed claims leaving the Scheme. The OCL will also grow with inflation and as the population grows.

The decrease was due a substantial increase in interest rates during the year.

The liability includes work-related gradual process claims incurred but not reported. The liability for these claims isn't included in the OCL reported in the Annual Report due to accounting requirements. But it's included here as it's a true economic cost to the Scheme, funded by the Work Account levy.

D.2 The OCL is an important indicator of the Scheme's performance

The OCL is important as it feeds into recommendations for levy rates and appropriations. It also points to areas where changes in claim volumes or severity may be a risk to the Scheme's sustainability and outcomes for clients.

D.3 An external valuation actuary calculated the OCL

Alan Greenfield FIAA and Ross Simmonds FNZSA FIA, from external actuary Taylor Fry, valued ACC's OCL. They gave us their report[13], *Accident Compensation Corporation – Valuation of Outstanding Claims Liabilities as at 30 June 2021*, in August 2021.

They calculated the OCL by forecasting future cash flows for each payment type for accidents that happened before 30 June 2021. They then discounted cash flows back to 30 June 2021 using a 'risk-free' interest rate. They also included allowances for claims handling expenses and risk margins.

13 *OCL numbers quoted in this appendix align with this report, plus the gradual process claims incurred but not reported.*

D.4 The OCL calculation complies with all professional reporting standards

These are:

- the New Zealand equivalent to International Financial Reporting Standard No. 4 – Insurance Contracts for Public Benefit Entities (NZ IFRS 4 [PBE]), issued by the New Zealand Accounting Standards Board of the External Reporting Board
- Professional Standard No. 30 – Valuations of General Insurance Claims, issued by the New Zealand Society of Actuaries.

D.5 Despite strains from claim performance, the OCL reduced due to economic factors

Table 28 shows the breakdown of the OCL, including risk margin, and how it changed between 30 June 2020 and 30 June 2021.

TABLE 28: CHANGES IN OCL FROM 30 JUNE 2020 TO 30 JUNE 2021

$M	Liability at 30 June 2020	Expected increase	Changes due to economic assumptions	Changes due to influenceable drivers	Changes due to non-influenceable drivers	Liability at 30 June 2021
Medical costs	2,774	158	(315)	(1)	(2)	2,614
Elective surgery	4,875	229	(740)	(121)	6	4,249
Social rehabilitation	30,032	950	(5,400)	134	(26)	25,690
Compensation-related	13,794	434	(1,209)	471	15	13,505
Sensitive claims	5,014	338	(708)	282	(99)	4,826
Other	3,603	(20)	(341)	(163)	(35)	3,043
Claims handling expenses	3,154	45	(300)	(82)	(8)	2,809
Total liability	**63,246**	**2,134**	**(9,012)**	**519**	**(149)**	**56,737**

When claim volumes or costs move above or below what's expected, and we can link that movement to areas that management has at least partial control over, the movement is considered influenceable. If the movement is fully beyond the control of ACC management, the movement is considered non-influenceable.

D.6 Assumptions used in the OCL calculation are economic or claim-related

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

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

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

D.7 Excluding changes due to economic assumptions and non-influenceable factors, the OCL increased

Claim volumes and costs during 2020/21 were higher than expected. This resulted in an influenceable increase in the OCL of $519 million. The main changes in the OCL are discussed throughout this report.

D.8 The OCL includes claims handling expenses

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

The liability excludes significant one-off costs for Integrated Change Investment Portfolio projects included in the 2021/22 budget. The costs of the projects are assumed to be offset by future benefits.

D.9 Changes to economic factors resulted in significant decreases in the OCL

Changes due to economic assumptions decreased the OCL by $9,012 million, including risk margin ($7,978 million excluding risk margin). Changes in the economic environment cause the OCL to go up or down. The investment team helps to manage the risks through its asset allocation strategy, as described in ***Appendix F***. The $9,012 million change this year reflected:

- an increase in interest rates, resulting in a reduction of $13,502 million
- an increase in inflation rates, resulting in an increase of $4,290 million
- higher-than-expected inflation during 2020/21, resulting in an increase of $200 million.

D.10 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
Non-fatal weekly compensation	Income replacement	Full payment per active claim
Vocational rehabilitation	Rehabilitation services provided to help clients return to work	Simplified payment per active claim
Social rehabilitation – serious injury	Non-vocational rehabilitation provided to clients with serious injuries	Individual projection
Social rehabilitation – non-serious injury	Non-vocational rehabilitation services provided to clients whose injuries aren't serious	Full payment per active claim
Sensitive claims	Rehabilitation services and income replacement provided to clients who were victims of sexual violence	Full payment per active claim
Medical	Medical services, including GPs, physiotherapy and imaging 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:

1. the number of new claims being reported
2. the number of continuing claims
3. an assumed rate of claims finishing.

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

Simplified payment per active claim

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

Individual projection

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

D.11 Assumptions for calculating the OCL are 'best estimate'

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

We're satisfied that the claim assumptions are appropriate

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

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

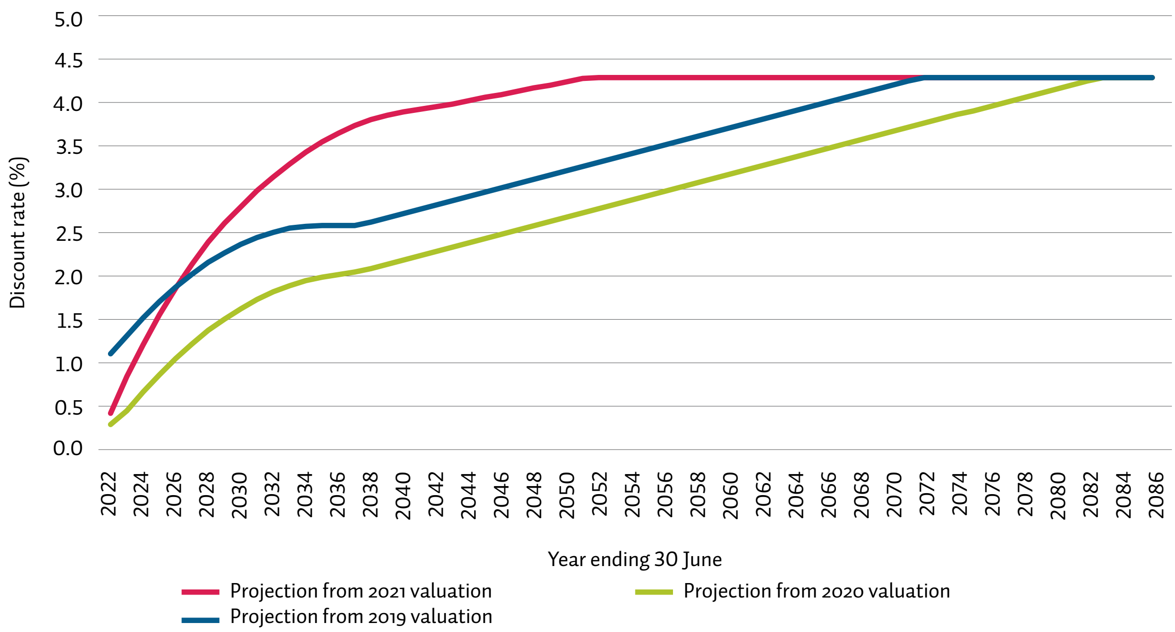
Assumptions for economic factors are prescribed by The Treasury

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

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

Graph 39 shows the risk-free interest rates used in the calculation of the 30 June 2021 OCL and the rates used in the two previous years.

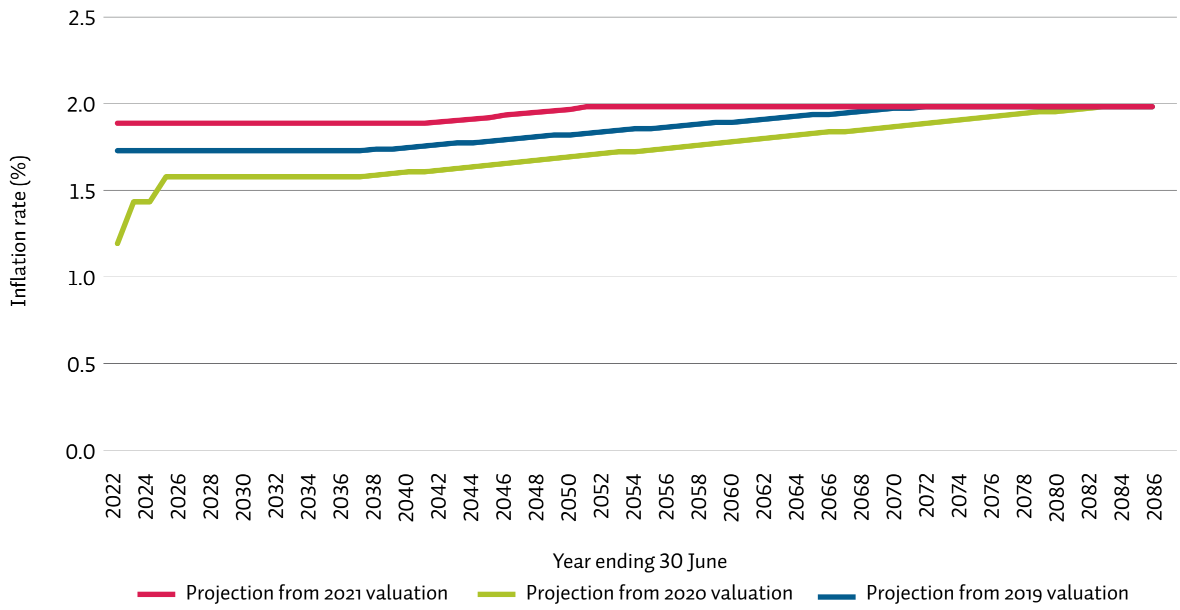
GRAPH 39: RISK-FREE INTEREST RATES: APPLICATION OF THE YIELD CURVE TO LIABILITIES



In 2020/21, interest rates increased significantly, in line with market yields available on New Zealand Government bonds.

The Treasury specifies assumptions for short-term consumer price index (CPI) rates, based equally on inflation-indexed bonds and market forecasts of inflation. Assumptions for future average weekly earnings rates and the labour cost index (LCI) are based on CPI assumptions. These assumptions are based on historical differences between the relevant indices. Graph 40 shows the CPI assumptions used in the calculation of the 30 June 2021 OCL and the rates used in the two previous years.

GRAPH 40: INFLATION RATE ASSUMPTIONS



Short-term inflation rates increased significantly from the previous year because the observed inflation during the past year increased and expectations are for this to continue in the future.

