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Briefing paper to Hon Scott Simpson  
Minister for the Accident Compensation Corporation

## **A broken workers' rehabilitation system and its wider negative impacts**

### **Introduction**

When an employed person suffers an injury which requires time off work, regardless of where it occurs, they receive Weekly Compensation (Weekly Comp) from the ACC at the rate of 80% of their wages/salary, and they are provided with rehabilitation services (rehab), mainly in the form of Musculo Skeletal therapies (MSK) and/or Vocational support (VOC). MSK generally involves physiotherapy or some other physical therapy, while VOC generally involves occupational health and related support.

In recent years, the growth in ACC funding for rehab has failed, by a significant margin, to match the growth in number of injury-related claims. The funding has also grown considerably more slowly than spending on Weekly Compensation. These things imply an under-provision of care for working people who have suffered injuries. ACC also changed its case management model, such that it has become more difficult for rehab providers to take clients through to full recovery.

There have been two broad immediate effects of these two changes. Firstly, there has been an increase in the delay between an injury being incurred and the start of the rehabilitation support. Secondly, because of constrained funding for rehabilitation support, there has been a growth in the average time that injured workers spend in rehabilitation and, consequently, the amount of time during which people receive Weekly Compensation.

The wider effects of the changes outlined above are three-fold:

1. Injured people endure more pain and suffering (including loss of income and possible loss of job) than is necessary.
2. ACC spending on weekly comp claims has blown out, with a 68% increase in 7 years.
3. There is an avoidable loss of productive capacity in the economy, which we estimate to be in the region of an aggregate loss of productive capacity in 2023/24 of \$12.2 billion.

## The evidence

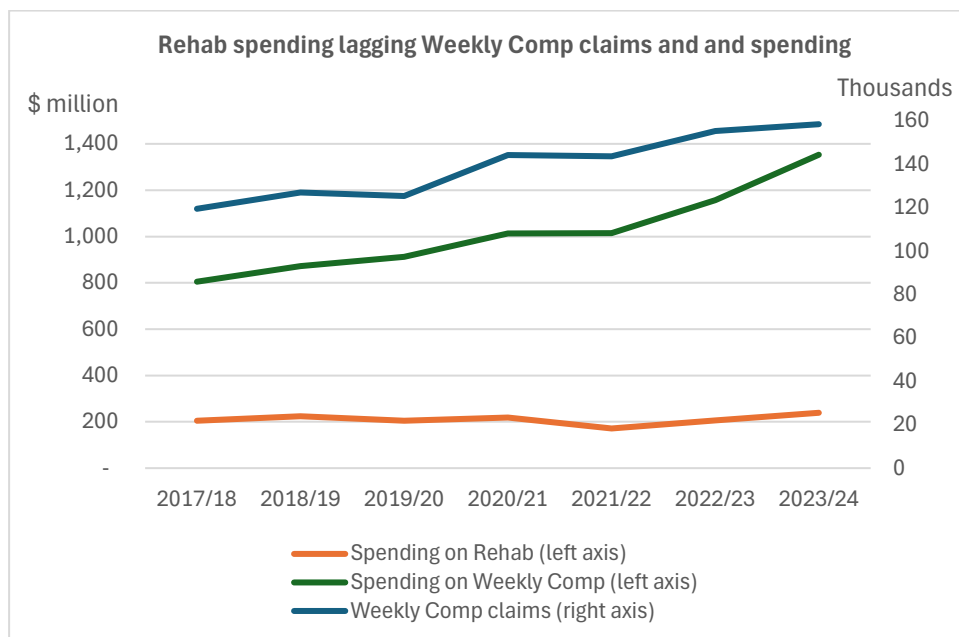
The graph below is based on data from ACC's Annual Reports, and it compares the growth in ACC's spending on rehab services (MSK plus VOC), with the number of Weekly Comp claims and spending on Weekly Comp.

The graph indicates that, between 2017/18 and 2023/24:

- spending on rehabilitation services increased by just 17% overall,
- while the number of claims increased by 33%<sup>1</sup>, and
- spending on Weekly Comp to meet the claims increased by 68%.

