MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Scott Simpson	**Portfolio**	Science, Innovation and Technology
Title of Cabinet paper		**Date to be published**	15 July 2025

List of documents that have been proactively released		
Date	**Title**	**Author**
October 2024	OIA Response letter	MBIE

Information redacted **YES**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of Privacy of natural persons.

The document has been released as part of an Official Information Act request.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

10 July 2025

Ref: DOIA-REQ-0015951-Privacy of natural persons

Privacy of natural persons
Email: Privacy of natural persons

Tēnā koe Georgia

Thank you for your email of 11 June 2025 to the Ministry of Business, Innovation and Employment (MBIE) requesting, under the Official Information Act 1982 (the Act), the following information:

> *In Cabinet Business Committee CBC-24-MIN-0118 published on your website, reference is made to independent advice provided to the Ministry of Business, Innovation and Employment by Finity Consulting Ltd that stated a "1 percent increase in the rehabilitation performance will have a positive impact on the funding ratio over a ten-year period.*
>
> *My request is for a copy of the section(s) of that report relating to the rehabilitation performance of ACC.*

Please find attached a copy of the report that contains the requested sections, *Actuarial Quality Assurance of ACC Levies 2025-28,* released in full.

I trust you will find this information useful.

If you wish to discuss any aspect of your request or this response, or if you require any further assistance, please contact OIA@mbie.govt.nz.

Please note that this response and enclosed documents, with your personal details removed, may be published on the MBIE website: www.mbie.govt.nz/about/open-government-and-official-information/published-official-information-act-requests.

You have the right to seek an investigation and review by the Ombudsman of this decision. Information about how to make a complaint is available at www.ombudsman.parliament.nzor freephone 0800 802 602.

Nāku noa, nā

Bridget Duley
Manager, Accident Compensation Policy
Labour, Science and Enterprise, MBIE

Actuarial Quality Assurance of ACC Levies 2025-28

Ministry of Business, Innovation & Employment (MBIE)

October 2024

Strictly confidential

finity

18 October 2024

Amber McGovern-Wilson
Principal Advisor, Accident Compensation Policy Team
Ministry of Business, Innovation & Employment (MBIE)
15 Stout Street, Wellington, 6140

Dear Amber

Actuarial Quality Assurance of ACC Levies 2025-28

We are pleased to provide you this advice on our review of the ACC's proposed levy rates for 2025 to 2028 period. The consultation covers levies for the Work, Motor Vehicle and Earners' accounts (including the Earners' portion of the Treatment Injury account).

This quality assurance review is a review for reasonableness. It should be noted that the quality assurance review has not provided (nor is it intended to provide) an independent estimate of levy rates, nor is this quality assurance review intended to provide verification that each of the detailed calculations underlying the calculation of the levy rates is correct.

Yours sincerely

Anagha Pasche
Fellow of the New Zealand Society of Actuaries

Jamie Reid
Fellow of the New Zealand Society of Actuaries

1 Executive summary

1.1 Scope of our review

Finity Consulting Pty Limited ("Finity") has been engaged by the Ministry of Business, Innovation and Employment ("MBIE") to carry out a quality assurance review of the proposed 2025/28 levy rates for the Work account, Motor Vehicle account and Earners' accounts (including the Earners' portion of the Treatment Injury account).

Levies are reviewed triennially and applicable to a three-year period, although could be reviewed more frequently under exceptional circumstances.

Specific requirements for our review are to provide advice on:

- The appropriateness and reasonableness of ACC's proposed average levy rates and any trade-offs made in arriving at the proposed levy rates.
- Any changes to ACC's actuarial methodology and approach and the reasonableness of assumptions for future periods.
- The sustainability of ACC's proposed levy rates for 2025-28 and for future years.
- Any potential choices in levy rates under the Government's Funding Policy (i.e. within key sensitivity/scenario bound and confidence margins).
- Any changes in cross-subsidisation of proposed levy rates with accounts (for example, relativities between the levy risk groups in the Work and Motor Vehicle accounts), and any corresponding impact on equity.
- Any levy pricing or product proposals made by ACC.

1.2 Proposed levy rates

Table 1.1 summarises the recommended levies for each account and compares these to the current levies.

Table 1.1 – Recommended levy rates

Account	Units	Current Levy	Recommended Levy Rate			Yearly movement in		
		2024/25	2025/26	2026/27	2027/28	2025/26 $	2026/27 $	2027/28 $
Work	Avg. per $100 of liable earnings	$0.63	$0.66	$0.69	$0.72	$0.03	$0.03	$0.03
Motor Vehicle	Avg. per vehicle	$113.94	$122.84	$131.94	$141.69	$8.90	$9.10	$9.75
Earners (incl TI)	Per $100 of liable earnings	$1.39	$1.45	$1.52	$1.59	$0.06	$0.07	$0.07

ACC is recommending:

- Work account - Capped increases for the 2025/26, 2026/27 and 2027/28 years. The cap for the Work account is 5%.
- Motor Vehicle account – Capped increases for 2025/26 followed by capped increase in 2026/27 and 2027/28. The cap for the Motor Vehicle account is 5% plus inflation adjustments.
- Earners' account (incl. Earners' account share of treatment injury) – Capped 5% increases for 2025/26, 2026/27 and 2027/28 years.

Note: the cap is applied to the levy rates 5% rounded to 2 d.p. therefore the % increase may be below cap %.

Table 1.2 shows the components of the recommended levy rates.

Table 1.2 – Components of recommended levy rates

	Work			Motor Vehicle			Earners		
	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28
New Accident Year Costs	$0.93	$0.96	$0.96	$233	$240	$247	$1.87	$1.90	$1.95
Funding Adjustment	-$0.15	-$0.15	-$0.15	-$75	-$77	-$79	$0.08	$0.07	$0.08
Uncapped Levy Rate	$0.79	$0.81	$0.81	$158	$163	$168	$1.95	$1.97	$2.03
Capping Adjustment	-$0.13	-$0.12	-$0.09	-$36	-$31	-$26	-$0.50	-$0.45	-$0.44
Recommended Levy Rate 2025/26	**$0.66**	**$0.69**	**$0.72**	**$123**	**$132**	**$142**	**$1.45**	**$1.52**	**$1.59**

We make the following comments:

- New year accident costs are well in excess of the current levy rates, and expected to increase by 1 to 3% p.a. (varies by account and year). By 2027/28, the recommended levy rate is 75%, 57% and 82% of the new year accident costs for Work, Motor Vehicle and Earners' account respectively.
- In line with the Funding policy, if a levied account has a deficit or surplus of funds to meet the costs of claims, that surplus or deficit is to be corrected by applying a positive or negative funding adjustment. The Work and Motor Vehicle accounts currently have funds in excess of the funding target, however the Earners' account is below target.
- A 5% cap on the annual levy rate increase is applied in each year of the three-year period for the Work and Earners' account. For the Motor Vehicle account, a 5% cap plus inflation adjustments for the Motor Vehicle account is applied.
- In the absence of the caps, the recommended levy for all levied account across each of the three-years would be higher.

Over the long term, the ACC's income from levies and investments needs to match its claim costs and expenses. On the assumption that levy payers may find large annual levy rate increases problematic, there are two smoothing mechanisms in the levy calculations:

- Ten-year horizon for funding adjustment: A long funding horizon means that only a small proportion of any account surplus or deficit is included in the levies each year.
- Capping annual levy changes at 5% (plus inflation for the Motor Vehicle account).

The table above shows how there two smoothing mechanisms can either amplify or work against each other, specifically:

- For the Work and Motor Vehicle accounts, both the funding and capping adjustments reduce the levy rate, and so the speed at which the account surplus is distributed is accelerated. As we explain below, this is problematic because all the surplus will be distributed well before the levy rates reach the new year cost.
- The Earners' account is below its funding target, so there is a positive funding adjustment to collect additional funds ($0.08 per $100 income in 2025/26). Significant capping adjustments ($0.50 per $100 income in 2025/26) more than offset the funding adjustment, meaning that the account is not expected to return to full funding for over the next ten years.

1.3 Funding Position

The Funding policy target is a funding ratio of 100% for each of the accounts over a 10-year horizon. The 10-year time horizon resets each year. The funding ratio is calculated by dividing specified funds (mainly investment assets) by balance sheet outstanding claims liabilities (less the risk margin and some other adjustments). Accordingly, full funding does not require ACC's balance assets to match its balance sheet liabilities as the Funding policy uses a different basis for assets and liabilities.

Figure 1.1 shows the projected funding ratio of each account over the 10-year time horizon based on the recommended 2025 to 2028 levy rates and the application of the Funding policy in outer years.

Figure 1.1 – Funding Ratio 10 Year horizon

At the start of the 2025/26 levy year, the Work and Motor accounts are projected to be above their target funding position of 100%. Over the 10 Year horizon, these two accounts are projected to fall below the 100% target funding ratio as the expected increase in costs is projected to be higher than the increase in levy rates after applying the Funding policy.

The Earners' account is projected to be in deficit at the beginning of the 2025/26 levy period and there is a significant gap between the levy rate and the new year accident costs. Over the 10 Year horizon, this account is projected to reduce well below the target funding ratio due to the impact of applying the Funding policy.

Assuming economic and claims experience emerges as projected, levy rate increases higher than the cap would be required for the funding ratio to remain at or above target in the short to medium term.

Figure 1.1 demonstrates the restriction a levy rate cap places on achieving a fully funded model (i.e. where levy rates reflect the expected lifetime cost of claims in the levy year). The combination of starting from a position where there is a gap between the levy rate and new year accident costs particularly and the application of Funding policy, levy rates are unable to approach the level required for full funding even over a 10 Year horizon.

1.4 Scenarios

We have carried out some scenario testing to illustrate the sensitivity of the funding ratio to changes in key assumptions. The scenarios help to illustrate the impact of alternative levy rate increases, economic assumptions and claims experience on the funding ratio of each account over the 10 Year horizon.

Table 1.3 shows the projected funding ratio at the start of the 2025/26 levy year and the projected funding ratio at the end of the 10 Year horizon under the following scenarios:

- Base: Recommended levy rates are applied and economic and claims experience as projected.
- No increase to levies: No increase is applied to levy rate over the 2025 to 2028 period with the Funding policy applying thereafter.
- Economic stresses: 1% lower discount rate and 1% lower investment returns.
- Adverse claims experience: Adverse claims experience applied as 1% increase in the weekly compensation continuance rates for the Work and Earners' accounts and a 1% increase in the care inflation rates for the Motor Vehicle account.
- Favourable claims experience: Favourable claims experience applied as 1% decrease in the weekly compensation continuance rates for the Work and Earners' accounts and a 1% decrease in the care inflation rates for the Motor Vehicle account.
- 10% levy increase: A 10% increase in the levy rate for 2025/26 for the Earners' account only (i.e. an increase higher than the cap) and the Funding policy applying thereafter.

Table 1.3 – Scenario testing of Funding ratio

Funding Ratio	Scenario	2024/25	2034/35
Work	Base	127%	94%
	No Increase to levies	127%	80%
	Economic stresses	120%	82%
	Adverse claims experience	123%	88%
	Favourable claims experience	131%	100%
Motor Vehicle	Base	124%	97%
	No Increase to levies	124%	87%
	Economic stresses	112%	80%
	Adverse claims experience	112%	82%
	Favourable claims experience	135%	110%
Earners	Base	90%	67%
	No Increase to levies	90%	46%
	Economic stresses	85%	59%
	Adverse claims experience	89%	65%
	Favourable claims experience	92%	69%
	10% levy increase in 2025/26	90%	77%

As noted in Section 1.3, the funding ratio for all three levied accounts is projected to drop below the 100% target over the 10 Year horizon. It is therefore not surprisingly that the funding ratio is projected to deteriorate further under all scenarios with the exception of the favourable claims experience scenario.

It is important to note that these should not be considered extreme scenarios, as there have been larger movements in some of these assumptions since the levies were last reviewed three years ago.

If no increases are approved, then funding ratios will deteriorate faster than expected, and it will be more difficult to achieve the funding targets in the long term. Under this scenario, there would be increased pressure on the ongoing sustainability of the levied accounts without larger than capped increases in outer years, or changes to the benefit structure.

1.5 Comparison to previous levy consultation

There has been significant deterioration in claim severity since the previous levy consultation. This is primarily attributable to a worsening in weekly compensation rehabilitation rates, although there has been a deterioration in the average claim size across other payment types. While there has been some offset with claim frequency which has not rebounded as expected since the pandemic, overall costs are significantly higher than projected at the previous levy consultation.

The experience demonstrates some risks and opportunities regarding future levy rates. If rehabilitation rates continue to deteriorate, or claim frequency increases to previous levels, the funding ratio in three years is likely to be worse than expected, potentially making it difficult to sustain full funding given then caps applied to levy increases. Alternatively, if rehabilitation rates return to previous levels then the required future levy increases will moderate.

1.6 Other proposed changes

ACC and/or the Minister are proposing a number of other changes to apply to the levied accounts at the same time levy rate changes are implemented. The aggregate impact of the proposals on the account is expected to be cost neutral and the levy rate recommendations are before applying these proposed changes.

Our understanding is the proposed changes aim to strike a balance between reducing cross subsidies with providing universal cover. We do not consider the overall changes to be a material consideration in this quality assurance review. However, taken together, the proposed changes appear to strike an appropriate balance between competing factors. It would also be reasonable to not apply these changes, noting that this may result in continuing or increasing cross-subsidies.

1.7 Opinion

ACC initially calculates levy rates for the 2025/28 period as an uncapped rate based on technical analysis. The two components used to determine the uncapped levy rate are new year claims cost and the funding adjustment. The funding adjustments target a funding ratio of 100% over a 10-year horizon, based on the Funding Policy statement.

The Funding Policy places a cap on the annual increase to the aggregate levy for each levied account. For the 2025/28 period, ACC are recommending aggregate annual levy rates for each account increase by the cap. We note that the ultimate decision on levy rate changes is not constrained by the Funding policy.

In our opinion, the recommended levies meet the requirements of ACC's Funding Policy. In particular, based on current claim costs and assuming increases must be capped at 5% per year plus inflation (as measured by the Labour Cost Index), increasing levies by the maximum capped amount is consistent with the objective of full funding.

At the start of the projected period, the funding ratio for the Work and Motor Vehicle accounts is expected to be above target, whereas the Earners' account is projected to be at 90%. Over the 10-year projected horizon with the application of the Funding policy (with levy rate cap if required), the funding ratio is projected to fall below the 100% target funding ratio for all three accounts. This outcome is due to the total expected increase in costs over the period being higher than the increase in levy rates after the application of the cap.

The scenarios shown in this section illustrate that if economic or claims assumptions are worse than expectations, the funding ratio is projected to significantly deteriorate over the 10-year horizon. The no increase to levies scenario shows a minimal difference in funding ratios over the short-term but a significant differential between the levy rate and the new year accident costs over a 10-year period. That is, if levy rates are not increased, an intergenerational cross-subsidy will arise where future levy payers will have to pay for the accident costs of current levy payers.

The long term and uncertain nature of ACC benefits means there will always be a range of reasonable projection assumptions, and different ways in which the required funds can be collected. For the Work and Motor Vehicle account, we note that charging lower levies than recommended is not expected to significantly impact the funding ratio in the short term, but over a 10-year horizon, the funding ratio deteriorates faster and a significant differential emerges between the levy rate and the new year accident costs over a 10-year period. These impacts would place increased pressure on the financial sustainability of the accounts. As Motor vehicle levies are charged per vehicle, they should be expected to increase each year as benefits increase in line with inflation. The main risk of charging lower levies over the next three years is that it increases the likelihood that a levy increase will be required at next time levy rates are reviewed, particularly if economic assumptions and claims experience are adverse to expectations.

Estimates of future claim costs and investment returns are uncertain, and if experience is better than planned ACC may be able to sustain levies below the levels proposed. If experience is worse than expected, if the funding target is to be achieved over a 10-year horizon and in the absence of an increase to levy rate caps, changes will be required to reduce costs (e.g. through benefit changes).

For the Earners' account, the funding ratio is projected to reduce from 90% to 67% over the 10-year period. This shortfall will have to be funded by future levy payers i.e. future levy payers will have to pay for a proportion of historic accident year costs. Without significant increases to levy rates (i.e. above the cap) and/or a significant reduction in new accident year costs (e.g. scheme reform), the funding ratio is unlikely to meet the target of 100% in the short to medium term.

The ultimate driver of levies is claim costs, and therefore we recommend careful monitoring of the levied accounts against expectations. If forecasts are not achieved, sustainability of the account, as measured by the funding ratio and new year claims cost gap, will be challenged in future periods.

We observe that the Funding policy, including the levy rate cap restricts the ability to achieve full funding, as levy rates are unable to approach the level required for full funding over a 10-year horizon. Given these challenges, we suggest MBIE consider reviewing the appropriateness of the Funding policy, especially the interaction of funding adjustments and capping.

2 Purpose and approach

In this section we document the purpose of this review and the approach we have taken.

2.1 Purpose

Finity Consulting Pty Limited ("Finity") has been engaged by the Ministry of Business, Innovation & Employment ("MBIE") to carry out an independent quality assurance review of the proposed 2025-28 levy rates for the Work account, Motor Vehicle account and Earners' account (including the Earners' portion of the Treatment Injury account).

The purpose of the review is to assist MBIE with its function as advisor to the Minister for ACC.

Specific requirements for our review are to provide advice on:

- The appropriateness and reasonableness of ACC's proposed average levy rates and any trade-offs made in arriving at the proposed levy rates.
- Any changes to ACC's actuarial methodology and approach and the reasonableness of assumptions for future periods.
- The sustainability of ACC's proposed levy rates for 2025-28 and for future years.
- Any potential choices in levy rates under the Government's Funding Policy (i.e. within key sensitivity/scenario bound and confidence margins).
- Any changes in cross-subsidisation of proposed levy rates with Accounts (for example, relativities between the levy risk groups in the Work and Motor Vehicle Accounts), and any corresponding impact on equity.
- Any levy pricing or product proposals made by ACC.

The 2022/25 ACC Levies Quality Assurance Review was carried out by Deloitte Limited with results detailed in their report dated October 2021.

2.2 Report structure

This report contains our review of the ACC's proposed levy rates for 2025 to 2028 period. The consultation covers levies for the Work, Motor Vehicle and Earners' accounts (including the Earners' portion of the Treatment Injury Account).

Section 3 of this report provides an overview of the levy rate setting methodology. Sections 4 to 6 provide further details on the Work, Motor Vehicle and Earners' account levy rate recommendations. Section 7 sets out the reliances and limitations of our work. Further detail is provided in appendices to this report.

