



Mr Gary Jeffery
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22 May 2014

Dear Gary,

Response to questions on notice arising from public hearing on 12 May 2014

You have asked me to respond to questions on notice from the public hearing of the Law and Justice committee on 12 May 2014. The questions were:

- Question 3: How many hearing loss claims were in the Scheme prior to the June 2012 reforms?
- Question 4: How many of these workers have had their support terminated under the provisions of the new legislation?

Hearing loss claims in the Scheme

Hearing loss claims do not typically continue on benefits from period to period. Rather they generally remain open for only a short period of time, receiving a mixture of once off benefits namely Section 66 (permanent impairment lump sum) and a hearing aid (with associated testing costs) before closing. A proportion will open again, typically a number of years later to obtain a new hearing aid or additional batteries. That is, the hearing loss claims open one period will typically be closed by the next period and replaced by a new group of claims.

Thus it is not possible to directly identify specific claims which have had their benefits terminated by the provisions of the new legislation. Many claims would only be subject to the Medical cap when they attempted to reopen. These attempted re-openings are not identifiable in the data systems.

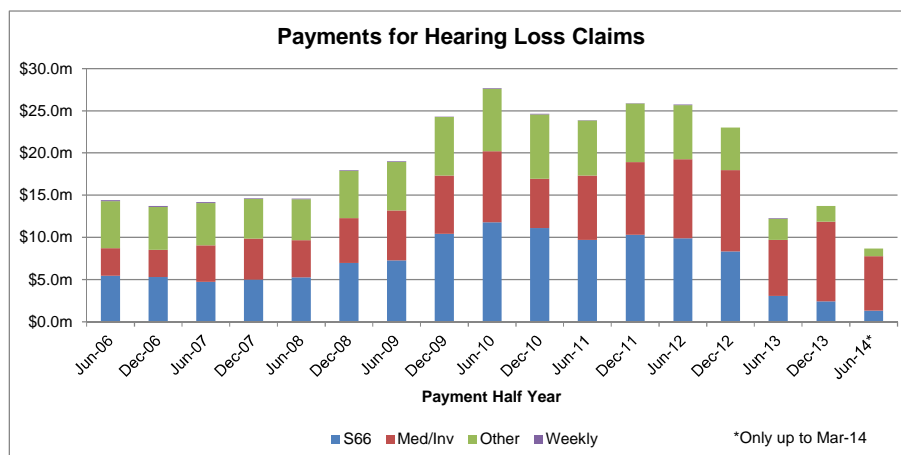
Rather the better way to identify the impact of the provisions under the new legislation is to consider the relative volumes of hearing loss claims prior to and after the June 2012 reforms.

Note: the analysis provided in this letter relates only to the Nominal Insurer Scheme.

The following graph shows the breakdown of payments made in respect of hearing loss claims for each half year since 31 December 2005. Payments have been inflated to values as at 31 March 2014.

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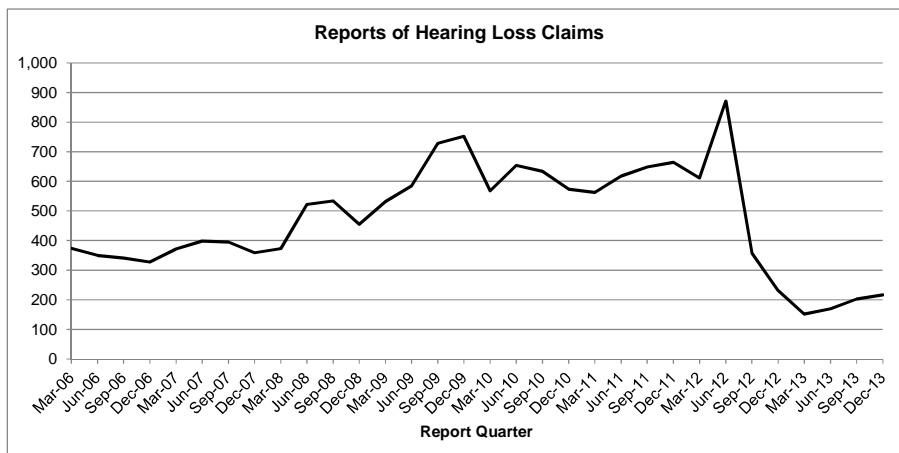
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The graph highlights the following:

