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List of documents that have been proactively released		
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24 November 2021	2022/23 – 2024/25 ACC Levies	Office of the Minister for ACC
24 November 2021	Cabinet Economic Development Committee Minute of Decision, 2022/23 – 2024/25 ACC Levies [DEV-21-MIN-0249 refers]	Cabinet Office
17 November 2021	Stage 2 Cost Recovery Impact Statement: 2022/23 – 2024/25 ACC levies	Ministry of Business, Innovation and Employment
18 November 2021	Regulatory Impact Statement: Experience Rating – increase loading and add fatality modifier	Ministry of Business, Innovation and Employment
25 October 2021	2022/23 – 2024/25 ACC levies: Levy Scenarios and Super Rugby classification Units	Ministry of Business, Innovation and Employment
29 October 2021	ACC levies 2022/23 – 2024/25: Final ACC and MBIE recommendations	Ministry of Business, Innovation and Employment, Accident Compensation Corporation

Information redacted **YES / ~~NO~~**

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Stage 2 Cost Recovery Impact Statement: 2022/23 – 2024/25 ACC levies

Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE). It provides an analysis of options for setting the 2022/23, 2023/24, and 2024/25 levy rates for the Accident Compensation Corporation's (ACC) Motor Vehicle Account[1], Earners' Account[2] and Work Account[3] under the full funding model of the Accident Compensation Scheme (AC Scheme).

ACC levies are now reviewed and set every three years. ACC levies were last reviewed in 2018 for 2019/20 and 2020/21, when they were previously required to be set every two years, and were held in 2020 for 2021/22 due to the COVID-19 pandemic. When set, the levy rates for the Earners' Account and the Work Account will take effect from 1 April 2022, and the levy rates for the Motor Vehicle Account will take effect from 1 July 2022.

Accident compensation is an uncertain and long-term activity with liabilities that stretch over decades. The AC Scheme's full funding model requires ACC to estimate how much money is needed to cover the lifetime costs of injuries that are expected to occur in the relevant levy year (new year claims costs).

The proposed levy changes for each levy year are set against economic assumptions (such as forecast discount rates, investment returns, and inflation) and claims assumptions (such as forecast volume, duration, and cost of new year claims) in the levied Accounts for each levy year. Uncertainties in these economic and claims assumptions include: changes in the wider economic environment, fluctuations in claim volumes, and variations from historical claims experience. Variations from these assumptions have the potential to positively or negatively impact the overall funding position of the AC Scheme.

ACC levies must also be consistent with the principles of financial responsibility set out in the Accident Compensation Act 2001 (the AC Act) and the Government's Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts (FPS). In addition to fully funding the levied Accounts, a funding adjustment is necessary where the expected cost of claims incurred prior to the levy period differs to what ACC previously projected. This means that the costs collected through levy rates may be higher or lower than necessary to cover the projected new year claims costs.

ACC levies provide third-party funding to meet the cost of claims in relation to injuries covered under the AC Act, and provide funding for initiatives to prevent injuries from happening.

MBIE has engaged independent actuary Deloitte to provide quality assurance of ACC's actuarial forecasts, assumptions, and recommendations. The review is a test for reasonableness and is not intended to provide an independent estimate of levy rates.

In Deloitte's opinion, *"ACC has applied the funding policy statement appropriately and the proposed levy rates are reasonable. ACC's levy rate proposals are consistent with the financial responsibility principles set out in Section 166A of the Accident Compensation Act*

[1] Pays for claims relating to accidents on public roads involving moving vehicles.

[2] Pays for claims relating to earners' non-work injuries (not including motor vehicle and treatment injuries).

[3] Pays for claims relating to work-related injuries.

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2001, which form the basis of the funding policy statement. If prescribed, the proposed levy rates will increase the likelihood that the scheme will continue to be sufficiently funded and will support a sustainable scheme."

"We note that current levy rates and ACC's proposed levy rates are lower than the cost of new year claims. This is justifiable in the short-term as the levied accounts are above the target funding level. However, we expect that levy rates will need to increase over time in order for each account to remain sufficiently funded and to ensure that the scheme is sustainable. If levy rates remain below the cost of new year claims for an extended period of time, there is an increased risk of intergenerational inequity, as the cost burden will be shifted to future levy-payers."

Deloitte also concluded that *"As the annual levy revenue for each account is small compared to its assets, the proposed changes in levy rates have only a small impact on an account's funding position in the short-term. Maintaining levy rates at their current levels for the 2022/25 levy period will have minimal impact on ACC's ability to pay claims. However, it can be expected to necessitate larger increases in the future, all else being equal."*

Hayden Fenwick

Manager, Accident Compensation Policy

Ministry of Business, Innovation and Employment 17 November 2021

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Executive summary

This Cost Recovery Impact Statement analyses three options for setting average levy rates for the Motor Vehicle, Earners', and Work Accounts for 2022/23, 2023/24, and 2024/25.

Option A: ACC's recommended levy rates

- Increase the average Motor Vehicle Account levy rate from $113.94 per vehicle to $120.20 in 2022/23, $128.83 in 2023/24, and $138.08 in 2024/25
- Increase the Earners' Account levy rate from $1.21 per $100 of liable earnings to $1.27 in 2022/23, $1.33 in 2023/24, and $1.39 in 2024/25
- Decrease the average Work Account levy rate from $0.67 per $100 of liable earnings to $0.63 in 2022/23, then increase to $0.65 in 2023/24, and $0.67 in 2024/25

Option B: the Status Quo

- Maintain current 2021/22 average Motor Vehicle Account levy rate at $113.94 per vehicle for 2022/23, 2023/24, and 2024/25
- Maintain current 2021/22 Earners' Account levy rate at $1.21 per $100 of liable earnings for 2022/23, 2023/24, and 2024/25
- Maintain current 2021/22 average Work Account levy rate at $0.67 per $100 of liable earnings for 2022/23, 2023/24, and 2024/25

Option C: MBIE's proposed levy rates

- Maintain the current 2021/22 average Motor Vehicle Account levy rate at $113.94 per vehicle for 2022/23, 2023/24, and 2024/25
- Increase the Earners' Account levy rate from $1.21 per $100 of liable earnings to $1.27 in 2022/23, $1.33 in 2023/24, and $1.39 in 2024/25, as recommended by ACC
- Decrease the average Work Account levy rate from $0.67 per $100 of liable earnings to $0.63 in 2022/23 as recommended by ACC, then maintain this decreased rate for 2023/24 and 2024/25

ACC's recommended and MBIE's proposed levy rates differ because ACC must recommend levy rates that meet the specific requirements of the FPS, while MBIE's proposed levy rates are not constrained by these specific requirements, but should be consistent with the broader principles of financial responsibility set out in section 166A of the AC Act, and take the wider public interest into account.

These levy rate options have been assessed against the following high level objectives:

- meeting the life time costs of claims each year
- correcting for any funding surplus or deficit
- avoiding large changes in levies
- public interest considerations.

All options meet the requirements of the Government's full funding model, which requires ACC to collect sufficient funds to meet the lifetime cost of injuries by offsetting the Outstanding Claims Liability (OCL) with a sufficient level of assets. Our assessment concludes that option C rates most highly against the full criteria.

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Option C uses more of the accumulated funding surplus to move towards the FPS's target funding ratio of 100%[4] more quickly than option A, while continuing to meet the lifetime costs of claims and maintaining sufficient funding for each levied Account. While there is a greater risk of levy rates increasing in future levy rounds in comparison with option A, we consider this risk is outweighed by the benefit of using more of the funding surplus to reduce the burden on current levy payers.

We have not applied any weighting to certain criteria when undertaking our initial assessment, however, from MBIE's perspective there is a case for greater weight to be given to returning the levied Accounts to the target funding ratio of 100%, and less weight to be given to reducing the risk of future levy rate increases. We consider this approach is also in the public interest as it reduces the amount of money that is taken from levy payers now, who are then able to use it for other purposes. It does risk burdening future levy payers, but this is subject to uncertainty.

Conversely, ACC's recommendation (based on the FPS) appears to give greater weight to levy stability over time, which involves using the surplus more slowly and holding levy rates above the 100% target funding ratio for longer. This risks current levy payers having to pay more than is necessary, but reduces the risk that future levy payers will have to pay more in the future.

Status quo

The AC Scheme covers the cost of personal injuries in New Zealand

The AC Scheme provides entitlements that cover the cost of personal injuries in New Zealand. ACC pays for these entitlements from five separate Accounts, three of which are directly funded by levies. The collection of levies ensures that the AC Scheme remains financially sustainable now and for future generations.

ACC collects levies from motorists, earners, and employers

ACC's Motor Vehicle, Earners', and Work Accounts are funded by levies, while the Non-Earners' Account is funded through a Government appropriation, and the Treatment Injury Account is funded through funds from the Earners' Account and Non-earners' Account. Table 1 below provides a summary of who pays levies to each of the levied Accounts, and the types of injuries the Accounts fund.