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

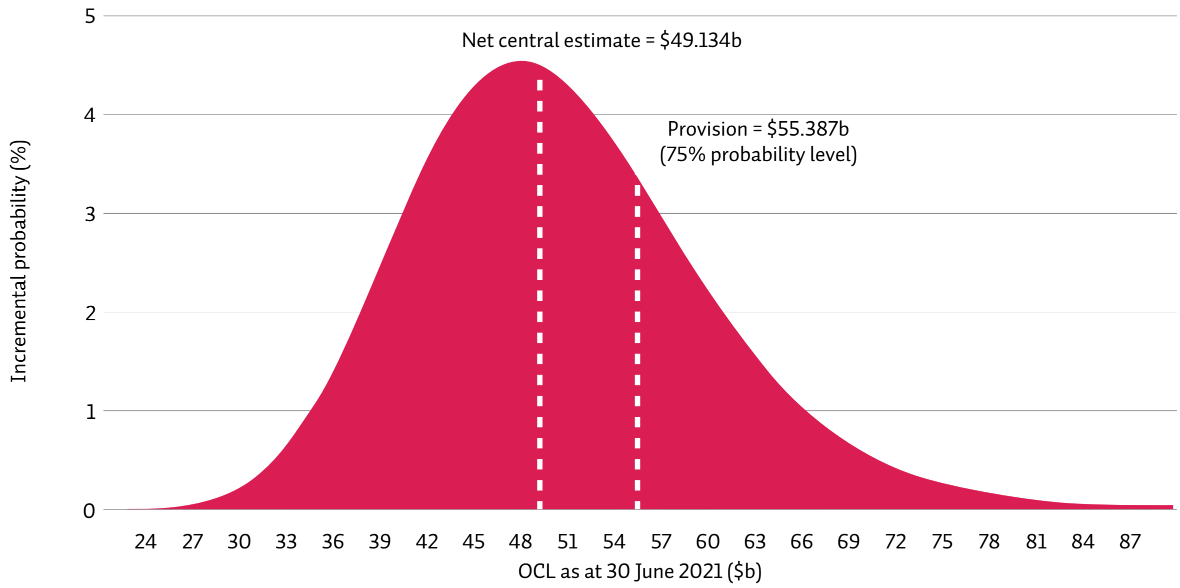
Inflation type	Payment type used
Average weekly earnings 1% above CPI	The starting level of non-fatal weekly compensation for new claims, as the payment is based on income at the date pre-incapacity.
LCI 0.2% above CPI	Non-fatal weekly compensation for growth in payments for continuing claims, as the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

D.12 The risk margins applied follow industry standards

Applying the best-estimate assumptions gives a central estimate of the OCL. This means it's equally likely to be overstated or understated. NZ IFRS 4 (PBE) states that a risk margin must be added to the OCL. This makes it more likely that the final OCL will be enough to meet the claims to which it relates. NZ IFRS 4 (PBE) doesn't specify the risk margin level, but industry practice adds a margin to increase the OCL to a 75% 'sufficiency' level. This means the reported OCL should be sufficient to meet claim payments 75% of the time. ACC follows this industry norm.

Graph 41 shows the distribution of potential OCL estimates without the risk margin. It shows the 'best estimate' of the OCL was $49.134 billion at 30 June 2021. It also shows the variance in the OCL, with 95% of potential estimates between $34 billion and $70 billion.

GRAPH 41: ESTIMATED DISTRIBUTION OF OCL AT 30 JUNE 2021



The risk margins have been reviewed since the previous valuation. This review has resulted in a reduction in the overall risk margin from 13.0% to 12.7%. This change reduced the OCL by $123 million (and reduced the gradual process liability for claims incurred but not reported by $8 million). The reduction in risk margin was due to assumed lower levels of systemic risk for the following reasons:

- Wage and price inflation have been particularly stable in the six years since the previous risk margins review.
- Serious injury care rates increased significantly from 2017-2020 as part of the pay equity settlement, but are now expected to be more stable. In the previous risk margin review the expected increase in costs due to pay equity was highly uncertain.
- Superimposed inflation in medical and elective surgery payment types has been low during the past 5-10 years with very little variability.

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

TABLE 31: RISK MARGINS

Account	2019/20	2020/21
Earners'	11.6%	11.8%
Motor Vehicle	13.8%	13.2%
Non-Earners'	13.8%	13.4%
Treatment Injury	13.8%	14.2%
Work	11.6%	11.0%
Total risk margin	**13.0%**	**12.7%**

At an Account level, the risk margin has increased for the Earners' and Treatment Injury Accounts. The increase for the Earners' Account is due to sensitive claims included as a separate payment type compared to the previous risk margin review. Sensitive claims are assumed to have a higher level of systemic risk than other payment types. The increase in risk margin for the Treatment Injury Accounts is due to these Accounts having a higher proportion of serious injury claims. Serious injury claims have a longer duration than other payment types and so have a higher level of uncertainty.

Appendix E – Financial results

E.1 ACC recorded a $9.6 billion surplus in 2020/21

Reconciliation with the Annual Report

The Scheme surplus of $9,561 million shown in here is different from what has been reported in the Annual Report 2021. The financial statements shown here are consistent with the way ACC is funded. This means they:

- exclude the assets and liability for the Accredited Employers Programme (AEP), the unexpired risk liability (URL) and the outstanding claims liability (OCL) risk margin
- include work-related gradual process claims incurred but not reported.

The Annual Report financial statements include a provision for unearned levy revenue. This is revenue received or accrued before 30 June 2021, the end of the fiscal year. The URL is a provision for claims ACC can expect to incur after 30 June 2021 that are funded by levies already received. If the levies aren't enough to cover these claims (including a risk margin) then a URL is held. Changes in the URL are recorded in the statement of financial position, as required by accounting standards. We exclude them here as they don't represent a true economic cost to the Scheme.

Table 32 provides a high-level reconciliation of the results reported through the FCR to the results reported in the Annual Report.

TABLE 32: RECONCILIATION OF STATEMENT OF COMPREHENSIVE INCOME WITH THE ANNUAL REPORT

		$M
Annual Report Scheme surplus/(deficit)		**9,969**
Excluding	AEP income and costs	9
	OCL risk margin and AEP OCL	(826)
	URL	27
Including	Work-related gradual process claims incurred but not reported	381
FCR Scheme surplus/(deficit)		**9,561**

Overall result

The statement of comprehensive income for the year ended 30 June 2021 is shown in Table 33, and compares results with the previous two years. The statement of comprehensive income by Account for the year ended 30 June 2021 is shown in Table 36.

The results for 2019/20 and 2020/21 are separated into performance related to cash flow (as in the Annual Report 2021) and the OCL movement during the year. The latter allows us to examine overall financial performance taking into account incurred costs. This is consistent with the full funding requirements for most of the Scheme.

TABLE 33: STATEMENT OF COMPREHENSIVE INCOME FOR THE PAST THREE YEARS

	2020/21					2019/20			2018/19
$M	Cash flow	OCL	Total	Budget	Difference	Cash flow	OCL	Total	Total
Income									
Total levies and appropriations	**5,045**		**5,045**	**4,674**	**371**	**4,412**		**4,412**	**4,385**
Expenditure									
Claims incurred									
Medical costs	1,670	136	1,805	1,776	29	1,498	25	1,524	256
Elective surgery	441	99	540	656	(116)	374	(38)	336	420
Sensitive claims	212	460	672	473	199	176	294	470	3,123
Social rehabilitation	938	927	1,866	1,545	321	830	749	1,579	1,169
Compensation related	1,731	797	2,528	1,871	657	1,540	488	2,028	970
Other	203	(215)	(12)	174	(186)	201	(76)	125	(562)
Claims handling expenses	509	(7)	502	522	(20)	525	21	545	508
Total claims incurred	**5,704**	**2,197**	**7,901**	**7,017**	**884**	**5,145**	**1,464**	**6,608**	**5,883**
Expenses									
Net operating costs	93		93	115	(22)	115		115	118
Injury prevention costs	79		79	76	3	103		103	75
Total expenses	**172**	**0**	**172**	**190**	**-19**	**217**	**0**	**217**	**193**
Total expenditure	**5,875**	**2,197**	**8,073**	**7,207**	**866**	**5,362**	**1,464**	**6,825**	**6,076**
Surplus/(deficit) from underwriting activities	**(831)**	**(2,197)**	**(3,028)**	**(2,533)**	**(495)**	**(950)**	**(1,464)**	**(2,413)**	**(1,691)**
Economic									
Change in risk-free discount and inflation rate assumptions		7,944	7,944		7,944		(5,184)	(5,184)	(9,433)
Investment management costs	(74)		(74)	(63)	(12)	(58)		(58)	(54)
Unwind of risk-free interest rate		(115)	(115)	(409)	294		(570)	(570)	(609)
Investment income	4,834		4,834	1,441	3,393	3,416		3,416	5,054
Total economic	**4,759**	**7,829**	**12,588**	**969**	**11,619**	**3,358**	**(5,754)**	**(2,396)**	**(5,041)**
Total surplus/(deficit)	**3,929**	**5,632**	**9,561**	**(1,564)**	**11,124**	**2,408**	**(7,217)**	**(4,809)**	**(6,733)**

E.2 Underwriting deficits have occurred in the past three years

The underwriting result is the surplus or deficit generated by ACC's insurance activities during the financial year. It's the difference between levies and appropriations collected for providing the personal injury cover, and the cost of claims incurred and expenses paid out. It excludes pure economic impacts.

The underwriting result has deteriorated during the past three years, with deficits of $1.69 billion in 2018/19, $2.41 billion in 2019/20 and $3.03 billion in 2020/21. The cost of claims incurred was $5.88 billion in 2018/19, $6.61 billion in 2019/20 and $7.90 billion in 2020/21. Higher-than-expected claim costs have led to changes in valuation assumptions in each of the past three years and the OCL strain has resulted. The claim cost increases occurred after levy and appropriations were determined, so the total levy and appropriation were insufficient to cover the increased costs.

The main drivers of this year's underwriting deficit are shown in Table 34. This compares the actual deficit to what was expected when the levies and appropriations were determined.

TABLE 34: ANALYSIS OF UNDERWRITING DEFICIT

		$M
Expected deficit	Levy income lower than expected new year claim costs	(569)
	Appropriation higher than expected new year claim costs	12
	Expected OCL change for Pay As You Go (PAYG)	103
	Assumption differences between how levies/appropriations and OCL are determined	(642)
Total expected deficit		**(1,096)**
Valuation basis change from time of pricing to 2020	Higher-than-expected claims incurred at June 2020 for 2021 accident year claims	(1,092)
2020/21 claim volumes and costs	Higher-than-expected cash payments	(408)
	OCL strain from 2021 valuation	(450)
	Lower expenses than expected	18
Total underwriting deficit		**(3,028)**

The expected deficit accounts for one-third of the total underwriting result

In 2020/21, the expected underwriting deficit was $1,096 million. Three components contribute to this result.