2.3 Approach

We reviewed the ACC levy reports and a number of ACC Excel based models (more details on the information reviewed are given in Appendix E). We interviewed ACC actuarial staff who undertake the analysis that underpins the recommend levies.

We reviewed ACC's claims cost forecasts in relation to the 2025-28 and later accident years, and payments in respect of earlier accident years. These forecasts were reviewed in the context of:

- Drivers of change between the proposed 2025-28 levy rates and the levy rates forecast by ACC for the same period when the current levies were set.
- Our understanding of ACC's claims and investment performance.
- Longer term trends in claim frequency and severity.
- Assumptions for future periods including exposure, claim frequency and average claim size (including projected claims inflation).

2.4 Materiality

Materiality in the context of this review relates not only to estimated costs but also that the approach and process is consistent with principles of full funding, stability and equitable allocation of levy rates (between accounts, levy risk groups, motor vehicle types, and between different generations of levy payers). Materiality is judgemental and does not necessarily conform to audit materiality levels.

3 Levy rate setting methodology

This section describes the process used by ACC to estimate average levy rates and describes some of the global assumptions that apply to each account. There have been no material changes to the methodology used by ACC to determine proposed levy rates since the previous levy round other than the removal of the allowance for the benefit associated with Injury Prevention and Integrated Change Investment Portfolio (discussed in Section 3.6).

There are two main components to the levy:

- *New year claims cost:* The levies derived for each levied Account should meet the lifetime costs of claims in relation to injuries that will occur within the next year. Section 166A requires the cost of all claims under the levied Account to be fully funded, meaning they reflect the estimated total cost of all accidents expected to occur in the year, regardless of when the payments for benefits and associated expenses happens.
- *Funding adjustment:* The Funding Policy requires ACC to target holding equal level of specified funds (assets) and specified liabilities, expressed as a funding ratio of 100% for each levied Account. Most notably, the liabilities used in the funding ratio calculation exclude the outstanding claims risk margin. The funding adjustment reflects the differences between ACC's liabilities for claims that occurred in previous years, and the assets ACC holds in respect of those claims. If the account has a funding ratio that currently exceeds the target funding level, the funding adjustments will be negative, i.e. the levies ACC proposes to collect will reduce and vice versa. If a levied Account has a deficit or surplus of funds to meet the costs of claims, that surplus or deficit is to be corrected by setting levies at an appropriate level for subsequent years.

The principles of financial responsibility are outlined in section 166A of the Accident Compensation Act 2001 and form the basis of the Funding Policy Statement. The Funding Policy principles note that large changes in levies should be avoided and acknowledges that there may necessarily be trade-offs between the principles of financial responsibility. Further details on the Funding Policy including the levy rate caps are in Appendix A.

3.1 Funding adjustment

The funding adjustments target a funding ratio of 100% over a 10-year horizon, based on the Funding Policy statement. The 10-year time horizon is reset each year, that is the levies in 2025/26 target a funding ratio of 100% in 2035/36 whilst the levies in 2026/27 will target a funding ratio of 100% in 2036/37. This iterative approach means, in practice, that an Account moves towards the funding target over time, it does not reach target after 10 years.

3.2 Process for establishing average levy rates

The process used by ACC to produce the average levy rates is described below.

- A wide range of data is used as inputs into the levy calculation. This data is a combination of internal ACC data, external agency data, or data provided by ACC's external valuation actuaries Taylor Fry. All the data used for the levy consultation is checked for consistency and accuracy in a way appropriate to the data source by the ACC's Actuarial team.
- ACC's Outstanding Claims Liability (OCL) serves as a key input into the levy setting process, forming the basis for projecting future cashflows in respect of claims that have already occurred. In accordance with our scope of work, we have been advised to assume that Taylor Fry's outstanding claim estimates as at 30 June 2024 are reasonable for the purposes of estimating levy rates. We have not reviewed the Taylor Fry valuation report. Taylor Fry's valuation of OCL estimates are subject to audit and review by ACC's actuaries and Board.

- ACC estimates future funding positions based on current asset and liability balances and expected future cashflows. The relevant projected cashflows are investment returns, future levy rates, and claim payments
- Claims volumes for new accident years post the valuation date have been set using a claim forecasting model run by the analytics and reporting team. The model uses economic conditions as predictors to estimate the number of new claims. This model is also used for setting ACC's budget. To estimate the lifetime cost of new accident years, assumptions are set at a payment type and Account level for:
  - When new claims are expected to be reported
  - How many of these claims will continue to need support in following quarters, these are the continuance rates.
  - The average cost of active claims per quarter
- Management expenses, these are consistent with ACC's budgets.

3.3 Levy Caps

The Funding policy sets out a maximum annual increase that ACC can recommend for levy rate changes (referred to as a Cap). Caps limit the speed of the levy to respond to cost pressures or underfunding.

The cap for each account is as follows:

- Work Account: 5%
- Motor Vehicle Account: 5% + Inflation (as measured by the Labour Cost Index)
- Earners' Account: 5%

Wage inflation is a key driver of claims cost for levied account. Work and Earners' levies are a percentage of earnings. The Motor Vehicle Account cap includes an inflation component as the motor vehicle levy is a dollar amount per vehicle. In contrast, Wage inflation is a key driver of claims cost, therefore whilst levy income for the Work and Earner's account will increase as wages increase, levy income for the Motor Vehicle account won't. Consequentially an inflation allowance is applied to the Motor Vehicle cap.

3.4 Economic assumptions

Levy rates and the funding position of the accounts are sensitive to long term economic assumptions. Changes in New Zealand Government bond yields and the expected returns for other asset classes affect the required levy rate. For example, if investment returns are lower, this requires a higher up-front asset (in the form of levy income). If discount rates are lower, this increases expected claim costs, which needs to be funded through levies.

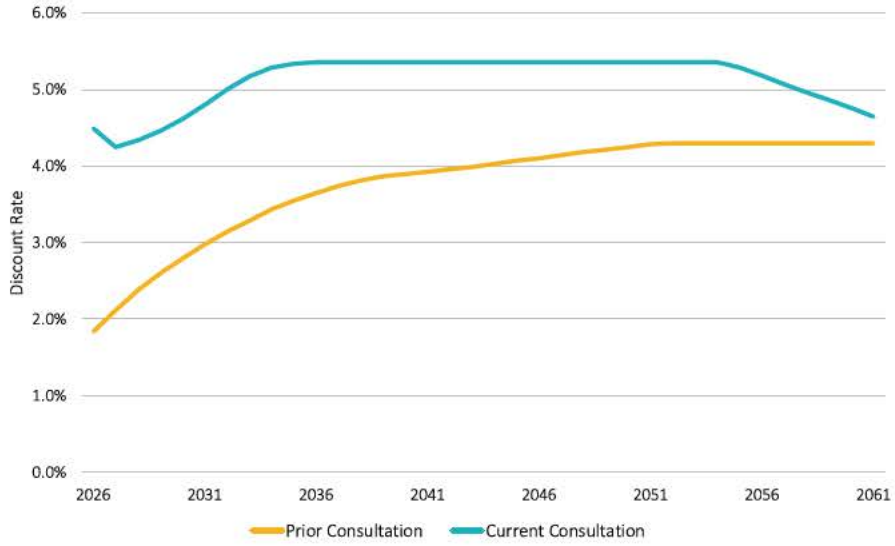
We use scenario testing in Sections 4.4, 5.4 and 6.4 to illustrate the sensitivity of levy rates and the funding ratio to changes in assumptions for each Account.

Discounting

Risk-free interest rates are interest rates that, in theory, are obtained by investing in financial instruments with no default risk. ACC uses Treasury's prescribed discount rate methodology. This provides consistency across accounting valuations reported to the Crown. Treasury releases a central table of risk-free rates and CPI inflation assumptions and these are used in the calculation of the OCL.

Figure 3.1 shows the discount rate assumptions at the previous consultation and the current consultation.

Figure 3.1 – Discount rates



The impact of the increase in discount rates is to decrease the estimated liabilities for each account, therefore resulting in lower levy rate (all else being equal).

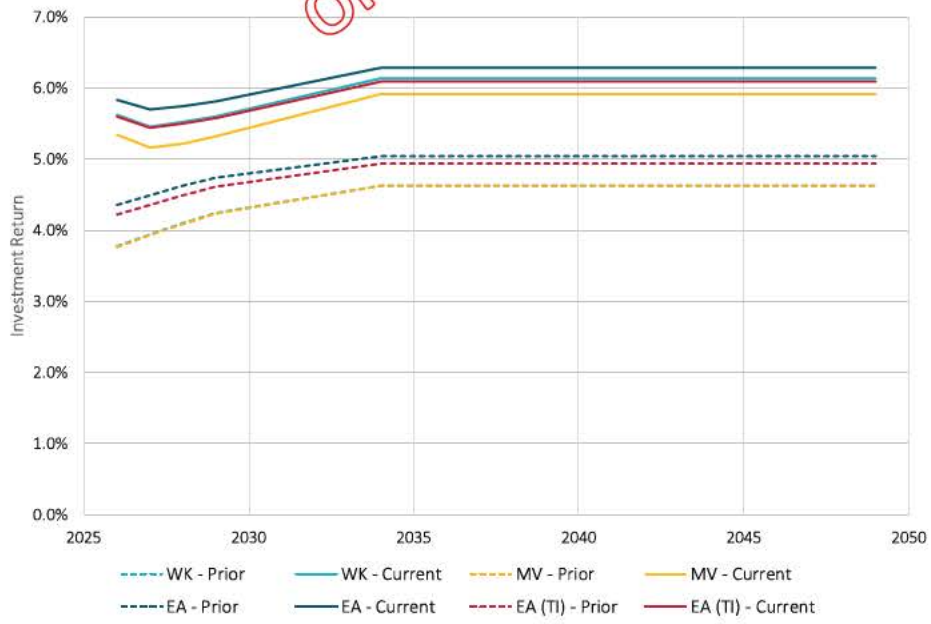
Investments

Forecast investment returns are used to project future asset values and for discounting new-year claim costs when calculating the fully funded cost of the accident years.

ACC's investment team has forecast the expected returns for each Account using methodology consistent with that used for ACC's annual Strategic Asset Allocation reviews. These were estimated as at 30 June 2024.

Figure 3.2 shows the investment return assumptions at the previous consultation and the current consultation for each of the three accounts as well as the earners' account portion of the treatment injury account.

Figure 3.2 – Investment return assumptions



Across all accounts forecasted investment returns have increased from the prior consultation.

The impact of the increase in investment returns, is higher investment income and therefore lower levy income is required (all else being equal).

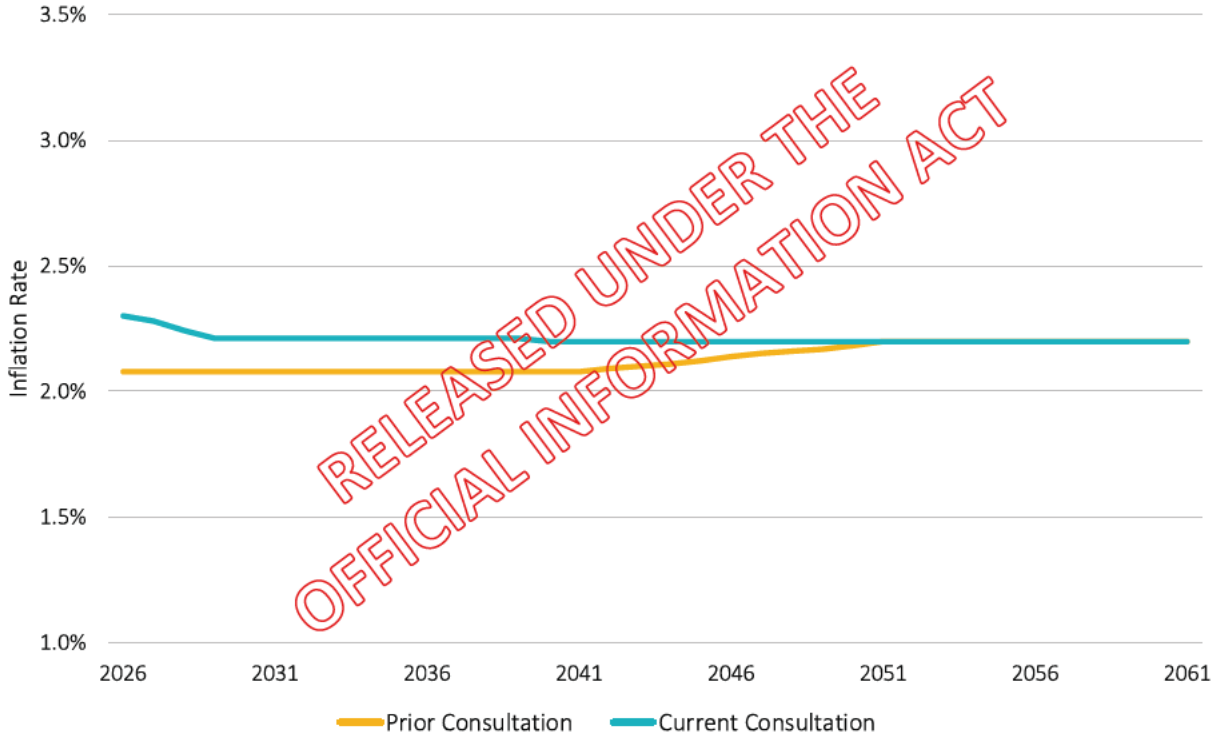
Inflation assumptions

The inflation assumption, consumer price index (CPI), for future years are based on Treasury projections and are consistent with the outstanding claims liability valuation.

ACC applies CPI rates to certain payment types and the labour cost index (LCI) for others. LCI rates are linked to CPI based on a differential (+0.2%).

Figure 3.3 shows the LCI assumptions at the previous consultation and the current consultation.

Figure 3.3 – Labour Cost Index



The impact of the increase in inflation rates is to increase future claims costs for each account, therefore resulting in higher levy rates (all else being equal).

3.5 Bad debt

Table 3.1 shows ACC's assumptions for bad debt (non-payment of levy invoices), expressed as a percentage of forecast levy income for the 2025/28 period. Motor Vehicle Account levies are collected when a vehicle is licensed or when petrol is purchased, therefore no bad debt is assumed for this account.

Table 3.1 – Bad debt assumptions

	Current	Prior
Work	1.71%	1.39%
Earners (incl. TI)	0.74% - 0.75%	0.63%

There has been an increase to the bad debt assumptions, therefore requiring higher levy rates to offset (all else being equal).

3.6 Injury Prevention and Integrated Change Investment Portfolio

In the previous consultation an explicit allowance was made for the benefit associated with Injury Prevention (IP) and Integrated Change Investment Portfolio (ICIP).

- IP aims to stop accidents from occurring and reducing the severity of injuries that are suffered, thus reducing the costs incurred by the Scheme.
- The ICIP is a large-scale change programme that was developed to improve client outcomes and experience and improve customer trust and confidence.

For the 2025/28 levy review the explicit allowance for the financial benefit of these two programmes has been removed. Reasoning for this includes:

- The IP programme has been in place for a number of years so where there are benefits these are already incorporated into ACC's current claims experience.
- ICIP benefits are no longer tracked separately but are instead incorporated into the baseline cashflow projections that underpin the levy pricing basis.

4 Work account

The Work account levy rate comprises:

- The lifetime cost of Work account related injuries and scheme costs occurring in the period for which the levies apply
- A funding adjustment which aims to return an account to its funding target of 100% over a 10-year period.
- An adjustment to cap the annual increase to 5%

The current levy for 2024/25 is 0.63, expressed as a rate of liable earnings (per $100 of liable earnings). The funding ratio is projected to be 127% at 1 April 2025 (i.e. to be in surplus at the beginning of the 2025/26 levy period).

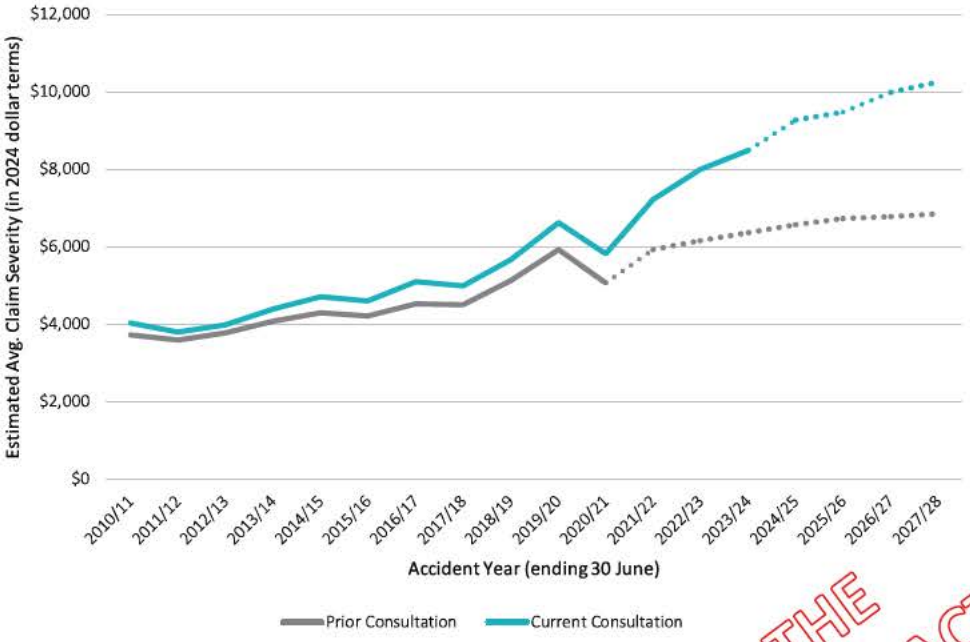
4.1 Claims experience

ACC forecasts total claims cost for an account as a function of claim frequency and claim severity, i.e. the combination of the proportion of claimants accessing different payment types/services and the average cost of those payment types. We discuss historical claim frequency and claim severity and compare them with current and previous forecasts.

Figure 4.1 shows the historic claim frequency through to June 2024 (including an allowance for accidents that have happened in a particular year but have yet to be reported), the forecasted claim frequency for the 2025/28 levy period and the forecast claim frequency at the previous levy consultation (2022/25). Figure 4.2 provides a similar comparison using the average estimated lifetime cost of a claim for a given accident year. Lifetime costs are a function of what has already been paid plus an estimate of future costs.

Figure 4.1 –Work account claim frequency

Figure 4.2 –Work account claim severity



The graphs above show the current forecasts for claims frequency are below those previously forecast, while claims severity forecasts are significantly higher than previous forecasts.