Table 1: Summary of ACC's levied Accounts

Account	Funded by…	Pays for…
Motor Vehicle	Levies on motor vehicle owners through registration fees and users at the petrol pump	Accidents on public roads involving moving vehicles
Earners'	Levies on earners through PAYE (or invoiced directly by ACC for self-employed people)	Earners' non-work injuries (not including motor vehicle and treatment injuries)
Work	Levies on employers and the self-employed (based on information from Inland Revenue)	Work-related injuries
Non-earners'	Government appropriation	Non-earners' injuries (not including motor vehicle and treatment injuries)
Treatment Injury	Levies from the Earners' Account and Government appropriation from the Non-earners' Account	People injured as a result of medical treatment

[4] The funding ratio is calculated by dividing ACC's assets by liabilities. A funding ratio of 100% means that the assets are equal to the liabilities.

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Current ACC levy rates

The current levy rates for the Motor Vehicle, Earners', and Work Accounts were set in 2018 for the 2019/20 and 2020/21 years, and were maintained in 2020 for the year 2021/22, due to the COVID-19 pandemic limiting the ability for ACC to carry out public consultation. The current levy rates are shown in table 2 below.

Table 2: Current 2021/22 levy rates

Account	Average 2021/22 levy rate
Motor Vehicle	$113.94 Per motor vehicle
Earners'	$1.21 Per $100 liable earnings
Work	$0.67 Per $100 liable earnings

The Work and Motor Vehicle levies are average rates that levy payers would meet if ACC charged a flat rate. However, the actual rate paid by employers, self-employed and motorists differs from the average rate. The actual Work levy rate paid by each business may be determined by its claims history, and the level of risk involved in its activities. The actual Motor Vehicle levy is paid by motorists through a levy on petrol and as part of the vehicle license fee, which varies for different classes of vehicle based on the risk of injury in the event of an accident.

The AC Act provides the authority to collect levies

ACC is authorised to collect levies for the three levied Accounts under the AC Act. The levy rates are set in the Accident Compensation (Motor Vehicle Levy) Regulations 2019, the Accident Compensation (Earners' Levy) Regulations 2019, and the Accident Compensation (Work Levy) Regulations 2019.

ACC levy rates are set every three years

Levy rates for the Motor Vehicle, Earners', and Work Accounts are reviewed and set every three years, to ensure they reflect the expected underlying cost of claims and operating expenses. This is the first levy round in which levy rates will be set for the next three years, following Cabinet's decision to set levy rates every three years instead of every two years (DEV-19-MIN-0348). The process for reviewing and setting levy rates is detailed in the following paragraph.

The levy setting process

When setting ACC levy rates, the Government is required by section 166A of the AC Act to ensure that the costs of all claims under the levied Accounts are fully funded, and in doing so to have regard for the following principles of financial responsibility:

- the levies for each Account should **meet the lifetime cost of claims** in relation to injuries that occurred in the year that the levies cover (these costs are referred to as the new year claims costs)
- **under and over funding should be corrected** by setting levies at an appropriate rate for subsequent years (this is reflected in the levy rates as a Funding Adjustment)
- **large changes in levy rates should be avoided**.

Additionally, the Government is also required under the AC Act to **have regard for public interest**.

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ACC is required by section 331 of the AC Act to publicly consult on and subsequently recommend levy rates to the Minister for ACC based on the FPS, which is founded on the principles of financial responsibility. The FPS requires that:

- the average levy rate must be based on the expected lifetime costs of claims over the levy period
- each levied Account has a target funding ratio of 100%
- levy rates must include an adjustment to return an Account's funding ratio to the 100% target smoothly, over a ten year period
- annual increases to the average levy rate must not exceed 5% (in addition to inflation adjustments for the Motor Vehicle Account)
- the four requirements above must be repeated for each levy year in the period for which ACC is recommending levies.

MBIE provides independent levy rate advice to the Minister for ACC. To help inform this advice, MBIE appoints an independent actuary to provide quality assurance of ACC's actuarial forecasts, assumptions, and recommendations.

The Government is not required to accept ACC's recommended levy rates, and does not have to follow the requirements of the FPS. The Government may choose to maintain current levy rates or choose alternative levy rate options if these are determined to be consistent with the principles of financial responsibility, and have taken public interest into consideration.

Cost Recovery Principles and Objectives

The review and setting process for ACC levy rates is underpinned by the cost recovery principles outlined in table 3 below.

Table 3: Cost recovery principles for setting ACC levy rates[5]

Principle	Description
Authority	The AC Act and the Regulations provide authority to fund entitlements provided under the AC Act through levies.
Financial responsibility	Average levy rates for each of ACC's levied Accounts must be reviewed by ACC under the requirements of the FPS, and set with regard to the principles of financial responsibility set out in section 166A of the AC Act. All levied accounts must be fully funded, funding adjustments must be made to correct surplus or deficits, and large changes in levies are to be avoided.
Transparency and Consultation	ACC has undertaken public consultation on its proposed levy rates (which align with the FPS), as required by the AC Act. Information on the underlying cost drivers of ACC's recommended levy rates, and the impact these would have on different households and businesses has been provided to inform the public in the consultation document.

[5] The AC Act and the FPS set out the principles and rules for levy setting, and therefore these are followed rather than the Treasury's *Guidelines for Setting Charges in the Public Sector* or Office of the Auditor-General's guidelines on cost recovery *Charging fees for public sector goods and services,* although they are not inconsistent.

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Efficiency	Reviewing levy rates every three years ensures that they reflect the expected underlying cost of claims and operating expenses, and support efficient resource allocation. Efficiency gains through ACC's injury prevention (IP) investments and the Integrated Change Investment Portfolio (ICIP) initiatives (including investments to improve claims management and health services purchasing) are expected to reduce claims costs over the levy period. The expected benefits from IP and ICIP have been included in the assumptions used to determine ACC's recommended levy rates.
Accountability	Levies must be set by regulations approved by the Government where the usual regulatory accountability mechanisms apply.

Three levy rate options for each levied Account have been assessed against the four cost recovery objectives listed in table 4 below.

Table 4: Cost recovery objectives for setting ACC levy rates

Objective	**Description**
Meeting the lifetime cost of claims in each levy period	• Average levy rates meet the expected lifetime cost of claims in relation to injuries occurring in the levy period. • Ensure levy payers meet their fair share of the cost of injuries. • Ensure intergenerational equity by minimising intergenerational transfers (cross-subsidisation). • Provide accurate price signals to incentivise injury prevention.
Correcting over or under funding in previous years	• Aim to return to funding ratio target of 100% over time. • Provide confidence to ACC claimants that funds will be available to meet their treatment, rehabilitation, and compensation costs. • Return surplus funds to levy payers so ACC does not remove more money from the economy than is required.
Avoiding large changes in levies	• Provide levy stability to provide certainty to levy payers. • This includes taking account of the FPS requirement that any increase to the average levy rate for each Account must not exceed 5% for each levy year, in addition to inflation adjustments to the Motor Vehicle Account.
Public interest considerations	• Impact on the economy. • Social impact. • Impact on the Crown Accounts.

Policy Rationale: Why a user charge? And what type is most appropriate?

Collection of levies is consistent with the AC Scheme principle of community responsibility

The three levied Accounts have different levy rates to reflect the new year claims costs that will need to be paid from each Account, based on the different types of personal injuries that each Account pays for. Recovering costs from levy payers to fund the treatment, rehabilitation, compensation, and prevention of injuries that happen on public roads involving a moving vehicle, that happen to earners outside of work, or that are work-related, is consistent with the principle of community responsibility that founds the AC Scheme.

The Crown does provide funding for the Non-Earners' Account (through which part of the Treatment Injury Account is funded), through a Government appropriation.

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Proposed levy rates and funding adjustment cover the full cost of claims

The proposed levy rates are intended to cover the full cost of claims arising in each levy year (new year claims costs), after making adjustments based on the funding ratio and expected IP and ICIP benefits of each levied Account. Because all levied Accounts currently have a funding ratio in excess of the 100% target, the proposed levy rates have been set below the amount required to meet the new year claims costs in each levy year. The additional amount required is made up through a funding adjustment which draws down from the surplus funds, and through the expected benefit of IP and ICIP initiatives.

The level of the proposed fee and its cost components (cost recovery model)

Three options have been considered for the Motor Vehicle, Earners', and Work levy rates for 2022/23, 2023/24, and 2024/25. These are; ACC's recommended levy rates (which ACC has publicly consulted on and align with the requirements of the FPS), the status quo (maintaining the current levy rates), and MBIE's proposed levy rates (which have been informed by the review carried out by Deloitte and public submissions).

ACC levy rates are calculated using three key components:

New Year Claims Cost: ACC forecasts the cost of future injuries using projected claim assumptions such as claim costs and frequencies, and economic assumptions such as discount rates and investment forecast. New Year Claims Costs include:

- weekly compensation which is earnings-related compensation
- vocational rehabilitation which can include a fitness programme, guidance on gradually returning to work, workplace equipment, and retraining if necessary
- social rehabilitation, for example accommodation and vehicle modification, equipment, attendant care, and home help
- treatment costs
- ambulance and emergency care
- operating costs, which are expenses associated with scheme operations including levy collection, claims management, and general office and equipment overheads.