1. A $557 million deficit, primarily due to approved levies being set below the cost of new claims. In 2018, when levies were last set, the levied Accounts were above funding targets. Levies were set below the cost of new claims, meaning the Account's funding positions were expected to reduce and move closer to target.
2. A $103 million surplus relating to Non-Earner claims incurred prior to 2001 and funded on a PAYG basis. At the time of pricing, it was expected the reduction in OCL for these claims in the 2020/21 financial year would be $103 million.
3. A $642 million deficit from the different assumptions used for calculating levies and appropriations from those used for determining the OCL. For example, levy calculations for new year claims assume investment returns above risk-free rates. The OCL uses risk-free rates so it's expected that new year claims will increase the OCL by more than is projected under the levy and appropriation assumptions. Additionally, levy rates were determined factoring in the expected benefits of the injury prevention portfolio and the ICIP. These expected benefits are not explicitly accounted for in the OCL valuation. Instead, the OCL will reduce if and when the benefits are realised.

Incurred cost for new year claims is now higher than expected

Assumptions were changed in the 2019 and 2020 valuations resulting in OCL strain. In addition, risk-free interest rates have fallen between June 2018 and June 2020 and this has led to further increases to the new year claim costs. The impact is a cost increase of $1,092 million, as the cost of injuries incurred in 2021 is now projected to be higher in comparison to when levies and appropriations were determined.

Higher-than-expected claims incurred contributed to the underwriting deficit

The total cost of claims incurred in 2020/21 has contributed $839 million to the underwriting deficit. This is broken down as follows:

1. Total claims cash flow for all claims paid during the year, excluding claims handling expenses, increased from $4,620 million in 2019/20 to $5,195 million in 2020/21. This result is largely driven by weekly compensation where higher-than-expected growth in new claims and lower rehabilitation performance has had a significant impact. Higher-than-expected cash payments during 2020/21 contributed $408 million to the deficit.
2. The total OCL strain from the 2021 valuation was $450 million excluding risk margin ($370 million including risk margin).
3. Lower-than-expected expenses contributed a small surplus of $18 million.

E.3 Changes in the economic environment drove the overall surplus

The total economic contribution was a surplus of $12,588 million, significantly higher than the budgeted surplus of $969 million. The economic contributions in the previous two years were a deficit of $5,038 million in 2018/19 and a deficit of $2,396 million in 2019/20. Two main factors drove the economic contribution for 2020/21:

1. There was an increase in the risk-free interest rate during the year. The single effective discount rate, which is a duration-weighted average risk-free discount rate, increased by 1.14% to 3.00% during the year. This was partially offset by increases in inflation rates. The net impact on the OCL was a reduction of $7,944 million and this accounts for nearly three-quarters of the overall surplus.
2. Investment income was $4,834 million. ACC achieved an annual return of 10.57% before costs, much higher than the risk-free rate and above the benchmark by 1.90% after allowing for costs. This result was driven by significant investment gains on growth assets. These gains more than offset the negative investment returns on bonds during the year.

E.4 Total expenses were below budget, but three categories were above budget

Total expenses decreased by 6%, from $800 million in 2019/20 to $755 million in 2020/21. This was $18 million lower than allowed for in the levies and appropriation and $20 million below budget. Expenses pay for handling claims, preventing injuries, investing funds and the costs of operating.

Overall expenses were adequately managed.

Graph 42 shows expenses, as percentages of the underlying service, for the past five years, alongside the 2020/21 budget and 2021/22 projected in five categories:

1. Claims handling expenses paid during the year compared to claim payments.
2. Net operating costs compared to income (from levies and appropriations).
3. Injury prevention costs compared to income (from levies and appropriations).
4. Enterprise Change Portfolio (ECP) project costs compared to claim payments.
5. Investment management costs compared to funds under management.

GRAPH 42: EXPENSES AS PERCENTAGES OF UNDERLYING SERVICE

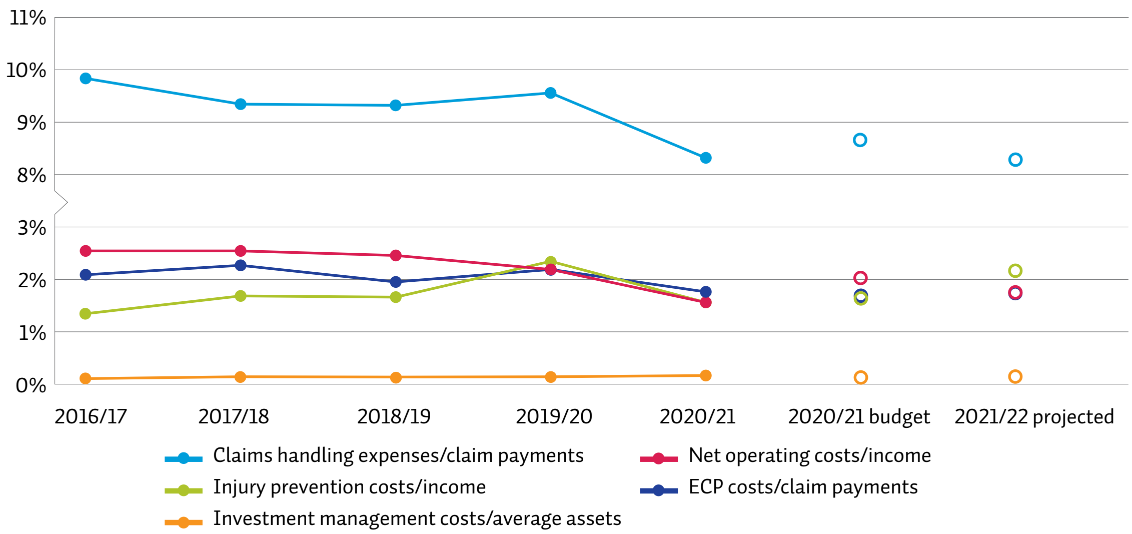


TABLE 35: EXPENSE CATEGORIES WITH ECP AND OTHER COSTS SPLIT OUT

	2020/21			2019/20		
$M	ECP	Other	Total	ECP	Other	Total
Injury prevention costs		79	79		103	103
Net operating costs	14	79	93	18	97	115
Claims handling expenses	77	432	509	83	442	525
Investment management costs		74	74		58	58

Injury prevention costs were slightly above budget

Injury prevention costs decreased to $79 million in 2020/21 from $103 million in 2019/20 and, as a percentage of income from levies and appropriations, dropped to 1.56% from 2.32%. However, expenses were $3 million above the $76 million budget. The year-on-year reduction is mostly attributed to a one-off cost of $24.5 million in 2019/20 for the firearms buy-back scheme. The higher-than-budgeted expenditure in 2020/21 is primarily due to:

- investment in new injury prevention programmes, including a $5.2 million investment in Ngā Tini Whetū (described on ***page 41***)
- a $3.7 million investment in Preventable, a new long-term injury prevention initiative to challenge and change social norms around risk behaviour and prevention of injury.

The budget for the injury prevention portfolio in 2021/22 shows a sizeable increase to $110 million or 2.15% as a percentage of income. This is attributable to significant new investments in programmes, including Preventable, Injury Prevention to Frontline, Healthy Consensual Relationships and Cultural Capability.

Spending on Enterprise Change Portfolio projects decreased, but was still above budget

The Enterprise Change Portfolio (ECP) includes ICIP and other smaller change projects. ICIP is the largest part of ECP. ECP project costs as a percentage of claim payments decreased to 1.74% ($91 million) from 2.19% ($101 million). Expenses in 2020/21 were $5 million above the budget of $86 million.

The $10 million year-on-year reduction in expenses is mainly due to lower costs following the completion of Next Generation Case Management (NGCM) and upgrade of client payments systems ($36 million costs in 2019/20 compared to $16 million in 2020/21). This was partially offset by investments in the Health Sector Strategy and in a new cloud-based enterprise system to replace existing back-office finance, HR and procurement systems. In the coming year, investment in these key initiatives is expected to continue. The budget for 2021/22 is similar to the amount spent in 2020/21, with expenses as a percentage of claim payments projected to be 1.71%.

Remaining operating costs decreased during the year

Excluding the ECP project spend, net operating costs as a percentage of income from levies and appropriations reduced to 1.57% from 2.19%. Expenditure was $18 million lower than in 2019/20 and $22 million below budget. Lower levy collection support costs were a key contributor to this result.

Claims handling expenses decreased

Claims handling expenses in 2020/21, excluding the ECP project spend and as a percentage of claim payments, reduced to 8.32% from 9.56%. This was below the budget of 8.66% driven by lower costs following the implementation of NGCM. The number of claims processed per full-time equivalent employee increased during the year from 507 to 549. The number of claims processed in 2019/20 were largely influenced by the lower new claim volumes and operational disruptions due to COVID-19 restrictions.

Investment management costs were above budget

Investment management costs of $74 million were above the budget of $63 million. As a percentage of funds under management they increased from 0.13% to 0.15%, above the budget of 0.13%. Increased funds under management meant external fund manager fees in 2020/21 were higher than expected. In addition, bonuses, which are linked to performance results, increased due to the higher-than-budget performance.

E.5 Financial performance by Account

Table 36 sets out the statement of comprehensive income for the year ending 30 June 2021, split by Account.

TABLE 36: STATEMENT OF COMPREHENSIVE INCOME BY ACCOUNT

$M	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	2020/21 Total	2019/20 Total
Income							
Total levies and appropriations	**471**	**1,537**	**1,835**	**895**	**307**	**5,045**	**4,412**
Expenditure							
Claims incurred							
Medical costs	140	864	581	189	30	1,805	1,524
Elective surgery	-3	106	339	44	55	540	336
Sensitive claims	0	286	378	9	0	672	470
Social rehabilitation	467	577	301	65	456	1,866	1,579
Compensation-related	320	32	1,311	726	140	2,528	2,028
Other	41	28	52	-170	36	-12	125
Claims handling expenses	-30	103	295	164	-30	502	545
Total claims incurred	**935**	**1,995**	**3,257**	**1,027**	**688**	**7,901**	**6,608**
Expenses							
Net operating costs	5	3	31	52	2	93	115
Injury prevention costs	6	24	16	27	7	79	103
Total expenses	**10**	**27**	**47**	**79**	**9**	**172**	**217**
Total expenditure	**945**	**2,022**	**3,303**	**1,106**	**697**	**8,073**	**6,825**
Surplus/(deficit) from underwriting activities	**(474)**	**(485)**	**(1,468)**	**(211)**	**(390)**	**(3,028)**	**(2,413)**
Economic							
Change in risk-free interest and inflation rate assumptions	2,116	2,124	1,249	940	1,514	7,944	(5,184)
Investment management costs	(24)	(8)	(19)	(15)	(9)	(74)	(58)
Unwind of risk-free interest rate	(31)	(26)	(23)	(17)	(17)	(115)	(570)
Investment income	1,141	757	1,426	941	569	4,834	3,416
Total economic	**3,202**	**2,847**	**2,633**	**1,850**	**2,057**	**12,588**	**(2,396)**
Total surplus/(deficit)	**2,728**	**2,362**	**1,165**	**1,638**	**1,667**	**9,561**	**(4,809)**

All Accounts had underwriting deficits

In 2020/21, all Accounts had underwriting deficits, with the total deficit being $3,028 million. The main drivers were:

- levies and appropriations were lower than the expected claim costs
- actual claim costs were higher than expected.

