



COVERSHEET

Minister	Hon Matt Doocey	Portfolio	ACC
Title of Cabinet paper	ACC Financial Sustainability – levies and performance improvement	Date to be published	13 December 2024

List of documents that have been proactively released

Date	Title	Author
28 August 2024	<i>Consultation on 2025/26 – 2027/28 ACC levies</i>	<i>Office of the Minister for ACC</i>
28 August 2024	<i>ECO-24-MIN-0174 - 2025/26 – 2027/28 ACC Levies: Approval to Consult</i>	<i>Cabinet Office</i>
25 November 2024	<i>ACC Financial Sustainability – levies and performance improvement</i>	<i>Office of the Minister for ACC</i>
25 November 2024	<i>CBC-24-MIN-0118 – Cabinet Business Committee Minute of Decision</i>	<i>Cabinet Office</i>
25 November 2024	Appendix 5 – Cost Recovery Impact Statement 2025/26, 2026/27, 2027/28 ACC Levies	MBIE
25 November 2024	Appendix 6 – RIS New classification unit for home improvement stores and sports and physical recreation	MBIE
25 November 2024	Appendix 7– RIS Removing ACC's No Claims Discount	MBIE
25 November 2024	Appendix 8 – RIS Reviewing motorcycle groupings to enable levy rates to better reflect crash and claim data	MBIE
25 November 2024	Appendix 9 – RIS ACC's Ride Forever programme	MBIE
25 November 2024	Appendix 10 – RIS Levy portion for plug-in hybrids and battery electric vehicles	MBIE
25 November 2024	Appendix 11 – RIS ACC's Fleet Saver	MBIE
25 November 2024	Appendix 12 – RIS ACC interest rates and bad debt	MBIE

Information redacted

YES / NO (please select)

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.

Stage 2 Cost Recovery Impact Statement: 2025/26 – 2027/28 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 2025/26, 2026/27, and 2027/28 levy rates for the Accident Compensation Corporation's (ACC) Motor Vehicle Account¹, Earners' Account² and Work Account³ 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 2021 for the 2022/23 to 2024/25 years. Once set, the new levy rates for the Earners' Account and the Work Account will take effect from 1 April 2025, and the levy rates for the Motor Vehicle Account will take effect from 1 July 2025.

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 may be necessary when 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 both third-party funding to meet the cost of claims for injuries covered under the AC Act and funding for initiatives to prevent injuries from happening.

MBIE has engaged independent actuary Finity Consulting Pty Ltd. (Finity) 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 Finity's 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."

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.

However, Finity says, “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.”

Finity also advises that, “The ultimate driver of levies is claim costs, and therefore we recommend careful monitoring of the levied accounts against expectations.”

Given the declining funding ratio across all Accounts, MBIE and Treasury have recommended that levy increases across all Accounts be accompanied with consideration of how to improve ACC’s performance and ensure that influenceable costs are being managed effectively.



Bridget Duley

Manager, Accident Compensation Policy
Ministry of Business, Innovation and Employment
20 November 2024

Quality Assurance

The Stage 2 Cost Recovery Impact Statement: 2025/26 – 2027/28 ACC levies dated 20 November 2024 was reviewed by a Ministry of Business, Innovation and Employment Quality Assurance panel. The panel considers that it meets the Quality Assurance Criteria. The panel considers that the cost recovery impact statement makes a clear and convincing case for the proposed levy changes and sets out the trade-offs in a range of alternative options. It takes into account feedback provided in response to public consultation on proposed changes.

Executive summary

MBIE proposes accepting ACC's recommended increases to levy rates at the maximums allowed by the Funding Policy Statement. These caps were put in place to ensure predictability and levy affordability, and we consider funding options should breach them only in exceptional circumstances. While none of the options considered meet the requirements for the levied Accounts to be meeting the lifetime costs of claims each year within the next three years, the Earners' and Work Accounts would be meeting or getting very close to meeting them by the end of the 10-year horizon. A slight improvement in performance by ACC would lead to all the accounts recovering sooner, with Motor Vehicle and Work Accounts closing the gap between the levy rate and new year claim costs before the end of the 10-year horizon.

MBIE and Treasury have recommended progressing work to provide increased oversight of ACC's performance. We consider taking action to improve ACC's performance and ensure that influenceable costs are being managed effectively is the best way to balance the interests of current and future levy payers.

This Cost Recovery Impact Statement analyses three options for setting average levy rates for the Motor Vehicle and Work Accounts, and four options for the Earners' Account, for 2025/26, 2026/27, and 2027/28.

Option A: ACC's recommended levy rates and proposed by MBIE

- Increase the average Motor Vehicle Account levy rate from \$113.94 per vehicle to \$122.84 in 2025/26, \$131.94 in 2026/27, and \$141.69 in 2027/28
- Increase the Earners' Account levy rate from \$1.39 per \$100 of liable earnings to \$1.45 in 2025/26, \$1.52 in 2026/27, and \$1.59 in 2027/28
- Increase the average Work Account levy rate from \$0.63 per \$100 of liable earnings to \$0.66 in 2025/26, \$0.69 in 2026/27, and \$0.72 in 2027/28

Option B: the Status Quo

- Maintain current 2024/25 average Motor Vehicle Account levy rate at \$113.94 per vehicle for 2025/26, 2026/27, and 2027/28
- Maintain current 2024/25 Earners' Account levy rate at \$1.39 per \$100 of liable earnings for 2025/26, 2026/27, and 2027/28
- Maintain current 2024/25 average Work Account levy rate at \$0.63 per \$100 of liable earnings for 2025/26, 2026/27, and 2027/28

Option C: Medium increase in levy rates

- Increase the average Motor Vehicle Account levy rate from \$113.94 per vehicle to \$116.78 in 2025/26, \$119.69 in 2026/27, and \$122.68 in 2027/28
- Increase the Earners' Account levy rate from \$1.39 per \$100 of liable earnings to \$1.42 in 2025/26, \$1.45 in 2026/27, and \$1.48 in 2027/28
- Increase the average Work Account levy rate from \$0.63 per \$100 of liable earnings to \$0.64 in 2025/26, \$0.65 in 2026/27, and \$0.66 in 2027/28

Option D: Higher increase in Earners' levy rates

- Increase the Earners' Account levy rate from \$1.39 per \$100 of liable earnings to \$1.51 in 2025/26, \$1.58 in 2026/27, and \$1.65 in 2027/28

ACC's recommended and MBIE's proposed levy rates can sometimes 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 lifetime costs of claims each year
- correcting for any funding surplus or deficit
- avoiding large changes in levies
- public interest considerations.

Our assessment concludes that option A rates most highly against the full criteria.

New-year claims costs are significantly higher than recommended levy rates, which means all the accounts are being run down. However, the Motor Vehicle and Work Accounts have a significant accumulated surplus so the recommended levy rates allow the Accounts to fall to a 100% funding ratio (when assets are sufficient to cover liabilities for claims that have already occurred) after 7-9 years. With the Earners' Account, cost-of-living concerns reinforce the need to comply with the cap on increases set by the Funding Policy Statement to ensure affordability and predictability.