New Year Cost Rate: ACC then calculates the average levy rate to pay for the New Year Claims Cost.

Funding adjustments: adjustments are then made based on whether the levied Accounts have a funding surplus or funding deficit for past claims, and taking account of the FPS requirement to adjust levy rates to return towards the target funding ratio of 100% over time. A negative funding adjustment reflects that an Account is above the funding ratio target, and that this excess will be returned over time. All the levied Accounts currently sit above the funding ratio target of 100%.

Other factors considered in the calculation of ACC levy rates include:

Expected benefits of IP and ICIP, which are ACC's injury prevention (IP) investments and Integrated Change Investment Portfolio (ICIP) initiatives (including investments to improve claims management and health services purchasing). These benefits are expected to reduce the new year claims costs for each levied Account.

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***Capping adjustment**,* which is only relevant to option A in the tables below (ACC's recommended levy rates). This is because ACC is required to recommend levy rates that align with the FPS, which places a 5% cap on levy increases for each levy year (in addition to inflation adjustments for the Motor Vehicle Account).

Comparison of levy rate options for each levied Account

Tables 5, 6, and 7 below compare the levy rate options for each of the levied Accounts, and outline the main components of ACC levy rates which have been described above. A more detailed breakdown of the new year cost rates for each levied Account is provided in Annex 1.

Table 5: Motor Vehicle Account levy rate[6] (per vehicle excluding GST) comparison of options

Average levy rate for each option considered	Option A: ACC's recommended levy rates			Option B: Status quo			Option C: MBIE's proposed levy rates		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$113.94			$113.94			$113.94		
New year cost rate	$218.58	$224.34	$231.16	$218.58	$224.34	$231.16	$218.58	$224.34	$231.16
Net benefit of IP & ICIP	-$7.76	-$8.74	-$9.47	-$7.76	-$8.74	-$9.47	-$7.76	-$8.74	-$9.47
Funding adjustment and capping adjustment	-$91.95	-$87.42	-$83.88	-$96.88	-$101.66	-$107.75	-$96.88	-$101.66	-$107.75
Proposed levy rate[7]	$120.20	$128.83	$138.08	$113.94	$113.94	$113.94	$113.94	$113.94	$113.94
Average annual change over three year period	6.6%			0%			0%		
Estimated funding ratio in 2035	107.2%			97.9%			97.9%		

[6] Note that Motor Vehicle Account levies are expressed as dollars per vehicle, while Work and Earners' levies are a percentage of earnings. Motor Vehicle Account levies should be expected to increase each year at least in line with wages.

[7] Numbers may not add due to rounding.

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Table 6: Earners' Account levy rate (including Earners' portion of the Treatment Injury Account, per $100 liable earnings excluding GST) comparison of options

Average levy rate for each option considered	Option A: ACC's recommended levy rates			Option B: Status quo			Option C: MBIE's proposed levy rates		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$1.21			$1.21			$1.21		
New year cost rate	$1.67	$1.68	$1.69	$1.67	$1.68	$1.69	$1.67	$1.68	$1.69
Net benefit of IP & ICIP	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05	-$0.05
Funding adjustment and capping adjustment	-$0.36	-$0.30	-$0.25	-$0.41	-$0.42	-$0.43	-$0.36	-$0.30	-$0.25
Proposed levy rate[8]	$1.27	$1.33	$1.39	$1.21	$1.21	$1.21	$1.27	$1.33	$1.39
Average annual change over three year period	4.7%			0%			4.7%		
Estimated funding ratio in 2035	100.8%			91.2%			100.8%		

[8] Numbers may not add due to rounding.

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Table 7: Work Account levy rate (per $100 liable earnings excluding GST) comparison of options

Average levy rate for each option considered	Option A: ACC's recommended levy rates			Option B: Status quo			Option C: MBIE's proposed levy rates		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Current 2021/22 levy rate	$0.67			$0.67			$0.67		
New year cost rate	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91	$0.91
Net benefit of IP & ICIP	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03	-$0.03
Funding adjustment and capping adjustment	-$0.25	-$0.23	-$0.20	-$0.21	-$0.20	-$0.20	-$0.25	-$0.24	-$0.24
Proposed levy rate[9]	$0.63	$0.65	$0.67	$0.67	$0.67	$0.67	$0.63	$0.63	$0.63
Average annual change over three year period	0%			0%			-2%		
Estimated funding ratio in 2035	110.9%			111.3%			110.2%		

A range of cost drivers influence ACC levy rates

In the 2018 levy review, ACC estimated likely future levy rates for 2022/23. The following cost drivers outlined in Table 8 below have led to increases in ACC's recommended levy rates for 2022/23, compared to those estimated in the 2018 levy review. These are broken down further in Annex 2.

Table 8: Key cost drivers for each levied Account

Driver	Work Account	Earners' Account	Motor Vehicle Account
Higher claims costs	Poorer weekly compensation performance across all accounts: more claims, longer duration of payments and higher average payments.		
	More serious injury	Higher than expected numbers of sensitive	Increases in serious

[9] Numbers may not add due to rounding.

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	claims than expected.	rehabilitation costs).	claims costs. Increases in bulk funded claim costs, including emergency care and Public Health Acute Services (PHAS).
	Increase in levy of $0.05 per $100 liable earnings.	**Increase** in levy of $0.27 per $100 liable earnings.	**Increase** in levy of $35.45.
Discount rates and forecast investment returns	Changes to discount rates and forecast reduced investment returns increased the expected cost of claims across all accounts.		
	Increase in levy of $0.10 per $100 liable earnings.	**Increase** in levy of $0.12 per $100 liable earnings.	**Increase** in levy of $52.76.
Recent Investment performance	In the last three years ACC's assets have grown more than the negative movement in liabilities from discount rate changes.		
	Reduction in levy of $0.16 per $100 liable earnings.	**Reduction** in levy of $0.12 per $100 liable earnings.	**Reduction** in levy of $58.58.
Funding Policy Changes	Cabinet's 2019 changes to the funding policy, removing some risk margins and reducing the funding target to 100% for all accounts.		
	Reduction in levy of $0.11 per $100 liable earnings.	**Reduction** in levy of $0.14 per $100 liable earnings.	**Reduction** in levy of $60.23.

Forecast total levy revenue varies between options

Table 9 below compares the forecast total revenue for each of the levied Accounts for each option that has been considered.

Table 9: Forecast total revenue for each of the levied Accounts

Option	Account	Levy year	Estimated amount levied (amount of motor vehicles/liable earnings)	Levy (per motor vehicle/ per $100 liable earnings)	Forecast revenue	Total forecast revenue
Option A: ACC's recommended levy rates	Motor Vehicle Account	2022/23	4,110,503	$120.20	$494 (m)	$1,622 (m)
		2023/24	4,185,649	$128.83	$539 (m)	
		2024/25	4,262,168	$138.08	$589 (m)	

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	Earners' Account	2022/23	$1,679 (m)	$1.27	$2,132 (m)	$7,066 (m)
		2023/24	$1,768 (m)	$1.33	$2,352 (m)	
		2024/25	$1,858 (m)	$1.39	$2,583 (m)	
	Work Account	2022/23	$1,262 (m)	$0.63	$795 (m)	$2,600 (m)
		2023/24	$1,333 (m)	$0.65	$866 (m)	
		2024/25	$1,401 (m)	$0.67	$939 (m)	
Option B: Status quo	Motor Vehicle Account	2022/23	4,110,503	$113.94	$468 (m)	$1,431 (m)
		2023/24	4,185,649	$113.94	$477 (m)	
		2024/25	4,262,168	$113.94	$486 (m)	
	Earners' Account	2022/23	$1,679 (m)	$1.21	$2,031 (m)	$6,419 (m)
		2023/24	$1,768 (m)	$1.21	$2,140 (m)	
		2024/25	$1,858 (m)	$1.21	$2,248 (m)	
	Work Account	2022/23	$1,262 (m)	$0.67	$846 (m)	$2,678 (m)
		2023/24	$1,333 (m)	$0.67	$893 (m)	
		2024/25	$1,401 (m)	$0.67	$939 (m)	
Option C: MBIE's proposed levy rates	Motor Vehicle Account	2022/23	4,110,503	$113.94	$468 (m)	$1,431 (m)
		2023/24	4,185,649	$113.94	$477 (m)	
		2024/25	4,262,168	$113.94	$486 (m)	
	Earners' Account	2022/23	$1,679 (m)	$1.27	$2,132 (m)	$7,067 (m)
		2023/24	$1,768 (m)	$1.33	$2,352 (m)	

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		2024/25	$1,858 (m)	$1.39	$2,583 (m)	
	Work Account	2022/23	$1,262 (m)	$0.63	$795 (m)	$2,518 (m)
		2023/24	$1,333 (m)	$0.63	$840 (m)	
		2024/25	$1,401 (m)	$0.63	$883 (m)	

ACC's calculated levy rates are based on various cost assumptions

Assumptions that influence ACC levy rates can be grouped into two broad categories:

- Economic assumptions – these are economic-type assumptions that ACC generally (but not exclusively) sources from external organisations (such as the Treasury), ensuring alignment with other government agencies.
- Claim assumptions – these describe ACC's view of expected claim behaviour (frequency) and treatment and rehabilitation cost assumptions (cost).