The Earners' Account had the largest underwriting deficit

The Earners' Account had the largest deficit at $1,468 million. Around one-quarter of this was expected. Levies for the Earners' Account were $177 million lower than the expected new year claim costs and different assumptions for levies compared to the OCL contributed a further $197 million.

Other significant drivers of the deficit in the Earners Account were OCL strain ($519 million), higher-than-expected cost of claims incurred for June 2021 accidents compared to when levies were set ($383 million) and higher claim cash costs during 2020/21 ($242 million).

The expected deficit in each of the other Accounts was also a key driver of their underwriting deficits. The OCL strain for most Accounts and higher-than-expected cash payments during the year also had an impact. Motor Vehicle and Work Accounts had an OCL release. However, in both instances, the new year claim costs for 2020/21 was higher than expected.

E.6 We expect a deficit in each of the next four years

Table 37 shows expected income and expenditure for the Scheme in the next four years. This forecast is calculated on a pricing basis and differs from the accounting basis used in the Annual Report.

The four-year projections are based on the following:

- The 2021/22 levy rates rolled over by the Government in 2020 (as set out in the 2018 consultation).
- Levy rates recommended in the 2021 consultation for 2022/23 to 2024/25.
- Assumptions updated to 30 June 2021.
- The 2021/22 approved appropriation for the Non-Earners' Account agreed in October 2020.
- The appropriations for the Non-Earners' Account for 2022/23 to 2024/25 as recommended in the 2021 October Baseline Update.

TABLE 37: STATEMENT OF COMPREHENSIVE INCOME

$M	2021/22	2022/23	2023/24	2024/25
Income				
Total levies and appropriations	**5,115**	**5,518**	**6,010**	**6,530**
Expenditure				
Claims incurred				
Medical costs	1,831	1,927	2,033	2,145
Elective surgery	593	632	675	721
Sensitive claims	425	459	475	483
Social rehabilitation	1,434	1,458	1,489	1,527
Compensation-related	2,143	2,262	2,391	2,530
Other	179	186	194	201
Claims handling expenses	530	522	523	534
Total claims incurred	**7,135**	**7,447**	**7,780**	**8,141**
Expenses				
Net operating costs	92	94	95	97
Injury prevention costs	110	110	112	113
Total expenses	**202**	**204**	**207**	**211**
Total expenditure	**7,337**	**7,651**	**7,987**	**8,352**
Surplus/(deficit) from underwriting activities	**(2,222)**	**(2,133)**	**(1,977)**	**(1,822)**
Economic				
Investment management costs	(71)	(72)	(73)	(74)
Unwind of risk-free interest rate	(178)	(390)	(585)	(784)
Investment income	1,552	1,704	1,877	2,032
Total economic	**1,303**	**1,243**	**1,219**	**1,175**
Total surplus/(deficit)	**(919)**	**(890)**	**(759)**	**(648)**

E.7 New year claim costs being higher than approved funding contribute to a projected underwriting deficit

For 2021/22, the projected underwriting deficit is $2,222 million. The factors contributing to the underwriting deficit are shown in Table 38 and explained below.

TABLE 38: ANALYSIS OF PROJECTED UNDERWRITING DEFICIT

	$M
Levy income lower than new year claim costs based on 30 June 2018 pricing	(461)
Appropriation lower than expected new year claim costs based on 30 June 2020 pricing	(42)
Change in new year claim costs from updated valuation assumptions between pricing date and 30 June 2021	(698)
Expected OCL change for PAYG	148
Difference in assumptions between how levies/appropriations and OCL are determined	(1,169)
2021/22 projected underwriting deficit	**(2,222)**

Income is expected to be lower than new year claim costs

In 2020, the levy rates set using the 2018 pricing basis were rolled over to the 2021/22 year due to the emerging COVID-19 situation. This resulted in an expected deficit in next year's underwriting result of $461 million.

For the Non-Earners' Account and Non-Earners' portion of the Treatment Injury Account, the approved appropriation for 2021/22 (determined in 2019/20) was expected to be $42 million lower than the 2021/22 new year claim costs.

New year claim costs are expected to increase

Since levies and appropriations were set, claim costs have increased. This is due to both changes in economic assumptions and higher claim costs leading to changes in valuation assumptions. This contributes $698 million to the expected deficit. $544 million comes from changes in claim performance and $154 million from changes in risk-free interest rate and inflation movements.

The four largest contributors to the claim performance deficit are increased weekly compensation severity and higher frequency of claim, increased severity of serious injury care claims, higher frequency of sensitive claims, and higher overall cost of Public Health Acute Services. $910 million of the expected deficit is from the levied Accounts, with $350 million due to economic changes. This is offset by a $212 million expected surplus from the non-levied Accounts, with $196 million due to economic changes.

The OCL is expected to reduce for Non-Earners' PAYG claims

The Non-Earners' Account has a small portion of Pay-As-You-Go (PAYG) costs. These are claims which were incurred pre-2001 and that ACC holds no assets for. Funding for these claims is collected annually from the Government based on the expected payments during the year. For accounting purposes ACC is required to hold an OCL for these claims and each year this is expected to reduce. In total, the PAYG claims are expected to produce an accounting surplus and this is recognised in the expected underwriting result. For 2021/22, it's expected to contribute an underwriting surplus of $148 million.

Different assumptions in determining levies/appropriations and OCL

Differences in the assumptions between those used to calculate levies and appropriations and those for the OCL (such as different discount rates) result in a projected deficit of $1,169 million.

Economic factors, particularly expected investment income, partially offset the expected deficit

The total contribution from economic factors of $1,303 million partially offsets the forecast underwriting deficit.

Investment returns are expected to contribute $1,552 million in 2021/22. This is offset by an expected deficit of $259 million from investment management costs and other economic impacts.

The projected underwriting result is largely driven by the Motor Vehicle and Earners' Account

The two largest contributors to the total deficit in 2021/22 are the Earners' Account ($509 million) and the Motor Vehicle Account ($208 million). The deficit is expected to remain around $200 million per year for the next three years for the Motor Vehicle Account but reduce to $376 million by 2024/25 for the Earners' Account.

The Earners' Account deficit is expected to reduce compared to the Motor Vehicle Account largely due the gap between the levy and new year claim costs. This gap is smaller for the Earners' Account and the levy is expected to return to the new year claim costs earlier than it does for the Motor Vehicle Account.

E.8 Changing economic conditions bring uncertainty to the future projections

The economic surplus in 2021/22 is projected to be $1,303 million. This is significantly lower than the $12,588 million economic surplus in 2020/21. Combined with the underwriting deficit of $2,222 million, the total projected deficit of the Scheme in 2021/22 is $919 million.

The projections are made based on the assumption that economic factors remain unchanged. However, economic conditions are volatile by nature and the past three years have been at the extreme end of what might reasonably be expected. During this period, risk-free interest rates fell to historic lows, increasing the OCL and placing upward pressure on levy rates and appropriations. There were also implications for future investment returns. While interest rates have recovered somewhat in 2020/21, economic unpredictability continues to bring uncertainty to the overall Scheme performance.

Table 39 gives the projected statement of comprehensive income by Account for 2021/22 compared with the total result for 2020/21.

TABLE 39: PROJECTED 2021/22 STATEMENT OF COMPREHENSIVE INCOME

$M	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Projected 2021/22 Total	2020/21 Total
Income							
Total levies and appropriations	**460**	**1,641**	**1,895**	**793**	**326**	**5,115**	**5,045**
Expenditure							
Claims incurred							
Medical costs	142	890	593	173	33	1,831	1,805
Elective surgery	50	117	284	77	66	593	540
Sensitive claims	0	192	232	0	0	425	672
Social rehabilitation	397	400	282	76	279	1,434	1,866
Compensation-related	300	26	1,056	656	106	2,143	2,528
Other	44	15	42	56	21	179	(12)
Claims handling expenses	58	109	228	107	29	530	502
Total claims incurred	**991**	**1,749**	**2,717**	**1,145**	**533**	**7,135**	**7,901**
Expenses							
Net operating costs	6	6	34	43	3	92	93
Injury prevention costs	11	36	20	32	12	110	79
Total expenses	**17**	**42**	**53**	**75**	**15**	**202**	**172**
Total expenditure	**1,008**	**1,790**	**2,770**	**1,220**	**549**	**7,337**	**8,073**
Surplus/(deficit) from underwriting activities	**(548)**	**(150)**	**(875)**	**(427)**	**(222)**	**(2,222)**	**(3,028)**
Economic							
Changes to risk-free discount and inflation assumptions							7,944
Investment management costs	(23)	(8)	(18)	(14)	(9)	(71)	(74)
Unwind of risk-free interest rate	(47)	(39)	(40)	(27)	(26)	(178)	(115)
Investment income	410	224	423	222	192	1,552	4,834
Total economic	**341**	**178**	**366**	**261**	**158**	**1,303**	**12,588**
Total surplus/(deficit)	**(208)**	**28**	**(509)**	**(167)**	**(64)**	**(919)**	**9,561**

Appendix F – How ACC manages its investments

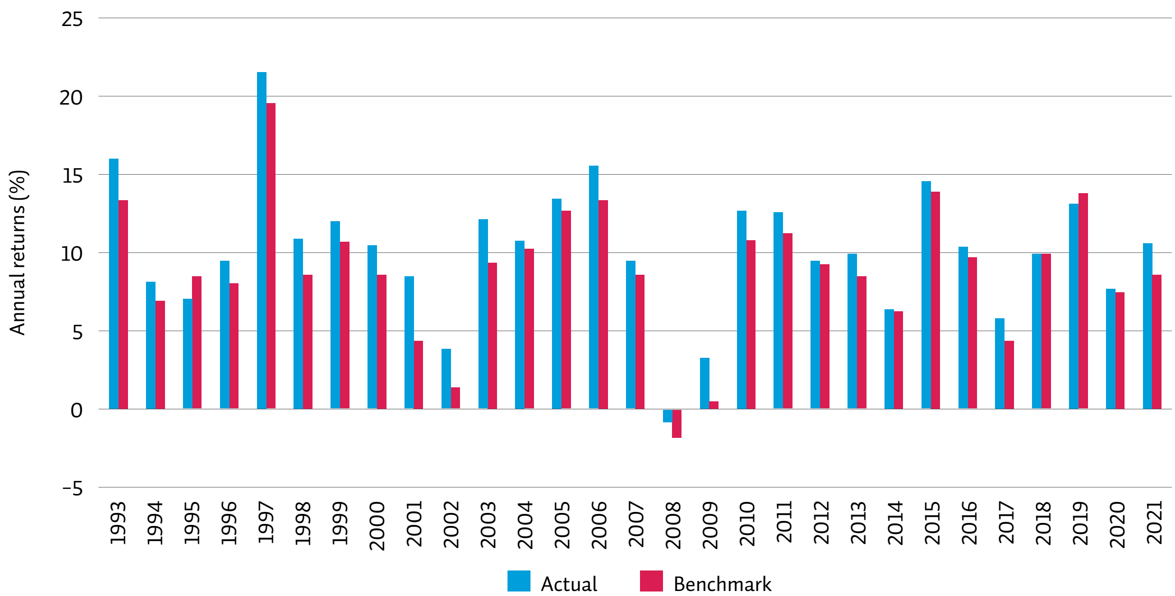
F.1 The 2020/21 investment return was above benchmark

The Board's Investment Committee sets the Scheme's asset allocations, as well as the market indices used to determine the benchmark. Since 1993, actual gross investment returns have outperformed the market benchmark by over 1% on average. In the 2020/21 year, the actual investment return was 10.57% before costs and beat the market benchmark by 1.90% after allowing for costs. During 2020/21, there were significant returns on equity assets as these recovered fully from COVID-19-related losses in the June 2020 quarter. This was partially offset by rising interest rates and revaluation losses for bonds.

