



ACC FUTURES COALITION

Financial, Actuarial, & Levy Policies

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This document outlines the ACC Futures Coalition's fiscal policy position. It will be updated regularly, and ought to be considered a "living document".

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ACC Futures Coalition Policy Proposal

Standardisation of the Levy System

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Summary

ACC Futures Coalition supports the Woodhouse principles for ACC, and sees ACC first and foremost as **social insurance**, as did Sir Owen Woodhouse. Over the years since the classic 1967 Woodhouse report, ACC has been gradually reframed around private insurance principles. The coalition supports a return of ACC to social insurance to allow ACC to evolve successfully in the very changed times of the 21st century and to better address accident prevention and other goals.

Problem:

Over the long history of ACC there have been debates about whether ACC should be PAYGO or funded. To build up a fund is not a condition of other social provision such as healthcare, education, pensions. Today's arrangements of fully funding ACC stem from the implicit assumption that while ACC is run by the state, it is really, just like private insurance and should follow the same accounting rules. It should be funded by levies that are set according to risk classification and adjusted by experience rating to promote safety incentives and fairness. There must be enough assets on hand to meet all the future costs of accidents that have already happened. This estimated sum called the Outstanding Claims Liability is the outcome of complex actuarial calculations whose underlying assumptions are contestable.

The problem is that in practice:

- The scheme does not reflect the nature of modern work in the 21st century. The boundaries between work and non-work and between compensational accidents and disability from other causes including long term exposure to various toxins or mental trauma are increasingly hard to sustain or justify.
- The current cumbersome and expensive levy arrangements are a drag on ACC's potential in the 21st century. Moreover, the levy system has little or nothing to do with fairness or with the aim of promoting safety and denies the inter-related nature of economic activity.
- Reducing the Outstanding Claims Liability has come to dominate as a fiscal goal at the expense of the needs of injured clients, and the goals of prevention and rehabilitation.

Solution:

The ACC Futures Coalition asks for a return to ACC as social insurance to align with the principle of community responsibility. In the social contract we gave up the right to sue for personal injury. Proving fault is no longer the basis of treatment and compensation. Inter-independence of so much economic activity requires we share in the costs of injury.

The idea that the cost of accidents can be attributed in a way that makes differential levies meaningful is past its usefulness. A significant simplification is proposed:

- The work account to be funded by a flat rate levy, as is the Earners account. The complex and expensive edifice of levy setting, administration, experience rating, rebates and penalties would be abandoned along with the accredited employer scheme as argued by the ACC Futures Coalition elsewhere.

- The ACC would maintain their ownership of the current reserves (\$52.1 billion June 2025) to generate income to supplement levies and government appropriations, and to act as a buffer. They would be set cover several months of current year claims expenses and allowed to fluctuate within a range before triggering a levy adjustment. Currently the reserves represent about 80 months of claims expenses.
- The OCL would not appear on the Crown Balance sheet but a simple version of it may be retained within ACC if useful for claims management purposes.

Background

Current funding arrangements

In brief, ACC comprises 5 different accounts with different funding arrangements. To get a rough idea of the size of these accounts the following gives an estimate of their share of total 2024/25 revenue of \$6,798 million (levies and government contributions).¹

Account	Revenue share (approx)
Motor Vehicle	483 / 6,798 = ~ 7.1 %
Work	997 / 6,798 = ~ 14.7 %
Earners	2,811 / 6,798 = ~ 41.3 %
Treatment Injury	424 / 6,798 = ~ 6.2 %
Non-Earners	2,082 / 6,798 = ~ 30.6 %

We note the importance of the three **major** accounts: work, earners and non-earners accounts.

- **The work account** is small (14.7%), used for work-related accidents and is funded by an exceedingly complex set of levies differentiated by presumed industry risk.
- **The earners account** (41.3%) is much more significant, pays earnings related compensation for non-work accidents but is funded by a flat rate levy on liable earnings of 1.52% before GST, 1.75% including GST.
- **The non earners account** (30.6%) is largely for medical and rehab costs and is funded by a government appropriation

Each year the ACC accounts for itself under accrual accounting rules. It has revenue from levies and government contributions, **and** it has investment income from returns earned on its accumulated funds.