Claim frequency fell sharply in 2019/20 due to the Covid-19 restrictions and then rose in 2020/21 with the easing of those restrictions. The previous forecast assumed that claims frequency would remain at around pre-pandemic levels, however claims frequency since 2020/21 has remained below pre-pandemic levels. The forecast for the 2025/28 levy period assumes that claim frequency continues to decrease in line with the recently observed trajectory.

Expected lifetime costs for the three years to 30 June 2024 are 22% - 33% higher than was estimated at the prior consultation. Average claim severity is expected to increase at a rate of 2% - 5% p.a. over the 2025/28 levy period. The average per annum increase over the 2022/25 levy period is 8.7% p.a. In Section 4.4, we illustrate the impact of an adverse claims experience scenario.

The three most significant payment types for the Work account are discussed below:

- Weekly compensation – currently represents around 70% of payments. The average claim costs for the 2025/26 accident period are expected to be 41% higher than signalled at the previous consultation. ACC attribute this increase primarily due to deteriorating rehabilitation performance i.e. claimants receiving weekly compensation for longer. ACC's forecast assumes the deterioration in rehabilitation rates will stabilise in future years.
- Elective surgery – currently represents around 7% of payments. The average claim costs for the 2025/26 accident period are expected to be 9% higher than signalled at the previous consultation. The proportion of claimants receiving elective surgery for the 2025/26 accident period is expected to be 7% higher than signalled at the previous consultation.
- Public Health Acute Services (PHAS) – currently represents around 4% of payments. The average claim costs for the 2025/26 accident period are expected to be 60% higher than signalled at the previous consultation. PHAS payments are bulk paid to the Ministry of Health and cover the cost of ACC clients receiving acute services in publicly funded hospitals.

Further details on claims experience and payment types are shown in Appendix B.

4.2 Recommended levies 2025/28

Table 4.1 sets out each of the above components for the 2025 to 2028 period. The levies are expressed in dollars per $100 of liable earning averaged across the different risk groups.

Table 4.1 – Recommended levies 2025/28

	2025/26	2026/27	2027/28
New Accident Year Costs	0.93	0.96	0.96
Funding Adjustment	(0.15)	(0.15)	(0.15)
Uncapped Levy Rate	0.79	0.81	0.81
Capping Adjustment	(0.13)	(0.12)	(0.09)
Recommended Levy Rate	**0.66**	**0.69**	**0.72**

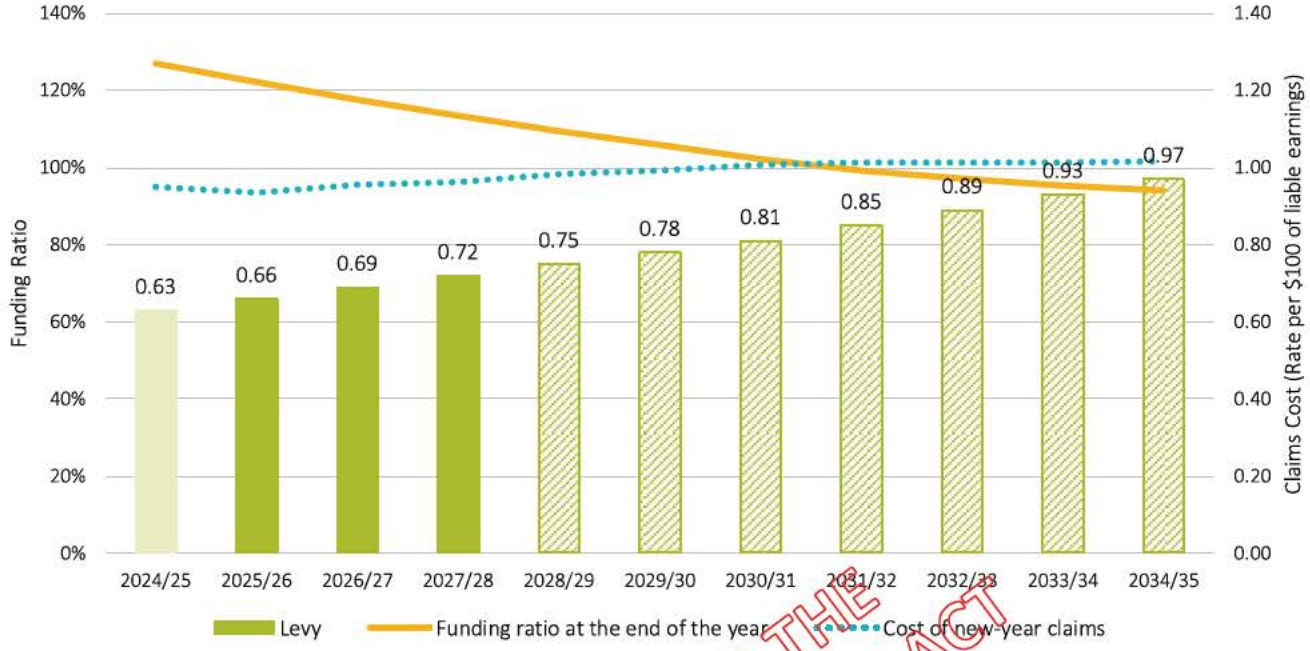
We make the following comments:

- New year accident costs are expected to increase by 1 to 2% in each of the three years.
- At the beginning of the 2025/26 period, the Work account is forecast to be in surplus (funding position of 127%). In line with the Funding policy, a funding adjustment is applied in each of the three years.
- A 5% cap on the annual levy rate increase is applied in each year of the three-year period. In the absence of the 5% cap, the recommended levy for the 2025/26 period would be $0.66, this would represent an increase of 16% to the 2024/25 levy rate.
- The recommended levy rates for the 2025/26 represent 71% of the new accident year costs, this increases to 75% of the new accident year costs by 2027/28.

4.3 Projected funding position

Figure 4.3 shows the projected funding position of the Work account over the next 10 years, based on the recommended levy rates set out in Table 4.1 and assuming the Funding policy is applied in period beyond 2028.

Figure 4.3 – Projected funding position



We make the following comments:

- New year accident costs are expected to grow at a rate higher than the growth in liable earnings.
- The funding ratio is forecast to reduce from 127% at the beginning of the 2025/26 levy period to 94% over the 10-year period.
- The reduction in the funding ratio is due to the application of the Funding policy, including the impact of the cap. The application of the levy rate cap prevents levies rising quickly enough to restore the Work account to full funding (or even stop the funding ratio from declining).
- The projected funding ratio assumes that the rate of average claim severity growth moderates from current levels, and that claims frequency continues to decline. The projected funding ratio will be lower than projected if claims experience is worse than assumed.

4.4 Scenarios

There are a multitude of factors that can impact the funding position of the Work account, some within the control of ACC and some outside the control of ACC. We show four alternative scenarios compared to the recommended levy rate scenario (base) to illustrate some of the key drivers of the future funding position of the Work account.

While we show the scenarios independently of each other, in reality it is possible for a combination to occur resulting in a larger impact to the levy rates and funding ratios.

Scenario One: No Levy Increase over the next three years

At the previous three-yearly levy consultation, no increases were applied to the 2022/23 rate for the 2023/24 and 2024/25 levies. Under this scenario we assume that levies are again held constant over the next three years period. It is assumed that levy rates increase in line with the Funding policy from 2028/29 onwards.

Figure 4.4 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 4.4 – No levy increase

The key observations from this scenario are:

- Over the current levy consultation period (2025/26 to 2027/28) the funding ratio under the no levy increase is not materially different from the funding ratio projected under the recommended levy rates.
- Whilst in the short term, there is minimal difference between the funding ratios. Over the 10-year projection, there is a significant differential between the levy rate and the new year accident costs. In the 2029/30 levy year (where the funding ratio drops below 100%) the levy cost is only 70% of the new year accident costs. The funding ratio will continue to reduce for as long as new accident year costs exceed the levy rate (under this scenario, until 2037/38).
- A funding ratio below 100% can be thought of as an intergenerational cross-subsidy where future levy payers will have to pay for the accident costs of current levy payers.

In the absence of a levy increase, over the levy consultation period, levy revenue in each of the three years would also be lower, as shown in Table 4.2 below.

Table 4.2 – Reduction in levy revenue

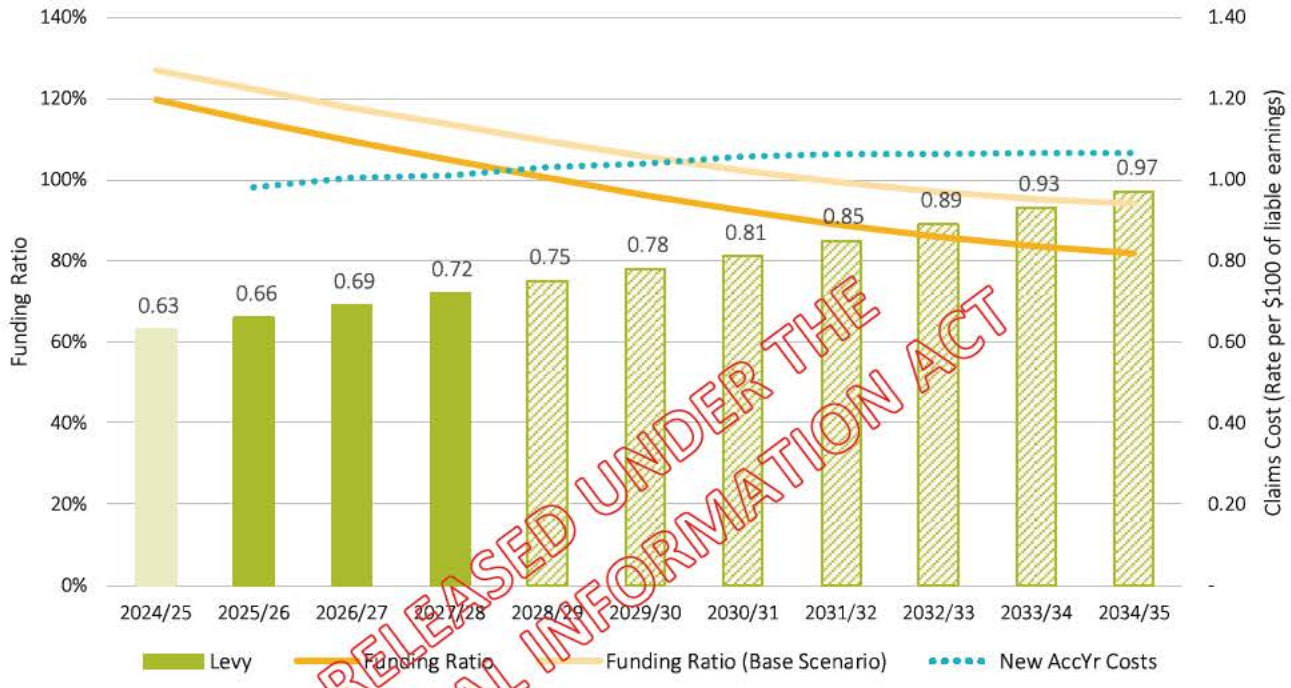
Levy Year	Levy Revenue		
	Recommended Increase	No Increase	Reduction
	$m	$m	$m
2025/26	1,070	1,021	(49)
2026/27	1,172	1,071	(102)
2027/28	1,275	1,116	(159)

Scenario Two: Fall in discount rates and investment income

This scenario assumes that both discount rates and investment income fall by 1.0%. All other assumptions including levy rates are unchanged from the base scenario. Since the previous consultation, discount rates have increased across most durations and investment return forecasts have increased over future forecast periods.

Figure 4.5 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 4.5 – Fall in discount rates and investment income



This scenario illustrates that investment returns and discount rates have a significant impact on the current funding position and future funding position of the Work account.

Scenario Three: Adverse claims experience

This scenario assumes a 1% increase in the continuance rates (i.e. claimants duration on weekly compensation is 1% longer). The increase in continuance rates is applied to both new and historic accident periods. The increase in weekly compensation continuance rates was selected to illustrate the impact of adverse claims experience as this payment type has the most material impact on claims costs. The proportion of claimants receiving weekly compensation has been increasing since 2018. The base projection assumes some moderation in the increase in continuance rates.

Figure 4.6 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 4.6 – Adverse claims experience

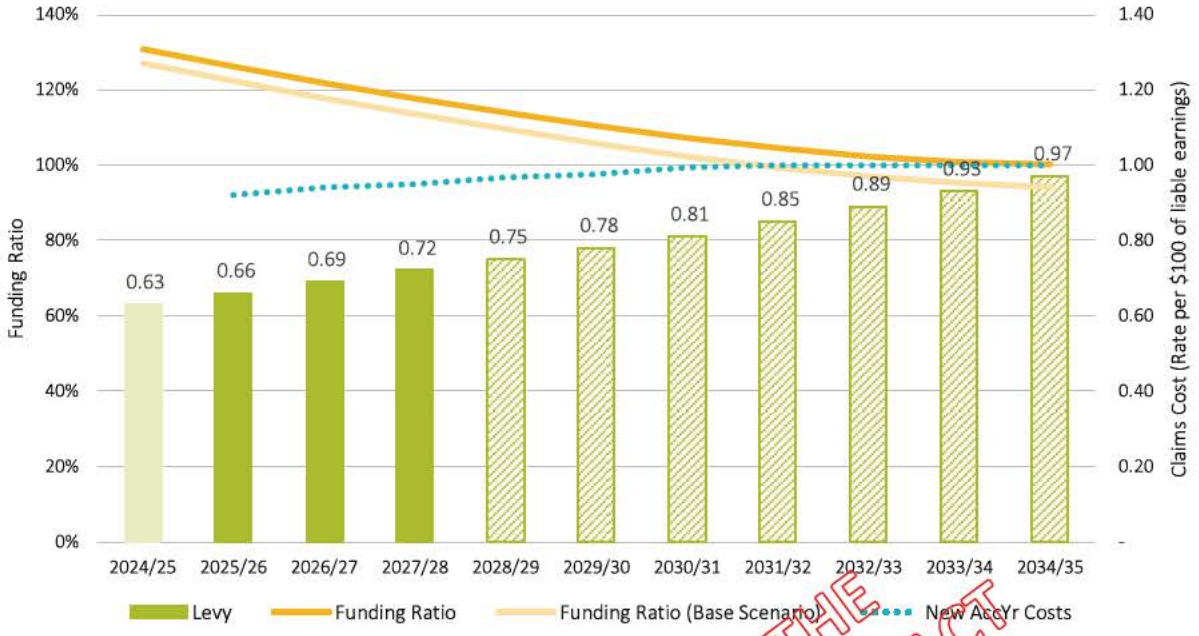
The Adverse claims experience scenario has a similar but slightly lower impact compared with the reduction in economic factors in Scenario Two.

Scenario Four: Favourable claims experience

This scenario assumes a 1% decrease in the continuance rates (i.e. claimants duration on weekly compensation is 1% shorter). As in Scenario Three, the change in continuance rates is applied to both new and historic accident periods.

Figure 4.7 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 4.7 – Favourable claims experience



The Favourable claims experience scenario has a similar impact to Scenario Three but in the opposite direction.

4.5 Comparison to previous levy consultation

At the previous levy consultation (2022/25), the levy rate for 2022/23 was set at 0.63 (a decrease from 0.67). ACC recommended the 2022/23 levy rate be increased by 3.2% and 3.1% respectively. The 2022/23 levy rate was approved by Cabinet to remain at 0.63 until 2025/26.

The 2022/23 levy rate was approved by Cabinet to remain at 0.63 until 2025.

The uncapped levy rate signalled for the 2025/26 period was 0.70, the updated uncapped levy of 0.79 reflects an increase of 13.1%. The key drivers of the increase are higher base inflation assumptions, higher workers compensation continuance rate assumptions, an increased OCL, higher operational and claim handling expenses and a lower than expected opening fund. These were slightly offset by increases to discount rates and expected future investment returns, an increase in liable earnings projections and future growth and a decrease in the expected number of claims. A detailed breakdown is shown in Appendix B.3.

As the levy is expressed as a rate of liable earnings (per $100 of earnings) the increase in the levy rates means that ACC is expecting its costs will continue to increase faster than wages.

4.6 Other changes proposed to the Work account

ACC is proposing to make other changes to the Work account at the same time that levy rate changes are implemented. These include:

- Classification unit changes
- Changes to the medical fees claims threshold for the Experience Rating programme
- Changes to the No claims discount and experience rating subsidy
- Changes to the Accredited Employers Programme

Further details on proposed changes are shown in Appendix B.

The levy rate recommendations are before applying these proposed changes. The aggregate impact of the proposals on the account is cost neutral. Our understanding is the proposed changes aim to strike a balance between reducing cross subsidies with providing universal cover.

4.7 Conclusions

The Work account funding ratio is projected to be above target at 1 April 2025.

Since the previous levy consultation, claims frequency has emerged lower than expected and is projected to continue to decrease. Claims severity has increased rapidly beyond expectations primarily due to poorer weekly compensation rehabilitation rates and higher elective surgery costs. The rate of increase in claims severity is projected to moderate in the projection period.

At the previous levy consultation, ACC recommended increases of 3.2% and 3.1% to the levy rates for 2023/24 and 2024/25 in line with the Funding policy. No increases were applied to 2023/24 and 2024/25 levy rates.

The average levy rate increases for the Work Account recommended by ACC have been capped at 5% for the 2025/26, 2026/27 and 2027/28 years.

Over the 10-year projected horizon with the application of the levy rate cap, the funding ratio is projected to fall below the 100% target funding ratio. This outcome is due to the expected increase in costs being higher than the increase in levy rates after the application of the cap.

The Funding policy with a levy rate cap restricts achieving a fully funded model (i.e. where levy rates reflect the expected lifetime cost of claims in the levy year) as levy rates are unable to approaching the level required for full funding over a 10-year horizon.

The three adverse scenarios shown in this section illustrate that if economic or claims assumptions are worse than expectations or levy increases are not applied, the funding ratio is projected to significantly deteriorate over the 10-year horizon. The favourable claims experience scenario shows that, with the recommended increases, the account would achieve the 100% target funding ratio over the 10-year horizon. The no increase to levies scenario shows a minimal difference in funding ratios over the short-term but a significant differential between the levy rate and the new year accident costs over a 10-year period. That is, if levy rates are not increased, an intergenerational cross-subsidy will arise where future levy payers will have to pay for the accident costs of current levy payers.

In our opinion the levies recommended by ACC meet the requirements of the Funding Policy.

There is a risk that economic and claim assumptions do not emerge as forecast. The ultimate driver of levies is claim costs, and therefore we recommend careful monitoring of the Work account against expectations. If forecasts are not achieved, sustainability of the account, as measured by the funding ratio and new year claims cost gap, will be challenged in future periods.