Investment returns varied by Account, but all were above the benchmark.

The Scheme's investment performance from 1993 is shown in Graph 43.

GRAPH 43: COMPARISON OF INVESTMENT RETURNS WITH BENCHMARK



The future returns outlook has improved

The expected long-term investment return has risen from 3.6% in 2020 to 4.2% in 2021. This is largely due to long-term risk-free interest rates rising by around 1.5% during the year. Interest rates have had significant changes during the past four years, with historic lows reached in September 2020. It's unclear if long-term rates will continue to increase to previous normal levels, or if it will fall again due to global economic conditions. However, the outlook for non-fixed assets has deteriorated.

F.2 There's governance around how ACC invests its assets

The investment team reports through the Investment Committee

ACC's investment team manages investments and is governed by the Investment Committee, a Sub-Committee of the Board. Investment managers (both internal and external) have discretion to act within the Committee's delegations.

This discretion allows the team to vary asset allocations from the benchmark weights within tolerances set by the Committee. The investment team documents its approach to enable compliance monitoring to be done and reported to the Investment Committee.

The Investment Committee sets guidelines and reviews benchmarks

The Committee:

- sets risk tolerances
- approves asset allocation benchmark weightings, benchmark indices and major transactions in unlisted markets
- reviews investment performance and compliance
- provides investment delegations, restrictions and limits to the investment team.

The Committee has also approved a set of credit criteria, including credit and portfolio limits, for internally managed portfolios. These credit limits are designed to limit exposure to counterparties with a risk of defaulting when ACC seeks higher investment returns.

The Committee reviews asset allocation benchmarks every 12 months, with six-monthly interim adjustments. A full review goes to the Board Investment Committee around September and an interim review goes around March. Interim adjustments reduce the average size of the transactions required to implement the changes made during a year.

Investments are mainly managed internally, but some are managed externally

The investment portfolios are all actively managed. Almost all New Zealand and Australian investments are managed internally by ACC. There are 12 external fund managers who manage assets outside New Zealand. Since the end of 2019, ACC hasn't managed any global equity investments internally.

F.3 Investment assets are allocated to manage the trade-off between risk and return

ACC's investment is long term

ACC mainly invests for the long term and considers long-term trade-offs between risks and rewards. Investment management considers the:

- stability in ACC's net assets position (assets minus liabilities)
- impact on levies
- impact on government appropriations for the Non-Earners' Account and the Non-Earners' portion of the Treatment Injury Account.

Investment returns and risks relate to ACC's OCL

Some clients need ACC's help for 30 years or more, so significant assets are held to fund these future costs. At the end of 2020/21, the investment assets ACC owned had a market value of $50.2 billion. These assets, and future investment returns on them, are there to fund expected future cash claim payments of $91.4 billion during the lifetime of existing claims (excluding PAYG claims that are funded as costs arise).

The asset allocation strategy's high-level objective is to manage investment returns and risks. The principal focus is on the asset-liability risk, which incorporates both the OCL and investment assets. Levy payers and taxpayers ultimately bear the risks if investment returns are inadequate to meet future claim payments. In broad terms, taking more investment risk produces a trade-off between:

- higher, but more stable, levy rates and appropriations from lower-risk and lower-return investments
- lower and more variable levy rates and appropriations from investments in higher-risk assets with potentially higher returns.

In practice, Scheme assets don't closely match claim liabilities

In a closely matched portfolio, asset and liability values would respond similarly to economic stresses and mostly offset each other. Net assets would then be relatively immune to external pressures. In practice, it's not possible to invest Scheme assets to match claim liabilities completely or even closely. This is because suitably long-dated and index-linked investment assets aren't available in New Zealand.

To decide the level of incremental net asset risk, ACC:

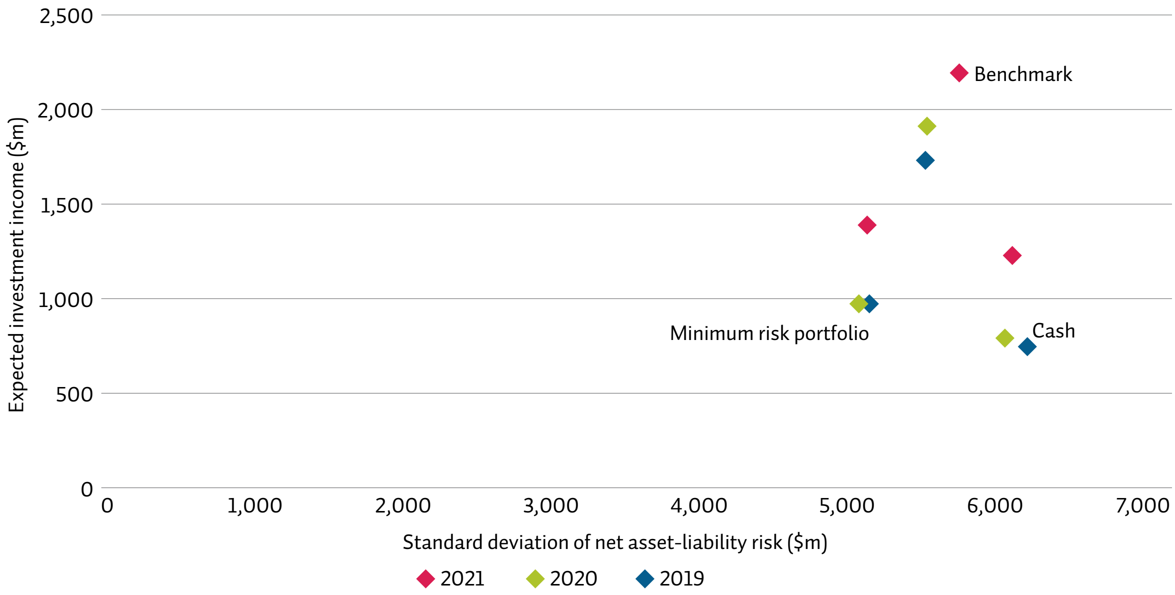
- identifies which assets most closely match the outstanding claims liability (OCL), thus creating what's called the 'minimum risk portfolio'
- decides how much discretionary risk ACC is prepared to accept over and above the minimum risk portfolio in pursuit of higher returns.

The notional minimum risk portfolio is typically dominated by New Zealand Government bonds, including a weighting for index-linked bonds. These are typically a good match with the OCL, much of which is long-dated and moves with inflation. The portfolio also contains relatively small allocations of equity and other asset classes.

The actual portfolio, which includes discretionary risk, substitutes some equities and other higher-returning assets in place of bonds to generate higher returns.

Graph 44 shows the estimated risks and returns for the minimum risk portfolio compared to cash and the benchmark portfolio. Risk is shown as the sum of net annual assets minus liability volatility (standard deviation) in all Accounts. It's shown at 30 June 2021 and for the previous two years.

GRAPH 44: TOTAL RESERVE ACCOUNT: RISK VS RETURN



At 30 June 2021, ACC estimates an expected return of $1.4 billion for the notional minimum risk portfolio, with a net asset-liability risk of $5.1 billion.

Interest rates rose during the year to June 2021, which lifted the expected return for all portfolios.

The portfolio benchmarks adopted in 2020/21 increase the expected annual investment income to $2.2 billion, but also raise the total risk to $5.8 billion.

Actual asset allocations are different from the strategic allocations

Table 40 shows the strategic asset allocations (SAA) for each of the five Accounts. It also shows the total actual asset allocation at 30 June 2021 compared with the total SAA at 30 June 2020.

TABLE 40: STRATEGIC ASSET ALLOCATION (SAA) BY ACCOUNT AND TOTAL ACTUAL

Asset class	Motor Vehicle Account	Non-Earners' Account	Earners' Account	Work Account	Treatment Injury Account	Total strategic asset allocation 2021	Actual asset allocation 2021	Strategic asset allocation 2020
New Zealand cash	2.0%	2.0%	2.0%	5.5%	2.0%	2.8%	2.8%	2.5%
New Zealand long bonds	31.5%	5.5%	22.0%	34.5%	24.0%	25.7%	21.8%	27.8%
New Zealand index-linked bonds	31.0%	30.5%	22.0%	17.5%	31.5%	25.8%	25.6%	24.8%
Global bonds	0.5%	1.0%	6.0%	7.0%	2.5%	3.5%	3.7%	5.0%
New Zealand property and infrastructure	3.5%	3.5%	4.0%	4.0%	3.5%	3.7%	2.6%	3.7%
Private markets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	0.0%
New Zealand equities	7.5%	11.0%	9.0%	7.5%	11.0%	8.5%	8.1%	9.0%
Australian equities	4.0%	4.5%	4.5%	4.5%	4.5%	4.4%	4.4%	4.3%
Global equities	20.0%	42.0%	30.5%	19.5%	21.0%	25.6%	26.2%	22.9%
Foreign currency contracts overlay	n/a	n/a	n/a	n/a	n/a	n/a	(0.4%)	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	8.0%	13.0%	4.0%	0.0%	11.5%	5.1%	4.4%	6.8%
Total equity weight (treating New Zealand property and infrastructure as 'half equities')	**33.3%**	**59.3%**	**46.0%**	**33.5%**	**38.3%**	**40.4%**	**39.9%**	**38.1%**

The SAAs represent the benchmark holdings. Actual allocations may differ at any time within limits prescribed by the Investment Committee. Private markets include unlisted property, infrastructure and private equity holdings. The SAA is restricted to listed assets and has no allocation to this asset class. ACC's actual asset allocation in the private markets in 2020/21 was 5%.

