

Workers Compensation Nominal Insurer Scheme

Valuation results as at 31 December 2013

SRWS Board Briefing
15 April 2014

Document tendered by
Michael Playford
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Chris Angus
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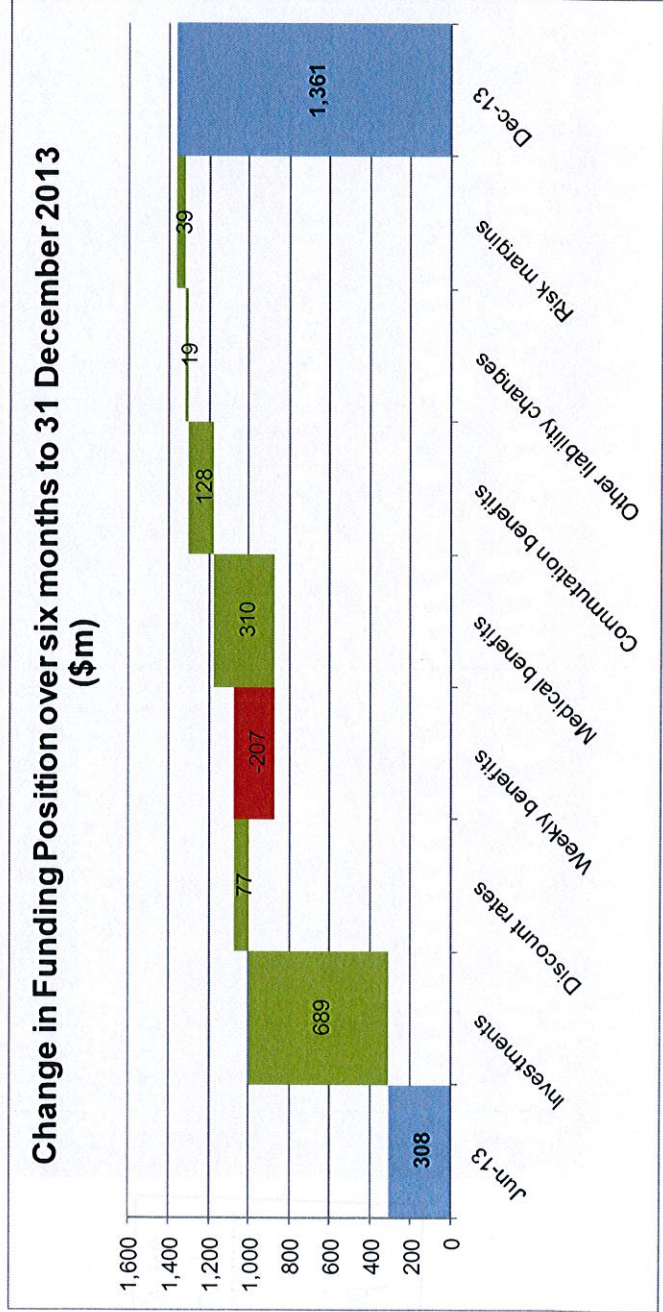
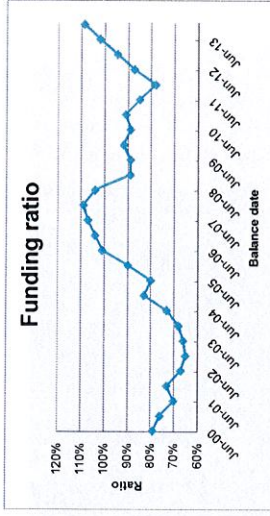
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Surplus Result (balance sheet)

December 2013: \$1,361 million surplus (funding ratio = 109%)

Previous valuation: June 2013 it was \$308 million surplus (funding ratio of 102%)

The key drivers of the \$1,053m improvement over the last six months are shown below:



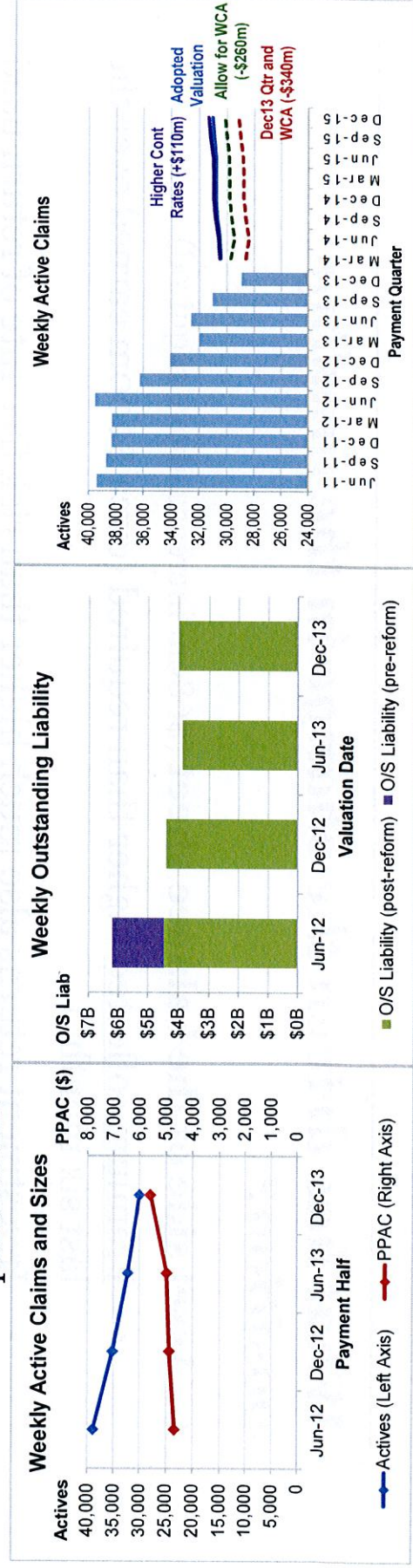
What has driven the change in the funding position?

- 1. Asset side of the balance sheet (\$689m increase above required)**
 - Premium collected higher than required (circa \$200m earned over the last six months)
 - Investment returns also much higher than risk free rate of return used to discount the liabilities
- 2. Discount rates:**
 - Increased in the six months to December 2013, reducing the outstanding claims liability by \$77m
 - Future inflation and “gap” assumptions left unchanged

What has driven the change in the funding position? (continued)

3. Weekly benefits (Largest payment type \$3,997 million, 38% gross liability, \$207m increase in liability)

- Numbers of active claims have continued to decline, but
- Significantly higher post-reform payment sizes for claims which have completed transition
- Mix of claims remaining on benefits much more skewed towards those with no work capacity
- Also reduced commutation liability by \$128m, as fewer commutations occurring post reform



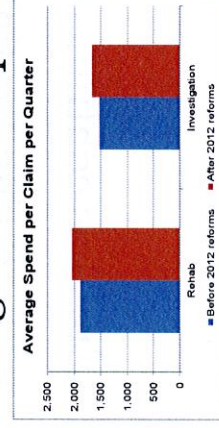
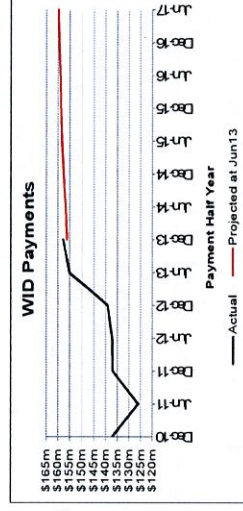
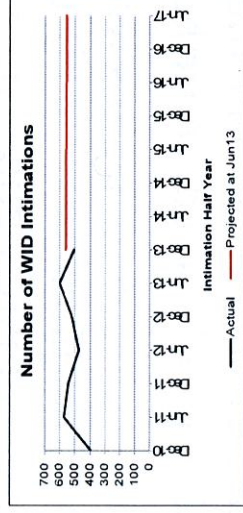
What has driven the change in the funding position? (continued)