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 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 we have recommended taking action to improve ACC's performance, as discussed above.

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 in the future.

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 pay for.

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 the government appropriation for the Non-earners' Account	People injured as a result of medical treatment

Current ACC levy rates

The current levy rates for the Motor Vehicle, Earners', and Work Accounts are those that were set for the final of the three years (2022/23 to 2024/25) in 2021. The Motor Vehicle rates were stable over the three years, the Earners' rate rose each year and the Work rate decreased for the first year and then remained stable. The current 2024/25 levy rates for are shown in table 2 below.

Table 2: Current 2024/25 levy rates

Account	Average 2024/25 levy rate
Motor Vehicle	\$113.94 Per motor vehicle
Earners'	\$1.39 Per \$100 of liable earnings
Work	\$0.63 Per \$100 of 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 licence fee, which varies for different classes of vehicle based on the risk of injury in the event of an accident.

Setting actual levy rates for Work and Motor Vehicle Accounts

The framework for setting the actual rates payable by levy payers for the Work and Motor Vehicle Accounts incorporates two methodologies – a grouping methodology to determine the different groups that will have their own levy rates, and a relative risk methodology to determine the actual levy rate applied to each group.

For the Work Account, the grouping methodology used the ANSIC06 industry grouping hierarchy as its based grouping methodology with adjustments agreed between ACC and Stats NZ to take into account the differences in industry mix in NZ. ACC then develops levy risk groups from this hierarchy which group businesses in similar sectors/industries together based on their claims cost to exposure risk profile.

For the Motor Vehicle Account the grouping methodology has developed over the past 50 years and is based on a hierarchy of classifications – vehicle type (passenger, goods

service, motorcycle/moped, other), sub-grouping factor (weight for goods vehicles, engine capacity for motorcycles), and a voluntary safety related factor (FleetSaver audit results, and the proposed Advanced rider training achievement). The grouping methodologies are reviewed every three years to ensure they are still fit for purpose and are able to reflect the incentives desired in the levy system.

A risk relativity methodology is then used to determine the levy rate for each group. This follows standard actuarial practice and uses claims cost to exposure ratios to allocated relative risk values for each group of levy payers. The methodology is reviewed ahead of each levy round to ensure it provides a fair representation of risk across the communities of levy payers.

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 Account Levies) Regulations 2022, the Accident Compensation (Earners' Levy) Regulations 2022, and the Accident Compensation (Work Account Levies) Regulations 2022.

ACC levy rates are set every three years

Levy rates for the Motor Vehicle, Earners', and Work Accounts are now reviewed and set every three years, to ensure they reflect the expected underlying cost of claims and operating expenses. This is the second levy round in which levy rates will be set for three years following the Cabinet decision in 2019 to set levy rates every three years instead of every two years (DEV-19-MIN-0348).

The levy setting process

When setting ACC levy rates, the Minister for ACC (the Minister) 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 Minister is also required under the AC Act to **have regard for public interest.**

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. 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% (when assets are sufficient to meet liabilities for claims that have already occurred)
- 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 – about 2.3% for the next three years)
- 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 Minister is not required to accept ACC's recommended levy rates and does not have to follow the requirements of the FPS. The Minister, and Cabinet, 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 take 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 rates⁴

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 formulated by ACC considering the requirements of the FPS and 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, but 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.
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.
Accountability	Levies must be set by regulations approved by the Government where the usual regulatory accountability mechanisms apply.

Three or four 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.

⁴ 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.

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. Consistent with the principle of community responsibility on which the AC Scheme was founded, it uses three different types of levy to fund the treatment, rehabilitation, compensation, and prevention of injuries that occur:

- on public roads involving a moving vehicle
- to earners outside of work
- in a work-related situation.

The treatment of non-vehicle accidents suffered by non-earners is covered by the Non-Earners' Account (which also partly funds the Treatment Injury Account) which is funded by Government appropriation.

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 injury prevention benefits of each levied Account.

The Motor Vehicle and Work Accounts currently have a funding ratio in excess of the 100% target, so the proposed levy rates for them have been set below the amount required to meet the new year claims costs in each levy year, although currently the 5% (plus inflation of about 2.3% for Motor Vehicles) cap also has the same effect. The additional amount required is made up through a funding adjustment which draws down from the surplus funds, and through the expected benefit of injury prevention initiatives.

The Earners' Account has a funding ratio below the 100% target. Setting the proposed levy rates to increase at the 5% cap will not bring it up to the amount required to meet the new year claims cost within the next three levy years – this will only occur by year 9 of the 10-year time horizon. However, if claims performance can be improved, levy rates will start covering new year claims costs earlier in the 10-year time horizon.

The current cost-of-living pressures and the fact the inflation is expected to return to a rate under 3% makes even 5% to increases appear relatively high. We have therefore added a medium increase option of levy increases capped at 2.5% for each of the three levy years.

MBIE also requested Finity provide modelling on another scenario for the Earners' Account, with a 10% increase (breaching the cap) in the 2025/26 year before reverting to 5% capped increases. This showed levy rates would cover expected claims costs only one year earlier in the 10-year horizon.

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

Three options have been considered for the Motor Vehicle and Work levy rates, and four options for the Earners' levy rate, for 2025/26, 2026/27, and 2027/28. These are ACC's recommended levy rates (which ACC has publicly consulted on and align with the requirements of the FPS) which MBIE also proposes, the status quo (maintaining the current levy rates), a medium increase scenario, and a higher first-year rate for the Earners' Account informed by the review carried out by Finity.

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 calculates the average levy rate to pay for the New Year Claims Cost.

Funding adjustments: adjustments are made based on whether the levied Accounts have a funding surplus or funding deficit for past claims and need levy rates to go up or down to move the Account towards the target funding ratio of 100% over time. A negative funding adjustment applies if an Account is above the funding ratio target, and this excess will be returned over time. A positive funding adjustment applies if an Account is below the funding ratio and needs to be topped up. The Motor Vehicle and Work Accounts currently sit above the funding ratio target of 100% while the Earners' Account sits below it.

Other factors that had been considered in the calculation of ACC levy rates

Previously ACC had a project involving restructuring and automating the various aspects of claims processing and the rehabilitation of claimants. This was expected to bring future benefits in lowering some of the costs outlined above and so positively impact future levy rates. However, the benefits have not been sufficient to lower future cost forecasts.

Capping adjustment ACC is required to recommend levy rates that align with the Funding Policy Statement, which places a 5% cap on levy increases for each levy year (in addition to inflation adjustments for the Motor Vehicle Account). This cap can prevent a positive funding adjustment from applying if, even at the maximum rate of increase, if the increased levy is still insufficient to meet new year claim costs.