We observe that the Funding policy, including the levy rate cap restricts the ability to achieve full funding, as levy rates are unable to approach the level required for full funding over a 10-year horizon. Given these challenges, we suggest MBIE consider reviewing the appropriateness of the Funding policy, especially the interaction of funding adjustments and capping.

5 Motor Vehicle account

The Motor levy rate comprises:

- The lifetime cost of Motor account related injuries and scheme costs occurring in the period for which the levies apply
- A funding adjustment which aims to return an account to its funding target of 100% over a 10-year period.
- An adjustment to cap the annual increase to 5% plus inflation adjustments for the Motor Vehicle Account.

The current levy for 2024/25 is 113.94, expressed as $ per licenced vehicle. The funding ratio is projected to be 124% at 1 July 2025 (i.e. to be in surplus at the beginning of the 2025/26 levy period).

5.1 Claims experience

ACC forecasts total claims cost for an account as a function of claim frequency and claim severity, i.e. the combination of the proportion of claimants accessing different payment types/services and the average cost of those payment types. We discuss historic claim frequency and claim severity and compare them with current and previous forecasts.

Figure 5.1 shows the historic claim frequency through to June 2024 (including an allowance for accidents that have happened in a particular year but have yet to be reported), the forecasted claim frequency for the 2025/28 levy period and the forecast claim frequency at the previous levy consultation (2022/25). Figure 5.2 provides a similar comparison using the average estimated lifetime cost of a claim for a given accident year. Lifetime costs are a function of what has already been paid plus an estimate of future costs.

Figure 5.1 – Motor account claim frequency

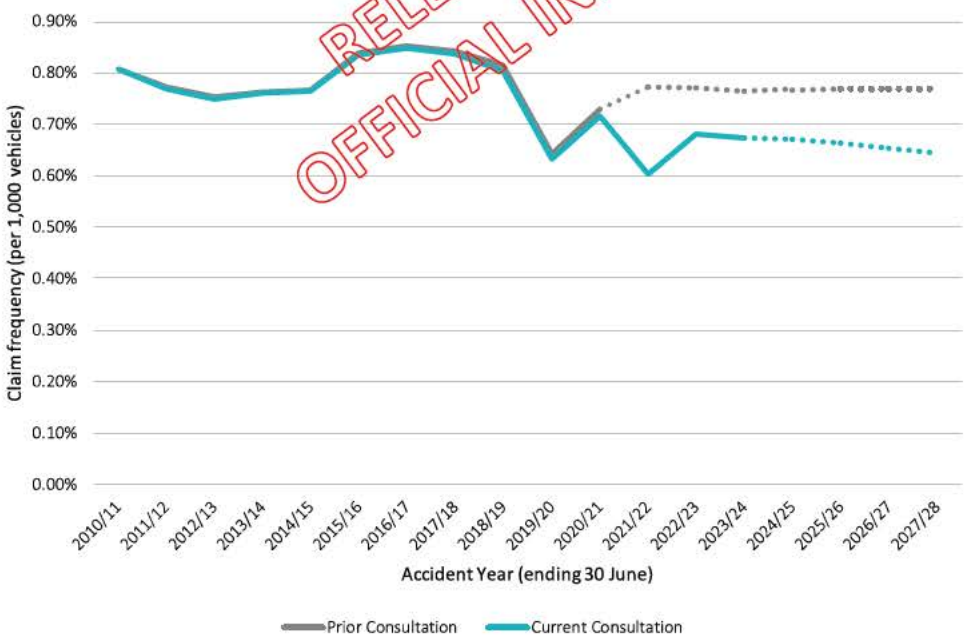
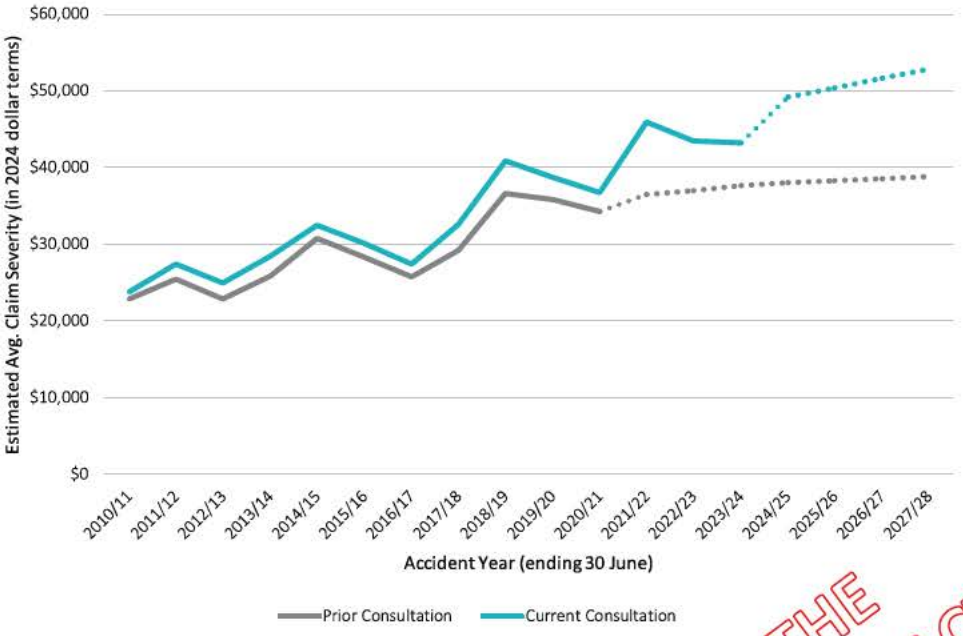


Figure 5.2 – Motor account claim severity



The graphs above show the current forecasts for claims frequency are below those previously forecast, while claims severity forecasts are higher than previous forecasts.

Claim frequency fell sharply in 2019/20 due to the Covid-19 restrictions and then rose in 2020/21 with the easing of those restrictions. The previous forecast assumed that claims frequency would remain at around pre-pandemic levels, however claims frequency since 2020/21 has remained below pre-pandemic levels. The forecast for the 2025/28 levy period assumes that claim frequency decreases at a rate of 1.5% p.a.

Expected lifetime costs for the three years to 30 June 2024 are 15% - 26% higher than was estimated at the prior consultation. Average claim severity is expected to increase at a rate of 2% - 4% p.a. over the 2025/28 levy period. In Section 5.4, we illustrate the impact of an adverse claims experience scenario.

The three most significant payment types for the Motor account are discussed below:

- Weekly Compensation – currently represents around 37% of payments. Average claim costs for the 2025/26 accident period are expected to be 43% higher than signalled at the previous consultation. ACC attribute this increase primarily due to deteriorating rehabilitation performance i.e. claimants receiving weekly compensation for longer. ACC's forecast assumes the deterioration in rehabilitation rates will stabilise in future years.
- Serious Injury Care – currently represents around 6% of payments. The proportion of claims classified as serious injury is expected to remain at a similar level, however the average cost for the 2025/26 period are expected to be 26% higher than signalled at the previous consultation. ACC attribute this to factors such as higher number of care hours and higher levels of care for claimants. ACC claims forecast assumes that the cost for serious injury care will stabilise in future years.
- Public Health Acute Services (PHAS) – currently represents around 10% of payments. These payments are made to Ministry of Health and covers the cost of ACC clients receiving acute services in publicly funded hospitals.

Further details on claims experience and payment types are shown in Appendix C.

5.2 Recommended levies 2025/28

Table 5.1 sets out each of the above components for the 2025 - 28 period. The levies that are shown are the average per vehicle cost, individual vehicles will pay more or less than this depending on the vehicle type and usage.

Table 5.1 – Recommended levies 2025/28

	2025/26	2026/27	2027/28
New Accident Year Costs	233.17	240.45	247.46
Funding Adjustment	(74.82)	(77.16)	(79.41)
Uncapped Levy Rate	158.35	163.29	168.05
Capping Adjustment	(35.51)	(31.35)	(26.36)
Recommended Levy Rate	**122.84**	**131.94**	**141.69**

We make the following comments:

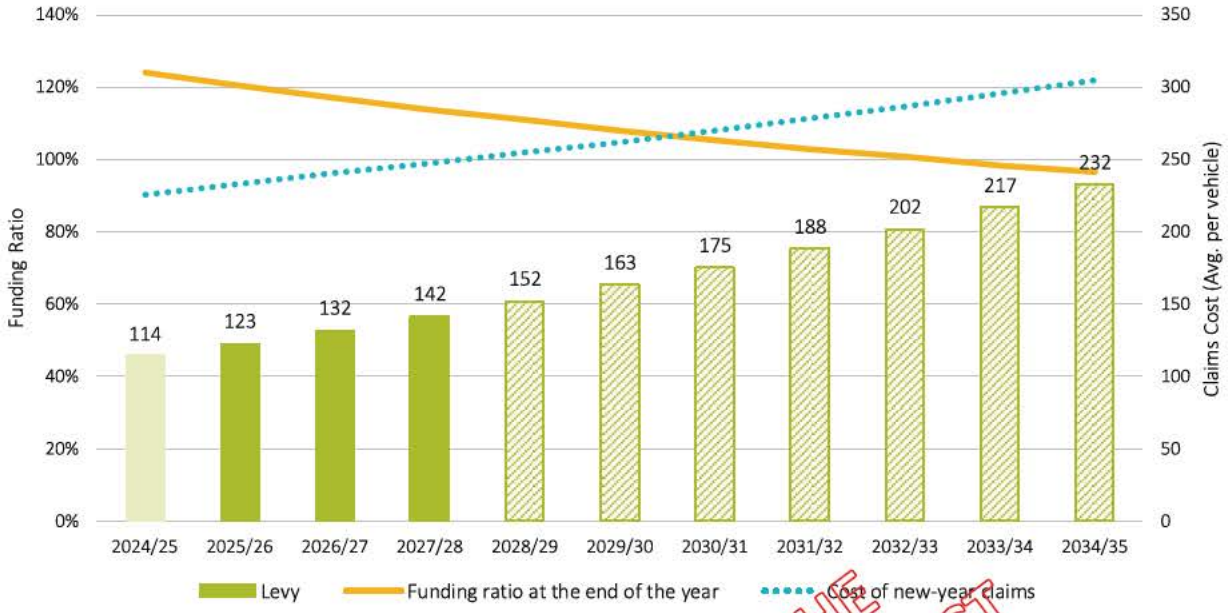
- New year accident costs are expected to increase by ~3% in each of the three years.
- At the beginning of the 2025/26 period, the motor vehicle account is forecast to be in surplus (funding position of 124%). In line with the Funding policy, a funding adjustment is applied in each of the three years.
- A cap (5% + inflation) is applied to the annual levy rate increases in each of the three years. In the absence of capping, the recommended levy for the 2025/26 period would be 158.35, this would represent an increase of 39% to the 2024/25 levy rate.
- The recommended levy rates for the 2025/26 represent 53% of the new accident year costs, this increases to 57% of the new accident year costs by 2027/28.

It is important to note that the Motor Vehicle Account levies are shown in dollars per vehicle (in contrast Work and Earners' levies are a percentage of earnings). Motor Vehicle Account levies should therefore be expected to increase each year because many ACC benefits increase at least in line with wages (either of injured motorists or health and care providers).

5.3 Projected funding position

Figure 5.3 shows the projected funding position of the motor vehicle account over the next 10 years, based on the recommended levy rates set out in Table 5.1 and assumed levy rates are capped in the period beyond 2028.

Figure 5.3 – Projected funding position



We make the following comments:

- The funding ratio is forecast to reduce from 124% at the beginning of the 2025/26 levy period to 97% over the 10-year period.
- The reduction in the funding ratio is due to the application of the Funding policy, including the impact of the cap. The application of the levy rate cap prevents levies rising quickly enough to maintain a funding ratio above 100% over the 10-year horizon (the funding ratio is projected to drop below 100% in 2033/34.
- Similar to the Work account, the projected funding ratio assumes that the rate of average claim severity growth moderates from current levels, and that claims frequency continues to decline. If claims experience is worse than assumed, the funding ratio will drop further.

5.4 Scenarios

Similar to the Work Account, we show alternative scenarios compared to the recommended levy rate scenario (base) to illustrate some of the key drivers of the future funding position of the Motor Account.

While we show the scenarios independently of each other, in reality it is possible for a combination to occur resulting in a larger impact to the levy rates and funding ratios.

Scenario One: No Levy Increase over the next three years

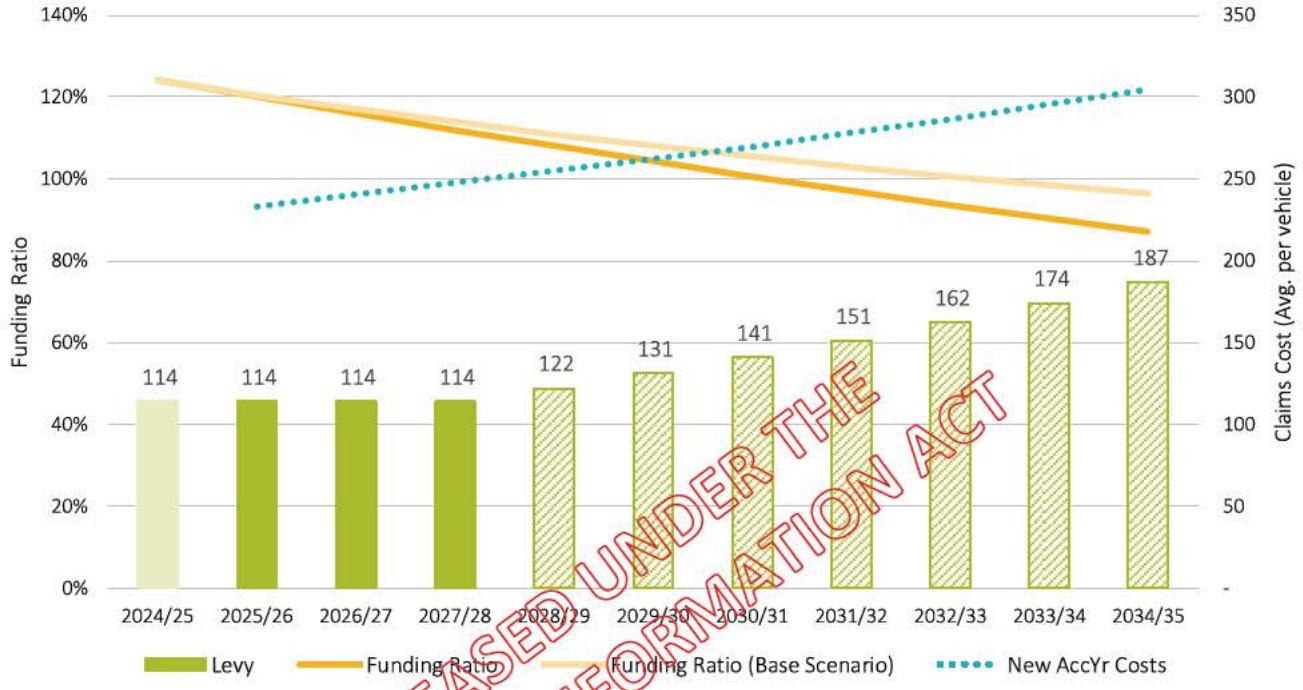
At the last two levy consultation (2018 and 2021), no increases were applied to motor vehicle levy rates. Under this scenario we assume that levies are again held constant over the next three years.

As noted above, Motor Vehicle Account levies are shown in dollars per vehicle (in contrast Work and Earners' levies are a percentage of earnings). Motor Vehicle Account levies should therefore be expected to increase each year because many ACC benefits increase at least in line with wages (either of injured motorists or health and care providers). Through this lens a decision to hold the levies constant over the three-year period can be viewed as a reduction in the motor vehicle account levy. We note that if the levy rates were held constant over

the three-year period it would mean that there has been no increase for the last 10 years. Since 2017 wage inflation has increased on average by 3% p.a. (or a cumulative increase of 22% over the last seven years).

Figure 5.4 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 5.4 – No levy increase



The key observations from this scenario are:

- Over the current levy consultation period (2025/26 to 2027/28) the funding ratio under the no levy increase is not materially different from the funding ratio projected under the recommended levy rates.
- Whilst in the short term there is minimal difference, over the 10-year projection there is a significant differential between the levy rate and the new year accident costs. In the 2031/32 levy year (where the funding ratio drops below 100%) the levy cost is only 54% of the new year accident costs. The funding ratio will continue to reduce for as long as new accident year costs exceed the levy rate (under this scenario, until 2037/38).
- A funding ratio below 100% can be thought of as an intergenerational cross-subsidy where future levy payers will have to pay for the accident costs of current levy payers. Given the size of the gap this is unlikely to be achieved without either significantly increasing the levy rates (i.e. above the cap) or significantly reducing new accident year costs (e.g. scheme reform) or a combination.

In the absence of a levy increase, over the levy consultation period, levy revenue in each of the three years would also be lower, as shown in Table 5.2 below.

Table 5.2 – Reduction in levy revenue

Levy Year	Levy Revenue		
	Recommended Increase	No Increase	Reduction
	$m	$m	$m
2025/26	526	488	(38)
2026/27	572	494	(78)
2027/28	622	500	(122)

Scenario Two: Fall in discount rates and investment income

This scenario assumes that both discount rates and investment income fall by 1.0%. All other assumptions including levy rates are unchanged from the base scenario. Since the previous consultation, discount rates have increased across most durations and investment return forecasts have increased over future forecast periods.

Figure 5.5 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 5.5 – Fall in discount rates and investment income

This scenario illustrates that investment returns and discount rates have a significant impact on the current funding position and future funding position of the Motor Vehicle account. Changes to discount rates or investment returns are largely outside the control of ACC

Scenario Three: Adverse claims experience

This scenario assumes a 1% increase in the care inflation rates applied to both new and historical accident periods. The increase in care inflation rates was selected to illustrate the impact of adverse claims experience as this has the most material impact on claims costs. Average care costs for serious and non-serious injuries have been increasing steadily since 2018. The base projection assumes some moderation in the increase in care inflation rates. Under this scenario, new year accident costs are around 6% to 8% higher than the base in each of the future accident year periods.