4. **Medical benefits** (2nd largest payment type \$2,105 million, 20% gross liability, \$310 reduction)
- Numbers of active claims has continued to decline
 - Average payment size for continuing medical claims is increasing, reflecting skewness of continuing claims
 - Initial application of medical cap commenced from 31 Dec 2013. Little slippage observed, contributed to the liability reduction
 - Large number of claims were identified as catastrophic in last six months (circa 30) – likely to be once off due to case estimate changes. Approximately 280 claims account for 53% of the outstanding medical liability.

What has driven the change in the funding position? (continued)

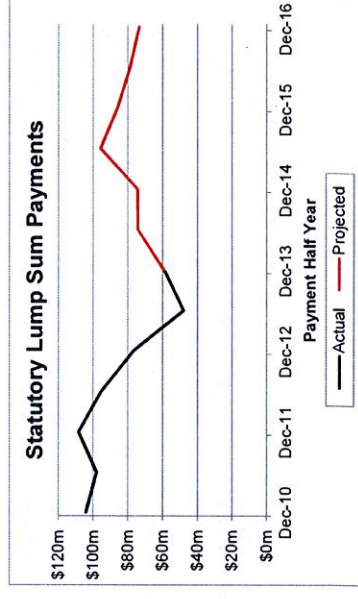
5. Other liability reductions (\$19m net reduction):

- Work Injury Damages: experience similar to expected so liability left largely unchanged
- Rehabilitation (\$72m reduction) and Investigation (\$96m reduction) Rehabilitation and Investigation costs per claim have increased...there are just fewer claims.
- Other payments increased by \$60m reflecting persistent higher payment levels in the tail



What has driven the change in the funding position? (continued)

- Statutory lump sum payment volumes have reduced due to:
 - Introduction of 10% threshold for S66 (permanent impairment) and elimination of S67 benefits (pain and suffering)
 - Backlog at Workers Compensation Commission and more general payment slow down
- Expect to pick up again as backlog sorts itself out and more Goudappel matters get paid
- Goudappel outstanding liability (including associated legal costs) is \$355m



Outstanding claims liability

Estimate of Discounted Outstanding Liability as at 31 December 2013 (\$m)
Benefit Type

	Actual Outstanding @ 31 December 2013 (based on data as at Dec-13 using new economic and actuarial assumptions)	\$m	%	Impact of Actual vs. Expected experience and change in actuarial assumptions
Commutations	168.0	-127.8	-76.1%	Commutation: reflecting reduced utilisation post 2012 reforms
Weekly	3,996.9	207.3	5.2%	
Workplace Injury Damages	1,867.1	2.6	0.1%	Weekly: Large increase in average payment size. Numbers still less than expected.
Legal Costs	524.9	-1.0	-0.2%	
Permanent Injury (Section 66)	563.4	-42.0	-7.4%	S66: Revised +/- 10% WPI assumptions
Pain and Suffering (Section 67)	193.0	0.5	0.2%	
Medical	2,104.9	-309.7	-14.7%	Medical, Rehabilitation, Investigation, Death: better than expected experience
Investigation	411.2	-25.2	-6.1%	
Rehabilitation	259.0	-9.2	-3.5%	Other: Higher liability in the tail as payments have been persistently high
Death	75.3	-6.3	-8.3%	
Other Payments	243.0	59.8	24.6%	
Pre-WorkCover Liability	0.9	0.0	-1.5%	
Asbestos	111.9	0.7	0.6%	
ULIS - Gross	106.0	2.0	1.8%	
Total Gross Net Central Estimate	10,625.5	-248.3	-2.3%	