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. They also show the ‘fully funded’ rate which is the rate that would return the accounts to a fully funded position over the 10-year horizon if the cap didn’t apply.

Table 5: Motor Vehicle Account levy rate⁵ comparison of options

Average levy rate for each option considered (per vehicle excluding GST)	Option A: ACC’s recommended levy rates also proposed by MBIE			Option B: Status quo			Option C: Medium increase		
	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28
Current 2024/25 levy	\$113.94			\$113.94					
New year cost rate	\$233.17	\$240.45	\$247.46	\$233.17	\$240.45	\$247.46	\$233.17	\$240.45	\$247.46
Funding adjustment	-\$74.82	-\$77.16	-\$79.41	-\$74.82	-\$77.16	-\$79.41	-\$74.82	-\$77.16	-\$79.41
Fully funded rate	\$158.35	\$163.29	\$168.05	\$158.35	\$163.29	\$168.05	\$158.35	\$163.29	\$168.05
Capping adjustment	-\$35.51	-\$31.35	-\$26.36	-\$44.41	-\$49.35	-\$54.11	-\$41.57	-\$43.30	-\$45.37
Proposed levy rate ⁶	\$122.84	\$131.94	\$141.69	\$113.94	\$113.94	\$113.94	\$116.78	\$119.69	\$122.68
Average annual change over three year period	7.5%			0%			2.5%		
Estimated funding ratio in 2035	97%			87%			90%		

⁵ 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.

⁶ Numbers may not add due to rounding.

Table 6: Earners' Account levy rate comparison of options

Average levy rate for each option considered (per \$100 of liable earnings ex GST)	Option A: ACC's recommended levy rates			Option B: Status quo			Option C: Medium increase			Option D: A 10% increase for 2025/26 then reverting to cap		
	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28	2025/26	2026/27	2027/28
Current 2024/25 levy rate	\$1.39			\$1.39			\$1.39			\$1.39		
New year cost rate	\$1.87	\$1.90	\$1.95	\$1.87	\$1.90	\$1.95	\$1.87	\$1.90	\$1.95	\$1.87	\$1.90	\$1.95
Funding adjustment	\$0.08	\$0.07	\$0.08	\$0.08	\$0.07	\$0.08	\$0.08	\$0.07	\$0.08	\$0.08	\$0.07	\$0.08
Fully funded rate	\$1.95	\$1.97	\$2.03	\$1.95	\$1.97	\$2.03	\$1.95	\$1.97	\$2.03	\$1.95	\$1.97	\$2.03
Capping adjustment	-\$0.50	-\$0.45	-\$0.44	-\$0.56	-\$0.58	-\$0.64	-\$0.53	-\$0.52	-\$0.55	-\$0.44	-\$0.39	-\$0.38
Proposed levy rate ⁷	\$1.45	\$1.52	\$1.59	\$1.39	\$1.39	\$1.39	\$1.42	\$1.45	\$1.48	\$1.51	\$1.58	\$1.65
Average annual change over three year period	4.6%			0%			2.1%			5.9%		
Estimated funding ratio in 2035	67%			46%			55%			75%		

Table 7: Work Account levy rate comparison of options

Average levy rate for each option considered	Option A: ACC's recommended levy rates			Option B: Status quo			Option C: Medium increase		
	2025/26	2025/26	2026/27	2027/28	2026/27	2027/28	2025/26	2026/27	2027/28
Current 2024/25 levy rate	\$0.63			\$0.63			\$0.63		
New year cost rate	\$0.93	\$0.96	\$0.96	\$0.93	\$0.96	\$0.96	\$0.93	\$0.96	\$0.96
Funding adjustment	-\$0.15	-\$0.15	-\$0.15	-\$0.15	-\$0.15	-\$0.15	-\$0.15	-\$0.15	-\$0.15
Fully funded rate	\$0.78	\$0.81	\$0.81	\$0.78	\$0.81	\$0.81	\$0.78	\$0.81	\$0.81
Capping adjustment	-\$0.13	-\$0.12	-\$0.09	-\$0.15	-\$0.18	-\$0.18	-\$0.14	-\$0.16	-\$0.15
Proposed levy rate ⁸	\$0.66	\$0.69	\$0.72	\$0.63	\$0.63	\$0.63	\$0.64	\$0.65	\$0.66

⁷ Numbers may not add due to rounding.

⁸ Numbers may not add due to rounding.

Average annual change over three year period	4.6%	0%	1.6%
Estimated funding ratio in 2035	94%	80%	83%

A range of cost drivers influence ACC levy rates

ACC estimated the required future levy rates for 2025/26 to 2027/28. The following cost drivers outlined in Table 8 below led to increases in ACC's recommended levy rates for 2025/26 compared to the levy rates forecast for this period at the last levy round.

Table 8: Key cost drivers for each levied Account

Driver	Work Account	Earners' Account	Motor Vehicle Account
Higher claims costs	Poorer weekly compensation performance is expected across all accounts. Average claim costs are significantly higher than expected (up to 50%) primarily due to deteriorating rehabilitation performance. ACC's forecast assumes the deterioration in rehabilitation rates will stabilise in future years.		
	Weekly compensation is the major cost for the Work Account so deteriorating rehabilitation performance is a big cost driver.	The new Integrated Services for Sensitive Claims is expected to reduce capacity constraints, causing utilisation of these costly claims to increase by 7-10%. The proportion of claimants receiving elective surgery is expected to be 13-18% higher than previously estimated.	The average cost of serious injuries is expected to be 26% higher than previously signalled. Significant increases in bulk funded claim costs, including emergency care and Public Health Acute Services (PHAS) are expected.
	Increase in levy of \$0.12 per \$100 liable earnings.	Increase in levy of \$0.31 per \$100 liable earnings.	Increase in levy of \$12.52.
Discount rates, forecast investment returns, inflation and previous asset growth	Changes to discount rates and forecast increased investment returns reduced the expected future cost of claims across all accounts but this was largely offset by expected higher inflation and assets growing less than expected in the last three years, and other factors.		
	Reduction in levy of \$0.03 per \$100 liable earnings.	Reduction in levy of \$0.14 per \$100 liable earnings.	Reduction in levy of \$10.48.