Figure 5.6 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 5.6 – Adverse claims experience

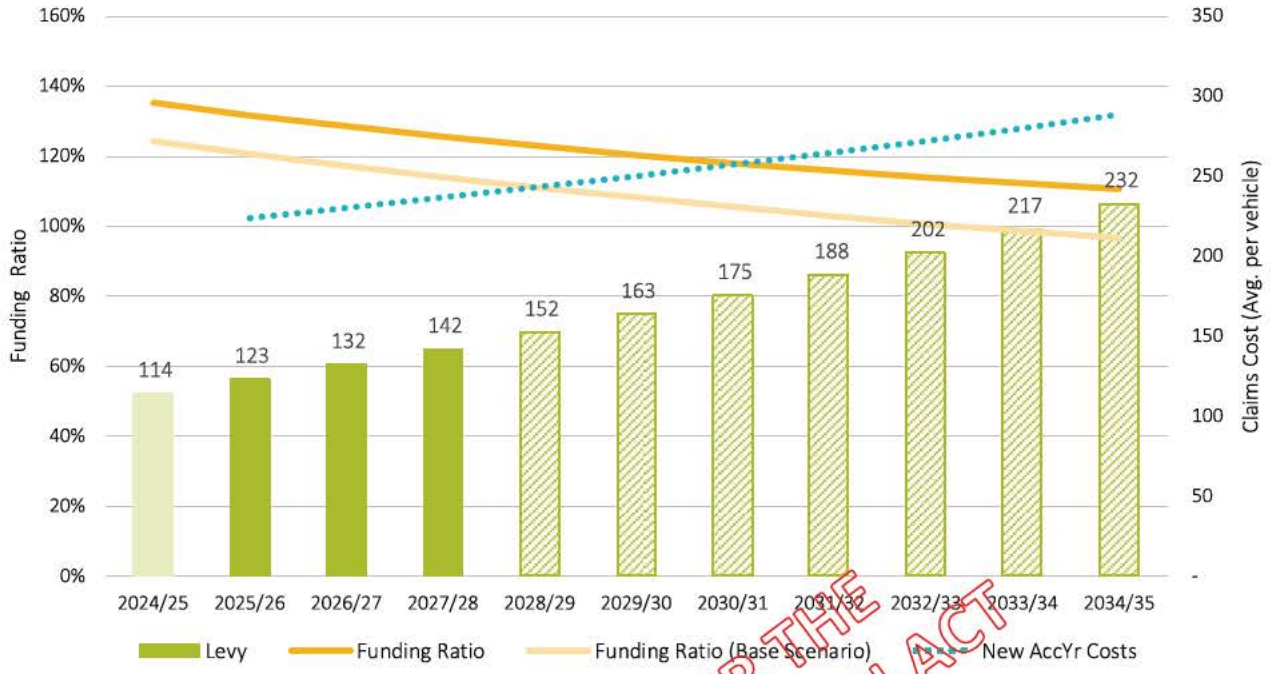
The Adverse claims experience scenario has a similar impact to the reduction in economic factors in Scenario Two.

Scenario Four: Favourable claims experience

This scenario assumes a 1% decrease in the care inflation rates applied to both new and historical accident periods.

Figure 5.7 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 5.7 – Favourable claims experience



The Favourable claims experience scenario has a similar impact to Scenario Three but in the opposite direction.

5.5 Comparison to previous levy consultation

At the previous levy consultation (2022/25), the levy rate for 2022/23 was set at 113.94 (no change). The 2022/23 levy rate was approved to remain at 113.94 until 2025.

The uncapped levy rate signalled for the 2025/26 period was 156.31, the updated uncapped levy of 158.35 reflects an increase of 1.3%. The key drivers of the increase are higher base inflation assumptions, removal of the explicit allowance for IP and ICIP benefits, an increased OCL, higher expected average claim costs and a lower than expected opening fund. These were slightly offset by increases to discount rates and expected future investment returns, a reduction in operational expenses and a decrease in the expected number of claims. A detailed breakdown is shown in Appendix C.3.

5.6 Other changes proposed to the Motor Account

ACC is proposing to make other changes to the Motor Vehicle account at the same time that levy rate changes are implemented. These include:

- Changes to the classification for electric and plug-in hybrid vehicles
- Changes to motorbike and moped levies
- Changes to the Fleet Saver programme

Further details on proposed changes are shown in Appendix C.

The levy rate recommendations are before applying these proposed changes. The aggregate impact of the proposals on the account is cost neutral. Our understanding is the proposed changes aim to strike a balance between reducing cross subsidies with providing universal cover.

5.7 Conclusions

The Motor Vehicle account funding ratio is projected to be above target at 1 July 2025.

Since the previous levy consultation, claims frequency has emerged lower than expected and is projected to continue to decrease. Claims severity has increased rapidly beyond expectations primarily due to a deterioration in rehabilitation rates. The rate of increase in claims severity is projected to moderate in the projection period.

The average levy rate increases for the Motor Vehicle account recommended by ACC have been capped at 5% plus inflation for the 2025/26, 2026/27 and 2027/28 years. No increase has been applied to motor vehicle levy rates at the last two levy consultation (2018 and 2021). Motor vehicle levies are shown in dollars per vehicle and should be expected to increase each year as benefits increase in line with inflation.

Over the 10-year projected horizon with the application of the levy rate cap, the funding ratio is projected to fall below the 100% target funding ratio (around 2033/34). This outcome is due to the expected increase in costs being higher than the increase in levy rates after the application of the cap.

The three adverse scenarios shown in this section illustrate that if economic or claims assumptions are worse than expectations or levy increases are not applied, the funding ratio is projected to significantly deteriorate over the 10-year horizon. The favourable claims experience scenario shows that, with the recommended increases, the account would achieve a funding ratio above target over the 10-year horizon. The no increase to levies scenario shows a minimal difference in funding ratios over the short-term but a significant differential between the levy rate and the new year accident costs over a 10-year period. It is projected that by the 2031/32 levy year, the levy rate will only cover 54% of the new year accident costs under a no increase in levies scenario. Given the size of the gap this is unlikely to be achieved without either significantly increasing the levy rates (i.e. above the cap) or significantly reducing new accident year costs (e.g. scheme reform) or a combination.

In our opinion the levies recommended by ACC meet the requirements of the Funding Policy.

There is a risk that economic and claim assumptions do not emerge as forecast. The ultimate driver of levies is claim costs, and therefore we recommend careful monitoring of the Motor Vehicle account against expectations. If forecasts are not achieved, sustainability of the account, as measured by the funding ratio and new year claims cost gap, will be challenged in future periods.

We observe that the Funding policy, including the levy rate cap restricts the ability to achieve full funding, as levy rates are unable to approach the level required for full funding over a 10-year horizon. Given these challenges, we suggest MBIE consider reviewing the appropriateness of the Funding policy, especially the interaction of funding adjustments and capping.

6 Earners' account

The Earners' levy rate comprises:

- The lifetime cost of Earners' account accidents occurring in the period for which the rates apply.
- The Earners' levy also funds the Earners' portion of the claims which are covered by the Treatment Injury account.
- A funding adjustment which aims to return an account to its funding target of 100% over a 10-year period.
- An adjustment to cap the annual increase to 5%

The current levy for 2024/25 is 1.39, expressed as a rate of liable earnings (per $100 of liable earnings). The funding ratio is projected to be 90% at 1 April 2025 (i.e. to be in deficit at the beginning of the 2025/26 levy period).

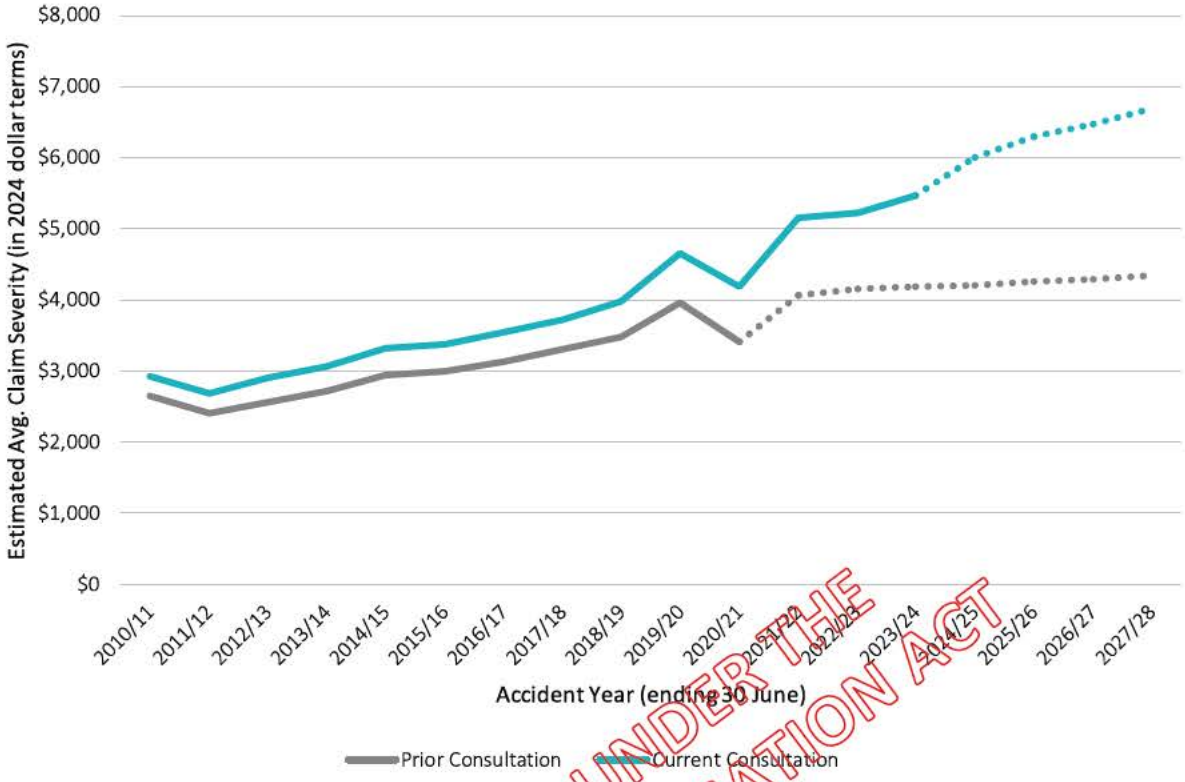
6.1 Claims experience

ACC forecasts total claims cost for an account as a function of claim frequency and claim severity, i.e. the combination of the proportion of claimants accessing different payment types/services and the average cost of those payment types. We discuss historic claim frequency and claim severity and compare them with current and previous forecasts.

Figure 6.1 shows the historic claim frequency through to June 2024 (including an allowance for accidents that have happened in a particular year but have yet to be reported), the forecasted claim frequency for the 2025/28 levy period and the forecast claim frequency at the previous levy consultation (2022/25). Figure 6.2 provides a similar comparison using the average estimated lifetime cost of a claim for a given accident year. Lifetime costs are a function of what has already been paid plus an estimate of future costs.

Figure 6.1 – Earners' account claim frequency

Figure 6.2 – Earners' account claim severity



Similar to the Work and Motor accounts, we can see that the current forecasts for claims frequency are below those previously forecast, while claims severity forecasts are higher than previous forecasts.

Claim frequency fell sharply in 2019/20 due to the Covid-19 restrictions and then rose in 2020/21 with the easing of those restrictions. The previous forecast assumed that claims frequency would remain at around pre-pandemic levels, however claims frequency since 2020/21 has remained below pre-pandemic levels. The forecast for the 2025/28 levy period assumes that claim frequency decreases at a rate of 0.3% p.a.

Expected lifetime costs for the three years to 30 June 2024 are 15% - 26% higher than was estimated at the prior consultation. Average claim severity is expected to increase at a rate of 2.5% - 5.1% p.a. over the 2025/28 levy period. In Section 6.4, we illustrate the impact of an adverse claims experience scenario.

The three most significant payment types for the Earners' account are discussed below:

- Weekly Compensation – average claim costs for the 2025/26 accident period are expected to be 50% higher than signalled at the previous consultation. ACC attribute this increase primarily due to deteriorating rehabilitation performance i.e. claimants receiving weekly compensation for longer. The proportion of claimants receiving weekly compensation is also expected from 8.4% to 10% (and increase of 18%) for the 2025/26 accident period than what was previous signalled. ACC's forecast assumes the deterioration in rehabilitation rates will stabilise in future years.
- Elective surgery – the proportion of claimants receiving elective surgery is 13-18% higher than estimated at the previous consultation. For the 2025/28 the utilisation rate is expected to remain at the utilisation rate experienced over the last few years. The average cost of elective surgery is expected to increase at circa 3% p.a. over the 2025/28 period.

- Sensitive claims – represent fewer than 1% of total earners' claims, however the cost of each claim is substantial. Utilisation is expected to increase substantially (7% – 10% p.a.) over the 2025/28 levy period. This is due to fact that capacity constraints have limited utilisation over the last few years but with the introduction of the new Integrated Services for Sensitive Claims capacity constraints are expected to reduce.

Further details on claims experience and payment types are shown in Appendix D.

6.2 Recommended levies 2025/28

Table 6.1 sets out the components for the 2025 - 28 period showing both the uncapped levy rate and the recommended levy rate after adjusting for the cap.

Table 6.1 – Recommended levies 2025/28

	2025/26	2026/27	2027/28
New Accident Year Costs	1.87	1.90	1.95
Funding Adjustment	0.08	0.07	0.08
Uncapped Levy Rate	1.95	1.97	2.03
Capping Adjustment	(0.50)	(0.45)	(0.44)
Recommended Levy Rate	**1.45**	**1.52**	**1.59**

In respect of the above table the following comments are made:

- New year accident costs are expected to increase by 1% to 2% p.a. over the three-year period.
- At the beginning of the 2025/26 period, the earners' account is forecast to be in deficit (funding position of 90%). In line with the Funding policy, a funding adjustment of 0.08 (or 4%) is applied to each of the year.
- A 5% cap is applied in each year of the three-year period. In the absence of the 5% cap, the recommended levy for the 2025/26 period would be 1.95, this would represent an increase of 40% to the 2024/25 levy rate.
- The recommended levy rates for the 2025/26 represent 77% of the new accident year costs increasing to 82% of the new accident year costs by 2027/28.

6.3 Projected funding position

Figure 6.3 shows the projected funding position of the Earners' account over the next 10 years, based on the recommended levy rates set out in Table 6.1 and assuming a 5% cap is applied to levy rates in the period beyond 2028.

Figure 6.3 – Projected funding position

We make the following comments:

- New year accident costs are expected to grow at a rate higher than wages (i.e. the growth in liable earnings).
- The funding ratio is forecast to reduce from 90% at the beginning of the 2025/26 levy period to 67% over the 10-year period. This shortfall will have to be funded by future levy payers i.e. future levy payers will have to pay for a proportion of historic accident year costs.
- The deterioration in the funding ratio is due to the impact of the cap. The application of the levy rate cap prevents levies rising quickly enough to restore the Earners' account to a surplus position. Without significant increases to levy rates (i.e. above the cap) and/or a significant reduction in new accident year costs (e.g. scheme reform), the funding ratio is unlikely to meet the target of 100% in the medium term.
- The projected funding ratio assumes that the rate of average claim severity growth moderates from current levels, and that claims frequency continues to decline. The projected funding ratio will be lower than projected if claims experience is worse than assumed.

6.4 Scenarios

Again, we show alternative scenarios compared to the recommended levy rate scenario (base) to illustrate some of the key drivers of the future funding position of the Earners' Account.

While we show the scenarios independently of each other, in reality it is possible for a combination to occur resulting in a larger impact to the levy rates and funding ratios.

Scenario One: No Levy Increase over the next three years

At the previous three-yearly levy consultation, capped increases were applied to the 2022/23, 2023/24 and 2024/25 levies. This scenario assumes that levies are held constant over the next three years period. It is assumed that levy rates increase at the cap from 2028/29 onwards. All other assumptions are unchanged from the base scenario.

Figure 6.4 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 6.4 – No levy increase

Key observations from this scenario are:

- The funding ratio will continue to decline (in the absence of favourable experience in either claims experience, investment returns, discount rates or inflation) for as long as new accident year costs exceed levy rates for a given year.
- A funding ratio below 100% can be thought of as an intergenerational cross-subsidy where future levy payers will have to pay for the accident costs of current levy payers.

In the absence of a levy increase, over the levy consultation period, levy revenue in each of the three years would also be lower, as shown in Table 6.2 below.

Table 6.2 – Reduction in levy revenue

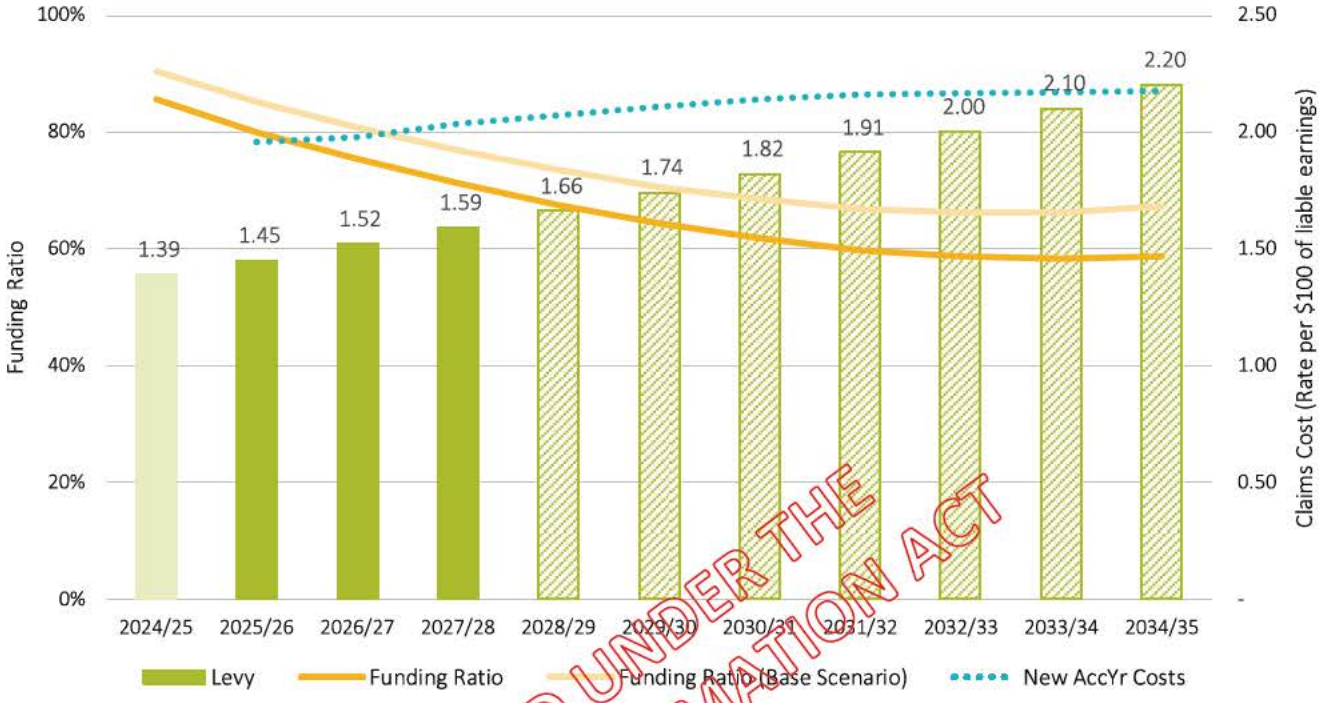
Levy Year	Levy Revenue		
	Recommended Increase	No Increase	Reduction
	$m	$m	$m
2025/26	3,136	3,007	(130)
2026/27	3,446	3,152	(295)
2027/28	3,755	3,283	(472)

Scenario Two: Fall in discount rates and investment income

This scenario assumes that both discount rates and investment income fall by 1.0%. All other assumptions including levy rates are unchanged from the base scenario. Since the previous consultation, discount rates have increased across most durations and investment return forecasts have increased over future forecast periods.