Asset allocations are determined by Account

Asset allocations differ by Account. The size and nature of claim liabilities are considered together with the assets available.

Generally, Accounts with lower funding positions and liable for lengthy claims tend to have asset allocations more highly weighted towards equities.

For the Motor Vehicle Account this is less extreme. This is because of the low annual cash flow from levy income and claim payments in relation to the size of the assets and liabilities. This reduces the Account's ability to absorb fluctuations in equity prices without a significant impact on levy rates.

ACC reviewed and updated the SAA percentages for the individual Accounts in September 2020 and March 2021. The resulting changes took effect progressively between the end of October 2020 (full review) and the end of April 2021 (interim review). ACC generally makes smaller changes in its interim SAA reviews than in the full reviews.

Overall, the cumulative changes in Table 40 were:

- an increase in the global equity weight and a reduction in the nominal bond weight due to the sharp decline in interest rates and associated rise in the expected equity risk premium
- a small increase in the weighting for inflation-indexed bonds due to the availability of newly issued inflation-indexed bonds
- an increase in the total unhedged foreign currency exposure due to an increase in the expected returns for currency hedging, arising from changes in the differential for New Zealand and offshore interest rates.

The liability profile is different for each Account

Most claims are short term and don't pose significant investment issues. A small number of claims are for very long-term serious injuries. Most of the claims for very long-term injuries are in the Motor Vehicle, Non-Earners' and Treatment Injury Accounts. The liability profile for these serious injuries is lengthy, with payments subject to general price inflation and superimposed inflation.

Weekly compensation claims tend to last for intermediate lengths of time. They end when the clients can go back to work or reach 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; they dominate the Work Account liability.

People claiming elective surgery often have injuries that deteriorate as they get older, and they can need repeat procedures. These claims tend to be medium to long term, so are subject to high superimposed inflation. The Earners' Account has the highest elective surgery liability, making the average length of claims in this Account slightly longer than that in the Work Account.

F.4 External factors influence investment risk

ACC investments face economic and financial uncertainties

Many economic and financial situations could affect net assets. Levy rates and government appropriations are negatively affected when:

- real interest rates decline
- inflation increases
- equity markets decline
- influences, such as credit defaults or a stronger New Zealand dollar against foreign currencies, lead to poorer returns.

Of these, several factors could happen at once. As an example, a severe financial crisis could result in real interest rates and equity markets declining. This could then prompt potentially widespread credit defaults.

Declines in long-term interest rates affect assets and liabilities differently

The OCL's value is calculated using risk-free interest rates for many years into the future, so reductions in long-term interest rates raise the value of the OCL. When this happens, fixed-interest assets also tend to rise in value. However, they tend not to rise by enough to fully offset the rise in the OCL. Also, part of the portfolio is invested in assets such as shares that may, or may not, go up in value when long-term real interest rates decline.

ACC tries to mitigate these declines

That's why ACC uses an 'interest rate derivative asset allocation overlay' to mitigate declines in long-term real interest rates. This overlay, which uses fixed-for-floating interest rate swaps, generates revaluation gains when long-term interest rates decline. Despite this, ACC is still exposed to interest rate declines.

Future claim payments are generally linked to inflation

Most long-term claim payments are inflationary. But many investment assets, including the interest rate derivative asset allocation overlay and most bonds, aren't protected from inflation.

The market values of these nominal assets tend to fall if inflation expectations rise. So-called 'real assets', such as equities and property, may provide protection in the long term. However, history suggests that their returns may be adversely affected by rising inflation in the short term.

The Scheme continues to mature, so it takes on a greater number of serious injury claims over time, and these extend average claim lengths. This tends to increase exposure to the risk that bond yields will decline, or the inflation outlook will deteriorate. Holding index-linked bonds, where possible and where they can be obtained at a reasonable price, mitigates some of this risk.

Share market movements can improve investment returns, but this increases risk

ACC invests a portion of its portfolio in shares, even though their returns tend to have little correlation with the valuation of the liabilities. This lack of liability matching is accepted because shares are expected to generate higher returns than bonds in the long term. Increasing ACC's asset allocation in shares is one option to improve the overall investment return when assets such as bonds are experiencing very low expected returns. This will increase the volatility, or risk, in ACC's asset values. If equity markets decline sharply, there will be upward pressure on levy rates and government appropriations.

The investment team considers currency and liquidity risks

Movements in exchange rates alter the market value of investments. The investment team considers the relationships between currency movements and other market movements when it assesses the overall asset/liability risk. For example, the New Zealand dollar tends to fall when equity markets decline. The portfolio's foreign currency exposure helps to offset the risk of a decline in equity markets.

ACC has less of an issue with meeting liquidity needs than many other investment funds. This is because ACC does not face client redemptions, and its investments have a high proportion of cash and bonds and a fairly steady payment profile. Nevertheless, ACC does scenario modelling as part of its liquidity planning and management.

ACC also considers broader investment risks

ACC has considered other, more extreme, investment risks that:

- are generally unlikely to arise
- would have material impacts if they happened
- would happen with little warning.

Such risks include a natural disaster in New Zealand, insolvency by ACC's financial custodian and an Australasian banking crisis.

By focusing more broadly on investment risk, ACC has decided where further action is needed.

The COVID-19 pandemic provides a cogent example of how extreme risks can impact investment markets. The pandemic and ongoing restrictions significantly impacted broad markets, such as the level of interest rates and overall share markets. They also affected relative pricing within markets, such as the share prices for companies that were more or less impacted by the implications of the COVID-19 pandemic.

ACC's response to the broad market impacts was mainly through its SAA reviews. The SAA review in April 2020, when both equity prices and bond yields had declined materially, resulted in an increase in equity weightings and a reduction in bond weightings.

ACC considers climate risks to be both physical and transition risk. Measuring the carbon intensity of investee companies and setting carbon intensity reduction targets lowers climate risk in the portfolio.

Appendix G – Funding details

G.1 Different possible future economic factors and claim performance generate a range of potential pathways for the funding position

Changes in economic and claim trends can vary the funding positions of each Account. To understand more, we simulate future examples of these variations.

For the three levied Accounts and the fully funded portion of the Non-Earners' Account (including the Non-Earners' portion of the Treatment Injury Account) the simulations allow for:

- the funding position at 30 June 2021
- variations in economic factors, including the earned rates of investment returns, inflation rates and risk-free interest rates
- changes in the number of claims, rehabilitation rates, average payments and superimposed inflation.

We've generated funding positions and associated levy paths for each simulation. Graph 45 to Graph 48 show the distribution of possible funding positions for each Account in future years, with increases in levy rates and the appropriation calculated each year according to the funding policy. The central 80% of simulations fall within this range (the 10th percentile to 90th percentile).

Overlaid on this range is the indicative funding position calculated at June 2021 for the 2022/25 levy consultation and the 2022/23 Non-Earners' Appropriation. The indicative funding position assumes the economic and claim forecasts made at 30 June 2021 hold into the future.

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

The 2021 funding policy for levied Accounts changed the maximum increase in levies to 5% per annum. Last year we assumed the maximum increase was 15% per annum because the changes to the funding policy were still being confirmed. Graph 4 on ***page 70*** of this report shows that the cap limits the speed at which ACC can respond to funding deficits by recommending higher levies.

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 increases. With a cap of 15% per year the levies could increase to the original level within two years, but with a 5% cap it would take five years.

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, any underfunding is likely to be passed on to future levy payers and taxpayers in the form of higher levies and appropriations.

The indicative funding position path maintains the economic and claim assumptions at 30 June 2021 into the future. However, for each simulation, the economic and claim assumptions can change each year. The levies and appropriations are then re-calculated by applying the applicable funding policy. If these assumptions deteriorate, the funding policy (both capping and the funding adjustment) will deliberately slow any increases in funding. This means that the simulated funding positions are likely to be lower than the indicative funding position path. The ability to revise the assumptions each year for the simulations creates the wide range of possible levy rates for each of the future years, and this variance increases the further we project.

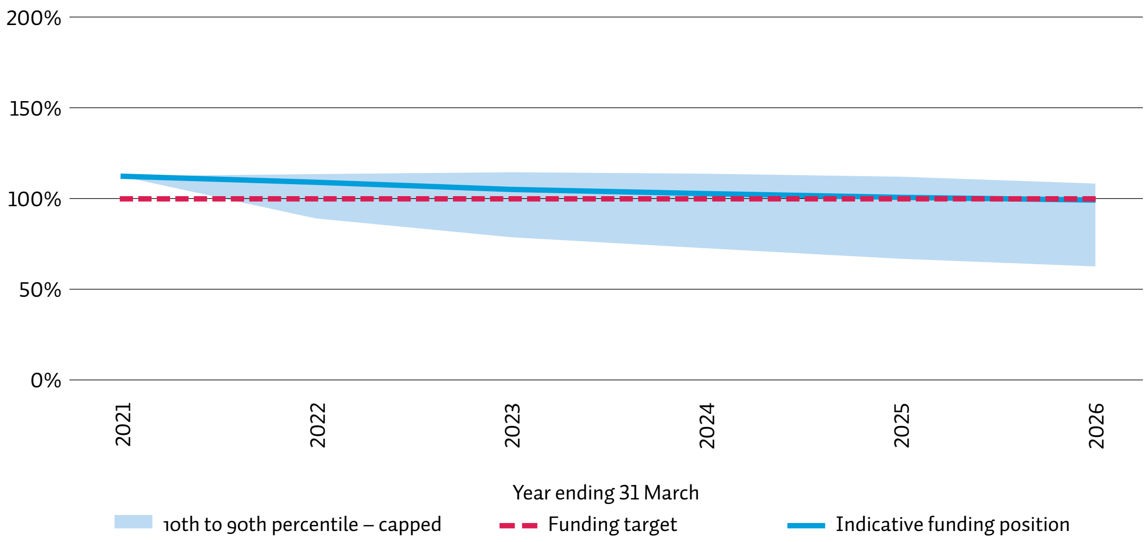
Earners’ Account (excluding the Earners’ portion of the Treatment Injury Account)

The Earners’ Account (excluding the Earners’ portion of Treatment Injury) had an opening funding ratio of 112%. New year claim costs are significantly higher than the 2021/22 levy, but capping limits the size of levy increases that ACC can recommend. This means that the funding position is likely to deteriorate faster than we would otherwise expect.

Our simulations indicate there’s a 76% probability the funding ratio will be below 100% in 2026 and a 34% probability that it will be below 80%. If levy increases in line with the funding policy are not approved, then funding positions are more likely to be below target. This is true for all Accounts.

As stated above, the funding policy deliberately slows any funding increases as a response to deteriorating economic and claim assumptions in the simulations. The indicative funding position maintains the economic and claim assumptions at 30 June 2021 into the future, so it is near the upper end of the simulations.