- The investment funds held by the ACC generate a cash return that is used together with current levies and government appropriations to meet the current cost of claims including those of past years.
- Each of the sub accounts is supposed to be fully funded i.e. have enough in reserves to cover the future costs of accidents that have already occurred. The future cost is

¹ From **Table 28** in ACC's "Financial Condition Report 2024", the projected revenue (levies + appropriations) for 2024/25

called the outstanding claim liability (OCL) and is a complex actuarial calculation. Some subaccounts are underfunded, some overfunded.

- The overall 'Outstanding Claims Liability' of ACC (2024/25) sits on the Crown balance sheet at \$63.6 billion.

Origins of the requirement to be fully funded

The requirement that ACC be 'fully funded' as per private insurance took hold in the early 2000s. However, reserves were always a feature since ACC's inception. In the early years, in the transition from limited coverage under the Worker's Compensation Act, the levies collected had to be higher than the current year's claims as befitting an immature scheme. In the 1970s and 1980s reserves built up and might have plateaued as the scheme matured, but especially in the 1990s they led to demand for levy reductions and when run down it led to cries of insolvency and to perceptions of instability.²

Accounting issues

Full funding is expensive with regular actuarial assessments required to measure the outstanding claim liability (OCL) that sits as a giant liability on the Crown balance sheet. It is a very complex calculation, very sensitive to the many assumptions made and entails much uncertainty as set out [the annual report 2025](#).

- ACC is a statutory monopoly with no individual contracts or opt-outs; Applying IFRS-4 accounting standards that apply for private insurance is arguably a category mistake — it imposes private-market discipline on a public social scheme.
- Although ACC aims to be fully funded, there is a portion of the OCL that is not required to be the credit risk premium. The new IFRS-17 has led to the recent decision to wipe this portion (\$7 billion) off the OCL. It acknowledges social insurance does not need a credit risk premium.³
- The logic suggests that neither does it need the OCL to sit on the Crown balance sheet. We do not have an OCL for other major social insurance programmes. Neither is it necessary to report changes in the OCL as an expense.
- The government is already removing the ACC from its deficit measure to make their preferred deficit measure, the OBEGALx less volatile. The OCL likewise should not be reported on the crown balance sheet because **ACC is social insurance**, like NZ Super that is not fully funded but has reserves (held in the NZSF).
- The UK and most of Europe treat injury compensation as part of social security, funded annually. NZ is unusual in carrying such a large liability on its balance sheet. The OCL makes the Crown's Net Worth look misleadingly low and may affect perceptions of fiscal management.

² St John, S. (2010). ACC: The lessons from history Policy Quarterly, Institute of Policy Studies Victoria University of Wellington. 6(2), 23-29.

³ According to the article "[Why a Government change reducing ACC's liability by \\$7b will not reduce levies - NZ Herald](#)" (published 22 July 2025), the change involves **removing a 12.7 % risk margin** currently added to the central estimate of the OCL. This reduction of the risk margin is estimated to shave off around NZ\$7 billion from the OCL.

- Full funding makes levies more volatile, because OCL jumps when discount rates or actuarial assumptions shift. Eg: small changes in long-term interest rates can add billions to reported liabilities: and where there is expansion of ACC to cover past events (historic abuse) or possible new coverage (eg Long Covid) to reflect the different needs of the 21st century.
- Full funding discourages government from expanding entitlements (e.g. better support for sensitive claims), because the liability impact must be recognised upfront as an increase in the OCL expense.
- ACC could still do its own ball-park calculation of the outstanding claims liability if it is useful, but the OCL would no longer sit on the Crown Balance sheet, nor would the annual changes in the OCL affect ACC's current budget balance.

The ACC futures coalition will progress work on these proposals.