- Payments for hearing loss claims were relatively stable up until 2008.
- Between 2008 and 2010 there was a rapid increase in the volume of hearing loss payments. My understanding is this was a result of changes in guidelines issued by WorkCover but may also be related to a number of specific workplace closures during the Global Financial Crisis.
- There has been a step reduction in hearing loss payments since the 2012 reforms.
- Hearing loss claims receive a very small amount of Weekly payments (represented by the purple at the top of each column).
- Hearing loss claims primarily receive:
 - Section 66 benefits (in blue);
 - Medical benefits (in red) in the form of a hearing aid and incur medical investigation expenses in the form of a hearing test; and
 - Other costs (in green), primarily for legal services (often associated with the payment of a Section 66 lump sum), interpreter services and transport.
- Prior to the June 2012 reforms, Section 66 benefits represented around 40% of payments, whereas the other two categories accounted for about 30% each.
- After the June 2012 reforms, Medical benefits represented around 60% of payments, while Section 66 benefits and other costs account for 24% and 16% respectively.

The following graph shows the number of hearing loss claims reported to the Scheme in each quarter since 31 December 2005.



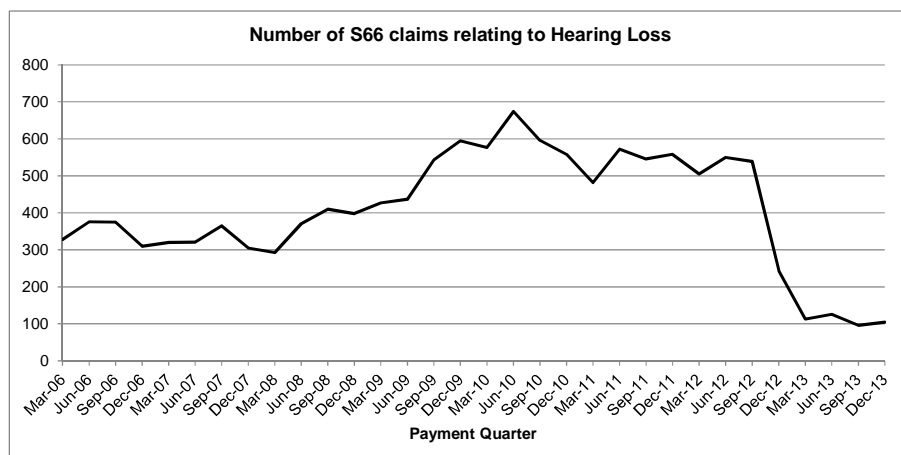
The number of claim reports for hearing loss has increased since December 2005 to a peak in June 2012. Following the June 2012 reforms, the number of claim reports has fallen significantly. The drop in hearing loss reporting since the June 2012 reforms is interesting as the key driver of this can only be explained as a change in the propensity to claim given the introduction of the Section 66 threshold, as hearing loss claims would still be entitled to an initial hearing aid (even if subsequent hearing aids were impacted by the medical cap).

This is because as shown in the earlier benefit analysis, the majority of payments made to hearing loss claims relate to Section 66 benefits. The June 2012 reforms introduced a 10% whole person impairment (WPI) threshold for claims to access Section 66 benefits, which most hearing loss claims are not expected to meet and hence these potential claimants have not pursued a claim in the Scheme.

Prior to the June 2012 reforms there was circa 600-700 hearing loss claims reported every quarter. Post the June 2012 reforms this appears to have dropped to circa 200 hearing loss claims per quarter.

Section 66 benefits for hearing loss claims

The following graph shows the number of hearing loss claims receiving Section 66 benefits over time in the Scheme.