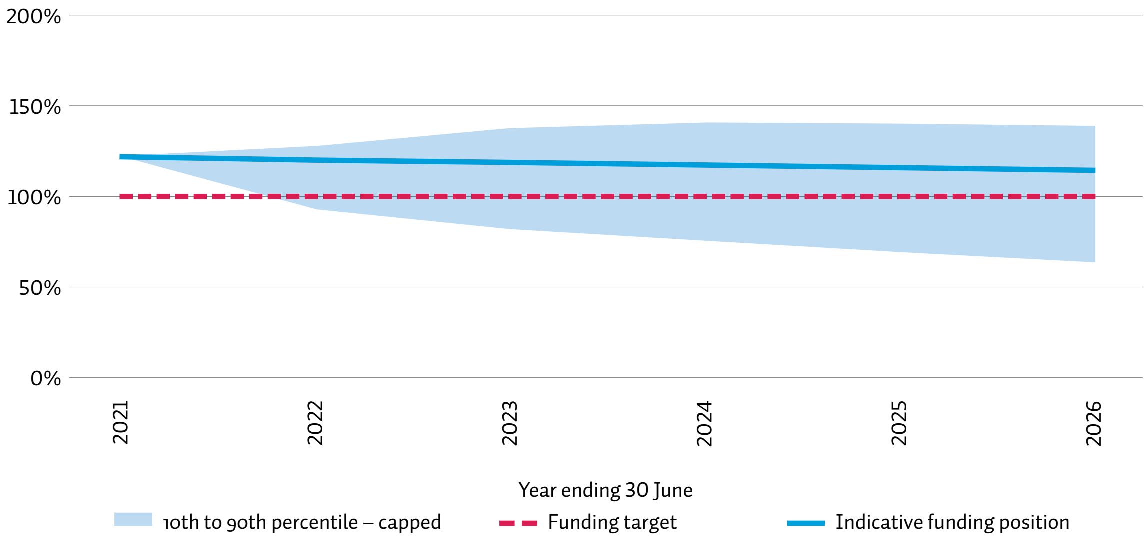
GRAPH 45: EARNERS’ ACCOUNT: PROJECTED FUNDING POSITION



Motor Vehicle Account

At 30 June 2021, the Motor Vehicle Account had a funding ratio of 122%, a substantial increase from 100% the previous year. The indicative funding position reduces over time as the funding surplus is returned to levy payers in the form of lower levies in line with the funding policy. The simulations imply a 46% probability of being under the 100% target in 2026 and a 23% probability of a lower than 80% funding ratio.

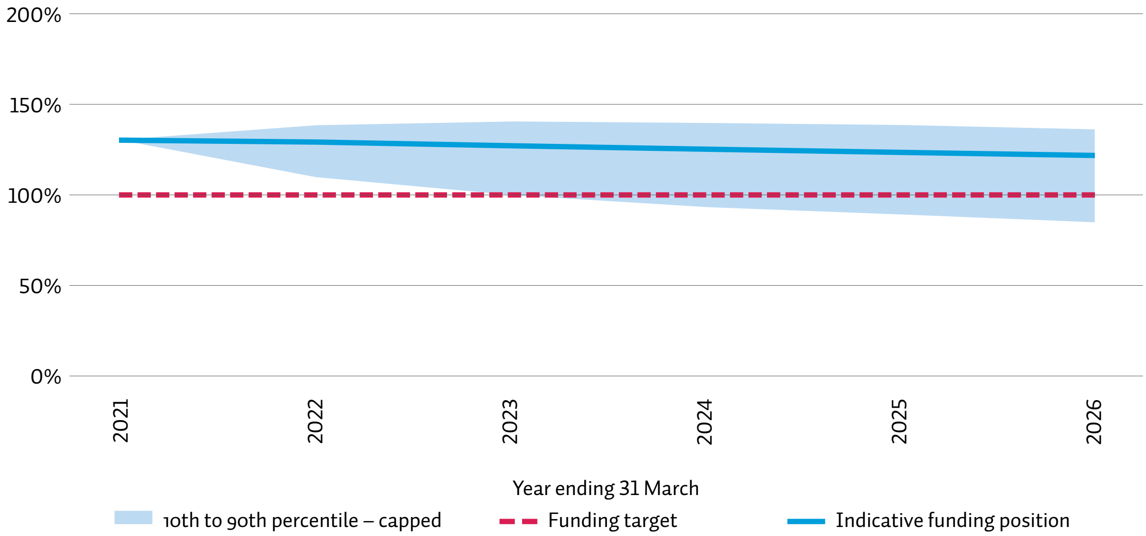
GRAPH 46: MOTOR VEHICLE ACCOUNT: PROJECTED FUNDING POSITION



Work Account

The Work Account had the strongest funding ratio at 30 June 2021 of 130%. It's the least likely to be below the 100% funding target in 2026, with a probability of 27% and only an 8% probability of a lower than 80% funding ratio.

GRAPH 47: WORK ACCOUNT: PROJECTED FUNDING POSITION



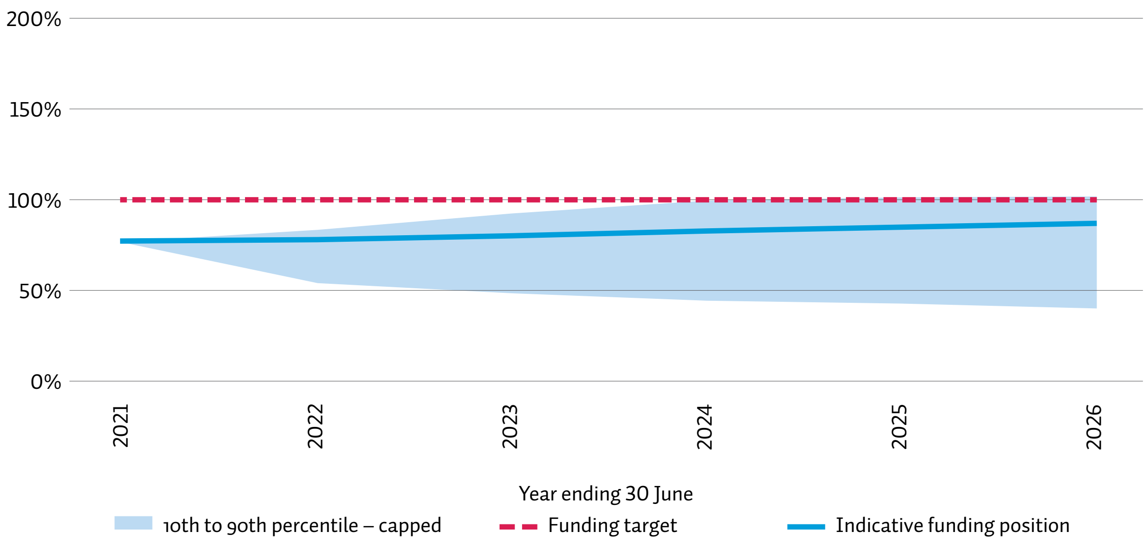
Non-Earners' Account (fully funded portion)

Unlike the levied Accounts, the fully funded portion of the Non-Earners' Account (excluding the Non-Earners' portion of the Treatment Injury Account) was in deficit at 30 June 2021. The funding ratio was 78%, a significant improvement compared to 52% the previous year.

The indicative funding position, according to the 2021 appropriation recommendation, moves gradually towards the 100% target as appropriations are increased over time. The indicative funding ratio in 2026 is 89%.

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 an 88% probability of being below the 100% funding target in 2026, as well as a 56% probability of having a funding ratio less than 80%.

GRAPH 48: NON-EARNERS' ACCOUNT (FULLY FUNDED PORTION): PROJECTED FUNDING POSITION



G.2 Levies and appropriations are sensitive to assumptions too

As with funding positions, new year claim costs vary with changes in economic assumptions and claim trends. This results in a range of possible pathways for levies and appropriations.

We've used the same set of simulations as for the funding positions to understand the variability of levies and appropriations.

Graph 49 to Graph 52 show, for each Account, the distribution of future uncapped and capped levy and appropriation paths. The distribution of capped levy paths is much narrower, showing the effect the cap has on stabilising levy rates. The indicative uncapped and capped levies and appropriations are also shown, using the recommendations consulted on or calculated in 2021.

For each simulation, the assumptions can change each year. The levies and appropriations are then re-calculated by applying the applicable funding policy. For the indicative levy pathways on each of the graphs, the projected levies are set with the assumptions from June 2021 held for the duration of the projections. The ability to revise the assumptions each year for the simulations creates the wide range of possible levy rates for each of the future years, and this variance increases the further we project.

The historical levy rates and appropriations are also shown from 2016/17 onwards. Levy rates before 2016/17 were higher as they included an amount to bring the unfunded pre-1999 PAYG liability to full funding.

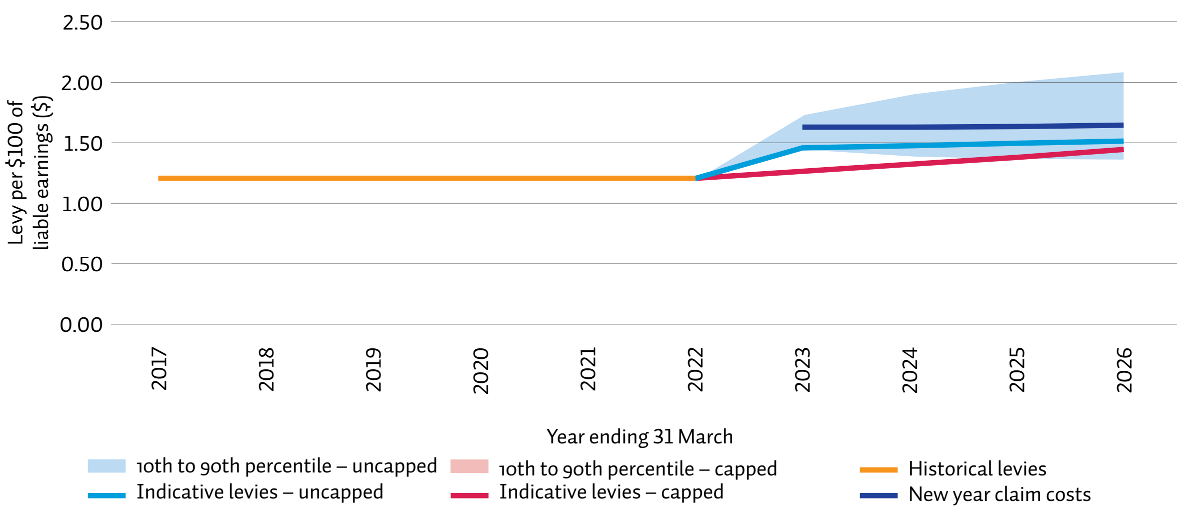
Earners' Account (including the Earners' portion of the Treatment Injury Account)

At 30 June 2021, there was a surplus in both the Earners' Account and the Earners' portion of the Treatment Injury Account. Despite this, there's a significant gap between the 2021/22 levy ($1.21) and the new year claim costs for 2022/23 ($1.63). Levy increases are therefore expected. According to the indicative levies, levy increases will be at the 5% cap for the next five years. Without capping, there would be an immediate levy increase to $1.46, far higher than the $1.27 capped levy.