ACC's Pricing Reports for each levied Account detail the key assumptions that have the greatest impact on the recommended levy rates. In summary, these reports outline:

Economic assumptions

- A decrease in the risk-free discount rate compared to the previous review.
- A decrease in forecast investment returns compared to the previous review.
- An increase in Labour Cost Index (LCI) forecast.
- Population growth based on the Treasury's population projections and Treasury HYEFU 2020 unemployment forecasts, as at December 2020, which are used to project future claims volumes.
- An increase in liable earnings forecasts for both the Earners' and Work Accounts compared to the previous review.
- A decrease in the forecasted number of licensed vehicles compared to the previous review, based on licence data received from NZTA as at 31 December 2020.

Claims assumptions

ACC is forecasting a growth in claims costs over the levy period across the Motor Vehicle, Earners', and Work Accounts. ACC's Pricing Reports present the forecast frequency and costs for several different claims types, including weekly compensation claims, sensitive claims, elective surgery claims, social rehabilitation claims for serious injuries, and other medical claims.

ACC's policy and operational setting assumptions are covered in the following section, which addresses ACC's management actions in further detail.

Expected benefits of IP and ICIP are included in ACC's recommended levy rates

ACC has explicitly incorporated an estimate of the impact of planned management actions on claims cost, and reduced its proposed levy rates accordingly. The allowances for management responses have reduced ACC's recommended levy rates by the following amounts:

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- Motor Vehicle Account (per vehicle): $7.76 in 2022/23, $8.74 in 2023/24, and $9.47 in 2024/25
- Earners' Account (per $100 of liable earnings): $0.05 in 2022/23, 2023/24, and 2024/25
- Work Account (per $100 of liable earnings): $0.03 in 2022/23, 2023/24, 2024/25

ACC's management responses are:

- Injury Prevention (IP) investments, which aim to stop accidents from occurring and reduce the severity of injuries that are suffered, in turn reducing claims costs.
    - The Ride Forever Programme is one example of an IP investment, which provides courses on motorcycle safety.
- Integrated Change Investment Programme (ICIP) initiatives, which are designed to improve ACC's operating efficiency and deliver improved outcomes for claimants. ICIP initiatives include:
    - Next Generation Case Management – redesign of ACC's case management model to improve client outcomes and increase productivity.
    - Health Services Strategy – greater collaboration and partnerships with providers to support outcomes-based commissioning.
    - Analytics – uplift ACC's capability using analytics to leverage analytics to enable other initiatives.

ICIP is behind on delivering the expected claim cost benefits, while IP has met most targets in recent years. Deloitte has recommended that if the expected combined benefits of ICIP and IP are not delivered by the next levy consultation in three years, they should not be included in ACC's recommended levy rates (and instead they should be incorporated in levy-setting assumptions when they are evident in the claims experience). MBIE and the Treasury will continue to monitor the performance of ACC and ICIP over the next three years, as recommended by Deloitte.

Impact analysis

MBIE's proposed levy rates will impact all owners of motor vehicles, earners, and employers

MBIE's proposed increases to the average levy rates for the Earners' Account will impact all earners, and MBIE's proposed decrease in the average levy rates for the Work Account will impact all employers. MBIE's proposal to maintain the average levy rates for the Motor Vehicle Account will impact all owners of licensed motor vehicles. Table 10 below models the impact of levy changes on a range of households and businesses.

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Table 10: Annual total ACC levies that would be paid by households and businesses in 2024/25 under each option, compared to the current annual total[10]

Household	Current (2021/22)	Option A (ACC's recommended levy rates)	Option B (Status Quo)	Option C (MBIE's proposed levy rates)
Family with a household income of $129,000 and three vehicles (2 x petrol driven cars, 1 x diesel driven ute)	$1,891	$2,195	$1,893	$2,125
Family with a household income of $85,000 and two vehicles (1 x diesel driven car, 1 x diesel driven ute)	$1,254	$1,461	$1,259	$1,412
A retired couple with one vehicle (1 x petrol/non-petrol vehicle)	$105	$123	$101	$101
Single parent with an income of $31,000 (approx. 30hrs/week on minimum wage) and 1 car	$480	$553	$476	$532
Family with a household income of $24,300 (median income for Pacific peoples) and 1 car	$399	$460	$395	$439
Small house construction business with 8 employees each earning $70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	$10,028	$9,238	$9,109	$8,591
Medium sized architecture business with 35 employees (average income of $81,000 each) and 5 petrol driven cars	$4,492	$4,015	$3,907	$3,704

Impact of levy rate options on the funding ratio and future levy rates for each levied Account

The following section shows the impact of each of the three levy rate options on the funding ratio and future levy rates for each of the levied Accounts, given ACC's current forecast assumptions.

Impact on the Motor Vehicle Account

As figures 1 and 2 below demonstrate, by holding levy rates constant for the next three years, the Motor Vehicle Account's funding ratio would dip slightly below the 100% target over the 10 year funding horizon, in comparison to ACC's recommended levy rates which would see the funding ratio be maintained above 100%.

[10] Impact scenarios assume no change in liable earnings for earners and businesses over the three years, average petrol consumption remains constant over three years, and that risk relativities are updated for a change in claims experience since the 2018 consultation

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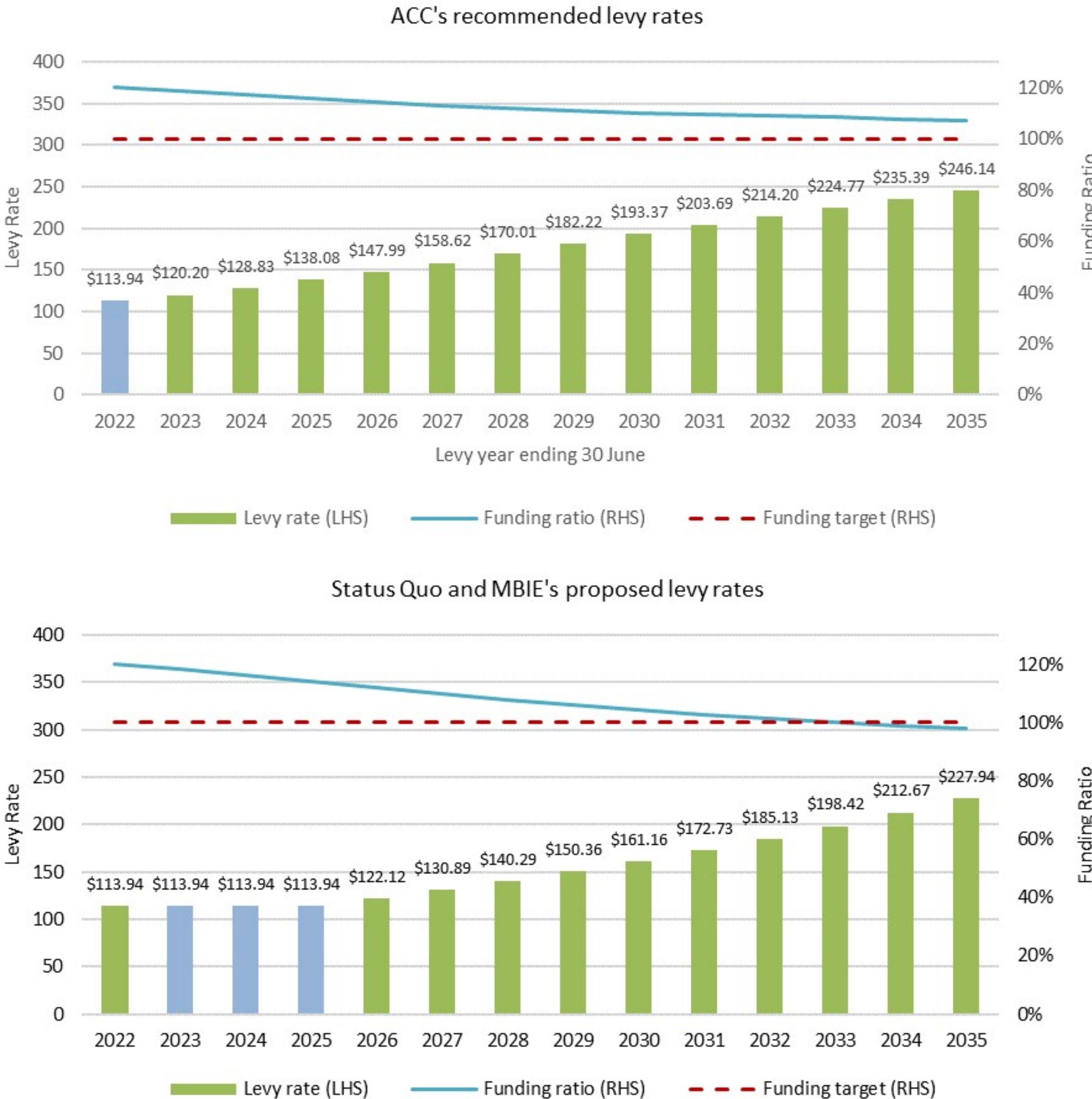
Figures 1 and 2: Motor Vehicle Account funding ratio and levy projections 2022/23-2024/25 for option A (ACC's recommended levy rates) and options B (Status Quo) and C (MBIE's proposed levy rates)



MBIE considers that there is scope to consider holding the levy rate for the 2022/23 – 2024/25 period. The account is projected to dip below the funding ratio of 100 per cent over the 10 year funding horizon (97.9 per cent in 2035). However, unlike the Earners' Account, which is predicted to go below the 100 per cent funding ratio by 2026, we consider there is sufficient time to correct any imbalance through the next levy round.

