Mr Gary Jeffery
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NSW WorkCover
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SYDNEY NSW 2000

20 March 2014

Dear Gary

WorkCover NSW – Scheme experience

You have asked me to provide a summary of the experience seen in the Scheme over recent years, with a view of looking at the experience leading up to the 2012 reforms as well as that seen since the reforms.

I have set out experience in key areas. In the charts below, I have generally shown experience since June 2012 in a different colour to that before June 2012, as some of the early impact of the reforms can be seen from June 2012.

Change in funding position

The chart below shows the funding ratio at each actuarial valuation from December 2007 to June 2013.

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As can be seen, there was a large deterioration in the funding ratio from 109% at December 2007 to 78% at December 2011. This has since improved to 91% at June 2012 and 102% at June 2013.

The chart below shows the main contributors to the changes in surplus / deficit over the periods from:

- 1 January 2008 to 31 December 2011
- 1 January 2012 to 30 June 2012
- 1 July 2012 to 30 June 2013

Note the analysis above is relative to the risk free investment return basis.

As can be seen above, from 1 January 2008 to 31 December 2011, there was a $5.2bn deterioration in the funding position which resulted in a deficit of $4.1bn at 31 December 2011 (funding ratio or 78%). This can be broken down into:

- $2.5bn deterioration from underwriting experience. Key contributors to this were:
  - An increase in the number of Weekly benefit claims remaining on benefits.
  - An increase in Medical spend.
  - A significant increase in the number of Workplace Injury Damage claims
  - An increase in the number of "top up" payments for Permanent Impairment (Section 66) lump sums which has also led to an increase in the utilisation of Pain and Suffering (Section 67) lump sums.

- $1.3bn deterioration due to actual investment returns being below the risk-free investment return assumption.

- $1.3bn deterioration from other external factors. In particular, there was a decrease in discount rates over this period which resulted in an increase in the liabilities.

From 1 January 2012 to 30 June 2012 there was an improvement in the funding position of $2.6bn resulting in an increase in the funding ratio from 78% to 91%. This can be broken down into the following:

- A $3.2bn improvement as a result of the underwriting result, mainly as a result of the anticipation of decreasing long-term costs following the 2012 reforms (for which the initial estimate was an improvement in funding of $3.6bn).

- A $0.9bn deterioration from external factors. $0.5bn of this is a result of an increased risk margin in recognition of the increased uncertainty in the Scheme following the reforms. The remainder is from the change in economic assumptions and the claims handling expense assumption.

- A $0.3bn improvement due to actual investment returns being better than the risk-free investment return assumption.

From 1 July 2012 to 30 June 2013 2012 there was a further improvement in the funding position of $1.8bn resulting in an increase in the funding ratio from 91% to 102%. This can be broken down into the following:

- A $0.9bn improvement due to actual investment returns being better than the risk-free investment return assumption.

- A $0.7bn improvement as a result of the underwriting result, as a result of:
    - Further improvements in experience following the reforms (including a deterioration of around $0.4bn for the impact of the Goudappel decision).
    - Any improved claims management outcomes from Scheme Agents.
    - The target collection rate for premium being set in excess of the breakeven premium rate in order to help address the deficit.

- A $0.2bn improvement from changes in economic assumptions.

The chart below shows the risk free yield curve (forward rate) used for discounting purposes at the valuation dates looked at in the analysis above. Changes in the discount rate will impact the liabilities and this feeds into the other external factors element of the change in surplus / deficit analysis above.

- From December 2007 to December 2011 the risk free rate dropped dramatically across all maturities which acted to increase the liabilities.
- Between December 2011 and June 2012, the risk free rate dropped further across all maturities, and this change acted to further increase the liabilities.
- From June 2012 to June 2013, the yield curve increased for all maturities except for the first year. This change will have acted to reduce the liabilities.

Premium rates

The chart below shows the breakeven premium rates from the December 2011 and June 2013 valuations, as well as the projected final collected premium rate (based on analysis as at June 2013). The breakeven premium rates shown assume a 'risk-free' discount rate.

As can be seen, the June 2013 breakeven rate is generally lower than the December 2011 breakeven rate as a result of the impact of the reforms on the cost of the Scheme. The June 2013 breakeven rate is higher for some earlier policy renewal years as a result of increased expected costs in respect some more severe claims following reforms.

The collected premium rate varies depending on the desired funding at the time of the policy renewal year which is impacted by the surplus/deficit at that point. The collected premium rate for 2012/13 of 1.71% was in excess of the June 2013 valuation rate of 1.51% (or 1.33% using the long term investment basis). The difference between these rates has helped to address the deficit which was present at 30 June 2012.