In other words, the amount of spending on Weekly Comp increased four times more rapidly than spending on rehab services in six years. Moreover, it is clear that this blowout in Weekly Comp spending is not solely the result of the increased claims.

The data underpinning the graph imply that the average rehab expenditure per claim has fallen from \$1,714 in 2017/18 to \$1,512 in 2023/24. This is even before allowing for inflation.



As noted earlier, the immediate effects of constrained rehab spending and the changed case management model have been both an increase in the delay between referrals for rehabilitation support and the start of the support, and an increase in the amount of time during which people receive Weekly Comp.

<sup>1</sup> Interestingly, the period covered by the graph spans the Covid 19 period when it would have been difficult for injured workers to receive treatment/rehabilitation, given the inability to access services. On the other hand, a smaller number of claims might have been expected, given that people were effectively "locked up" during the pandemic. The graph implies that the number of claims flat-lined but did not fall.

In mid-2018, the median time between an injury occurring and a referral for Stay at Work rehab support was approximately 70 days<sup>2</sup>, but this had increased to approximately 120 days by mid-2021<sup>3</sup>.

Data also shows that the average duration of Weekly Comp claims was around 10 weeks in 2018, and that this increased by roughly two weeks every year, so that it reached 22 weeks by 2024<sup>4</sup>.

In more detail, the blowouts in the delay between injury and referral, and in the time spent on Weekly Comp, reflect a number of factors. First, in 2019, ACC introduced a new claims management model which did away with one-to-one case management and replaced it with one-to-many case management via a call centre. This made it more difficult for rehab service providers to gain approval for funding, and slower to progress support for their clients due to prioritisation of weekly compensation payments and a short fall of staffing leading to long delays on provider helplines.

Second, in 2021, ACC reduced the funding envelope for individual rehab cases from a maximum of around \$7,000, to a maximum of around \$3,500. Naturally, this capped the amount of rehab that could be provided. Timeframes were also introduced to delay access to funding, slowing the speed with which rehab services could be provided.

Third, because they needed to compete to retain their staff, service providers in the private sector needed to comply with the terms of the new MECA that was agreed for public sector workers in 2023. ACC funding rates for rehab services did not increase commensurately, and this meant that the providers became unable to provide the same level of support as previously. With subsequent increases in the MECA, providers are no longer able to meet the MECA rates, introducing a retention and recruitment challenge.

## Counting the cost

As noted earlier, there have been three consequences of the failure of funding for rehab services to keep up with needs, and the changed case management model. The magnitude of the consequences can be assessed with a good degree of confidence. In what follows the consequences are measured on a before and after basis by comparing the situation in the year ending June 2024 with the situation in the year ending June 2018.

### Pain and suffering

It is possible to measure the total increase in the pain and suffering endured by injured people, based on the increased claims numbers, the increased delay between injury and a referral for rehab services, and the increased length of time people have spent recovering (i.e. receiving weekly comp).

<sup>2</sup> This is based on actual data from New Zealand's leading provider of rehab services. Previously, the number had been as low as 40 days.

<sup>3</sup> The time between injury and referral tends to vary considerably from month to month. The figures quoted are 12-month averages.

<sup>4</sup> These numbers were sourced from ACC Annual Reports.

The number of claims increased from 119,000 to 158,000 during the period in question, while the average delay between injury and referral increased from 10 weeks to 17 weeks<sup>5</sup>, and the average amount of time recovering increased from 10 weeks to 22 weeks. These numbers imply a total increase of 3,782,000 weeks<sup>6</sup> that injured people endured pain and suffering before their rehab was complete. It should be noted that many workers who are injured receive no therapeutic support to help them return to work, until their rehab starts.

If the number of claims had not increased, the extra pain and suffering people would have endured solely because of the increased delay between injury and referral and additional time on rehab would have been 2,261,000 weeks. These extra two-and-a quarter million weeks can reasonably be attributed largely to the change in ACCs case management system and slow growth in rehab service funding.

### Inefficiency in the ACC

Undoubtedly, ACC could have avoided at least some of the increase in its spending on weekly comp, had it not instituted a change in its case management that contributed to increased delays between injury and referral, and had it not constrained spending on rehab services.

