



COVERSHEET

Minister	Hon Iain Lees-Galloway	Portfolio	ACC
Title of Cabinet paper	Changes to ACC Funding Settings	Date to be published	24 July 2020

List of documents that have been proactively released		
Date	Title	Author
11 December 2019	Changes to ACC Funding Settings	Office of Minister for ACC
11 December 2019	Cabinet Economic Development Committee Minute of Decision, Changes to ACC Funding Settings (DEV-19-MIN-0348)	Cabinet Office

Information redacted

YES / NO *(please select)*

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Some information has been withheld for the reasons of free and frank opinions and legal professional privilege.



Cabinet Economic Development Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Changes to ACC Funding Settings

Portfolios **Finance / ACC**

On 11 December 2019, the Cabinet Economic Development Committee:

- 1 **noted** that:
 - 1.1 the ACC's Non-Earners' Account funding position has now fallen to 55 percent against a target of 88 percent, which represents around a \$5.8 billion funding gap including the risk margin;
 - 1.2 this raises concerns about transparency, an increasing burden for future taxpayers, and a shift away from the full funding model without an informed, explicit decision from Cabinet;
 - 1.3 ACC levies are significantly below new-year costs as the Accounts were previously overfunded, and levies were therefore charged below new-year costs to reduce the funding position;
 - 1.4 levy increases will likely be required even if the funding target is reduced, as funding levels have deteriorated significantly since the last levy round, although it is expected that these increases will be lower on average in the short to medium term with a lower funding target;
 - 1.5 current levy rates are low compared to historical averages;
- 2 **agreed** to treat cost pressures in the Non-Earners' Account as a forecast adjustment, in order to improve transparency, better align with the fiscal management approach, uphold the commitment to funding the Scheme, and improve wellbeing by supporting intergenerational equity;
- 3 **agreed** that the Non-Earners' Account funding for 2020/21 should meet new-year costs, estimated at \$285 million as at September 2019, to maintain the current funding ratio and avoid the selling of investment assets;
- 4 **agreed** to introduce a 7.5 percent cap on future year-on-year appropriation increases for the Non-Earners' Account to provide assurance on the maximum annual fiscal impact, and to further support intergenerational equity;
- 5 **noted** that as at September 2019, the net debt impact of paragraphs 2, 3, and 4 above is estimated to be \$1.965 billion over the forecast period;

IN C O N F I D E N C E**IN C O N F I D E N C E****DEV-19-MIN-0348**

- 6 **authorised** the Minister of Finance and the Minister for ACC to approve changes to the Non-Earners' Account appropriations as a forecast adjustment, subject to the funding policy [SEC-17-MIN-0028] and paragraphs 3 and 4 above;
- 7 **agreed** to set the funding target for the Levied Accounts at 100 percent of liabilities excluding the risk margin, to improve intergenerational equity and send a better price signal;
- 8 **invited** the Minister for ACC to publish an updated Funding Policy Statement in the *Gazette* to include the change referred to in paragraph 7 above;
- 9 **agreed** to set levies for one year only at the upcoming levy round in 2020;
- 10 **noted** that officials will provide further advice to the Minister of Finance and the Minister for ACC on moving to a three yearly levy setting cycle after the next levy round;
- 11 **noted** that in early 2020, officials will provide further advice to the Minister of Finance and the Minister for ACC on Funding Policy Statement amendments to the funding adjustment approach that returns one-tenth of the surplus or deficit to the levy rates for each year in any levy round.

Janine Harvey
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Phil Twyford
Hon Dr Megan Woods (Chair)
Hon David Parker
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Kris Faafoi
Hon Shane Jones
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:

Minister of Finance
Minister for ACC