Claims reported experience

The table below shows the total claims reported over recent years. As with other charts for experience in this letter, total claims are shown both quarterly (with the line using the left hand axis) and annually (with the bars using the right hand axis). As can be seen, there has been a large increase following the reforms from 83,500 in 2011 to 63,500 in 2013. This represents a decrease of around 24%.

	Claims
2007	89,937
2008	88,936
2009	81,757
2010	83,105
2011	83,464
2012	76,222
2013	63,518

The following table shows the reported journey claims included in the total above. These claims have almost dropped off completely from 6,800 in 2011 to 200 in 2013. Of the 24% drop off in total claims discussed above, 8% is from this drop off in journey claims and the remaining 16% is from the drop off in non-journey claims.

	Claims
2007	7,023
2008	7,007
2009	6,621
2010	6,633
2011	6,825
2012	3,561
2013	235

Weekly payment experience

The tables below show the weekly payment and the number of weekly active claims over recent years. The bars for the active numbers show the average number of active claims over the quarters in each year.

	Payments
2007	$783.5m
2008	$783.4m
2009	$819.5m
2010	$825.7m
2011	$843.8m
2012	$818.9m
2013	$712.7m

	Actives claims
2007	41,497
2008	41,150
2009	41,336
2010	41,217
2011	42,178
2012	40,632
2013	32,934

As can be seen the experience for payments and active claims was increasing leading up to 2011 which resulted in an **increase in liabilities from $3.84bn at December 2007 to $5.91bn at December 2011**. This has turned around following the reforms and the **liabilities at June 2013 were $3.86bn**.

Medical payment experience

The tables below show the medical payment and the number of medical active claims over recent years. The bars for the active numbers show the average number of active claims over the quarters in each year.

	Payments
2007	$467.8m
2008	$488.4m
2009	$521.4m
2010	$495.5m
2011	$509.7m
2012	$500.0m
2013	$448.5m

	Actives claims
2007	69,958
2008	70,530
2009	69,710
2010	69,789
2011	72,303
2012	70,540
2013	59,929

As can be seen the experience for payments and active claims was increasing leading up to 2011 which resulted in an **increase in liabilities from $1.72bn at December 2007 to $3.34bn at December 2011**. This has turned around following the reforms and **the liabilities at June 2013 were $2.43bn**.

The chart below shows the average medical payments per year by Whole Person Impairment (WPI) band, for accident years 2002 onwards.

	WPI 0% to 10%	WPI 11% to 20%	WPI 21% to 30%	WPI 31% and above	Total
2011	$6,598	$6,890	$9,471	$40,896	$6,960
2012	$6,555	$7,414	$9,660	$38,239	$6,977
2013	$6,881	$7,565	$9,341	$39,934	$7,382

At a total level, the average payment size per year has increased since the reforms from $7,000 in 2012 to $7,400 in 2013. Increased payment sizes can be seen in all of the WPI bands except WPI 21% to 30% which decreased.

Workplace Injury Damage payment experience

The experience on this payment type has been poor over recent years and this led to **an increase in Workplace Injury Damage liabilities from $556m at December 2007 to $1.77bn at December 2011**. The Workplace Injury Damage **liabilities were $1.86bn at 30 June 2013**.

The chart below shows the number of workplace injury damage intimations. An intimation occurs at the point where an expected cost for a claim is first recorded on the claims system. This is a lead indicator for the Workplace Injury Damage experience.

The number of intimations has increased markedly from 558 in 2007 to 1,112 in 2011. Since 2011 the number has been more stable, although we would still consider this a key area of risk for the Scheme.

	Intimations
2007	558
2008	704
2009	734
2010	828
2011	1,112
2012	993
2013	1,102

Similar increases can be seen in the number of Workplace Injury Damage finalisations below.

	Finalisations
2007	622
2008	677
2009	718
2010	845
2011	925
2012	986
2013	967

The table below shows the total payments in respect of Workplace Injury Damage claims. As can be seen, these have been increasing over the last few years.

	Payments
2007	$171.3m
2008	$200.5m
2009	$223.4m
2010	$258.2m
2011	$263.1m
2012	$276.4m
2013	$312.9m

Section 66 and Section 67 payment experience

Section 66 liabilities were also increasing before the reforms. **The liabilities were $507m at December 2007 and this increased to $590m by December 2011. The liabilities were $602m at June 2013.**

The table below shows the Section 66 payments over the last few years. As can be seen the payments had been increasing up until 2011 and this was a key area of risk for the Scheme. Following the reforms payments had been decreasing although this trend has levelled off in 2013.