WTD: Experience similar to expected so little change in liability

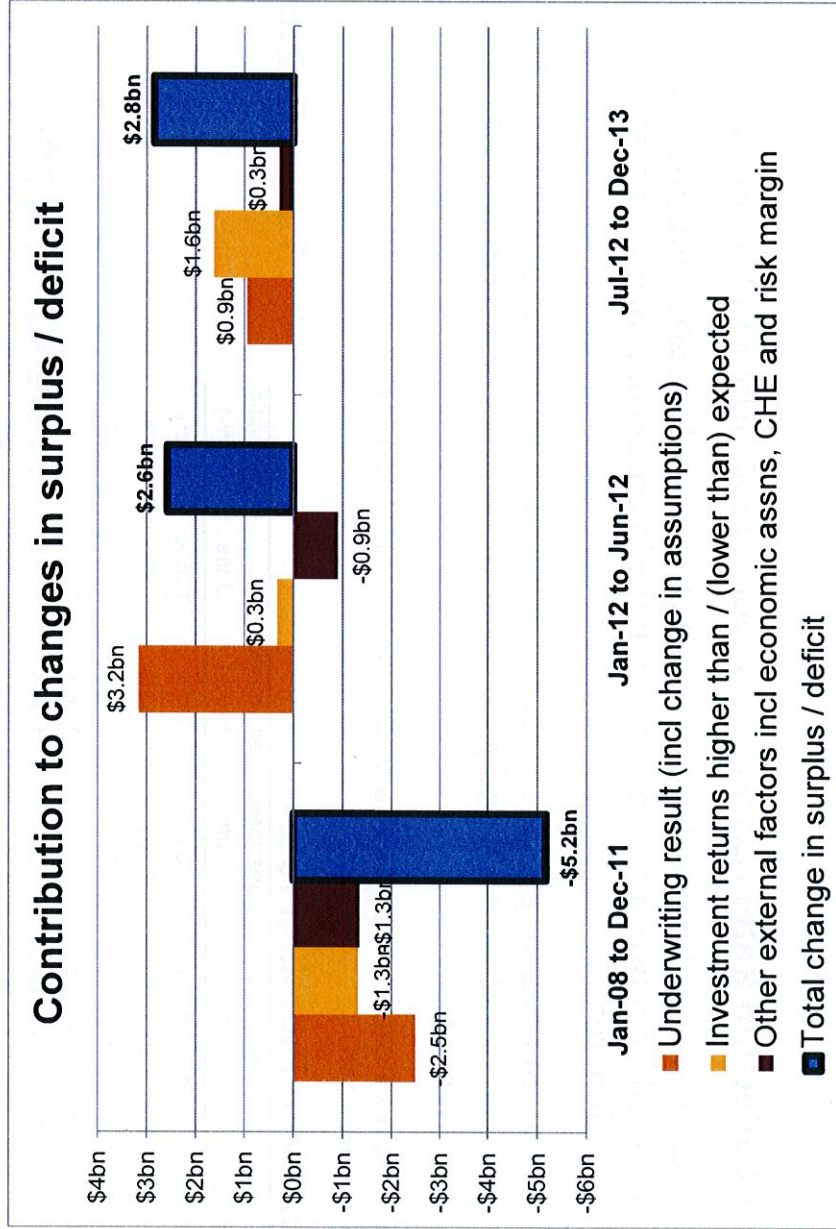
Excess Recoveries	2.1	0.0	-1.9%
Tax Recoveries	97.9	-1.0	-1.0%
Other Recoveries	252.0	0.5	0.2%
ULIS Recoveries	10.6	1.0	9.7%
Total Net Central Estimate Liability (bf CHE)	10,262.9	-248.8	-2.4%
Claims Handling Expenses (CHE)	1,085.3	8.8	0.8%
Total Net Central Estimate Liability (with CHE)	11,348.3	-239.9	-2.1%
Risk Margin	1,838.4	-38.9	-2.1%
Total Net Outstanding Claims Liability (with CHE and risk margin)	13,186.7	-278.8	-2.1%

Uncertainty around claims central estimates, not for investment risk
Risk margin of 16.2% of Net Central Estimate

Central estimate, i.e. 50% probability of sufficiency

80% probability of sufficiency

Change in funding position over time



Premium adequacy

Target Collection Rate: 1.47% (= total premium collected divided by total covered wages)

- Premium rates for policies renewing between 30 June 2013 and 30 December 2013 were reduced by between 0% and 15% with the intention of providing a 7.5% reduction in the average premium rate.
- Premium rates for policies renewing between 31 December 2013 and 30 June 2014 were further reduced by between 0% and 7.5% with the intention of providing a 5% reduction in the average premium rate.