Our simulations also show the strong likelihood of capped increases. The range of possible capped levies closely follows the maximum 5% increase per annum.

The 2025/26 capped levy could vary from $1.41 to $1.47 with 80% confidence. It's important to note that this range is higher than the 2021/22 levy of $1.21. This shows that even in the more favourable scenarios, the Earners' levy is expected to increase. Without the cap the range of possible levies in the same period widens, from $1.37 to $2.09 with 80% confidence.

GRAPH 49: EARNERS' ACCOUNT, INCLUDING THE EARNERS' PORTION OF THE TREATMENT INJURY ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



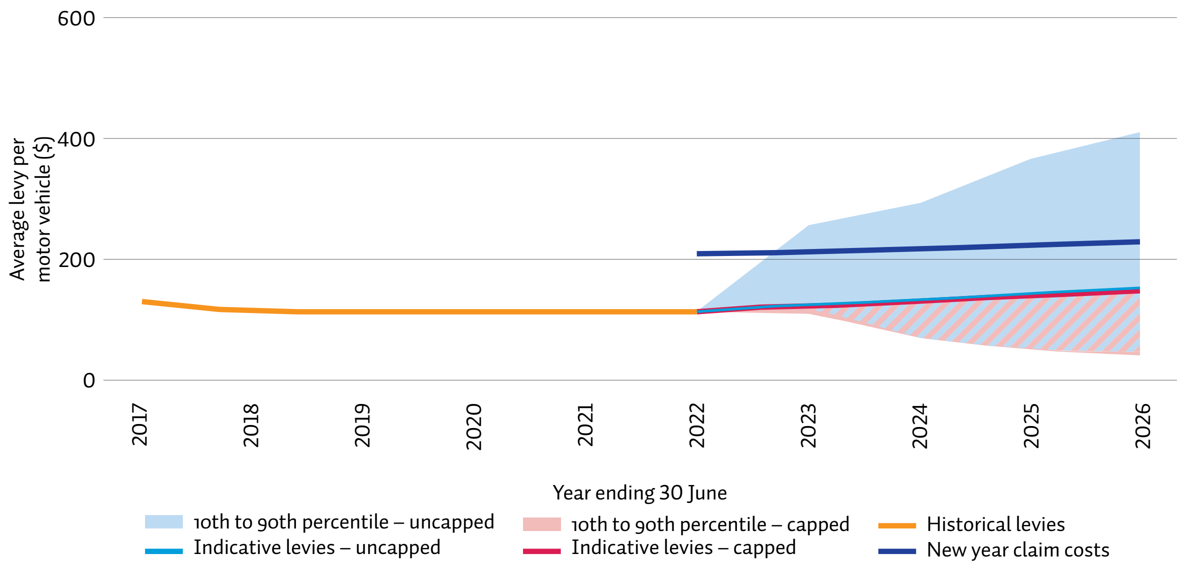
Motor Vehicle Account

Despite a strong funding position at 30 June 2021, we expect levy increases are needed in the future as the 2021/22 levy ($113.94) is well below the 2022/23 new year claim costs ($212.15). Indicative levies increase below the cap for 2022/23, but at the cap for the next six years.

The distribution of the Motor Vehicle Account's simulated uncapped levy path is the widest of the levied Accounts. The long-term nature of claims in this Account means that it's the most sensitive to changes in economic and claim trends. Even with capped levy increases the range of possible levies is large, between $40 and $155 in 2025/26.

The volatility in recommended levy paths is mostly caused by the funding adjustment, rather than the new year claim costs. A $40 levy scenario described above could occur in situations where a combination of higher risk-free interest rates, lower inflation rates and higher equity values creates a much stronger funding ratio (over 140%). A significant negative funding adjustment is then needed to reach the 100% funding target in 10 years.

GRAPH 50: MOTOR VEHICLE ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



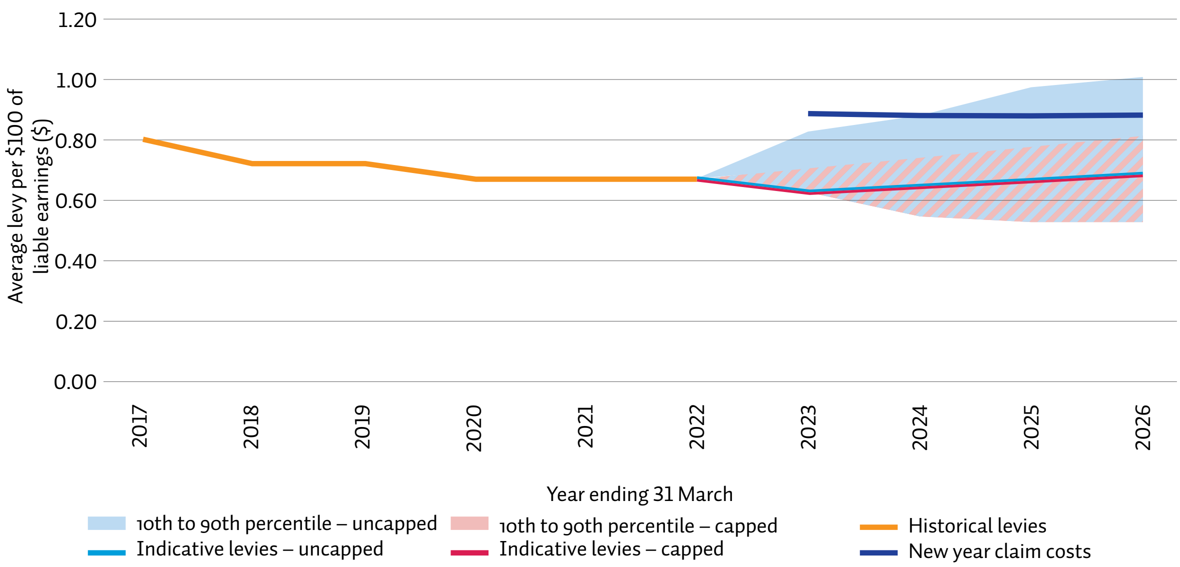
Work Account

The new year claim costs rate for 2022/23 is $0.88 per $100 liable earnings, significantly higher than the 2021/22 levy of $0.67. Despite this, the indicative levies suggest a decrease to $0.63 in 2022/23 followed by gradual increases below the 5% cap. This is because of the strong funding ratio of the Work Account at 30 June 2021, at 130% of target.

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

Of all the levied Accounts, the Work Account has the widest range of possible capped levies, relative to its range of possible uncapped levies. The Work levy is less likely to need capped increases due to the strong funding position.

GRAPH 51: WORK ACCOUNT: DISTRIBUTION OF FUTURE LEVY PATHS



Non-Earners' Account (including the Non-Earners' portion of the Treatment Injury Account)

The Non-Earners' Account is in deficit and the approved appropriation for 2021/22 is below future new year claim costs, meaning appropriation increases are expected. This is also true of the Non-Earners' portion of the Treatment Injury Account. The 2021 recommended appropriations suggest that the combined appropriation will increase at the 7.5% cap for 2022/23 and then increase below cap for later years.

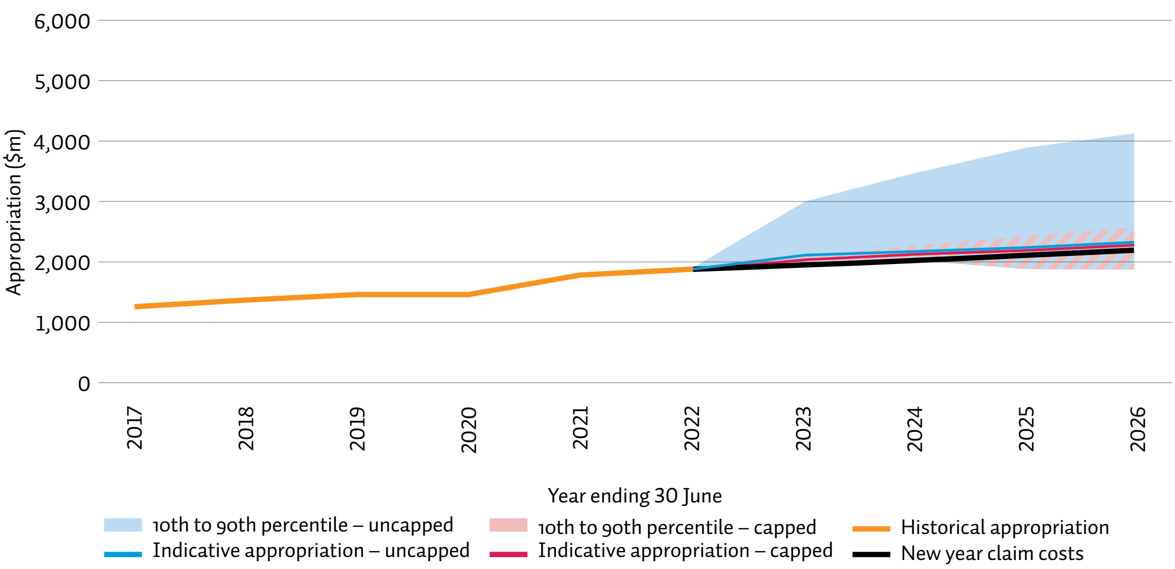
The funding policy for the Non-Earners' Account states that claims before July 2001 should be funded on a PAYG basis. This means that its appropriation in any given year is the amount we expect to pay in that year for those claims. The PAYG portion of the appropriation is very stable, at around $170 million per year. As it only represents a year's worth of payments, it's not impacted by changes in economic assumptions. Also, there's more certainty around claim numbers and payments as it covers claims from before 2001.

The distribution of the simulated uncapped appropriations is very wide, with a range of $1.8 billion to $4.1 billion in 2025/26 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. This is particularly true for the Non-Earners' portion of the Treatment Injury Account, which supports many clients with birth-related injuries who are likely to require support for the rest of their life. Excluding the Treatment Injury Account, the 2025/26 range narrows to $1.8 billion to $3.1 billion.

If forecast inflation rates double and risk-free interest rates halve this will result in negative 'real' risk-free interest rates. This occurs in many of the most extreme simulated appropriations as the OCL would increase significantly leading to appropriations of more than $3.1 billion.

Even with capped increases the distribution is quite wide, between $1.8 billion and $2.5 billion in 2025/26 for the combined appropriation. There's an 88% probability that the appropriation in 2025/26 is higher than the approved amount for 2021/22.

GRAPH 52: NON-EARNERS' ACCOUNT, INCLUDING THE NON-EARNERS' PORTION OF THE TREATMENT INJURY ACCOUNT: DISTRIBUTION OF FUTURE APPROPRIATION PATHS



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