Figure 6.5 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 6.5 – Fall in discount rates and investment income



This scenario illustrates that investment returns and discount rates have a significant impact on the current funding position and future funding position of the Earners' account.

Scenario Three: Adverse claims experience

This scenario assumes a 1% increase in the continuance rates (i.e. claimants duration on weekly compensation is 1% longer). The increase in continuance rates is applied to both new and historic accident periods. The increase in weekly compensation continuance rates was selected to illustrate the impact of adverse claims experience as this payment type has the most material impact on claims costs. The proportion of claimants receiving weekly compensation has increased from 8% in 2021 to 10% currently. The base projection assumes the proportion of claimants continues to increase in line with the growth since 2018.

Whilst there are numerous factors that influence claims cost, this scenario focuses on one of the most material being continuance rates for workers compensation. Under this scenario there is a 1% increase in the continuance rates (i.e. claimants' duration on weekly compensation is 1% longer). Note that this adverse claim experience applies to both new and historic accident periods.

Figure 6.6 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 6.6 – Adverse claims experience

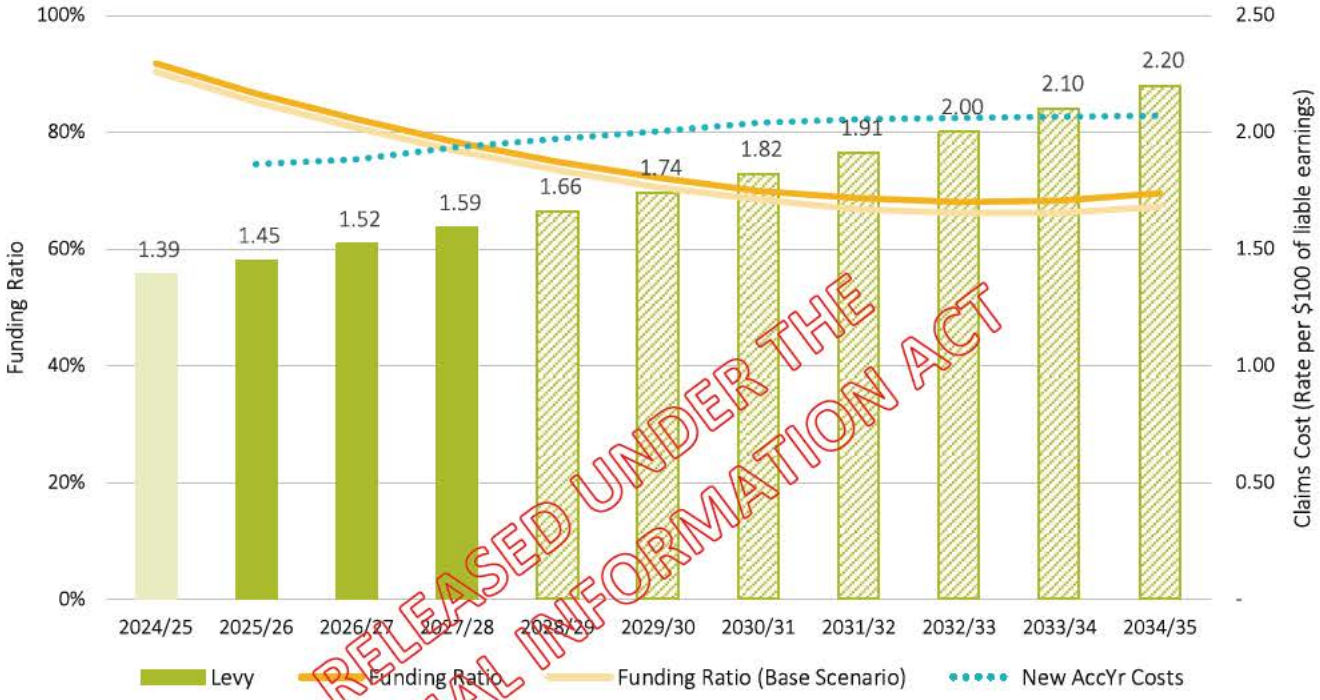
The Adverse claims experience scenario has a similar but slightly lower impact compared with the reduction in economic factors in Scenario Two.

Scenario Four: Favourable claims experience

This scenario assumes a 1% decrease in the continuance rates (i.e. claimants duration on weekly compensation is 1% shorter). As in Scenario Three, the change in continuance rates is applied to both new and historic accident periods.

Figure 6.7 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 6.7 – Favourable claims experience



The Favourable claims experience scenario has a similar impact to Scenario Three but in the opposite direction.

Scenario Five: A 10% increase for the 2025/26

Under this scenario the levy for 2025/26 is increased by 10% (I.e. in excess of the 5% cap). The 5% cap is applied from 2026/27 onwards. All other assumptions are unchanged from the base scenario.

Figure 6.8 shows the levy rates, funding ratio and new-year claims cost under this scenario compared with the base scenario.

Figure 6.8 – 10% Increase in 2025/26 levy

Key observations from this scenario are:

- The projected funded ratio over the 2025/28 levy period is broadly the same as the base scenario.
- Whilst the 2025/26 levy is higher than the base scenario is still lower than the accident year costs for 2025/26.
- A higher levy in 2025/26 results in higher levies in future years. As a result, the differential between new year accident costs and the levy reduces quicker than under the base scenario. Consequentially the deteriorating trending in the funding ratio stabilises and begins to improve under this scenario.

A 10% levy increase in 2025/26 would lead to higher levy revenue over the levy consultation period, as shown in Table 6.3 below.

Table 6.3 – Increase in levy revenue

Levy Year	Levy Revenue		
	10% Increase for 2025/26	No Increase	Increase
	$m	$m	$m
2025/26	3,288	3,007	281
2026/27	3,605	3,152	453
2027/28	3,921	3,283	638

6.5 Comparison to previous levy consultation

At the previous levy consultation (2022/25), the levy rate for 2022/23 was set at 1.27 (an increase from 1.21).

The uncapped levy rate signalled for the 2025/26 period was 1.56, the updated uncapped levy of 1.95 reflects an increase of 24.5%. The key drivers of the increase are higher base inflation assumptions, an increase in rehabilitation time, an increase in the expected number of claims, an increase in bulk funding and a lower than

expected opening fund. These were slightly offset by increases to discount rates and expected future investment returns. A detailed breakdown is shown in Appendix C.3.

6.6 Conclusions

The Earners' account funding ratio is currently below target and is projected to be below target at 1 April 2025.

Since the previous levy consultation, claims frequency has emerged lower than expected and is projected to continue to decrease. Claims severity has increased rapidly beyond expectations primarily due to a deterioration in rehabilitation rates. The rate of increase in claims severity is projected to increase in the projection period, albeit at a slightly lower rate.

The average levy rate increases for the Earners' account recommended by ACC have been capped at 5% for the 2025/26, 2026/27 and 2027/28 years. The application of the levy rate cap prevents levies rising quickly enough to restore the Earners' account to a surplus position over the short to medium term.

Over the 10-year projected horizon with the application of the levy rate cap, the funding ratio reduces from 90% to 67%. This shortfall will have to be funded by future levy payers. Without significant increases to levy rates (i.e. above the cap) and/or a significant reduction in new accident year costs (e.g. scheme reform), the funding ratio is unlikely to meet the target of 100%.

The three adverse scenarios shown in this section illustrate that if economic or claims assumptions are worse than expectations or levy increases are not applied, the funding ratio is projected to significantly deteriorate over the 10-year horizon. The favourable claims experience scenario shows that, with the recommended increases, the account would still achieve a funding ratio below target over the 10-year horizon. If a 10% increase is applied to the 2025/26 levy, the deteriorating trend in the funding ratio is expected to improve in future periods.

In our opinion the levies recommended by ACC meet the requirements of the Funding Policy.

There is a risk that economic and claim assumptions do not emerge as forecast. The ultimate driver of levies is claim costs, and therefore we recommend careful monitoring of the Earners' account against expectations. If forecasts are not achieved, sustainability of the account, as measured by the funding ratio and new year claims cost gap, will be challenged in future periods.

Consideration should be given to the actions required to allow the fund to move to the target funding ratio. This could be through a revision of the cap or other actions to reduce the costs of the scheme. We observe that the Funding policy, including the levy rate cap restricts the ability to achieve full funding, as levy rates are unable to approach the level required for full funding over a 10-year horizon. Given these challenges, we suggest MBIE consider reviewing the appropriateness of the Funding policy, especially the interaction of funding adjustments and capping.

7 Reliances and limitations

7.1 Distribution and use

This report is being provided for the sole use of MBIE for the purposes stated in Section 2. It is not intended, nor necessarily suitable, for any other purpose. This report should only be relied on by MBIE for the purpose for which it is intended.

We understand that MBIE may wish provide a copy of this report to The Treasury and to ACC, and to publish the final version of this report on its website. This is acceptable provided that the entire report, rather than any excerpt, be distributed. No other distribution of this report is permitted without our prior written consent.

Any third party receiving this report should not rely on it, and this report is not a substitute for their own due diligence. We accept no liability to third parties relying on our advice.

Any reference to Finity in reference to this analysis in any report, accounts or any other published document or any other verbal report is not authorised without our prior written consent.

Finity has performed the work assigned and has prepared this report in conformity with its intended utilisation by a person technically competent in the areas addressed and for the stated purposes only.

Please read the report in full. If you only read part of the report, you may miss something important. If anything in the report is unclear, please contact us. We are always pleased to answer your questions.

7.2 Data and other information

Finity was provided with ACC's consultation and technical pricing reports and certain models used in levy calculations. We also met with staff from ACC and MBIE. We have relied on the accuracy and completeness of all data and other information (qualitative, quantitative, written and verbal) provided to us for the purpose of this report. We have not independently verified or audited the data. It should be noted that if any data or other information is inaccurate or incomplete, we should be advised so that our advice can be revised, if warranted.

7.3 Nature of the review

This quality assurance review is a review for reasonableness. It should be noted that the quality assurance review has not provided (nor is it intended to provide) an independent estimate of the levy rates. Nor is this quality assurance review intended to provide verification that each of the detailed calculations underlying the calculation of the levy rates is correct.

Many things may change in the future. We have formed our views based on the current environment and what we know today. If future circumstances change, it is possible that our findings may not prove to be correct. As well as difficulties caused by limitations on the historical information, outcomes remain dependent on future events, including legislative, social and economic forces.

Whilst the quality assurance review may act to increase the confidence in the judgements made in selecting assumptions, it does not reduce the inherent uncertainty of the eventual outcome.

Appendices

A Funding Policy

The principles of financial responsibility are outlined in section 166A of the Accident Compensation Act 2001 and form the basis of the Funding Policy Statement. Section 166A requires the cost of all claims under the levied Account to be fully funded, i.e. adequate assets must be maintained to fund the cost of claims. To achieve full funding when setting levies, the following principles should be regarded:

- The levies derived for each levied Account should meet the lifetime costs of claims in relation to injuries that occur in a particular year;
- If a levied Account has a deficit or surplus of funds to meet the costs of claims, that surplus or deficit is to be corrected by setting levies at an appropriate level for subsequent years; and
- Large changes in levies should be avoided.

It is acknowledged that there may necessarily be trade-offs between the principles of financial responsibilities.

Table A.1 summarises the current Funding policy, which was gazetted on 6 April 2021.

Table A.1 – Funding Policy requirements

Policy Area	Summary of Funding Policy Statement
Account Funding Level	
Asset and liability valuation	As per ACC financial statements excluding specified items. The assets used in the funding ratio are mainly the investment assets. Assets used in the funding ratio are defined as the total assets reported in the ACC financial statements 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): • including off balance sheet work-related gradual process claims not yet made; and • excluding the liability for the AEP the OCL risk margin.
Funding target (expressed as the ratio of specified assets to specified liabilities)	100% target for each levied account
Response to deviation from target	Amounts over or under target returned over a 10-year funding horizon

Policy Area	Summary of Funding Policy Statement
Funding horizon (time allowed to return to target)	10 year, meaning that approximately one tenth of any surplus / deficit is included in the following years levy calculations
Levy Calculation	
Future claim costs	Discount reflects expected investment returns
Maximum change in levies	Annual change over previous year to be no greater than 5% (+ inflation adjustments for the Motor Vehicle Account)

The Funding policy is unchanged from the previous levy review.

B Work account

This appendix provides more details on ACC's proposed levies for the Work account. We include:

- The drivers of change compared to ACC's previous projections for the 2025/26 accident year
- ACC's assumptions for claim frequency and claim severity
- ACC's assumptions for the most significant payment types
- Comparison of the recommend levy rates to the previous consultation
- Other proposed changes to the Work account

B.1 2025/26 Accident year cost

Table B.1 compares the forecast cost of accidents in the 2025/26 year to ACC's previous expectations as at the previous levy consultation. Costs are shown as a rate per $100 of liable earnings.

Table B.1 – 2025/26 Accident year cost

Payment Type	Previous Estimate	Change due to [1] External Factors	Claim Freq. and Utilisation	Claim Severity	Combo [2]	Current Forecast
Compensation						
Weekly	0.45	-0.05	-0.02	0.12	0.00	0.50
Other compensation	0.05	-0.01	-0.01	0.00	0.00	0.03
Social Rehab						
Serious Injury	0.02	-0.01	-0.01	0.01	0.00	0.02
Non Serious Injury	0.02	0.00	0.00	0.00	0.00	0.02
Medical						
Public Health Acute Services	0.04	0.00	0.00	0.00	0.01	0.05
Other medical (incl. elective surgery)	0.14	-0.02	-0.01	-0.01	0.00	0.11
Operating Costs	0.19	0.00	0.00	0.01	0.00	0.20
Total Claims Cost	**0.92**	**-0.08**	**-0.05**	**0.13**	**0.01**	**0.93**

[1] Reflects changes in opening assets, exposure, discount rates, investment returns and inflation

[2] Change in payment type that cannot be segmented into frequency or severity

While forecast claims cost for 2025/26 are on average only slightly higher than the previous estimates, there are offsetting items. In particular, there has been a significant increase in claim severity (+0.13) which is offset with a reduction in claim frequency and utilisation (-0.05) and a reduction due to external factors (-0.08).

Table B.2 shows the overall claim frequency and claim severity by accident year for the work account.

Table B.2 – Claim frequency and severity

Accident Year (30 June)	Exposure[1] (000's)	Ultimate Cost ($m)	Claim Freq. Rate[2]	Claim Freq. % change	Average Claim Size $	Average Claim Size % change	Cost per worker $	Cost per worker % change
2011	1,847	658	8.86%		4,023		356.4	
2012	1,865	602	8.50%	-4.1%	3,796	-5.7%	322.7	-9.5%
2013	1,860	622	8.41%	-1.1%	3,981	4.9%	334.6	3.7%
2014	1,909	722	8.61%	2.5%	4,388	10.2%	378.0	13.0%
2015	1,991	812	8.67%	0.7%	4,699	7.1%	407.6	7.8%
2016	2,046	803	8.57%	-1.2%	4,584	-2.4%	392.7	-3.7%
2017	2,180	907	8.16%	-4.7%	5,098	11.2%	416.2	6.0%
2018	2,259	923	8.21%	0.6%	4,974	-2.4%	408.6	-1.8%
2019	2,317	1,063	8.11%	-1.3%	5,660	13.8%	458.9	12.3%
2020	2,349	1,124	7.24%	-10.7%	6,605	16.7%	478.5	4.3%
2021	2,364	1,111	8.08%	11.6%	5,816	-11.9%	470.1	-1.8%
2022	2,427	1,188	6.80%	-15.9%	7,203	23.8%	489.5	4.1%
2023	2,456	1,421	7.24%	6.5%	7,996	11.0%	578.8	18.2%
2024	2,526	1,487	6.94%	-4.1%	8,477	6.0%	588.5	1.7%
2025	2,536	1,627	6.93%	-0.2%	9,260	9.2%	641.6	9.0%
2026	2,578	1,658	6.79%	-2.0%	9,476	2.3%	643.1	0.2%
2027	2,625	1,749	6.68%	-1.6%	9,984	5.4%	666.5	3.6%
2028	2,655	1,803	6.62%	-0.9%	10,259	2.8%	679.1	1.9%

[1]Number of Workers

[2]per 1,000 workers

B.2 Payment type analysis

This section summarises information from ACC's reports for the most material payment types.

Table B.3 summarises the information for non-fatal weekly compensation from ACC's model.

Table B.3 – Non-Fatal weekly compensation

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total Work claims costs	Claim Freq. Rate[2]	Claim Freq. % change	Utilisation Rate[3]	Average Claim Size $	Average Claim Size % change	Cost per worker $	Cost per worker % change
2011	1,847	371.1	56%	8.93		10%	22,498		201.0	
2012	1,865	353.3	59%	8.53	-4.5%	10%	22,202	-1.3%	189.4	-5.8%
2013	1,860	369.7	59%	8.68	1.8%	10%	22,898	3.1%	198.8	5.0%
2014	1,909	425.1	59%	9.13	5.1%	11%	24,390	6.5%	222.7	12.0%
2015	1,991	489.0	60%	9.86	8.0%	11%	24,906	2.1%	245.6	10.3%
2016	2,046	503.0	63%	9.94	0.8%	12%	24,740	-0.7%	245.9	0.1%
2017	2,180	552.6	61%	10.05	1.1%	12%	25,223	2.0%	253.5	3.1%
2018	2,259	603.1	65%	10.09	0.4%	12%	26,451	4.9%	266.9	5.3%
2019	2,317	698.0	66%	10.55	4.5%	13%	28,562	8.0%	301.3	12.9%
2020	2,349	766.7	68%	10.52	-0.3%	15%	31,042	8.7%	326.4	8.3%
2021	2,364	770.6	69%	10.52	0.0%	13%	30,993	-0.2%	326.0	-0.1%
2022	2,427	837.6	70%	10.74	2.1%	16%	32,140	3.7%	345.1	5.9%
2023	2,456	1,004.1	71%	11.59	7.9%	16%	35,294	9.8%	408.9	18.5%
2024	2,526	1,044.4	70%	11.49	-0.8%	17%	35,994	2.0%	413.5	1.1%
2025	2,536	1,052.6	65%	11.67	1.6%	17%	35,564	-1.2%	415.0	0.4%
2026	2,578	1,055.7	64%	11.46	-1.8%	17%	35,724	0.5%	409.4	-1.3%
2027	2,625	1,131.4	65%	11.99	4.6%	18%	35,954	0.6%	431.1	5.3%
2028	2,655	1,173.0	65%	12.20	1.7%	18%	36,224	0.8%	441.8	2.5%

[1]Number of workers

[2]Number of claims per 1,000 workers

[3]Proportion of work claims that receive weekly compensation

Table B.4 summarises the information for elective surgeries from ACC's model.