Due to the nature of injuries within the Motor Vehicle Account (more serious injuries requiring higher levels of rehabilitation and care) there is a higher risk in holding the levies over the next three years, and this risks placing a higher burden on future generations of levy payers.

The Motor Vehicle levy is split between an "at pump" petrol levy and motor vehicle registration charges. Current petrol vehicle owners pay a petrol levy of 6 cents per litre. Considering the current elevated cost of petrol, MBIE agrees with ACC and considers that if the motor vehicle levy is increased, the petrol levy component should not be increased for this levy round for public interest considerations. The benefits of maintaining the average petrol levy and increasing the registration fee portion include minimising cross-subsidisation of unsafe short-distance drivers and unsafe fuel efficient vehicles (such as motorcycles) by safe long-distance drivers and safer, but less fuel efficient vehicles.

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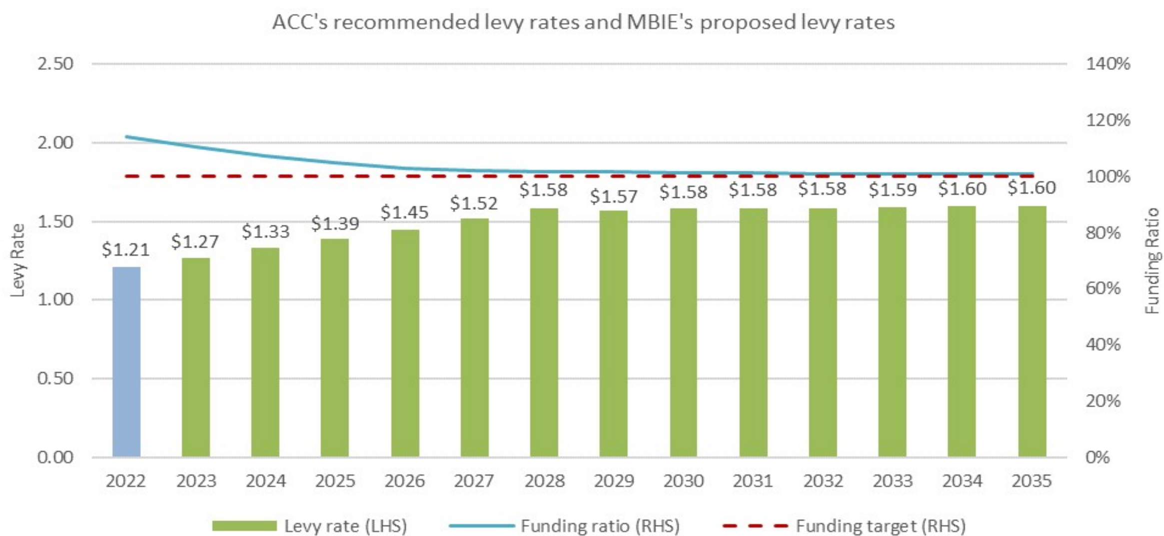
MBIE considers that maintaining current rates for the Motor Vehicle account is reasonable because:

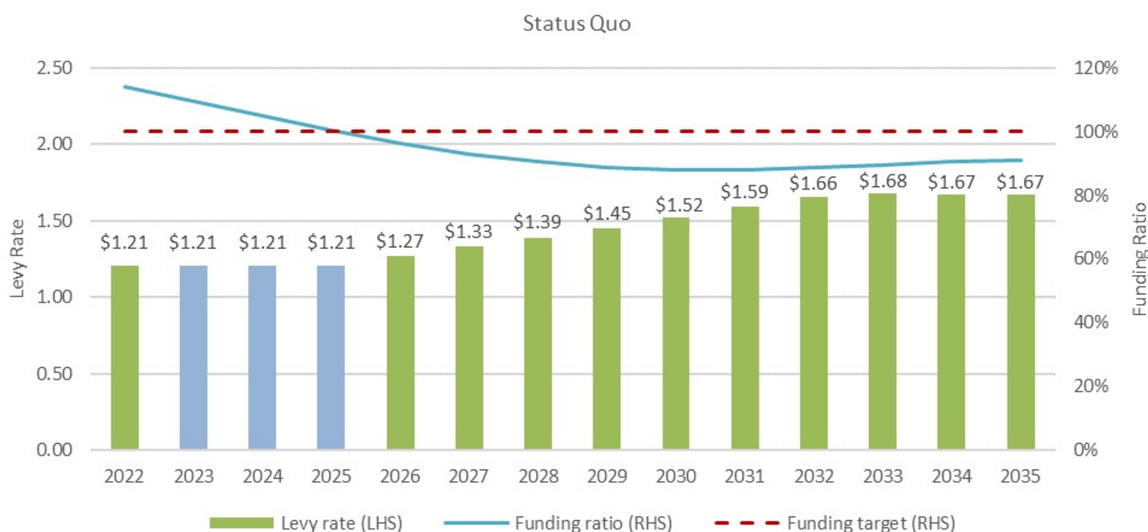
- the 100% funding ratio is a target, meaning that Accounts are expected to fluctuate over time, while continuously heading towards 100%. Future levy reviews will allow for the chance to increase levy rates to make up for any under-collection over the short-term
- we consider there is sufficient time to correct any under collection in the Motor Vehicle Account in comparison to the Earners' Account where there is a much greater risk
- the amount of levies collected should aim to fund necessary costs, and no more.

Impact on the Earners' Account

Figures 3 and 4 below show that, all things being equal, maintaining the current levy rates for 2022/23, 2023/24, and 2024/25 would result in a significant difference in the levy increase required in future levy periods compared to the levy rate increases that ACC is recommending. The figures also show that holding the current levy rates in place for the next three years would see the funding ratio of the Account go below 90% over the funding horizon.

Figures 3 and 4: Earners' Account funding ratio and levy projections 2022/23-2024/25 for options A (ACC's recommended levy rates) and C (MBIE's proposed levy rates), and option B (Status Quo)





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MBIE considers there is a reasonable rationale for increasing average levy rates, considering that the Account is likely to fall below the funding target within the next three years, and the inherent pressures on the Earners' Account.

MBIE considers increasing the current rates for the Earners' Account could be appropriate as:

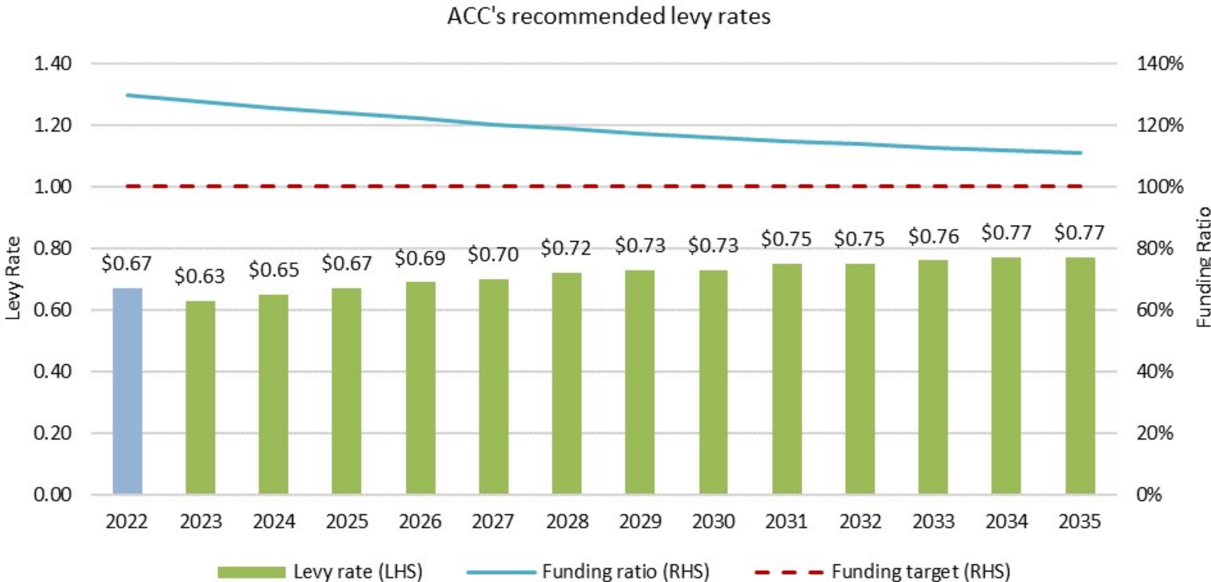
- holding the current levy rates in place for the next three years would see the Account go below 90 per cent solvency (88 per cent) over the 10 year funding horizon, leading to larger increases in levy rates in outer years, where future levy payers would be required to fund the cost of current claims
- unlike the Motor Vehicle Account, the Earners' Account is expected to go below 100 percent solvency much earlier, in 2026. MBIE considers this risk outweighs the benefit to current levy payers of maintaining the current rates
- under the FPS, levy rate increases are capped at five per cent to avoid large increases for levy payers. ACC's calculated levy increase, without being capped, would be $1.46 per $100 or liable earnings, meaning the proposed rates are well below the current expected New Year Cost Rate.

