Funding Policy Statement in Relation to the Funding of ACC's Levied Accounts

This statement has been issued under section 166B of the Accident Compensation Act 2001 ("Act").

In accordance with section 331(3) of the Act, the Accident Compensation Corporation (ACC) must give effect to this statement when recommending the making of regulations prescribing the rates of levies to the Minister for ACC.

Purpose

The purpose of this statement is to set out the Government's policy with respect to the funding of ACC's levied Accounts:

- the Earners' Account (including any part of the Earners' Account required to fund the Treatment Injury Account in accordance with section 228 of the Act);
- the Work Account; and
- the Motor Vehicle Account.

Accident compensation is by nature a long-term activity with liabilities that stretch over decades. In setting levies, it is necessary to consider the long-term nature of the claims they will fund as well as provide levy payers with reasonable stability of levy rates over time. This statement informs ACC of the Government's expectations with regard to these two factors. In particular, the statement is intended to improve:

- transparency around funding decisions, by making it clear how today's funding decisions will impact the scheme over future periods; and
- consistency and stability in decisions over time, by imparting a longer-term focus.

Principles of Financial Responsibility in Relation to Accounts

This policy statement is consistent with the principles of financial responsibility outlined in section 166A of the Act. Specifically, section 166A requires the cost of all claims under the levied Accounts to be fully funded. This means adequate assets must be maintained to fund the costs of claims. To achieve full funding when setting levies, section 166A requires the Minister for ACC to have regard to the following principles:

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

It is acknowledged that there may necessarily be trade-offs between the principles of financial responsibility. The statement below reflects the Government's weighting of those principles.

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

a. ACC must base the aggregate levy rate for a year on the expected lifetime cost of claims in relation to injuries occurring in that year ("expected lifetime cost of claims in the levy year").
b. Each Account must target a funding ratio of 100%. The funding ratio is calculated by dividing the assets by the liabilities. The assets are defined as the total assets reported in the annual report less:

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

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

    including:

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

and excluding:

- liability for the AEP
- the OCL risk margin.

c. ACC must include an adjustment to the aggregate levy rate that takes the Account's funding ratio to the target defined in b. smoothly over a ten-year horizon. This is to be achieved by setting the adjustment at a fixed proportion of expected lifetime injury costs in the levy year, and for each year over a ten-year horizon.
d. Any annual increase to the aggregate levy rate for each Account must not exceed 5% (in addition to inflation adjustments for the Motor Vehicle Account).
e. Steps a. to d. are repeated for each levy year in the period for which ACC is recommending levies.

Dated this 10th day of March 2021.

HON CARMEL SEPULONI, Minister for ACC.

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