The graph shows that the number of hearing loss claims receiving Section 66 benefits increased significantly in 2009, stabilising at about 500 to 600 claims per quarter prior to the June 2012 reforms. That is the majority of the 600-700 hearing loss claims reported each quarter had been receiving a Section 66 permanent impairment lump sum.

Since the introduction of the greater than 10% whole person impairment threshold from 19 June 2012 the number of hearing loss claims receiving a Section 66 permanent impairment lump sum has reduced to circa 100 per quarter.

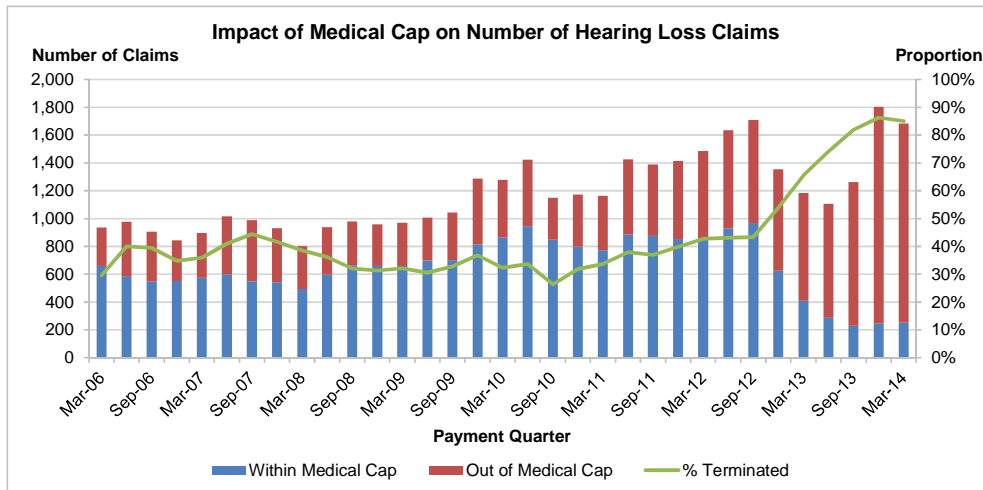
Hearing aids and related costs for hearing loss claims

The Medical cap, introduced as part of June 2012 reforms, means that claims can only receive Medical benefits up to 12 months after the date of claim report or 12 months after they received their last Weekly benefit, whichever is later.

The transition provisions for existing claims means that the first application of the Medical cap only occurred from 31 December 2013. As discussed earlier in this letter, because hearing loss claims do not typically remain open long it is not possible to directly identify claims terminated at 31 December 2013. Rather the operation of the Medical cap in practice will lead in many instances to claims just not coming forward to make further claims for medical benefits, e.g. when their existing hearing aid needs replacement. This “non-claiming” will not be captured at all in the data.

Furthermore, what is captured by the data is the payment of medical and other provider invoices which typically lag (often by more than three to six months) the provision of a service. This means there is limited experience to date on the impact of the Medical cap in terms of reduced Medical payment volumes for hearing loss claims (the red bars in the first chart).

Rather the approach we have taken to illustrate the impact of the cap is to look at what proportion of hearing loss Medical payments were paid within the Medical cap historically, shown in the graph below.



In the above graph, the columns show the number of hearing loss claims receiving Medical benefits each quarter in the form of a hearing aid or incurring medical investigation expenses in the form of a hearing test.

The blue segment represents claims where the payment made in the quarter was made within 12 months of report or 12 months of last weekly payment. Since the reforms this has reduced significantly and is directly linked to the reduction in the number of hearing claims being reported.

The red segment represents claims where the payment made in the quarter was outside the medical cap criteria. Historically about 30 to 40% of hearing loss claims receiving a Medical benefit in the quarter were outside of the Medical cap criteria (the green line). That is, roughly 400 claims per quarter were receiving Medical payments which now would fall outside the Medical cap.

The increase in the green line and red columns for more recent payment quarters is likely due to claimants requesting a hearing aid prior to when the Medical cap begins to apply and is probably not indicative of the longer term impact of the Medical cap.

If I can be of any further assistance in this matter please let me know.

Yours sincerely,

**Michael Playford FIAA
Partner**