Members of the public have expressed concerns about the rising cost of living, and the impact that increasing the Earners' levy rates will have on their disposable income. However, wage inflation has continued to increase over the COVID-19 pandemic. MBIE considers that the risk of even larger levy increases in the future could have an even greater impact on the disposable income of levy payers.

Impact on the Work Account

Figures 5, 6, and 7 below show that under each of the three levy rate options, the Work Account funding ratio is expected to remain above the 100% funding target over the next 10 years. The figures also show that levies will need to be increased at some point beyond the next levy round, if forecast claims experience eventuates.

Figures 5, 6 and 7: Work Account funding ratio and levy projections 2022/23-2024/25 for options A (ACC's recommended levy rates), B (Status Quo), and C (MBIE's proposed levy rates)



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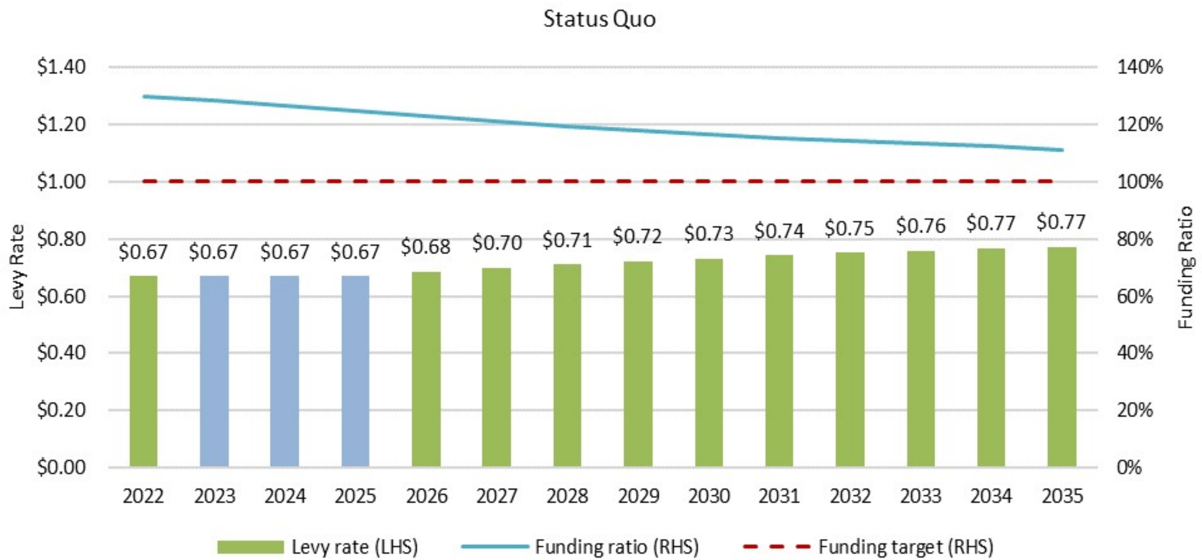

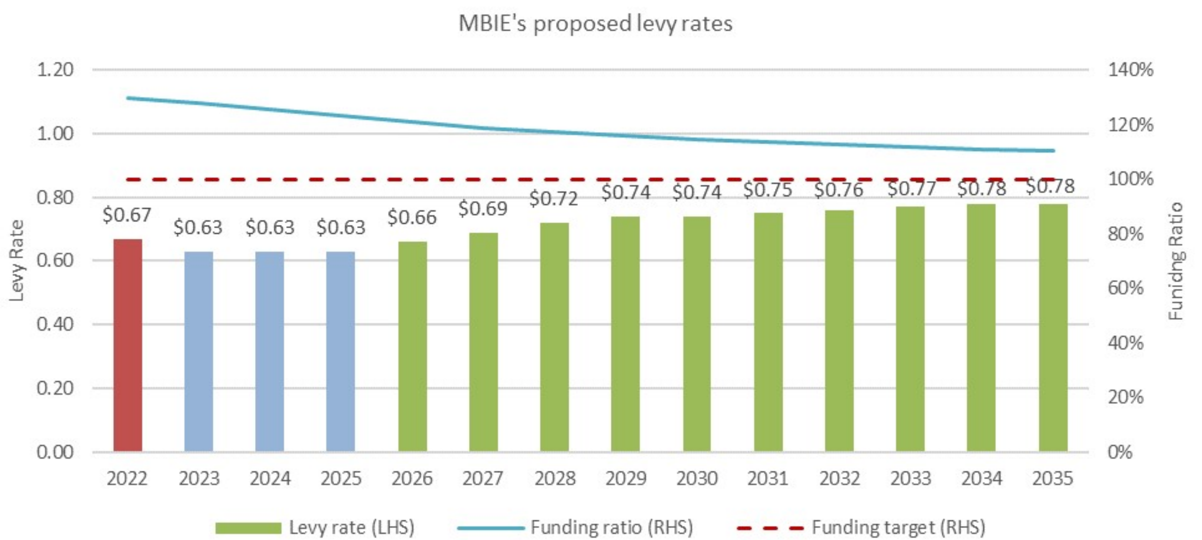

MBIE considers there is good reason to hold ACC's recommended 2022/23 levy rate decrease for the 2023/24 and 2024/25 levy years:

- the Work Account funding ratio is expected to remain above the 100% target over the next 10 years. Although holding the Account at the lower rate for all three years would necessitate larger increases in the following years, all else being equal, we consider this a lower priority in comparison to reducing some cost pressures for business due to the impacts of the current COVID-19 pandemic
- the Work Account cost drivers are more certain and understood. It is less susceptible to uncertainties and cost drivers that are not well understood, such as elective surgery costs.

The funding ratio of this Account is also substantially higher in comparison to the other Accounts. ACC uses risk free discount rates when making investment return assumptions under the FPS. MBIE requested Deloitte model levy rates and solvency using discounted expected investment return assumptions instead.

Using expected investment returns, the Work Account's current funding ratio would be 150.7 per cent. Given that the Work Account funding ratio is expected to remain above the 100 per cent target over the next 10 years, a levy reduction is appropriate to get the Account closer to the 100 per cent funding position over a shorter period of time.

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However, as the funding ratio is wound down, expected cost increases will be offset to a lesser extent. This means that levies will need to be increased at some point beyond the next levy round, if forecast claims experience eventuates. Given this risk, we have not recommended an even larger levy reduction in this levy round.

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Comparison of each levy rate option against policy objectives

Table 11: Analysis of levy rate options against the four key policy objectives

Key: Positive (+) Neutral (0) Negative (-)

Objectives	**Option A (ACC's recommended levy rates)**	**Option B (Status Quo)**	**Option C (MBIE's proposed levy rates)**
Meeting the lifetime costs of claims each year	**Positive (0 to +2)**	**Neutral (0)**	**Positive (0 to +2)**
Intergenerational equity There are two approaches to this[11]. Approach 1: drawing less from the funding surplus now, reducing the likelihood that future levy payers would need to subsidise costs of current levy payers Approach 2: drawing more from the funding surplus now, more quickly reducing the subsidy available to future levy payers	(+1) Approach 1: Uses less of the funding surplus than the status quo for Motor Vehicle and Earners' Accounts, reducing the likelihood that future levy payers would need to subsidise costs of current levy payers compared to the status quo.	(0) While this option uses more of the funding surplus for the Earners' Account, reducing the subsidy available to future levy payers in line with intergenerational equity, this is offset by the risk that future levy payers may need to subsidise for inadequate levy collection.	(-1) Approach 1: Uses more of the funding surplus than the status quo for Work Account, increasing the likelihood that future levy payers would need to subsidise costs of current levy payers compared to the status quo.
	(-1) Approach 2: Uses less of the funding surplus than the status quo for Motor Vehicle and Earners' Accounts, so increases the subsidy available to future levy payers.		(+1) Approach 2: Uses more of the funding surplus than the status quo for Work Account, so reduces the subsidy available to future levy payers.

