



Private & Confidential

Ms Carmel Donnelly
Workcover NSW
Locked Bag 2906
LISAROW NSW 2252

28 May 2012

Dear Carmel

Additional variations to benefits Estimated cost impact of changing the Whole Person Impairment threshold to access Workplace Injury Damages.

This letter is an addendum to the costing report I have already prepared for the Joint Select Committee: “*Workcover NSW Inquiry into the NSW Workers Compensation Scheme – benefit package costing*” dated 25 May 2012 (the Main Costing Report).

Increase in Workplace Injury Damages threshold

You have asked me for an estimate of the cost impact of increasing the Whole Person Impairment (WPI) threshold for Workplace Injury Damages (WID) from 15% to 25%.

The specified package (see Main Costing Report) also had other changes to WID, namely:

- Only one assessment of Whole Person Impairment (WPI) allowed.
- Introduce a robust statutory of limitations three years post injury (o emergence of the injury).
- Change in the definition of negligence to match that contained in the Civil Liability Act 2002
- Prevent nervous shock claims

The estimated cost impact on the WID liability of the either maintaining a 15% WPI threshold or increasing this to 25% WPI is shown in the following table:

WPI Threshold	Impact on	
	Outstanding Claims Liability	Impact on Premium Cost
15%	\$m	\$m
25%	-36	-5
	-990	-171

In the scenario where a 25% WPI Threshold to access WID benefits was introduced an offsetting increase in the weekly and benefit liability should be assumed. This is as a result of claims with WPI between 15% and 25%, who previously might have been expected to have accessed WID benefits, now remaining in receipt of periodic benefits. Assuming the changes in weekly and medical benefits specified in the Main Costing Report the offsetting weekly and medical liabilities increase is estimated to be of the order of perhaps 33% and 50% of the above reduction in WID liabilities.



Some comments with respect to these results are:

- With a 15% WPI threshold:
 - Introduction of a more robust statute of limitations may only result in claims being lodged earlier rather than reduce the ultimate number of WID intimations. On balance we would still expect that this amendment to be cost beneficial to the Scheme. Although the introduction of a robust 3 year Statute of Limitations and once only Whole Person Impairment assessment are not expected to result in a significant cost saving they are considered critical in stabilising the deteriorating WID experience which is a current feature of the Scheme.
 - There is a significant risk that the introduction of work capacity tests for weekly benefits may lead to an increased propensity for claimants to pursue WID prior to the work capacity test occurring. By intimating for WID prior to the work capacity test claimants may potentially circumvent the work capacity test resulting in a loss of weekly benefits. To an extent the elimination of “top up” WPI assessments and the application of the Civil Liability Act 2002 test of negligence may balance this. However we have no data or expertise in the application of the CLA negligence test on which to consider whether this would be the case.
- With a 25% WPI threshold
 - It is estimated that the WID elements of the reform package would reduce the breakeven premium rate by perhaps \$85m to \$113m million per annum (representing a 3.3% to 4.3% reduction).
 - The WID benefit outstanding claims liability is currently estimated at \$1,771 million. An immediate introduction of the reform package is estimated to reduce this liability by perhaps \$495 million to \$653 million.
 - It is estimated that for future accident periods approximately 70% of claims currently intimating and receiving WID benefits would be excluded by increasing the WPI threshold from 15% to 25%.
 - With a higher WPI threshold there would be a substantial reduction in the risk of an increased propensity to pursue WID prior the work capacity test.

Weekly benefit reform package but with no time cap

In the Main Costing Report WorkCover has specified a package of reforms which involves numerous changes to weekly benefits. One element of the specified package was a time limit for the payment of benefits. Options considered in the Main Costing Report for the time limit were 5, 7, 9 and 11 years.

WorkCover has now asked for the cost impact of the specified benefit package, but with no time limit for the payment of weekly benefits. Rather weekly benefits would continue to be paid until retirement age plus one year as is currently the case. This option would also impact indirectly on the medical benefit cost.

Removal of the time cap option would place greater importance on the success of the work capacity testing, and the 130 week cut off point for those with work capacity not working at least 15 hours per week, if overall scheme costs are desired to be reduced.



The following table provides the equivalent table to those contained in Section 2.7 of the Main Costing Report:

	Outstanding claims		Next years premium		
	Net Central Estimate	Change	Breakeven Premium	% covered	Change
	\$m	\$m	\$m	% covered wages	% covered wages
Base	14,378		2,601	1.64%	
Reform impact					
Weekly (incl 9 year cut off)		-2,269	-223		-0.14%
Medical		-803	-119		-0.08%
WID		-36	-5		0.00%
S66/S67		-332	-101		-0.06%
Legal		-233	-56		-0.04%
Claim exclusions		n/a	-59		-0.04%
Revised Total Cost	10,704		2,036	1.28%	
% cost reduction	-26%		-22%		-22%

* There would also be a further reduction in the reported outstanding claims liability from release of a proportionate part of the 12% risk margin currently held in addition to the net central estimate

For comparison, including a 9 year time limit on the payment of weeklies (in conjunction with all other elements of the specified benefit package) is estimated to reduce:

- The breakeven premium rate by 25% (compared to a 22% reduction with no time limit), and
- The outstanding claims liability if applied to existing claims 9 years from legislative commencement by 33% (compared to a 26% reduction with no time limit).

Yours sincerely

Michael Playford FIAA
Partner