Breakeven Premium Rate (= actuarial estimate of required average premium rate to meet expected cost of claims for 2014/15 policy renewal year)

Breakeven Premium rate

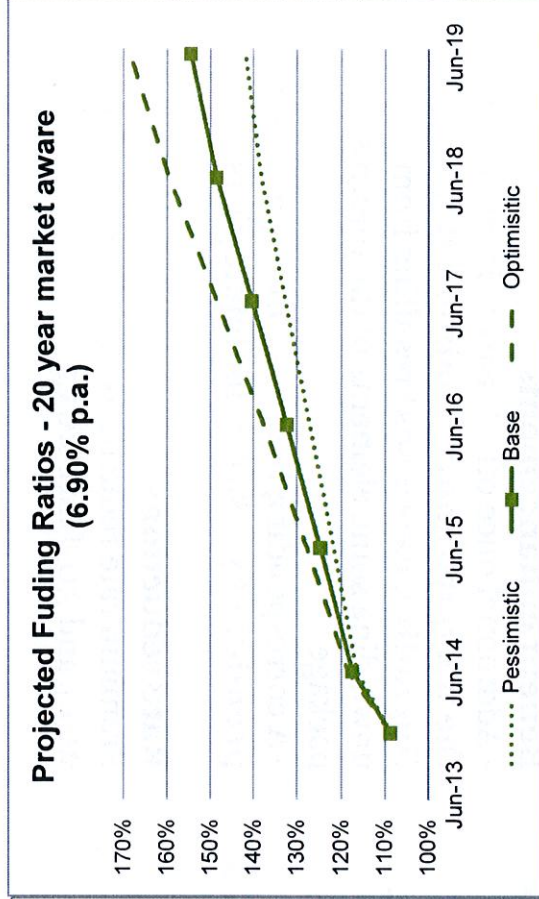
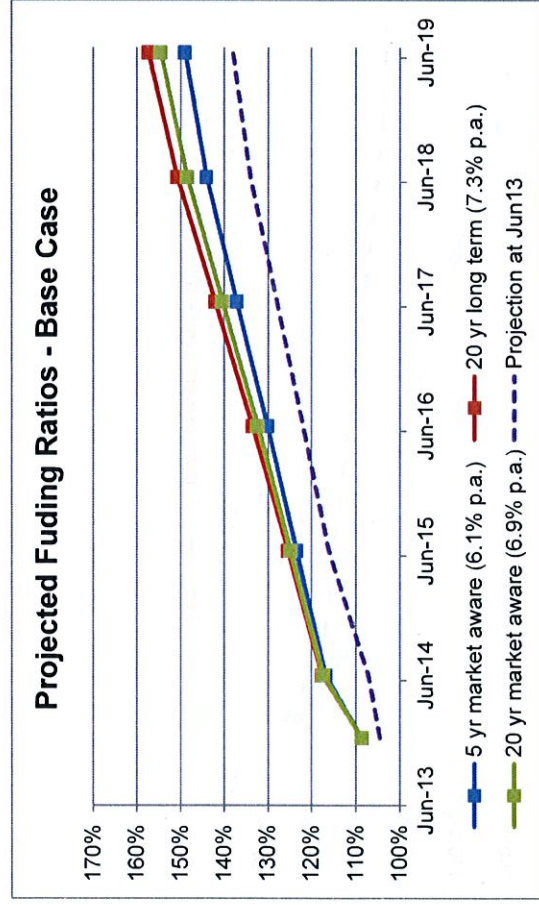
Valn date	Investment Scenario	Investment Return	Pessimistic		Optimistic	
			(+10%)	Base	Base	(-10%)
Jun-13	5yr market aware	5.80%	1.49%	1.35%	1.22%	
	20yr market aware	6.70%	1.43%	1.30%	1.17%	
	20yr long term	7.30%	1.39%	1.27%	1.14%	
Dec-13	5yr market aware	6.10%	1.36%	1.23%	1.11%	
	20yr market aware	6.90%	1.31%	1.19%	1.08%	
	20yr long term	7.30%	1.29%	1.18%	1.06%	