	Payments
2007	$115.8m
2008	$125.3m
2009	$150.5m
2010	$155.9m
2011	$159.4m
2012	$132.0m
2013	$81.2m

Over recent years, there has been a significant increase in the number of top-up payments being made to claimants who have already received a Section 66 payment. The graph below shows the trend in the number of non-deafness top-up payments made, distinguishing between the first top-up payment and further top-up payments.

As shown, the number of non-deafness Section 66 top-up payments increased dramatically since June 2008. In addition, the number of claimants receiving their second, third or greater Section 66 payment has also increased. While these top-up payments are generally smaller amounts, they have contributed to the increase in the observed Section 66 average payment sizes in recent times.

Note the top-up payments are not shown from June 2012 as one of the intentions of the reforms is that claims will only receive one Whole Person Impairment assessment and therefore a top-up payment should not be necessary.

As a result of these top-up payments, a higher proportion of claimants are expected to be eligible for Workplace Injury Damage payments as a result of overcoming the 15% Whole Person Impairment threshold.

The table below shows the Section 67 payments. As can be seen these were increasing leading up to the reforms. Since the reforms, these payments decreased initially and then increased again following the Goudappel decision.

	Payments
2007	$43.6m
2008	$45.7m
2009	$55.7m
2010	$58.0m
2011	$61.9m
2012	$50.8m
2013	$32.1m

This chart shows the number of Section 67 claims as a proportion of the number of Section 66 claims. This proportion increased from 34% in 2007 to 40% in 2012. This has further increased to 49% in 2013 following the Goudappel decision (with a proportion of around 60% seen in the December 2013 quarter).

	Proportion
2007	34%
2008	33%
2009	34%
2010	36%
2011	39%
2012	40%
2013	49%

Other payment experience

The following tables show the payment experience over recent years for the following remaining key payment types:

- Occupational rehabilitation
- Legal payments
- Commutations
- Other payments (including death, investigation and all other payments)
- Recoveries (including excess recoveries, tax recoveries and other recoveries)

	Payments
2007	$81.8m
2008	$87.6m
2009	$105.6m
2010	$105.9m
2011	$97.6m
2012	$106.4m
2013	$110.7m

Payment experience for occupational rehabilitation has been increasing in recent years, and has increased further since the reforms. Increased occupational rehabilitation spend can aid better outcomes both in terms of the outcome for the claimant and long-term costs for the Scheme.

	Payments
2007	$110.7m
2008	$102.9m
2009	$106.4m
2010	$97.5m
2011	$100.6m
2012	$98.4m
2013	$91.9m

	Payments
2007	$7.0m
2008	$12.7m
2009	$28.7m
2010	$23.3m
2011	$20.5m
2012	$24.9m
2013	$10.9m

	Payments
2007	$136.2m
2008	$136.0m
2009	$173.7m
2010	$165.9m
2011	$167.3m
2012	$181.2m
2013	$157.0m

	Payments
2007	$141.9m
2008	$140.7m
2009	$123.0m
2010	$117.6m
2011	$130.8m
2012	$139.2m
2013	$126.5m

Return to work rate

The charts below show the proportion of claimants who have returned to work within 13 weeks, 26 weeks, 52 weeks and 104 weeks of the injury (respectively).

Note, to ensure consistency of results across injury months, we have assumed a claimant has returned to work if there is no period of incapacity in the 1 month period following the term looked at (i.e. within 1 month of 13 weeks, 26 weeks, 52 weeks and 104 weeks respectively). This allows a consistent comparison across time however it means that the overall return to work rates shown will be overstated as some claimants identified as 'returning to work' will have no period of incapacity within the first month of the term but will have a period of incapacity following this point. Also note we have only considered claims with a period of incapacity within the first 104 weeks from the injury date.

The red line at the end of each time series represents claims for which the return to work date looked at in the measure is after 30 June 2012. These claims may therefore be impacted by the 2012 reforms.

The 13 week return to work rate decreased for injury months from January 2007 to July January 2009 and has been relatively stable since then.

The 26 week return to work rate decreased for injury months from January 2007 to July 2011 and has since increased representing positive post-reform experience.

The 52 week return to work rate decreased for injury months from January 2007 to July 2011 and has since increased representing positive post-reform experience.

The 52 week return to work rate has been relatively stable and then increased from injury month July 2010 onwards representing positive post-reform experience.

I hope that the above information is helpful. If I can be of any further assistance in this matter please let me know.

Yours sincerely,

Michael Playford FIAA
Partner