The levy system

A complex set of risk related levies is employed to fund the work account- which remember is around only 15% of funding sources (see above). It is a relic of the pre-ACC days when limited coverage for work accidents was funded by compulsory levies by state insurance, and at times private insurance. It reflects a pervasive view right from the beginning that ACC is just private insurance writ large and needs to adhere to private insurance principles. A major principle is that premiums or levies paid should reflect the risk of the industry.

Industry Risk Levies

ACC uses a system to adjust what businesses pay (their *Work levies*) based on their safety performance and risk profile. [The ACC levy guidebook](#) takes 148 pages to set out **Industry or classification units and levy risk groups**. Self-employed people and employers must choose a business industry classification (BIC) code based on their main activity. This is tied to a five-digit numerical code (CU) that groups similar risk industries for levy calculation.

In 2025/26, ACC's risk-rated levies range from only a few cents per \$100 of liable earnings in low-risk eg 'computer systems design and related services' to \$3.11 per \$100 for meat processing, \$2.89 for shearing, \$2.47 for commercial fishing, \$2.31 for roofing and bricklaying, and \$2.23 for forestry and logging, before the Working Safer levy of \$0.08 per \$100, collected by ACC on behalf of WorkSafe, and before GST. The highest base levies of \$5.41 per \$100 include professional rugby, rugby league, motorcycling and some thoroughbred horse-racing activities.

Experience Rating

A differential levy system on its own has no built-in incentive for an individual firm to reduce accidents as one firm cannot influence the levy rate itself. [Experience rating](#) is supposed to reward 'safe' employers and penalise those who high claims records and thus create an incentive for improving safety.

[A No Claims Discount for small employers was abolished](#) following a review in 2024 but larger employers in ACC's Experience Rating programme can still receive a **discount of up to 50%** or a **loading of up to 100%** on their Work levy. This scheme is now self-funding: participants must pay an additional **7.2%** of their Work Account levy, based mainly on their claims experience. ACC uses three years of claims history, with loading for fatal claims. However, successive reviews have found little evidence that experience rating reduces workplace injuries.

The self-employed do not sit comfortably in this regime.

While levies may be adjusted by experience rating (discounts penalties), that requires that the levies are set correctly in the first place otherwise adjustments may arise from misclassification of the firm to a BIC and have nothing to do with safety experience. It must be remembered that the bulk of levy income comes from the earner's flat rate levy and government appropriations for nonearners and vehicle drivers, none of which is clearly risk-related.

Every three years the base levies (both the flat rate and the risk adjusted levies) are reviewed and ACC makes recommendations for future adjustments. This is a very cumbersome process: some of the complexities for the latest round are set out here: [Setting the average ACC levy rates for 2025/26, 2026/27, and 2027/28](#)

Motor Vehicle Account

The problems with risk-based levies are also evident in the Motor Vehicle Account. Recent protests by motorcyclists against proposed ACC levy increases⁴ have highlighted the perceived unfairness of attributing injury costs from crashes to particular classes of road users.

The current distinction between cars and motorcycles mirrors the same flawed private-insurance logic that underpins differential work levies and sits uneasily with a comprehensive social insurance scheme.

While motorcycles are associated with higher rates of serious injury, many motorcycle crashes involve other vehicles, with motorists often failing to see or yield to motorcyclists. While a no-fault scheme, ACC attempts to allocate costs to particular vehicle classes and that gets reflected in the levies paid by those classes.

Road use is an interconnected activity in which all users benefit from the transport system, and all contribute to the risk environment. Just as Woodhouse argued for community responsibility, there is a strong case for replacing differential motor vehicle levies with a simpler flat-rate approach across vehicle classes, particularly cars and motorcycles. Such an approach would reduce administrative complexity, and better reflect the social insurance principles on which ACC was founded.

The MV costs also include weekly compensation which is out of step when levies for the MV account are not earnings-related. It would help the process of flattening the MV levies to remove earnings related compensation and cover this in the non-work earners account.