Table B.4 – Elective surgery

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total Work claims costs	Claim Freq. Rate[2]	Claim Freq. % change	Utilisation Rate[3]	Average Claim Size $	Average Claim Size % change	Cost per worker $	Cost per worker % change
2011	1,847	63.5	10%	2.35		2.7%	14,640		34.4	
2012	1,865	65.8	11%	2.33	-0.6%	2.7%	15,112	3.2%	35.3	2.6%
2013	1,860	67.1	11%	2.29	-1.7%	2.7%	15,726	4.1%	36.1	2.3%
2014	1,909	70.9	10%	2.38	3.5%	2.8%	15,624	-0.6%	37.1	2.9%
2015	1,991	77.0	9%	2.36	-0.6%	2.7%	16,369	4.8%	38.7	4.2%
2016	2,046	77.9	10%	2.21	-6.7%	2.6%	17,259	5.4%	38.1	-1.6%
2017	2,180	79.6	9%	2.05	-7.3%	2.5%	17,849	3.4%	36.5	-4.1%
2018	2,259	81.7	9%	1.90	-6.9%	2.3%	18,998	6.4%	36.2	-0.9%
2019	2,317	87.0	8%	1.92	0.9%	2.4%	19,533	2.8%	37.5	3.8%
2020	2,349	90.1	8%	1.85	-3.9%	2.5%	20,775	6.4%	38.4	2.2%
2021	2,364	84.4	8%	1.74	-5.7%	2.2%	20,515	-1.3%	35.7	-6.9%
2022	2,427	90.5	8%	1.67	-4.3%	2.5%	22,359	9.0%	37.3	4.3%
2023	2,456	99.5	7%	1.87	12.1%	2.6%	21,693	-3.0%	40.5	8.7%
2024	2,526	98.8	7%	1.71	-8.5%	2.5%	22,877	5.5%	39.1	-3.5%
2025	2,536	101.3	6%	1.72	0.5%	2.5%	23,251	1.6%	39.9	2.1%
2026	2,578	102.1	6%	1.66	-3.6%	2.4%	23,902	2.8%	39.6	-0.9%
2027	2,625	105.8	6%	1.64	-1.1%	2.5%	24,616	3.0%	40.3	1.8%
2028	2,655	108.4	6%	1.61	-1.6%	2.4%	25,355	3.0%	40.8	1.3%

[1]Number of workers

[2]Number of claims per 1,000 workers

[3]Proportion of work claims that receive elective surgery payments

Table B.4 summarises the information for Public Health Acute Services (PHAS) from ACC's model.

Table B.5 – PHAS

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total Work claims costs	Cost per worker $	Cost per worker % change
2025	2,536	60.4	4%	23.8	
2026	2,578	80.4	5%	31.2	30.8%
2027	2,625	82.3	5%	31.4	0.6%
2028	2,655	86.4	5%	32.5	3.8%

[1]Number of workers

These a bulk paid to the Ministry of Health and cover the cost of ACC clients receiving acute services in publicly funded hospitals.

B.3 Comparison to the previous levy consultation

Table B.6 shows the movement between the previously signalled levy rate for 2025/26 and the recommended rate for 2025/26.

Table B.6 – Comparison of 2025/26 levy recommendation with previous estimate

Previously signalled 2025/26 Levy Rate (Uncapped)		0.70
Updated fund balance	0.03	
Base inflation	0.15	
Discount rate/investment forecasts	-0.17	
Other	-0.04	
Claim frequency and severity	0.12	
Uncapped 2025/26 Levy Rate		0.79
Reduction due to capping		-0.13
Recommended 2025/26 Levy rate		**0.66**

Key movements include:

- A lower than expected opening fund balance increase the levy by 0.03. This lower fund balance reflects investment returns of 5% (after costs) over the last three years which was lower than the forecast 11% return.
- Increases to the discount rate and expected future investment returns lead to a 0.17 reduction in the levy, this is largely offset by inflationary pressure (both over the last three years) and future expectations which leads to a 0.15 increase in the levy.
- A decrease in the levy of -0.04 reflecting:
  - > A 0.12 decrease due to an increase in liable earnings projections and future growth.
  - > A 0.05 increase due to an increased OCL.
  - > A 0.02 increase in operational expenses and a 0.01 increase in CHE.
- Changes to both claim frequency and severity increase the levy by 0.12, this includes:
  - > Higher continuance rates increasing the levy by 0.17
  - > Bulk billed payments have increased the uncapped levy by 0.02.
  - > Lower average claim costs per quarter have reduced the uncapped levy by 0.02.
  - > A reduction in the expected number of claims has reduced the uncapped levy by 0.04.

B.4 Other proposed changes to the Work account

ACC is proposing to make other changes to the Work account at the same time that levy rate changes are implemented, these are outlined below.

B.4.1 Industry Levy Relativities

The levy rate paid by an employer or a self-employed person depends on the industry in which they are working. ACC estimates the relative riskiness of different industries based on the historical claims experience. In aggregate, the amount of levy income collected should be the same as if everyone paid the average rate.

Business activities are classified in accordance with a variant of the Australian and New Zealand Standard Industry Classification system modified by ACC to reflect the level of risk inherent in a particular activity. This results in 537 different classification units (CUs), which define business activities to a high level of precision. In order to ensure the projections are based on credible statistics, the CUs are grouped into one of 142 levy risk groups (LRGs). ACC reviews the amount of claims relative to earnings for each LRG. ACC then estimates the relative riskiness of each LRG.

Proposal

CU Changes – CU experience review

As the result of the regular CU and LRG placement review, the proposed changes to the CU-LRG structure at this consultation are detailed in Table B.7.

Table B.7 – Classification units changes

CU	Proposed Change
Amusement and other recreation activities (not elsewhere classified) - 93400	Move this classification unit from levy risk group (LRG) 911 'Sporting and Recreational Activities (lower-risk group)' to LRG 913 'Recreational Facilities Operation'
Cigarette and tobacco product manufacturing - 21900	Move this classification unit from levy risk group (LRG) 121 'Beverage, Tobacco and Snack Manufacturing' to LRG 251 'Manufacturing (low-risk group)'
Mattress manufacturing - 29230	Move this classification unit from levy risk group (LRG) 253 'Furniture and Other Manufacturing' to LRG 131 'Textile and Rubber Product Manufacturing'
Casino operation - 9322	Move this classification unit from levy risk group (LRG) 903 'Entertainment and Performing Arts' to LRG 921 'Museums and Gambling Activities'
Reproduction of recorded media - 24300	Move this classification unit from levy risk group (LRG) 251 'Manufacturing (low-risk group)' to LRG 541 'Publishing'
Toy and game retailing - 5242	Move this classification unit from levy risk group (LRG) 426 'Retail Trade (low-medium risk group)' to LRG 424 'Retail Trade (low-risk group)'
Beverage, Tobacco and Snack Manufacturing - 121	Rename LRG to 'Beverage and Snack Manufacturing'

CU Changes – Structural changes

At this consultation ACC is proposing two structural changes

1 Moving home improvement stores that sell multiple retail and wholesale products to a single new CU. A new Levy Risk Group (LRG 430 Home improvement goods trading) would be also created specifically for this classification unit

2 Restructuring the CUs for sport as currently some purely administrative sports clubs and their support staff are levied at the same rate as sport participants, despite not facing the same risks. The proposed changes are:

- removing the distinction between community and professional sports in the classification unit structure.
- creating a new classification unit for clubs and administrators who don't employ players.
- including professional ballet in a levy risk group that better reflects their claims experience.
- group higher risk sports participants and their employers, specifically football, rugby, rugby league, cricket and motorcycling, and their national organisation together for the purposes of levy setting.

Our understanding of the proposed CU changes is to better reflect the relative risk in each CU and reduce cross-subsidisation of proposed levy rates between CUs.

B.4.2 Experience rating

Experience rating is a way of adjusting levies to reflect an individual employer's claim history, with employers that have better than average injury and return to work rates receiving a discount on the current portion of their levy while those with worse-than-average claims experience will receive a loading. The experience period is the three-year period that finishes one year before the start of the levy year. For the three-year period greater weighting is given to the most recent year.

The levy modification, which currently can be up to -50%/+100%, is based on the duration of weekly compensation claims, the number of claims with medical costs over $500 and the number of fatal claims during the experience period. The experience rating modification reflects an employer's performance relative to all businesses in its LRG.

Proposal

There is a change proposal to increase the medical cost threshold from $500 to $750. The increase reflects inflationary pressure since 2011 when the current threshold was set.

B.4.3 No claims discount for small employers and self-employed

Small employers and self-employed people participate in the No-Claims Discount programme and may receive a 10% discount or a 10% loading on their work levy.

The levy modification is based on the duration of any weekly compensation claims, and any fatal injury claims occurring during the experience period.

The Experience Rating and No Claims Discount programmes are each biased towards a discount, meaning that the overall discounts awarded are greater than overall loadings. In order to maintain revenue neutrality, a loading for each programme is included in the aggregate levy rate. The overall loading is 5.73% for 2025/28 period (before proposed changes).

Proposals

There are two options proposed at this consultation:

1 Remove the No Claims Discount and reduce the cross-subsidy for the Experience Rating programme by other businesses

Under this option the aggregate levy rate would reduce to 2.5% for 2025/28. This is equivalent to a 3.3% reduction on all CU rates. A small loading would be applied to all Experience Rating employers to account for the discount bias as a result of the capping rules in the ER modifier calculation.

2 Remove the No Claims Discount and completely remove the cross-subsidy for the Experience Rating programme by other businesses. The Experience Rating programme would become self-funding for the first time

Under this option the loading on the aggregate levy rate would be removed. This is equivalent to a 5.7% reduction on all CU rates. A larger loading would be applied to all Experience Rating employers. This is to account for the discount bias for Experience Rating.

B.4.4 Accredited Employers Programme

The Accredited Employers Programme is a scheme allowing employers who meet certain criteria to voluntarily take responsibility for their own workplace health and safety and injury management, including rehabilitation and claims management of employees' work injuries. Accredited employers are effectively agreeing to act on behalf of ACC in their own workplaces

There are a number of options available under the programme, reflecting differences in:

- Cover period: Employers decide the period during which they will manage and pay claims
- ACC insurance: Employers decide on the amount of insurance to purchase from ACC in case claims significantly exceed the expected level.

ACC manages the programme in two main streams, the Partnership Discount Plan (PDP) and the Full Self Cover plan (FSC). The main difference between the plans relates to what happens at the end of the cover period. Under FSC the employer must pay ACC a fee to hand back the claims, reflecting the expected future claim costs. PDP employers do not have to pay ACC a fee when they hand back the claims.

Levies payable by accredited employers include:

- AEP administration fee to cover administration expenses associated with the delivery of the AEP plans. These include levy setting, levy collection, injury prevention, and general overheads.
  - > The proposed AEP administration fee for 2025/28 is 2.0% of the standard work levy (2.3% in 2022/25). Total administration costs have increased but at a lower rate than the underlying levy, hence the reduction.
- Unallocated Primary Health Cost fee to cover primary health costs that should be paid by accredited employers but are instead paid by ACC due to claimants failing to provide sufficient details at the point of service.
  - > For 2025/28, the proposed Unallocated PHC charge is 1.5% of the standard work levy (1.3% in 2022/25).
- Bulk-funded Public Health Cost (payable by FSC employers and expressed as a percentage of the standard work levy) or PDP discounted work levy (payable by PDP employers)
  - > The proposed bulk health cost charge for 2025/28 is 5.2% of the work levy (4.6% in 2022/25). Estimated bulk health costs have increased from $48m per year in 2022/25 to $76m in 2025/28.
- Stop Loss levy and High Cost Claims Cover (HCCC) Levy. The Stop Loss Levy is compulsory for FSC employers and optional for PDP employers whereas the HCCC levy is optional for FSC employers and not available to PDP employers)
  - The proposed average change in the stop loss and high cost fees for employers currently in FSC is a 15% increase in the stop loss and HCCC levy. The average impact for employers currently in PDP is a 17% reduction in the stop loss fee.

C Motor Vehicle Account

This appendix provides more details on ACC's proposed levies for the Motor Vehicle Account. We include:

- The drivers of change compared to ACC's previous projections for the 2025/26 accident year
- ACC's assumptions for the most significant payment types
- A description of account-specific methodology.

C.1 2025/26 Accident year cost

Table C.1 compares the forecast cost of accidents in the 2025/26 year to ACC's previous expectations as at the previous levy consultation. Costs are shown as the average cost per motor vehicle.

Table C.1 – 2025/26 Accident year costs

Payment Type	Previous Estimate	Change due to [1] External Factors	Claim Freq. and Utilisation	Claim Severity	Combo [2]	Current Forecast
Compensation						
Weekly	71.24	-1.81	-15.37	23.57	0.00	77.63
Other compensation	13.26	0.31	-3.37	0.35	0.00	10.56
Social Rehab						
Serious Injury	71.12	-12.46	-11.69	11.56	0.00	58.53
Non Serious Injury	14.12	-0.77	-0.55	2.64	0.00	15.44
Medical						
Public Health Acute Services	23.81	4.51	0.00	0.00	4.55	32.88
Other medical (incl. elective surgery)	25.78	-1.42	-3.82	-1.41	0.00	19.14
Operating Costs	19.67	1.08	-0.62	0.66	-1.81	18.98
Total	239.00	-10.55	-35.40	37.38	2.74	233.17

[1] Reflects changes in opening assets, exposure, discount rates, investment returns and inflation

[2] Change in payment type that cannot be segmented into frequency or severity

Claims cost for the 2025/26 are on average $233 per vehicle. Whilst this is lower than the estimate at the previous consultation ($239) there has been a significant increase in claim severity (+$37) which is offset with a reduction in claim frequency and utilisation (-$35) and a reduction due to external factors (-$11).

Table B.2 shows the overall claim frequency and claim severity by accident year for the motor vehicle account.

Table C.2 – Claim frequency and severity

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	Claim Freq. Rate[2]	Claim Freq. % change	Average Claim Size $	Average Claim Size % change	Cost per vehicle $	Cost per vehicle % change
2011	3,078	591	8.08		23,764		192.0	
2012	3,084	650	7.69	-4.8%	27,385	15.2%	210.7	9.7%
2013	3,114	580	7.49	-2.7%	24,878	-9.2%	186.3	-11.6%
2014	3,160	682	7.61	1.6%	28,359	14.0%	215.8	15.8%
2015	3,245	804	7.65	0.5%	32,397	14.2%	247.8	14.9%
2016	3,360	844	8.36	9.2%	30,058	-7.2%	251.2	1.4%
2017	3,513	816	8.49	1.6%	27,375	-8.9%	232.4	-7.5%
2018	3,672	1,003	8.37	-1.4%	32,628	19.2%	273.2	17.5%
2019	3,818	1,257	8.05	-3.9%	40,930	25.4%	329.3	20.6%
2020	3,915	960	6.33	-21.3%	38,708	-5.4%	245.2	-25.6%
2021	3,986	1,047	7.15	13.0%	36,714	-5.1%	262.7	7.2%
2022	4,055	1,124	6.03	-15.7%	45,969	25.2%	277.1	5.5%
2023	4,134	1,225	6.81	13.0%	43,519	-5.3%	296.4	7.0%
2024	4,182	1,217	6.74	-1.0%	43,154	-0.8%	291.0	-1.9%
2025	4,235	1,401	6.72	-0.3%	49,225	14.1%	330.9	13.7%
2026	4,286	1,432	6.63	-1.3%	50,386	2.4%	334.1	1.0%
2027	4,337	1,463	6.53	-1.5%	51,661	2.5%	337.4	1.0%
2028	4,390	1,493	6.44	-1.4%	52,840	2.3%	340.2	0.8%

[1]Number of motor vehicles

[2]per 1,000 vehicles

C.2 Payment type analysis

This section summarises information from ACC's reports for the most material payment types.

Table C.3 summarises the information for non-fatal weekly compensation from ACC's model.

Table C.3 – Non-Fatal weekly compensation

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total MV claims costs	Claim Freq. Rate[2]	Claim Freq. % change	Utilisation Rate[3]	Average Claim Size $	Average Claim Size % change	Cost per vehicle $	Cost per vehicle % change
2011	3,078	154.4	26%	0.10%		12%	51,596		50.2	
2012	3,084	163.4	25%	0.09%	-5.3%	12%	57,548	11.5%	53.0	5.6%
2013	3,114	154.6	27%	0.09%	-0.7%	12%	54,322	-5.6%	49.6	-6.3%
2014	3,160	202.7	30%	0.10%	5.9%	13%	66,296	22.0%	64.1	29.2%
2015	3,245	210.0	26%	0.10%	5.5%	13%	63,381	-4.4%	64.7	0.9%
2016	3,360	231.5	27%	0.11%	10.8%	14%	60,905	-3.9%	68.9	6.5%
2017	3,513	248.9	30%	0.12%	4.0%	14%	60,228	-1.1%	70.9	2.9%
2018	3,672	324.4	32%	0.12%	4.8%	15%	71,667	19.0%	88.4	24.7%
2019	3,818	342.8	27%	0.12%	0.1%	15%	72,722	1.5%	89.8	1.6%
2020	3,915	293.3	31%	0.10%	-16.5%	16%	72,696	0.0%	74.9	-16.6%
2021	3,986	390.0	37%	0.11%	10.2%	16%	86,143	18.5%	97.8	30.6%
2022	4,055	360.5	32%	0.11%	-7.1%	18%	84,278	-2.2%	88.9	-9.1%
2023	4,134	441.8	36%	0.12%	10.6%	17%	91,600	8.7%	106.9	20.2%
2024	4,182	449.6	37%	0.11%	-2.0%	17%	94,061	2.7%	107.5	0.6%
2025	4,235	469.0	33%	0.11%	-0.1%	17%	96,965	3.1%	110.8	3.0%
2026	4,286	485.4	34%	0.12%	1.4%	17%	97,735	0.8%	113.2	2.3%
2027	4,337	502.7	34%	0.12%	1.5%	18%	98,507	0.8%	115.9	2.3%
2028	4,390	517.7	35%	0.12%	1.0%	18%	99,273	0.8%	117.9	1.8%

[1]Number of motor vehicles

[2]per 1,000 vehicles

[3]Proportion of motor claims that receive weekly compensation

Table C.4 summarises the information for Public Health Acute Services (PHAS) from ACC's model.