Target Collection Rate

1.47%

Current buffer in premium rates compared to Base scenario is 19% (equivalent to \$466m pa)

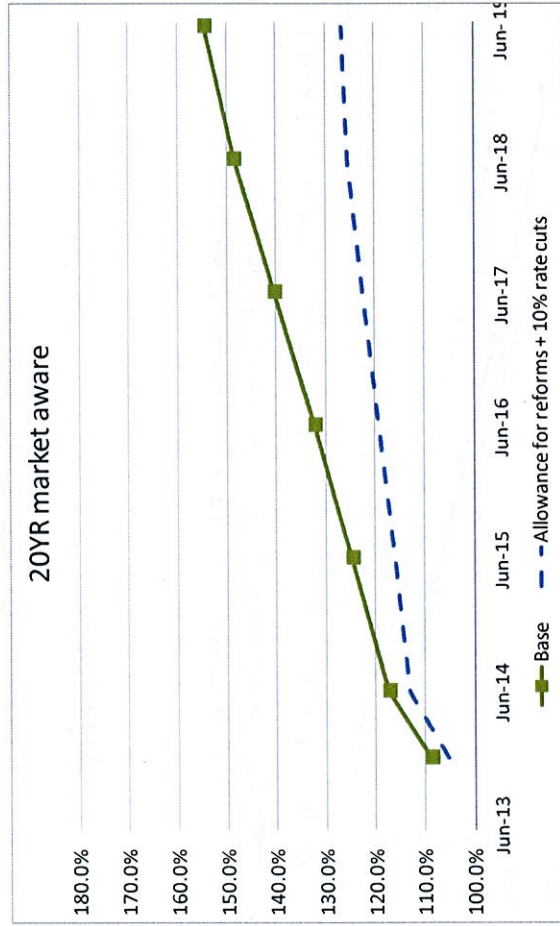
Solvency projections – base projections



Assumes:

- Premium rates unchanged
- Investment earning as per the scenario (Left hand graph)
- Future claims experience as per the scenario (Right hand graph)

Solvency projections – illustrative benefit enhancement and premium rate cuts



Scenario:

This scenario is indicative of the possible solvency trajectory under the following assumptions:

Benefit enhancements

- Additional once off ~\$500m increase in the net outstanding claims liability (including expenses) resulting from unwinding some elements of the reforms package

- A corresponding increase in breakeven premium by ~\$40m for future years

Rate reductions

Premium rate reductions of 10% at 30 June 2014 and 30 June 2015

Risks

So far so good, but.....

1. **Still major uncertainty post reform** around what a steady state scheme will look like
 - Weekly benefit payment levels
 - Continuance rates and effectiveness of work capacity decision making
 - Stability in WPI assessments
2. Risk around **new claims** – focus to date has been on existing claims transitioning
3. Potential for **precedents** to undermine reform intent (Goudappel and indexation of weekly benefits for transitional claims are two major precedents already)
4. **Work Injury Damages** remains a key risk
5. **Data coding** challenges are becoming more obvious. This may impact the ability to effectively monitor and evaluate scheme performance in future
6. Important to keep **Scheme Agents** engaged during RFP process and during the subsequent transition to the next agent contract
7. Risk that positive scheme financial situation may lead to **changes to benefit design or premium rate reductions** which may provide to be unsustainable.

Thank you



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