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	Forecast revenue
Option A: ACC's recommended and MBIE's proposed levy rates	Motor Vehicle Account	2025/26	\$526 (m)
		2026/27	\$572 (m)
		2027/28	\$622 (m)
	Earners' Account	2025/26	\$3,136 (m)
		2026/27	\$3,446 (m)
		2027/28	\$3,755 (m)
	Work Account	2025/26	\$1,070 (m)
		2026/27	\$1,172 (m)
		2027/28	\$1,275 (m)
Option B: Status quo	Motor Vehicle Account	2025/26	\$488 (m)
		2026/27	\$494 (m)
		2027/28	\$500 (m)
	Earners' Account	2025/26	\$3,007 (m)
		2026/27	\$3,152 (m)
		2027/28	\$3,283 (m)
	Work Account	2025/26	\$1,021 (m)
		2026/27	\$1,071 (m)
		2027/28	\$1,116 (m)
Option C: Medium increase	Motor Vehicle Account	2025/26	\$500 (m)
		2026/27	\$519 (m)
		2027/28	\$539 (m)

	Earners' Account	2025/26	\$3,071 (m)
		2026/27	\$3,288 (m)
		2027/28	\$3,496 (m)
	Work Account	2025/26	\$1,037 (m)
		2026/27	\$1,105 (m)
		2027/28	\$1,169 (m)
Option D: Higher increase for Earners' Account	Earners' Account	2025/26	\$3,288 (m)
		2026/27	\$3,605 (m)
		2027/28	\$3,921 (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

- An increase in the risk-free discount rate compared to the previous review.
- An increase in forecast investment returns compared to the previous review.
- An increase in the main inflation measure used for forecasting claims costs, the Labour Cost Index (LCI).
- Continued population growth, which is 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 continued increase in the number of licensed vehicles.

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.

Sensitivities

The sensitivity of rate calculations to the various economic and claims assumptions is demonstrated by the following sensitivity analysis of the Earners' rate calculation.

Sensitivity of Levy Rates	Earners' (including treatment injury)	
	+1%	-1%
Discount rate and investment returns	-0.11	0.13
Inflation rate	0.19	-0.15
New weekly compensation claims	0.01	-0.01
Weekly compensation continuance rate	0.02	-0.03
Sensitive claims continuance rate	0.02	-0.02
Elective surgery superimposed inflation	0.03	-0.03
Medical superimposed inflation	0.01	-0.01
Care superimposed inflation	0.04	-0.03
Number of elective surgeries	0.02	-0.02

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 while MBIE's proposed increase in the average levy rates for the Work Account will impact all employers. MBIE's proposal to increase 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.

Table 10: Weekly total ACC levies that would be paid by households and businesses with proposed increases, compared to the current weekly total⁹

Household	Current (2024/25)	2025/26	2026/27	2027/28
Family with a household income of \$129,000 and three vehicles (2 x petrol driven cars, 1 x diesel driven ute)	\$38.59	\$40.61	\$42.89	\$45.19
Family with a household income of \$85,000 and two vehicles (1 x diesel driven car, 1 x diesel driven ute)	\$27.16	\$28.48	\$29.97	\$31.48
A retired couple with one vehicle (1 x petrol driven vehicle) ¹⁰	\$1.27	\$1.44	\$1.62	\$1.79
Small house construction business with 8 employees each earning \$70,000 and a small fleet (3x diesel driven ute/van, 3x petrol driven car)	\$189.75	\$178.98	\$186.55	\$195.24

⁹ Impact scenarios assume no change in liable earnings for earners and businesses over the three years, average petrol consumption remains constant over three years.

¹⁰ We have assumed an annual mileage of 5,000 kms in a vehicle of average fuel efficiency.

Medium sized architecture business with 35 employees (average income of \$81,000 each) and 5 petrol driven cars	\$64.02	\$64.88	\$65.75	\$72.09
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Impact of levy rate options on the funding ratio and future levy rates for each levied Account

The following section shows the impact of two or three levy rate options on the funding ratio and future levy rates for each of the levied Accounts, given ACC's current forecast assumptions. The impact of a medium levy increase, designated as Option C, is not further explored in this section given it sits between the status quo, nil increase and ACC's recommended increases. ACC's recommended increases have already been constrained by the Funding Policy Statement and for all Accounts result in levies well below new year costs for all, or nearly all, years in the 10-year horizon.

Impact on the Motor Vehicle Account

As figures 1 and 2 below demonstrate, by raising levy rates at the 5% cap for the next three years, the Motor Vehicle Account's funding ratio would dip below the 100% target by year 9 of the end of the 10-year horizon, in comparison to the status quo which would see the funding ratio dip below 100% in year 7.

Figures 1 and 2 give Motor Vehicle Account funding ratio and levy projections for option A (ACC's recommended and MBIE's proposed levy rates) and option B (Status Quo)

Figure 1: Projected Motor Vehicle Account funding position – recommended levy increases

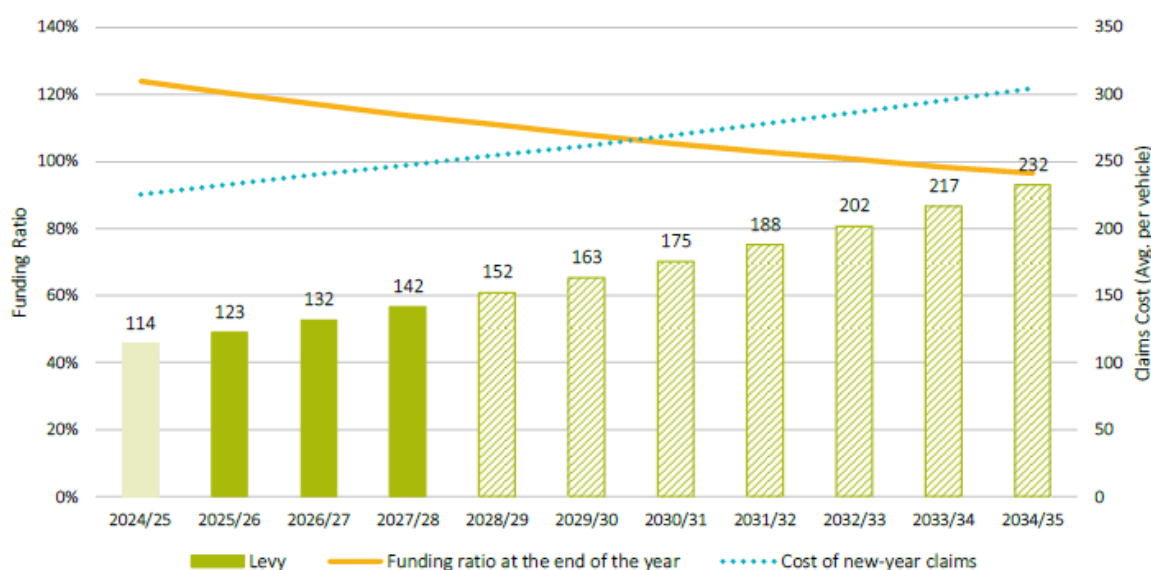
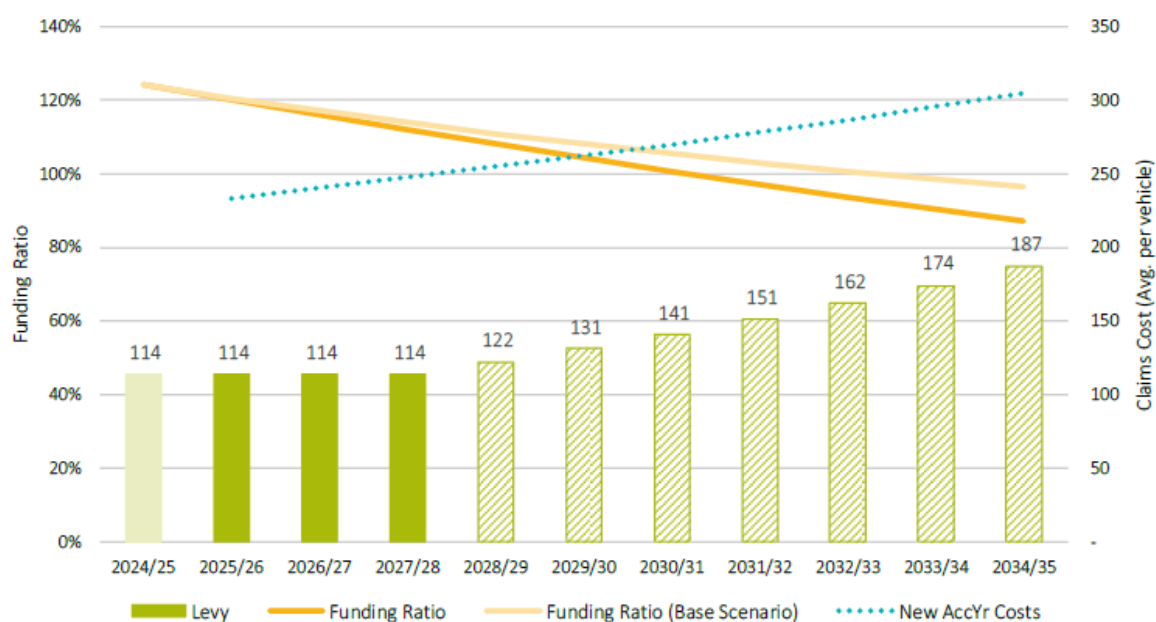