⁴ The controversy surrounding motorcycle levies was highlighted in May 2026 when around 400 riders participated in a Motorcycle Advocacy Group New Zealand (MAGNZ) protest ride across the Auckland Harbour Bridge opposing ACC's planned levy increases and new engine-size classifications. Motorcyclists argue that the proposed increases are unfair because they attribute injury costs to motorcycles as a class, regardless of the circumstances of individual crashes.

Discussion

The work-related part of ACC is based on a complex set of differential levies and classes. These are impossible to justify as an extensive literature exposes.⁵ Levies based on 'risk' are **not fit for purpose**⁶ especially given the inter-independence of so much economic activity. We share in the benefits when risks are taken by some and should share in the costs of injury. If for example I have a desk job in a scaffolding or forestry business, my job depends on other employees taking risks. The safety of my home may require firefighters or flood rescue workers to take risks. Many enjoy watching rugby and other high injury sports. Woodhouse saw the interdependence of economic activity justifying a flat rate levy.

On their own, levies cannot be described as an incentive to adopt safe practices. Various trials of experience rating to reward and penalise safe and unsafe behaviour, are highly problematic.⁷ We already spread the costs of accidents to non-earners and non-work accidents to earners with a flat rate approach. As noted, the work-related accident component is funded by risk related levies is but one small part of the total scheme.

Experience or merit rating has multiple statistical and measurement issues. They appear to have had no measurable effect on the high accident rates in New Zealand. The impossibly complex system is expensive to run and involves time consuming consultation on any levy changes.

The boundary between work and non-work accidents has become much harder to draw in the modern 'work from home' world. The nexus between work related and other causes is grey especially with outcomes like occupational disease that may be slow to emerge. Recognition of exposure effects may increase over time, and more situations demand to be covered including mental health issues from trauma, sensitive claims, hearing loss.

An accident that happens at a place of work, eg White Island eruption, Air NZ crash in the Antarctic, may affect many non-employees, (tourists and travellers) but those costs are not attributed to the work activity even there is clear fault of the workplace operation. Likewise, accidents may arise from unsafe consumer products, such as flammable lounges and cannot be attribute to an industrial activity.

The 'why' of the proposals

There are huge opportunities given the well-funded nature of ACC. Over time the buffer of ACC's large reserves could be managed to extend the coverage of ACC as social insurance to cover more disability. Currently the ACC says very little about the purpose of the fund even though it wants the fund 'purpose to be clear'.

In the statement⁸ about investment beliefs ACC says:

⁵ See for example, St John, S. (2020) [Reflections on the Woodhouse Legacy for the 21st Century](#), 51/2 VUWLR p 293-312; St John, S. (1981). 'Safety Incentives in the New Zealand Accident Compensation Scheme.' *New Zealand Economic Papers*, 15; Lamm, F. McDonnell, N., & St John, S. (2012) The Rhetoric versus the Reality: New Zealand's Experience Rating, *New Zealand Journal of Employment Relations* 38(2):21-40.

⁶ See for example St John, S (2024) [Ballet dancing is as dangerous as rugby? Or is the complex super structure of levy setting dangerous to much needed 21st century reform of ACC](#), Daily Blog, 24th September
St John, S (2024) [We do not need ACC levy increases](#) Daily Blog, 22th September Rennie, D & St John S (2024) [Should ACC levies be raised?](#) PIE Commentary 2024-6, 20th September

⁷ Clauses 328-336 of the Royal Commission Report (date) rejected the effectiveness of merit rating as a means of improving safety or reducing workplace accidents. It can even have a contrary effect. For obvious reasons, non-work injuries cannot be classified on the basis of risk.

⁸ <https://www.acc.co.nz/about-us/our-investments/investment-beliefs>

“The fund should be clear about its purpose in terms of cash flows, time horizon, tolerable risks and the desire for intergenerational equity.”

Sometimes it is argued that the younger generation are protected by full funding. The arguments around intergenerational equity will be further fleshed out by the ACC Futures Coalition. In the meantime, it is noted that intergenerational equity is more likely to be enhanced by the expansion of coverage. The sizeable funds already accumulated should be used to promote a social insurance approach.

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