This argument is supported by the facts that its spending on weekly comp increased twice as rapidly as the number of claims and four times as rapidly as spending on rehab services. However, some of the increase in spending on weekly comp will have been the result of increases in average earnings, upon which weekly comp is based. Accordingly, it does not follow that a particular percentage increase in spending on rehab services would lead to the same percentage reduction in spending on weekly comp. Nevertheless, ACC's underfunding of rehab services appears perverse.

### Loss of productive capacity in the economy

When someone is injured, they might not be able to work, at least until they start receiving rehab. In other words, their productive capacity in their normal jobs will be zero. Once they start receiving rehab, they might be able to return to work, even if less productively. As their rehab progresses, they will generally be able to regain full productive capacity over time.

Data from Statistics NZ indicate that the GDP per employed person in mid-2024 was \$2,758 per week, and this number can be taken as a measure of the average worker's productive capacity. So, given assumptions about the extent to which the productive capacity of the average person is abated at the time of injury, and about the rate at which they recover to full capacity while they receive rehab, it is possible to calculate the aggregate loss of productive capacity in the economy as a result of injuries.

If it is assumed that a worker has a 100% loss of productive capacity between the time of their claim and the time of their referral for rehab, and that their capacity returns in a straight-

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<sup>5</sup> This was the increase only between 2017/18 and 2020/21, so it might have been greater by 2023/24.

<sup>6</sup> i.e. 158,000 claims multiplied by the combined time waiting for a referral and the time in rehab in 2023/24, less 119,000 claims multiplied by the combined time waiting for a referral and the time in rehab in 2017/18.

line fashion to full capacity by the time they finish their rehab<sup>7</sup> it can be shown that the aggregate loss of productive capacity in the economy in 2023/24 was \$12.2 billion<sup>8</sup>.

If the length of time between claim for an injury and referral, and the time spent in rehab, had not increased in the way they did between 2017/18 and 2023/23, the aggregate loss of productive capacity in the economy in the latter year would have been \$6.5 billion.

The difference between the actual \$12.2 billion loss of productive capacity in the economy and the \$6.5 billion it would have been if the delay between injury and referral, and the extended time in rehab, had not increased in the way they did can be largely attributed to ACC's decisions.

It should be noted that the estimated \$12.2 billion aggregate loss of productive capacity in the economy does not equate to an equivalent loss of GDP. This is because, in many cases, the work normally done by an injured person could be backfilled by their colleagues, through overtime for example. However, backfilling won't always be possible, and there will be a non-negligible impact on GDP, nonetheless.

## Conclusions and recommendations

The negative impacts of ACC's failure to increase its spending on rehabilitation services for injured workers, coupled with the change in its case management system, have been significant.

These negative impacts have been largely avoidable, but they could be disregarded by the ACC because, in the case of both increased pain and suffering, and loss of productive capacity in the economy, they are external to the organisation.

We believe that the losses we have illustrated are attributable to the fact that the incentives on ACC to (a) accept claims and (b) manage them are weak, given that they are effectively a state-run monopoly and don't face any competition (apart from larger employers being able to partially self-insure for ACC claims). Moreover, the scheme is funded by compulsory contributions from employers, earners, and motor vehicle owners, so ACC doesn't directly face effective incentives to rigorously monitor claims and could be considered keener on considering (short-term) political risks rather than running an efficient accident insurance scheme.

Based on our findings, we recommend that the ACC should:

1. Revert to the previous one to one case management approach to ensure that rehab starts sooner and progresses faster, and
2. Revert to the previous level of spending, adjusted for inflation and the increased number of claims, on rehab services.

<sup>7</sup> This implies average loss capacity of 50% during the time spent in rehab. Every person's recovery is different, but the majority of people will follow some form of straight-line hours increase within their plan. There will be job specific reasons in some cases that it is more rapid, or conversely more gradual.

<sup>8</sup> i.e., \$2,758 x 158,000 cases x 17 weeks at 100% lost capacity before referral, plus \$2,758 x 158,000 cases x 22 weeks at 50% lost capacity during rehab.

Business New Zealand would welcome the opportunity to discuss the issues raised in this paper with the Minister.

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