Figure 2: Projected Motor Vehicle Account funding position – no levy increase



MBIE considers that ACC's recommended levy rates are acceptable. Although the account is projected to dip below the funding ratio of 100% in year 9 of the 10-year horizon (97% in 2034/35) with only a small improvement in ACC claims cost performance (a 1% decrease in care cost inflation rates) the funding ratio decline is slowed to sit at just over 110% at the end of the 10-year horizon.

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 as part of national fuel taxes. After considering submissions ACC proposed raising the petrol levy to offset the rise the motor vehicle registration charges. However, given there is an intention for fuel taxes to be phased out from 1 April 2027, MBIE disagrees with ACC and considers that the petrol levy component should not be increased for this levy round for public interest considerations. To raise the petrol levy above 6 cents per litre now would be confusing for the public who are expecting fuel taxes to be stable until 1 April 2027.

MBIE considers that increasing the rates for the Motor Vehicle as recommended by ACC is reasonable because:

- the Account is heading towards the 100% funding ratio target over the 10-year horizon. Accounts are expected to fluctuate over time, while continuously heading towards 100%.
- we consider there is sufficient time to slow claims cost inflation in the Motor Vehicle Account
- the amount of levies collected should aim to fund necessary costs, and no more.

Impact on the Earners' Account

Figures 3, 4 and 5 below show that there is projected to be a considerable period of deterioration of the Earners' Account, with it not starting to recover at all in the 10-year horizon under the status quo scenario (holding the current levy rates for the next three years). The funding ratio would fall to under 50% by the end of the 10-year horizon under this scenario.

The scenario with ACC's recommended increases has a recovery starting in year 9 of the 10-year time horizon when the levy rate edges above projected new year costs. Under the higher increase to proposed levy rates scenario, that has an above-cap increase of 10% in

2025/26, the turnaround happens only one year earlier with the levy rate equalling the projected new year claims costs in year 8 of the 10-year horizon.

Figures 3, 4 and 5 give Earners' Account funding ratio and levy projections for options A (ACC's recommended and MBIE's proposed levy rates), option B (Status Quo) and option D.

Figure 3: Projected Earners' Account funding position – recommended levy increases