Table C.4 – PHAS

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total MV claims costs	Cost per vehicle $	% change
2025	4,235	134.3	10%	31.7	
2026	4,286	138.8	10%	32.4	2.1%
2027	4,337	143.3	10%	33.0	2.0%
2028	4,390	147.9	10%	33.7	2.0%

[1]Number of motor vehicles

Table C.5 summarises the information for Serious Injury - Care from ACC's model.

Table C.5 – Serious Injury Care

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total MV claims costs	Claim Freq. Rate[2]	% change	Utilisation Rate[3]	Average Claim Size $	% change	Cost per vehicle $	% change
2011	3,078	22.5	4%	0.04%		5%	17,532		7.3	
2012	3,084	43.9	7%	0.04%	-1.4%	5%	34,687	97.9%	14.2	95.1%
2013	3,114	23.8	4%	0.04%	3.6%	6%	17,954	-48.2%	7.6	-46.4%
2014	3,160	29.6	4%	0.05%	17.3%	7%	18,801	4.7%	9.4	22.8%
2015	3,245	28.8	4%	0.05%	1.8%	7%	17,487	-7.0%	8.9	-5.3%
2016	3,360	33.9	4%	0.06%	14.8%	7%	17,327	-0.9%	10.1	13.8%
2017	3,513	40.7	5%	0.06%	4.4%	7%	19,033	9.8%	11.6	14.7%
2018	3,672	41.2	4%	0.07%	9.3%	8%	16,848	-11.5%	11.2	-3.3%
2019	3,818	49.5	4%	0.07%	4.6%	9%	18,637	10.6%	13.0	15.7%
2020	3,915	45.0	5%	0.06%	-15.1%	9%	19,482	4.5%	11.5	-11.3%
2021	3,986	57.7	6%	0.07%	19.0%	10%	20,584	5.7%	14.5	25.7%
2022	4,055	56.3	5%	0.06%	-8.9%	11%	21,665	5.3%	13.9	-4.1%
2023	4,134	71.0	6%	0.08%	18.7%	11%	22,611	4.4%	17.2	23.9%
2024	4,182	72.7	6%	0.08%	0.1%	11%	22,938	1.4%	17.4	1.2%
2025	4,235	73.7	5%	0.07%	-4.6%	11%	24,070	4.9%	17.4	0.1%
2026	4,286	74.2	5%	0.07%	-1.6%	11%	24,320	1.0%	17.3	-0.6%
2027	4,337	74.4	5%	0.07%	-1.9%	11%	24,574	1.0%	17.2	-0.8%
2028	4,390	74.8	5%	0.07%	-1.7%	11%	24,826	1.0%	17.0	-0.7%

[1]Number of motor vehicles

[2]per 1,000 vehicles

[3]Proportion of motor claims that receive serious injury care payments

C.3 Comparison to the previous levy consultation

Table C.6 shows the movement between the previously signalled levy rate for 2025/26 and the recommended rate for 2025/26.

Table C.6 – Comparison of 2025/26 levy recommendation with previous estimate

Previously signalled 2025/26 Levy Rate (Uncapped)		156.31
Updated fund balance	32.72	
Base inflation	40.13	
Discount rate/investment forecasts	-99.17	
Other	15.84	
Claim frequency and severity	12.52	
Uncapped 2025/26 Levy Rate		158.35
Reduction due to capping		-35.51
Recommended 2025/26 Levy rate		**122.84**

Key movements include:

- A lower than expected opening fund balance increase the levy by 32.72. This lower fund balance reflects investment returns of 2% (after costs) over the last three years which was lower than the previous forecast of a 9% return.
- Increases to the discount rate and expected future investment returns lead to a 99.17 reduction in the levy, this is partially offset by inflationary pressure (both over the last three years) and future expectations which leads to a 40.13 increase in the levy.
- In increase in the levy of 15.84 reflecting:
  - A 13 increase due to the removal of an explicit allowance for IP and ICIP benefits
  - A 6 increase due to an increase in the outstanding claims liability
  - A 5 reduction due to a reduction in operational expenses
- Changes to both claim frequency and severity increase the levy by 12.52, this includes:
  - An increase in the expected average cost of claims leading to a 14 increase in the levy
  - An increase in rehabilitation time leading to a 29 increase in the levy
  - An increase in bulk funding (largely the result of pay equity settlements) leading to a 10 increase in the levy
  - A reduction in the expected number of claims leading to a 41 reduction in the levy.

C.4 Other proposed changes to the Motor Account

This section comments on proposed changes to the relative levies for certain types of vehicles.

C.4.1 Electric and plug-in hybrid vehicles

Currently ACC charges battery electric vehicles and plug-in hybrid vehicles a discounted levy compared to the same petrol-driven vehicles.

Proposal

In the 2025/28 consultation the Minister is proposing to change the classification of battery electric vehicles and plug-in hybrid vehicles such that they no longer receive a discounted levy.

C.4.2 Motorbikes and Mopeds

Motorcycles (including mopeds) account for a disproportionately high percentage of the cost and severity of motor vehicle injuries in New Zealand each year. Funding motorcycle injuries is extremely expensive due to the severity of the injuries sustained. Cross-subsidisation within the Motor Vehicle Account means that other vehicle owners' levies make a significant contribution to funding motorcycle injuries. Motorcycle levies would otherwise become prohibitively expensive

Proposal

In the 2025/28 consultation ACC and/or the Minister are consulting on a number of change proposals for motorbikes and mopeds. Whilst no allowance has been made from the in the recommended aggregate Motor Vehicle levy for 2025/28, the proposals include:

1. Increasing the contribution for motorcyclists from around 28% of their true claim cost to 37%.
2. Increasing the number of motorcycle classes to 4 from the current 3
3. Introducing a reduced levy for those who have completed gold level advance rider training

C.4.3 Fleet Saver Programme

ACC offers an optional Fleet Saver Programme for vehicles classified as Heavy GVs. Vehicle fleets accepted into the programme are charged a lower levy rate provided they can demonstrate appropriate levels of safe fleet management.

Proposal

ACC is proposing to close the Fleet Saver programme as the uptake in the programme has been low with only around 6.7% of the total heavy goods fleet included.

D Earners' account

This appendix provides more details on ACC's proposed levies for the Earners' account. We include:

- The drivers of change compared to ACC's previous projections for the 2025/26 accident year
- ACC's assumptions for the most significant payment types
- A description of account-specific methodology.

D.1 2025/26 Accident year costs

Table C.1 compares the forecast cost of accidents in the 2025/26 year to ACC's previous expectations as at the previous levy consultation. Costs are shown as the average cost per motor vehicle.

Table D.1 – 2025/26 Accident year costs

Payment Type	Previous Estimate	Change due to [1]External Factors	Claim Freq. and Utilisation	Claim Severity	Combo[2]	Current Forecast
Compensation						
Weekly	0.58	-0.04	0.03	0.21	0.00	0.78
Other compensation	0.05	0.00	0.00	0.00	0.00	0.05
Social Rehab						
Serious Injury	0.09	-0.02	0.00	0.00	0.00	0.07
Non Serious Injury	0.05	0.00	0.00	0.01	0.00	0.05
Medical						
Elective Surgery	0.17	-0.02	0.00	0.00	0.00	0.15
Other medical	0.36	0.03	0.02	-0.01	0.03	0.34
Sensitive Claims	0.11	-0.02	0.01	0.02	0.00	0.12
Operating Costs	0.18	0.01	0.00	0.01	0.00	0.20
Total Earners Account	**1.50**	**-0.12**	**0.03**	**0.23**	**0.03**	**1.75**
Treatment Injury						
Claims	0.11	-0.01	0.00	0.01	0.00	0.11
Operating Costs	0.01	0.00	0.00	0.00	0.01	0.02
Total Treatment Injury	**0.12**	**-0.01**	**0.00**	**0.01**	**0.01**	**0.13**
Total Earners Account (incl. share of TI)	**1.71**	**-0.14**	**0.03**	**0.24**	**0.04**	**1.87**

[1]Reflects changes in opening assets, exposure, discount rates, investment returns and inflation

[2]Change in payment type that cannot be segmented into frequency or severity

Claims cost for the 2025/26 are on average $1.87 per $100 of liable earnings. This is higher than the estimate at the previous consultation ($1.71). There has been a significant increase in claim severity (+$0.24) as well as an increase in claim frequency/utilisation (+$0.03) and an increase in the combo cost (+$0.04). These are partially offset with a reduction due to external factors (-$0.14).

Table D.2 shows the overall claim frequency and claim severity by accident year for the earners' account.

Table D.2 – Claim frequency and severity

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	Claim Freq. Rate[2]	% change	Average Claim Size $	% change	Cost per earner $	% change
2011	2,163	1,548	24.5%		2,920		715.8	
2012	2,188	1,472	25.1%	2.4%	2,681	-8.2%	672.9	-6.0%
2013	2,191	1,641	25.8%	2.8%	2,902	8.3%	749.2	11.3%
2014	2,246	1,790	26.0%	0.6%	3,068	5.7%	797.1	6.4%
2015	2,329	2,032	26.2%	0.9%	3,328	8.5%	872.6	9.5%
2016	2,382	2,183	27.2%	3.9%	3,365	1.1%	916.4	5.0%
2017	2,518	2,334	26.2%	-3.8%	3,540	5.2%	927.0	1.2%
2018	2,604	2,541	26.3%	0.3%	3,716	5.0%	975.7	5.3%
2019	2,671	2,819	26.6%	1.2%	3,972	6.9%	1,055.7	8.2%
2020	2,712	3,052	24.1%	-9.2%	4,662	17.4%	1,125.3	6.6%
2021	2,731	3,172	27.7%	14.8%	4,193	-10.0%	1,161.6	3.2%
2022	2,807	3,350	23.1%	-16.5%	5,156	23.0%	1,193.2	2.7%
2023	2,857	3,663	24.6%	6.1%	5,219	1.2%	1,282.0	7.4%
2024	2,935	3,885	24.2%	-1.4%	5,467	4.7%	1,323.8	3.3%
2025	2,945	4,378	24.8%	2.4%	5,996	9.7%	1,486.3	12.3%
2026	2,992	4,648	24.6%	-0.6%	6,302	5.1%	1,553.5	4.5%
2027	3,045	4,828	24.5%	-0.5%	6,461	2.5%	1,585.4	2.1%
2028	3,081	5,065	24.6%	0.2%	6,687	3.5%	1,643.8	3.7%

[1]Number of Earners

[2]Number of claims per 1,000 Earners

D.2 Payment type analysis

This section summarises information from ACC's reports for the most material payment types.

Table D.3 summarises the information for non-fatal weekly compensation from ACC's model.

Table D.3 – Non-fatal weekly compensation

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total claims costs	Claim Freq. Rate[2]	% change	Utilisation Rate[3]	Average Claim Size $	% change	Cost per vehicle $	% change
2011	2,163	610.9	39%	1.6%		7%	17,257		282.5	
2012	2,188	615.0	42%	1.6%	-3.3%	6%	17,759	2.9%	281.1	-0.5%
2013	2,191	693.6	42%	1.7%	6.5%	7%	18,780	5.8%	316.6	12.6%
2014	2,246	738.8	41%	1.7%	1.1%	7%	19,293	2.7%	329.0	3.9%
2015	2,329	865.4	43%	1.8%	6.7%	7%	20,429	5.9%	371.6	13.0%
2016	2,382	908.8	42%	1.9%	5.9%	7%	19,816	-3.0%	381.5	2.7%
2017	2,518	1,002.6	43%	2.0%	1.4%	7%	20,390	2.9%	398.2	4.4%
2018	2,604	1,100.5	43%	2.0%	1.3%	8%	21,355	4.7%	422.5	6.1%
2019	2,671	1,200.0	43%	2.1%	4.1%	8%	21,808	2.1%	449.3	6.3%
2020	2,712	1,363.2	45%	2.0%	-0.8%	8%	24,596	12.8%	502.6	11.9%
2021	2,731	1,462.2	46%	2.1%	4.8%	8%	25,012	1.7%	535.4	6.5%
2022	2,807	1,562.2	47%	2.2%	0.5%	9%	25,882	3.5%	556.5	3.9%
2023	2,857	1,773.7	48%	2.3%	5.9%	9%	27,266	5.3%	620.8	11.6%
2024	2,935	1,911.1	49%	2.3%	2.3%	10%	27,949	2.5%	651.2	4.9%
2025	2,945	1,966.3	45%	2.4%	3.4%	10%	27,709	-0.9%	667.6	2.5%
2026	2,992	2,055.8	44%	2.5%	2.0%	10%	27,963	0.9%	687.1	2.9%
2027	3,045	2,147.6	44%	2.5%	2.0%	10%	28,149	0.7%	705.2	2.6%
2028	3,081	2,265.5	45%	2.6%	3.6%	11%	28,337	0.7%	735.2	4.3%

[1]Number of earners

[2]per 1,000 earners

[3]Proportion of earner claims that receive weekly compensation

Table D.4 summarises the information for elective surgery from ACC's model.

Table D.4 – Elective surgery

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total claims costs	Claim Freq. Rate[2]	Claim Freq. % change	Utilisation Rate[3]	Average Claim Size $	Average Claim Size % change	Cost per vehicle $	Cost per vehicle % change
2011	2,163	226.5	15%	0.7%		2.8%	15,117		104.7	
2012	2,188	231.5	16%	0.7%	-1.2%	2.7%	15,466	2.3%	105.8	1.1%
2013	2,191	251.1	15%	0.7%	5.9%	2.8%	15,825	2.3%	114.6	8.3%
2014	2,246	265.1	15%	0.7%	2.2%	2.8%	15,943	0.7%	118.0	3.0%
2015	2,329	283.6	14%	0.7%	-0.8%	2.8%	16,588	4.0%	121.8	3.2%
2016	2,382	292.1	13%	0.7%	-0.5%	2.7%	16,782	1.2%	122.6	0.7%
2017	2,518	308.1	13%	0.7%	-4.7%	2.7%	17,571	4.7%	122.4	-0.2%
2018	2,604	326.5	13%	0.7%	-0.6%	2.6%	18,116	3.1%	125.4	2.5%
2019	2,671	352.5	13%	0.7%	2.2%	2.7%	18,664	3.0%	132.0	5.3%
2020	2,712	360.1	12%	0.7%	-3.7%	2.8%	19,501	4.5%	132.8	0.6%
2021	2,731	370.5	12%	0.7%	2.0%	2.5%	19,542	0.2%	135.7	2.2%
2022	2,807	390.2	12%	0.7%	-2.4%	2.9%	20,515	5.0%	139.0	2.5%
2023	2,857	421.8	12%	0.7%	5.5%	2.9%	20,644	0.6%	147.6	6.2%
2024	2,935	431.7	11%	0.7%	-4.1%	2.8%	21,442	3.9%	147.1	-0.3%
2025	2,945	451.5	10%	0.7%	1.2%	2.8%	22,080	3.0%	153.3	4.2%
2026	2,992	472.5	10%	0.7%	0.3%	2.8%	22,688	2.8%	157.9	3.0%
2027	3,045	492.0	10%	0.7%	-0.8%	2.8%	23,402	3.1%	161.6	2.3%
2028	3,081	514.4	10%	0.7%	0.3%	2.8%	24,119	3.1%	166.9	3.3%

[1]Number of earners

[2]per 1,000 earners

[3]Proportion of earner claims that receive elective surgery payments

Table D.5 summarises the information for sensitive claims from ACC's model.

Table D.5 – Sensitive claims

Accident Year (30 June)	Exposure[1] 000's	Ultimate Cost ($m)	% of total claims costs	Claim Freq. Rate[2]	Claim Freq. % change	Utilisation Rate[3]	Average Claim Size $	Average Claim Size % change	Cost per vehicle $	Cost per vehicle % change
2011	2,163	48.0	3%	0.0%		0.1%	65,052		22.2	
2012	2,188	64.4	4%	0.0%	20.4%	0.2%	71,689	10.2%	29.5	32.7%
2013	2,191	79.3	5%	0.0%	5.5%	0.2%	83,484	16.5%	36.2	22.9%
2014	2,246	90.8	5%	0.0%	5.3%	0.2%	88,480	6.0%	40.4	11.7%
2015	2,329	94.0	5%	0.1%	11.1%	0.2%	79,517	-10.1%	40.4	-0.2%
2016	2,382	110.9	5%	0.1%	25.3%	0.2%	73,184	-8.0%	46.5	15.3%
2017	2,518	149.8	6%	0.1%	11.9%	0.3%	83,589	14.2%	59.5	27.8%
2018	2,604	172.4	7%	0.1%	18.3%	0.3%	78,635	-5.9%	66.2	11.2%
2019	2,671	223.8	8%	0.1%	32.0%	0.4%	75,463	-4.0%	83.8	26.6%
2020	2,712	278.7	9%	0.1%	13.6%	0.5%	81,469	8.0%	102.8	22.6%
2021	2,731	282.6	9%	0.1%	0.4%	0.5%	81,713	0.3%	103.5	0.7%
2022	2,807	294.1	9%	0.1%	1.1%	0.6%	81,859	0.2%	104.8	1.3%
2023	2,857	331.1	9%	0.1%	7.3%	0.6%	84,410	3.1%	115.9	10.6%
2024	2,935	344.4	9%	0.1%	3.7%	0.6%	82,426	-2.4%	117.3	1.2%
2025	2,945	353.3	8%	0.1%	3.6%	0.6%	81,327	-1.3%	119.9	2.2%
2026	2,992	396.1	9%	0.2%	9.6%	0.7%	81,872	0.7%	132.4	10.4%
2027	3,045	430.1	9%	0.2%	6.7%	0.7%	81,854	0.0%	141.2	6.7%
2028	3,081	476.4	9%	0.2%	9.4%	0.8%	81,872	0.0%	154.6	9.5%

[1]Number of workers

[2]per 1,000 earners

[3]Proportion of earner claims that receive sensitive claim payments

E Information provided

ACC and MBIE provided us with the following documents

- ACC Levy Consultation documents
- ACC Actuarial Services Technical Reports on levy setting methodology and assumptions for each account
- Certain excel spreadsheet models used by ACC to estimate levy rates

We have also relied on information (both written and verbal) provided by ACC and MBIE.

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