[11] There are two approaches to intergenerational equity, which involve using surpluses differently. ACC's recommended levy rates must give effect to the FPS, which requires that the surpluses are spread over a ten-year period, so use less of the funding surpluses now. MBIE's proposed levy rates are not bound by the FPS, so can use more of the funding surpluses sooner given the current economic situation. The approach that is chosen affects the overall rating of each option against the objective 'meeting the lifetime costs of claims each year', and for this reason the overall ratings for this objective are presented as a range.

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Fair share of costs – reflecting true cost of injuries – best estimate of current claim costs	(+1) Reflects the latest forecast claims rates and costs better than the status quo because it takes account of the latest actuarial assessment for the levy period.	(0) Does not reflect the latest forecast claims rates and costs.	(+1) Reflects the latest forecast claims rates and costs better than the status quo because it takes account of the latest actuarial assessment for the levy period.
Maximise injury prevention incentives by sending the right price signals	(+1) Uses less of the funding surplus than the status quo for the Motor Vehicle and Earners' Accounts, more clearly signaling claims costs to levy payers. (-1) Uses more of the funding surplus than the status quo for the Work Account, dampening price signals sent to levy payers about claims costs.	(0) Does not send price signal reflecting changes in claims costs to levy payers, as no change is made to levy rates despite changes in claims costs.	(+1) Uses less of the funding surplus than the status quo for the Earners' Account, more clearly signaling claims costs to levy payers. (-1) Uses more of the funding surplus than the status quo for the Work Account, dampening price signals sent to levy payers about claims costs.
Correcting for any surplus or deficits	**Positive (+1)**	**Neutral (0)**	**Positive (+3)**
Return to target solvency	(-1) Moves towards the target funding ratio more quickly than the status quo for the Work Account, and more slowly than the status quo for the Motor Vehicle and Earners' Accounts. (+1) Does not move significantly below target funding ratio over 10 year horizon for Earners' Account unlike the status quo.	(0) Does not consider the target funding ratio.	(+1) Moves towards target funding ratio more slowly than the status quo for the Earners' Account, but more quickly than the status quo for Work Account. (+1) Does not move significantly below target funding ratio over 10 year horizon for Earners' Account unlike the status quo.

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Confidence in solvency adequacy	(+1) Funding ratio of Motor Vehicle and Work Accounts would sit above 100%, while Earners' Account would almost reach 100%, over 10 year horizon.	(0) Funding ratio of Earners' Account moves below 90% over 10 year horizon, creating a risk for Account solvency. Funding ratio of Motor Vehicle Account would sit just below 100%, while Work Account would sit above 100% over 10 year horizon.	(+1) Funding ratio of Motor Vehicle Account would sit just below 100%, while funding ratio of Work Account would sit above 100%, and Earners' Account would almost reach 100%, over 10 year horizon.
Avoiding large changes in levies	**Neutral (0)**	**Neutral (0)**	**Neutral (0)**
Levy stability (ability to plan future costs + sustainable levy path)	(0) Increasing levy rates for Motor Vehicle and Earners' Accounts now reduces the risk of larger increases being required for future levy rates, allowing for greater long term stability, but reducing short term stability compared to the status quo.	(0) Maintaining current levy rates ensures short term stability for levy payers, but increases risk of larger increases being required for future levy rates for the Motor Vehicle and Earners' Accounts.	(0) Maintaining current levy rates for Motor Vehicle Account and dropping and holding levy rates for the Work Account ensures short term stability for levy payers, but increases risk of larger increases being required for future levy rates.
Public interest considerations	**Negative (-1)**	**Neutral (0)**	**Positive (+1)**
Broader economic and social considerations (interest groups are potential future claimants and future levy payers)	(-1) Increasing levy rates for Motor Vehicle and Earners' Accounts leaves levy payers with less money for other purposes.	(0)	(+1) Reducing Work Account levy rates leaves levy payers with more money for other purposes. This is especially significant in this levy round, where businesses have been negatively impacted by COVID-19.
Totals	**0 to +2**	**0**	**+4 to +6**

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Consultation

ACC publicly consulted on its recommended levy rates from 1 September to 5 October 2021, and received a total of 1,273 submissions.

Motor Vehicle Account

Most submitters (84%) disagreed with ACC's proposed increase to the average Motor Vehicle Account levy rate. MBIE's proposed levy rates take this into account.

Many submitters suggested that Motor Vehicle levy rates should be based on individual risk factors, rather than motor vehicle type or the number of vehicles owned. ACC has acknowledged this feedback and will consider it as part of its future levies strategy and work programme.

Motorcyclists were particularly vocal in their submissions, as they feel that motorcycle levy rate are unfairly high, particularly when other road users may be the cause of an accident. ACC has acknowledged this feedback, and noted that this feedback has been consistent over a number of years. ACC has highlighted that the expected cost of injuries to motorcyclists over the next three years is $374 million, and ACC's recommended levy rates will collect $102 million (less than 30%) of this from owners of motorcycles, with the rest subsidised by owners of other vehicle types. ACC believes that collecting this proportion of costs from motorcycle owners represents a fair approach to levy collection.

Feedback on whether electric vehicles should have the same levies as petrol vehicles was mixed. ACC has acknowledged that Motor Vehicle Account levy rates are unlikely to have a significant impact on vehicle purchasing decisions compared to other incentives electric vehicles offer, and proposed that the option to align the electric vehicle levy rate with other non-petrol passenger vehicles be considered. The Minister for ACC decided not to align the electric vehicle levy rate with other non-petrol vehicles now, as there is sufficient time between now and the next levy round for ACC and MBIE to work together with the Ministry of Transport to design an appropriate levy solution to adapt to the changing nature of motorised transport.

Earners' Account

Most submitters (60%) disagree with ACC's proposed increase to the Earners' Account levy rate.

Submitters were concerned with the impact that ACC's proposed increase would have on individuals struggling with rising costs of living, and some particularly suggested that more consideration be given to the equity of the AC Scheme. ACC has acknowledged this feedback, and notes that a Head of Equity Strategy and Delivery role has been established within the rōpū Pae Ora, which includes exploring a targeted programme of work for Pasifika and the establishment of an engagement framework with iwi, hapū and Māori businesses.

Some submitters were interested in ways to reduce the cost and number of injuries over time. Some submitters also suggested that levy rates should be based on individual risk factors, by introducing categories and incentives in line with other accounts. ACC has acknowledged this feedback and will consider it as part of its future levies strategy and work programme.

Work Account

Most submitters (60%) support ACC's recommended decrease to the Work Account levy rate for 2022/23 followed by increases in 2023/24 and 2024/25. MBIE's proposed levy rates take this support for levy rate decreases into account, proposing to maintain the initial decrease proposed by ACC.

Some submitters called for more consistency and stability in ACC's recommended levy rates, to reflect the rising cost of living and the current financial difficulties experienced by

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employers as a result of the ongoing COVID-19 pandemic. MBIE's proposed levy rates take these factors into account by considering the broader public interest.

Some submitters had concerns around Next Generation Case Management (an ICIP initiative) and accessing to ACC services. ACC's Next Generation Case Management model aims to improve the connection between clients, their family, providers and employers. MBIE notes that the expected benefits of ICIP initiatives previously estimated have not yet been delivered. The benefits of ICIP delivered over the next three years will be monitored by MBIE and the Treasury.

Conclusions and recommendations

MBIE recommends that the Motor Vehicle Account levy rate is maintained at the current level for 2022/23, 2023/24, and 2024/25, that the Earners' Account levy rate is increased at ACC's recommended rate for 2022/23, 2023/24, and 2024/25, and that the Work Account levy rate is decreased to ACC's recommended rate for 2022/23 and then held at that rate for 2023/24 and 2024/25.

These levy rates will meet the policy objectives by meeting the lifetime cost of claims in relation to injuries that are expected to occur each levy year, correcting over-funding of the levied Accounts, avoiding large changes in levy rates, and having regard for public interest. These levy rates do, however, increase the likelihood that levy rates will need to be increased by a greater amount in the future, compared to ACC's recommended levy rates.

Implementation plan

Regulations must be made to enable the collection of the new levy rates from 1 April 2022 for the Work and Earners' Accounts, and 1 July 2022 for the Motor Vehicle Account.

To enable the new Earners' Account levy rate to be in place on 1 April 2022, Inland Revenue requires notification of the approved Earners' Account rates by mid-December 2021 so that payroll software developers can update, test, and distribute their systems updates.

ACC will also need to make adjustments to its processes and systems to reflect the proposed changes in levy rates to the Work Account. It will also need to implement a communications plan to ensure levy payers and other stakeholders are informed of the changes and their implications.

Review, monitoring, and evaluation

ACC levy rates are reviewed every three years

Monitoring, evaluation and review is built into the three yearly review of ACC levy rates, which involves independent actuarial assessments of ACC's liabilities and assumptions about claims costs in the upcoming year. ACC levy rates will next be reviewed in 2024, when the 2025/26, 2026/27, and 2027/28 levy rates are set.