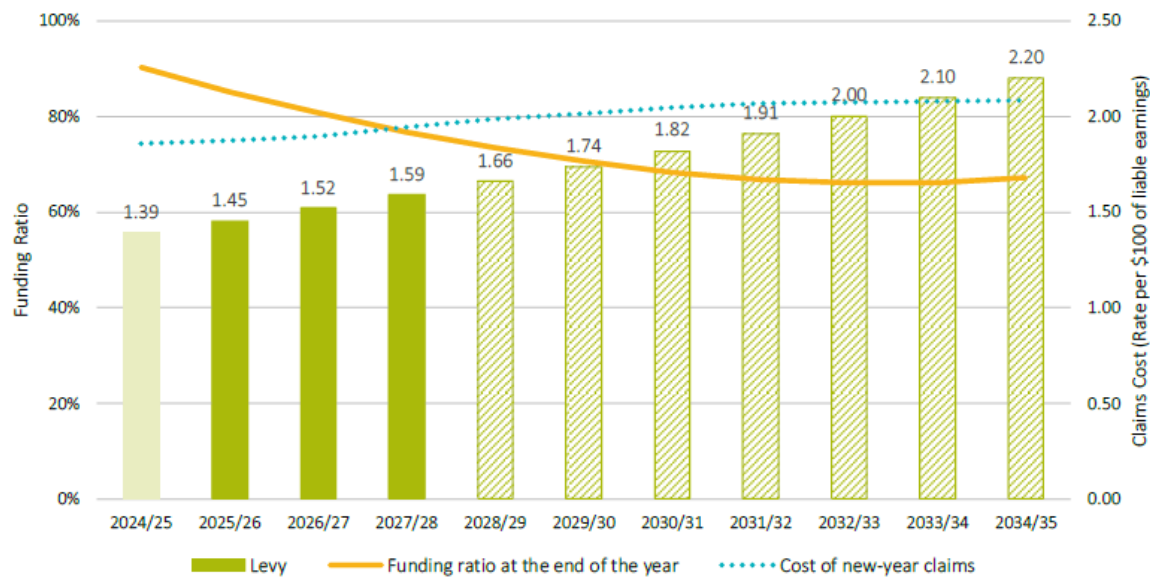


Figure 4: Projected Earners' Account funding position – no levy increases

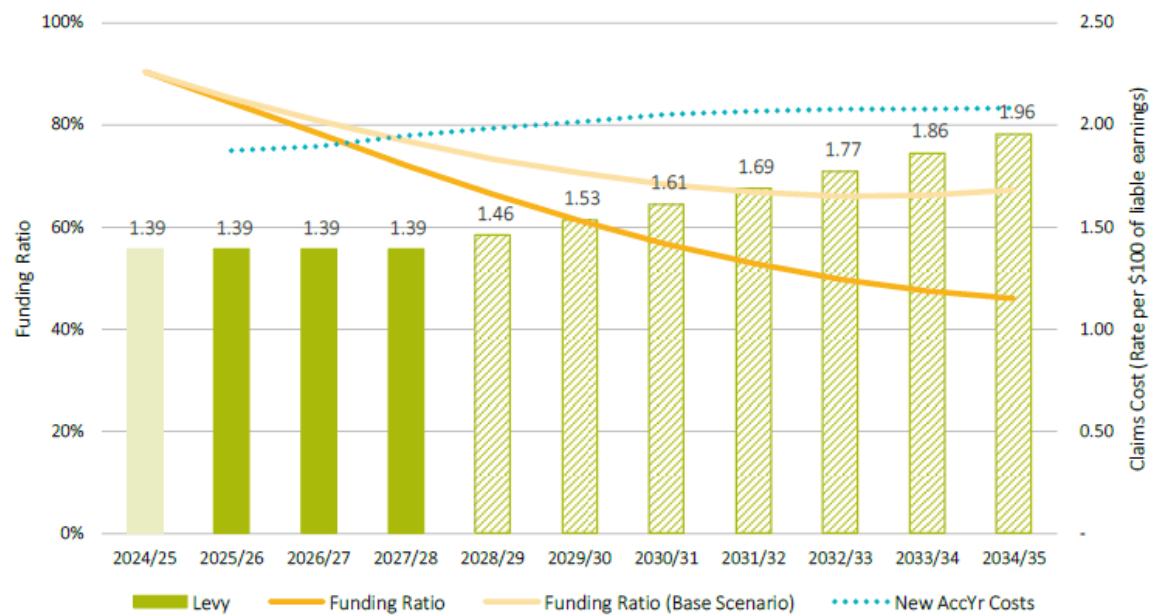
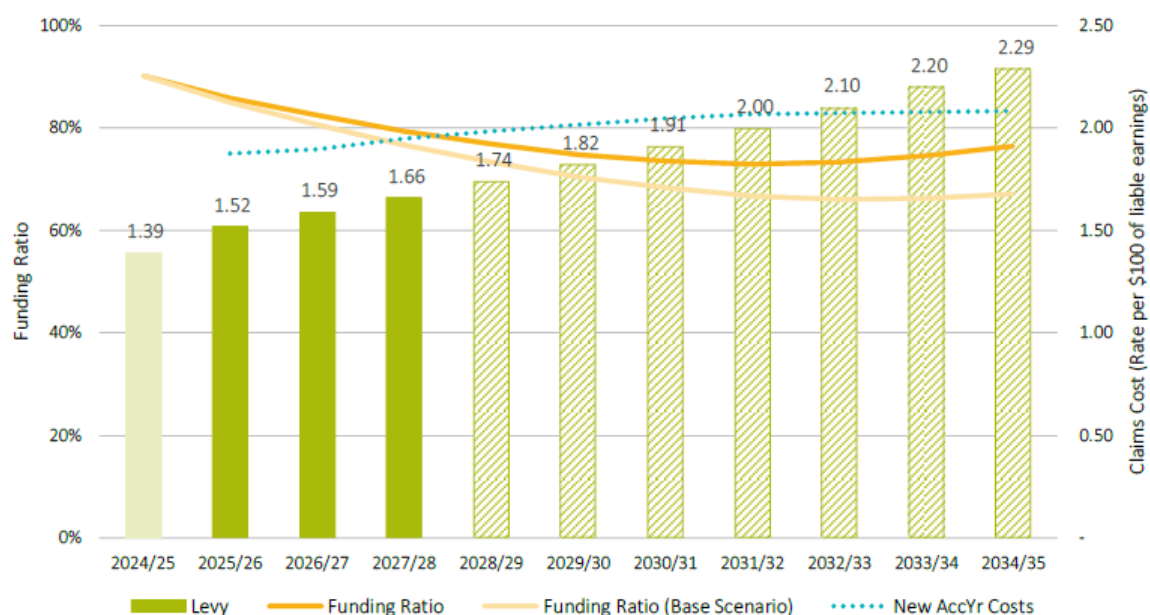


Figure 5: Projected Earners' Account funding position – higher increase to levies



MBIE considers it clear that levy rates need to increase at the maximum rate set by the cap for the next three years as per Figure 3 considering that the Earners' Account is already below the 100% funding ratio and levy rates are consistently below new year costs.

However, exceptional circumstances would be required to justify breaching the Funding Policy Statement and considering a higher increase like the 10% increase for 2025/26 shown in Figure 5. A slight improvement in ACC's claims management performance would have a similar effect to Option D, and a more substantial improvement should see the funding ratio starting to improve mid-way through the 10-year horizon. We consider a more substantial improvement in ACC's performance is realistic as we don't consider there has been a fundamental change in ACC's environment that means past good performance can no longer be achieved in the future.

The Minister in his letter of expectations for 2024/25 set a specific expectation for an improvement in ACC's rehabilitation performance. More recently, a financial sustainability action plan has been agreed with ACC. This sets out areas for improvement such as claims management and social rehabilitation costs.

MBIE considers increasing the levy rates for the Earners' Account as per the ACC recommendation is appropriate as:

- holding the current levy rates in place for the next three years under current projections would see the Account go below 50% solvency by the end of the 10-year horizon, requiring future levy payers to fund many years of larger increases in levy rates to return the Account to full solvency
- although the recommended increase will see the Account only start to gain solvency in year 9 of the 10-year horizon, an improvement in ACC performance (which is being sought) would bring forward this turnaround date.
- exceptional circumstances would be required to support a breach of the Funding Policy Statement, particularly when concerns are being raised about cost-of-living pressures.

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, MBIE considers without levy rates increasing at the cap, even larger levy increases in the future are likely to be required, which would have an even greater impact on the disposable

income of levy payers. These cost-of-living concerns do highlight why the Funding Policy Statement does puts a cap on increases.

Impact on the Work Account

Figure 6 below shows that with the recommended increases in levy rates options, the Work Account funding ratio is projected to fall below the 100% funding target in year 7 of the 10-year horizon. The levy rate is projected to nearly meet the new year only by the final year of the 10-year horizon.

However, with a small improvement in ACC performance in managing rehabilitation (a 1% decrease in the average duration of claimants receiving weekly compensation) the funding ratio is projected to remain above the 100% target until the final year of the 10-year horizon.

Figures 6 and 7 give Work Account funding ratio and levy projections for options A (ACC’s recommended and MBIE’s proposed levy rates) and B (Status Quo)

Figure 6: Projected Work Account funding position – recommended levy increases

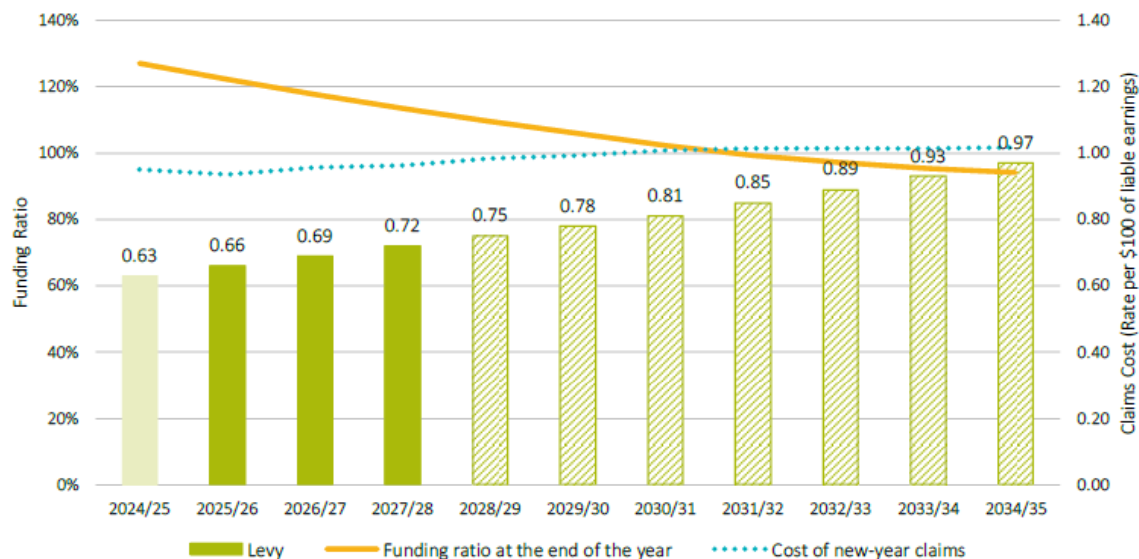
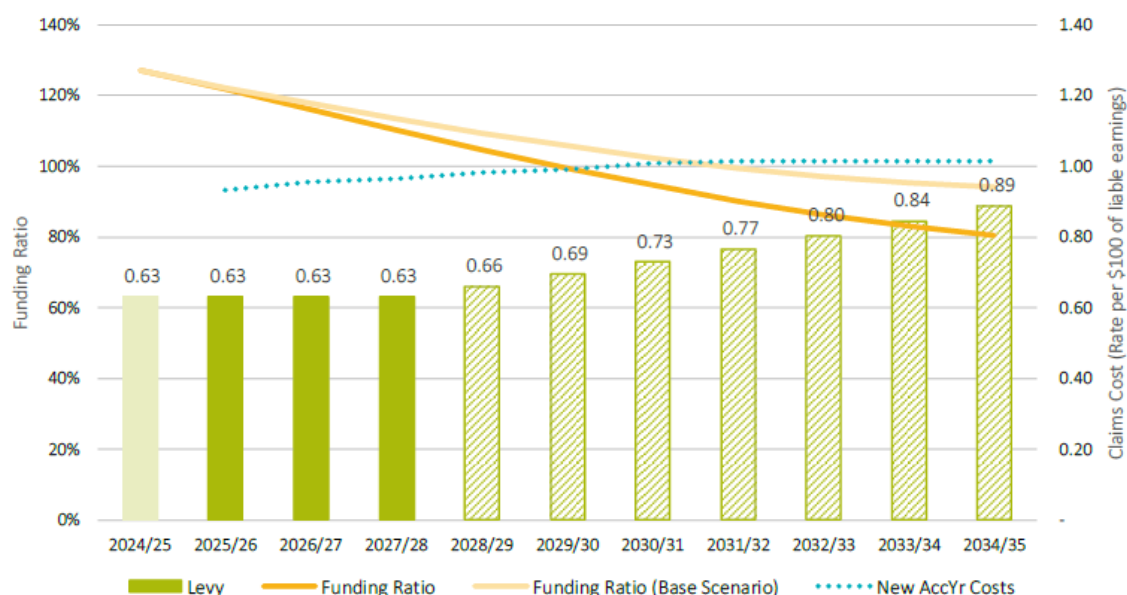


Figure 7: Projected Work Account funding position – no levy increases



MBIE considers that increasing levy rates for the Work Account as per the ACC recommendation is appropriate because:

- holding the current levy rates in place for the next three years under current projections would see the Account drop below the 100% funding ratio halfway through the 10-year horizon, requiring future levy payers to fund years of larger increases in levy rates to lift the Account back to the 100% funding ratio
- applying ACC's recommended levy increases and ACC achieving a small increase in rehabilitation performance, the Work Account funding ratio is expected to remain above the 100% target through to the final year of the 10-year horizon.

The funding ratio of the Work Account is currently the highest out of three levied Accounts so is in the healthiest financial position and significantly over the 100% funding target ratio. This means there should be less concern about levies being well short of new year claims costs.

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 and MBIE's proposed levy rates)	Option B (Status quo)	Option C (medium increase)	Option D for Earners' Account only – scoring the marginal difference of option only
Meeting the lifetime costs of claims each year	Positive (+3)	Neutral (0)	Positive (+1.5)	Positive (+0.2)
Intergenerational equity There are two approaches to this¹¹. Approach 1: drawing less from funding now, reducing the likelihood that future levy payers would need to subsidise costs of current levy payers Approach 2: drawing more from funding now, more quickly reducing the subsidy available to future levy payers or more quickly eating into reserves to push more cost onto future levy payers	(+1) Approach 1: Uses less funds than the status quo for Motor Vehicle, Earners' and Work Accounts, reducing the likelihood that future levy payers would need to subsidise costs of current levy payers compared to the status quo.	(0) Approach 2: This option uses more funds from all three Accounts, more quickly reducing the subsidy available to future levy payers for the Motor Vehicle and Work Accounts more quickly, and more quickly increasing the burden passed onto future levy payers for the Earners' Account.	(+0.5) Approach 2: This option is a compromise between Options A and B, not running down funding as quickly as Option B but still increasing the burden to be passed onto future levy payers for the Earners' Account.	(+0.1) Approach 1: Uses less funds than Option A for the Earners' Account, so reduces the burden pushed onto future levy payers.

¹¹ There are two approaches to intergenerational equity, which involve using funding differently. However, the choice may be constrained. 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 is not bound by the FPS, so could use more of the funding sooner given the current economic situation.