Additionally, ACC's performance is monitored by the Treasury. ACC produces quarterly reports detailing its performance for each quarter. The Chair of the ACC Board and the Minister for ACC discuss ACC's performance based on these reports.

Under section 278A of the Accident Compensation Act 2001 ACC's Actuary annually prepares a Financial Condition Report which provides advice to ACC's Board in relation to ACC's operations, financial condition, liabilities and funding requirements and to discuss the implications of any known material risks that may affect the long-term financial health of the organisation. ACC must provide the report to the Minister for ACC. The Minister for ACC

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must provide a copy of the report to the Minister of Finance and present the report to the House of Representatives within five days of receiving the report.

MBIE's independent actuary Deloitte considered that ACC applied the FPS appropriately, and that ACC's recommended levy rates are reasonable.

Deloitte recommended that the benefits delivered through ICIP and IP are monitored, and that if the expected benefits are not realised by the next review in three years, it may no longer be reasonable to include these expected benefits when projecting future levy rates. Deloitte advised that in these circumstances it may be more appropriate to instead incorporate benefits into levy assumptions when they are evident in claims experience. MBIE and the Treasury will continue to monitor the performance of ACC over the next three years.

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Annex 1: Projected future new year cost rate by payment type

Table 1: Projected future new year cost rate by payment type for the Motor Vehicle Account

Cost category	2022/23	2023/24	2024/25
Medical costs			
General practitioner	1.10	1.13	1.18
Physiotherapy	0.77	0.79	0.82
Radiology	1.58	1.63	1.69
Other medical	9.01	9.26	9.58
Public health acute services	21.79	22.44	23.12
Elective surgery	10.68	11.03	11.51
Social rehabilitation			
Serious injury - care	58.88	59.82	60.92
Serious injury - capital	8.69	8.77	8.87
Non-serious injury - care	10.37	10.54	10.79
Non-serious injury - capital	2.97	2.97	3.01
Compensation related			
Weekly compensation	63.72	66.22	69.17
Fatal benefit	8.29	8.39	8.51
Vocational rehabilitation	2.44	2.54	2.66
Independence allowance and lump sum	1.82	1.84	1.86
Claims costs	**202.10**	**207.37**	**213.69**
Operating costs			
Claims handling	10.97	11.10	11.25
Administration expenses	2.38	2.35	2.35
Timing of levy receipt	3.13	3.53	3.86
	16.48	**16.98**	**17.47**
New year cost rate	**218.58**	**224.34**	**231.16**

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Table 2: Projected future new year cost rate by payment type for the Earners' Account (excluding Earners' portion of the Treatment Injury Account)

Cost category	2022/23	2023/24	2024/25
Medical costs			
General practitioner	0.04	0.04	0.04
Physiotherapy	0.05	0.05	0.05
Radiology	0.06	0.06	0.06
Other medical	0.11	0.12	0.12
Public health acute services	0.09	0.09	0.09
Elective surgery	0.15	0.16	0.16
Sensitive claims	0.12	0.12	0.12
Social rehabilitation			
Serious injury - care	0.08	0.08	0.08
Serious injury - capital	0.01	0.01	0.01
Non-serious injury - care	0.03	0.04	0.04
Non-serious injury - capital	0.01	0.01	0.01
Compensation related			
Weekly compensation	0.56	0.57	0.57
Fatal benefit	0.02	0.02	0.02
Vocational rehabilitation	0.03	0.03	0.03
Independence allowance and lump sum	0.00	0.00	0.00
Claims costs	**1.37**	**1.39**	**1.40**
Operating costs			
Claims handling	0.11	0.11	0.11
Administration expenses	0.02	0.02	0.02
Bad Debt & Timing of levy receipt	0.04	0.04	0.04
	0.17	**0.17**	**0.17**
New year cost rate	**1.55**	**1.56**	**1.57**

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Table 3: Projected future new year cost rate by payment type for the Earners' portion of the Treatment Injury Account

Cost category	2022/23	2023/24	2024/25
Medical costs			
General practitioner	0.00	0.00	0.00
Physiotherapy	0.00	0.00	0.00
Radiology	0.00	0.00	0.00
Other medical	0.01	0.01	0.01
Public health acute services	0.00	0.00	0.00
Elective surgery	0.02	0.02	0.02
Social rehabilitation			
Serious injury - care	0.01	0.01	0.01
Serious injury - capital	0.00	0.00	0.00
Non-serious injury - care	0.01	0.01	0.01
Non-serious injury - capital	0.00	0.00	0.00
Compensation related			
Weekly compensation	0.05	0.05	0.05
Fatal benefit	0.00	0.00	0.00
Vocational rehabilitation	0.00	0.00	0.00
Independence allowance and lump sum	0.00	0.00	0.00
Claims costs	**0.11**	**0.11**	**0.11**
Operating costs			
Claims handling	0.01	0.01	0.01
Administration expenses	0.00	0.00	0.00
Bad Debt & Timing of levy receipt	0.00	0.00	0.00
	0.01	**0.01**	**0.01**
New year cost rate	**0.12**	**0.12**	**0.12**

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Table 4: Projected future new year cost rate by payment type for the Work Account

Cost category	2022/23	2023/24	2024/25
Medical costs			
General practitioner	0.02	0.02	0.02
Physiotherapy	0.01	0.01	0.01
Radiology	0.02	0.02	0.02
Other medical	0.04	0.04	0.04
Public health acute services	0.04	0.04	0.04
Elective surgery	0.05	0.05	0.05
Social rehabilitation			
Serious injury - care	0.02	0.02	0.02
Serious injury - capital	0.00	0.00	0.00
Non-serious injury - care	0.02	0.02	0.02
Non-serious injury - capital	0.01	0.01	0.00
Compensation related			
Weekly compensation	0.44	0.45	0.45
Fatal benefit	0.01	0.01	0.01
Vocational rehabilitation	0.02	0.02	0.02
Independence allowance and lump sum	0.00	0.00	0.00
Gradual process	0.02	0.02	0.02
Claims costs	**0.72**	**0.72**	**0.73**
Operating costs			
Claims handling	0.07	0.07	0.06
Administration expenses	0.05	0.04	0.04
Bad Debt & Timing of levy receipt	0.07	0.07	0.07
	0.18	**0.18**	**0.18**
New year cost rate	**0.91**	**0.91**	**0.91**

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Annex 2: Cost drivers for ACC's proposed 2022/23 levy rates

Table 1: Cost drivers causing ACC's recommended 2022/23 Motor Vehicle Account levy rate to differ from ACC's previous estimate

2021/22 levy rate	$113.94
ACC's previous estimated 2022/23 levy rate	$134.94
Base Inflation	+$9.23
Discount Rate/Investment Forecasts	+$48.08
New Funding Policy	-$40.09
Opening Assets	-$64.40
Other	+$2.23
New Year Claims	
Lower superimposed inflation for Elective Surgery	-$1.20
Reduced claims volume for Weekly Compensation	-$3.07
Longer rehabilitation for Weekly Compensation claims	+$13.53
Higher rehabilitation costs for Serious Injuries	+$6.43
Increased funding for emergency services	+$3.78
Other influenceable factors	+$1.15
Funding adjustment	+$6.92
Net Benefit of IP & ICIP	+$2.66
ACC's proposed 2022/23 levy rate	**$120.20**

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Table 2: Cost drivers causing ACC's recommended 2022/23 Earners' Account levy rate to differ from ACC's previous estimate

2021/22 levy rate	**$1.21**
ACC's previous estimated 2022/23 levy rate	**$1.26**
Base Inflation	+$0.03
Discount Rate/Investment Forecasts	+$0.10
New Funding Policy	-$0.09
Opening Assets	-$0.14
Other	-$0.08
New Year Claims	
Higher claims volume for Weekly Compensation	+$0.06
Longer rehabilitation for Weekly Compensation claims	+$0.08
Increased Sensitive Claims volumes	+$0.05
Higher rehabilitation costs for Serious Injuries	+$0.03
Increased funding for emergency services	+$0.02
Other influenceable factors	+$0.04
Funding adjustment	+$0.09
Net Benefit of IP & ICIP	+$0.03
ACC's proposed 2022/23 levy rate (before capping adjustment)	**$1.46**

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Table 3: Cost drivers causing ACC's recommended 2022/23 Work Account levy rate to differ from ACC's previous estimate

2021/22 levy rate	$0.67
ACC's previous estimated 2022/23 levy rate	$0.70
Base Inflation	+$0.01
Discount Rate/Investment Forecasts	+$0.09
New Funding Policy	-$0.06
Opening Assets	-$0.19
Other	-$0.03
New Year Claims	
Lower superimposed inflation for Elective Surgery	-$0.01
Reduced claims volume for Weekly Compensation	+$0.00
Longer rehabilitation for Weekly Compensation claims	+$0.09
Higher rehabilitation costs for Serious Injuries	+$0.02
Increased funding for emergency services	+$0.01
Other influenceable factors	-$0.00
Funding adjustment	-$0.00
Net Benefit of IP & ICIP	+$0.00
ACC's proposed 2022/23 levy rate	**$0.63**

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