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 for all Accounts comes closer to projected new year claim costs.	(0) Does not reflect the latest forecast claims rates and costs.	(+0.5) Does not reflect the forecast claims rates and cost as well Option A but is closer than Option B.	(+0.1) Reflects the latest forecast claims rates and costs a little more than Option A because it comes a little closer to projected new claim costs than Option A.
Maximise injury prevention incentives by sending the right price signals	(+1) Uses less funds to subsidise levies than the status quo for all three Accounts, more clearly signaling claims costs to levy payers.	(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.	(+0.5) Uses more funds to subsidise levies than Option A, so not as good as good at signaling claims costs to levy payers.	(0) Uses less funds than Option A to subsidise levies for the Earners' Account, but any signaling of claims costs is very blunt with the Earners' Account as all earners get charged the same flat rate.
Correcting for any surplus or deficits	Positive (+0.67)	Neutral (0)	Positive (+0.34)	Positive (+0.13)
Return to target solvency	(-0.33) Moves towards the target funding ratio more slowly than the status quo for the Motor Vehicle and Work Accounts but quicker for the Earners' Account.	(0) Does not consider the target funding ratio.	(-0.16) Moves towards the target funding ratio more slowly than the status quo for the Motor Vehicle and Work Accounts but quicker than Option A, and the opposite for the Earners' Account.	(+0.03) Moves towards target funding ratio a little more quickly than Option A for the Earners' Account.
Confidence in solvency adequacy	(+1) Funding ratio of Motor Vehicle and Work Accounts would sit a little under 100% by end of 10-year horizon, while Earners' Account would almost reach 70%, over 10-year horizon.	(0) Funding ratio of Earners' Account moves below 50%, Work Account to 80% and Motor Vehicle to a little over 80% over 10-year horizon, creating a risk for Account solvency.	(+0.5) The solvency adequacy falls between Option A and the status quo option.	(+0.1) Funding ratio of Earners' Account would reach around 75%, over 10 year horizon, creating slightly less solvency risk than Option A.

Avoiding large changes in levies	Neutral (0)	Neutral (0)	Positive (+0.5)	Negative (0.1)
Levy stability (ability to plan future costs + sustainable levy path)	(0) Increasing levy rates at the capped maximum for all three 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.	(+0.5) Increasing levy rates at a medium rate for all three Accounts somewhat reduces the risk of larger increases being required for future levy rates, allowing for greater long term stability, without reducing short term stability as much as capped increases for all Accounts.	(-0.1) Increasing the Earners' levy rate at double the cap for 2025/26 reduces the risk of larger increases being required for future levy rates, allowing for greater long term stability, but is a bigger disruption to short-term stability compared to Option A.
Public interest considerations	Negative (-1)	Neutral (0)	Negative (-0.5)	Negative (-0.3)
Broader economic and social considerations (interest groups are potential future claimants and future levy payers)	(-1) Increasing levy rates for all three Accounts leaves levy payers with less money for other purposes.	(0) No consideration of public interest but levy payers are left with more money than other options.	(-0.5) Increasing levy rates for all three Accounts at a medium rate leaves levy payers with more money for other purposes than Option A but less than the status quo.	(-0.3) A bigger increase in Earners' Account levy rates leaves levy payers with less money for other purposes. This is more significant in this levy round where employees have been negatively impacted by cost-of-living increases.
Totals	+2.67	0	+1.84	-0.07

Consultation

ACC publicly consulted on its recommended levy rates from 11 September to 9 October 2024, and received a total of 8,748 submissions.

Motor Vehicle Account

Most submitters (93%) disagreed with ACC's proposed increase to the average Motor Vehicle Account levy rate and provided largely negative feedback on proposed levy rates for the different vehicle classes. ACC heard:

- the proposed increases are not reflective of risk
- the levy increases are not appropriate considering ACC levy costs are already high and people are experiencing cost-of-living pressures
- it is unfair that cyclists, e-scooter riders and other users of unregistered motor vehicles do not pay levies given their accidents are a cost to ACC.

There was a large volume of submissions from motorcyclists who felt unfairly singled out by the Motor Vehicle levy proposals. A common sentiment was that it was unfair for motorcyclists to pay 'levy per bike' considering that most own multiple bikes but can only ride one at a time.

Earners' Account

Most submitters (78%) disagreed with ACC's proposal to increase to the Earners' Account levy rate citing:

- the financial impact of levy increases on workers and self-employed people
- an unwillingness to pay more when it is believed ACC provides a substandard experience or they have had poor experiences with ACC
- concern that ACC is not effectively managing the scheme.

Work Account

Most submitters (84%) disagreed with ACC's proposal to increase the average Work Account levy, telling ACC it would negatively impact business during a time of financial pressure. ACC also heard concerns that:

- ACC is not protecting businesses from misuse of the scheme by employees
- levies need to better reflect business risk profile and employee activities
- ACC should explore cost-saving measures that improve operational efficiency rather than relying on levy increases.

Reaction

Considering the Funding Policy Statement and cost pressures faced by ACC means that levy rates have to increase. However, MBIE considers that cost-of-living pressures mean it is important that increases be no higher than the caps set by the Funding Policy Statement. MBIE also agrees that ACC should be improving its performance.

Conclusions and recommendations

MBIE agrees with the ACC recommendations that levies for all Accounts be increased at the maximum allowed by the cap set by the Funding Policy Statement for 2025/26, 2026/27, and 2027/28.

These levy rates will meet the policy objectives by coming as close as allowed by the cap to meet the lifetime cost of claims in relation to injuries that are expected to occur each levy year, and correct for over-funding of the Motor Vehicle and Work Accounts. The

recommendations also avoid large changes in levy rates and have regard for public interest, although the increases are still relatively large given inflation is expected to return to levels below 3%. The medium increase option for levies (Option C) would be less disruptive to levy payers but would result in levy rates falling short of new year costs for all Accounts for the whole 10-year horizon.

The recommended levy rates increase the likelihood that levy rates will need to be increased by a greater amount in the future, compared to imposing above-cap increases like Finity proposed for the Earners' Account for 2025/26. However, MBIE considers that cost-of-living pressures mean it is important the Funding Policy Statement caps apply. Taking action to improve ACC's performance and ensure that influenceable costs are being managed effectively is the best way to balance the interests of current levy payers against those of future levy payers. It will also help address the concerns about ACC's performance that were raised by submitters during consultation. To this end, MBIE and Treasury have progressed work to provide increased oversight of ACC's performance, and a financial sustainability action plan has been agreed with ACC.

Implementation plan

Regulations must be made to enable the collection of the new levy rates from 1 April 2025 for the Work and Earners' Accounts, and 1 July 2025 for the Motor Vehicle Account.

To enable the new Earners' Account levy rate to be in place on 1 April 2025, Inland Revenue requires notification of the approved Earners' Account rates by mid-December 2024 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.

Any adjustments to the underlying levy framework are first proposed as part of the levy consultation process. The resulting changes that are agreed by the Government are implemented by updating the levy collection system, allowing sufficient time for system updates and any levy payer notification (eg vehicle licensing reminders) to be issued.

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 2027, when the 2028/29, 2029/30, and 2030/31 levy rates are set.

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

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.

In addition, both MBIE and Treasury have recommend progressing work to provide increased oversight of ACC's performance. This may take the form of a third-party review commissioned by the ACC Board, or independently, to consider how ACC are addressing their long-term cost growth and challenges with rehabilitation performance.

MBIE's independent actuary Finity considered that ACC applied the Funding Policy Statement appropriately, and that ACC's recommended levy rates are reasonable.