



Mr Gary Jeffery
Acting General Manager
Safety, Return to Work and Support Division
WorkCover NSW
Level 9
383 Kent St
SYDNEY NSW 2000

2 June 2014

Dear Gary,

Potential financial impact of proposed reinstatement of medical benefits

You have asked PwC to respond to queries raised at the public hearing of the Law and Justice committee on 12 May 2014 around the financial implications of a partial or complete reinstatement of medical benefits. In particular, the questions asked were:

- Question 6: How many workers have lost their entitlements to medical expenses as a result of work capacity assessments for the periods 1 July 2012 to 30 June 2013 and 1 July 2013 to date?
- Question 26: How much would it cost to completely reinstate medical benefits?
- Question 26: How much would it cost to partially reinstate medical benefits for anyone with WPI of 10%, or slightly above or below this level?
- Question 25: What would be the impact of removing the medical cap for hearing aids and prostheses?

It is important to recognise that there is considerable uncertainty associated with the results contained in this letter. As such, they should be considered more as indicative of the magnitude of the possible cost impact.

The results presented in this letter consider only the removal of the cap on medical benefits (which is currently tied to the receipt of weekly benefits). Where appropriate we will comment on the potential flow on impacts to other payment types but recognise there is considerable uncertainty around these potential impacts.

Immediate impact of work capacity assessments on medical benefits

Identification of impacted claims

The Law and Justice committee has asked how many workers have lost their entitlements as a result of the work capacity assessment for the periods 1 July 2012 to 30 June 2013 and 1 July 2013 to date.

PwC is not in a position to directly answer this question as we do not receive information of which claims have had a work capacity decision which, after the 3 month notification period, results in the cessation of weekly benefits. There is a further 12 month delay between the cessation of weekly benefits and the application of the medical cap. Theoretically if the first work capacity decision was made on 1

PricewaterhouseCoopers, ABN 52 780 433 757

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

DX 77 Sydney, Australia

T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

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October 2012, the first time the medical cap would apply as a result would have been 31 December 2013.

There will also be a further group of open claims who had been continuing to receive medical benefits over 2013 but had not been in receipt of weekly benefits for at least 12 months. Because these claims were not receiving weekly benefits they would not necessarily have been subject to a work capacity assessment or decision. The medical cap applied to these claims for the first time from 31 December 2013.

Directly identifying claims impacted by the medical cap is also problematic as many claims do not necessarily receive a continued stream of medical services quarter after quarter. Many claims would only be subject to the medical cap when they attempted to reopen for a further payment. These attempted re-openings are not identifiable in the data systems. Furthermore, what is captured in the data systems is the payment of medical invoices which lag the provision of service. As a result it is likely to be several quarters before the initial impact of the medical cap can be observed.

I will attempt to respond to the question by reference to what proportion of historic medical payments made would have been eliminated if the medical cap had been in operation.

Profile of active medical claims

Figure 1 shows the number of medical claims active in each historic payment quarter. An active claim is defined as a claim which received a medical payment in the quarter. Figure 1 shows claims split into:

- Active medical claims not receiving weekly benefits for at least the last 12 months, who would be impacted by the medical cap (green bars)
- Active medical claims receiving where weekly benefits were paid sometime in the last 12 months, more than 12 months post injury (blue bars)
- Active medical claims less than 12 months post injury (red bars)

We observe that overall the number of active medical claims has reduced from approximately 73,000 at June 2012 to approximately 56,500 claims at the December 2013 payment quarter, representing approximately a 22% reduction in the number of active medical claims. A key driver of this reduction is the 24% reduction in the number of claims being reported since the June 2012 reforms and not the medical cap.

Figure 1: Medical active claims by payment quarter

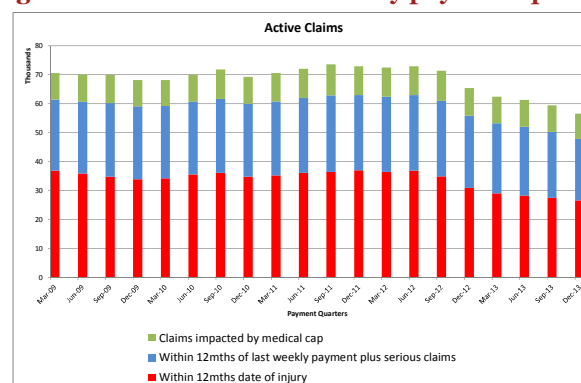


Figure 1 shows that approximately 10,000 active claims (the green bars) per quarter historically received medical benefits which would now be expected to be initially eliminated by the operation of the medical cap at 31 December 2013.

Note: I have purposely referred to the initial impact of the medical cap in the above, as the Law and Justice Committee appear to be interested in the volume of claims impacted by the commencement of the operation of the medical cap at 31 December 2013. A further tranche of claims will cease weekly benefits as a result of the 5 year weekly cap for those with a Whole Person Impairment Assessment of 20% or less (which will commence operating from 31 December 2017). This tranche of claims will then become subject to the medical cap, from 31 December 2018.

Figure 2 shows the corresponding information for medical payments made each quarter, which has fallen from approximately \$130.5m at June 2012 to \$108.4m at December 2013, a reduction of around 17%. Again, the main driver of this reduction is the due to the reduction in the number of claims being reported since the June 2012 reforms.

Figure 2: Medical payments by payment quarter

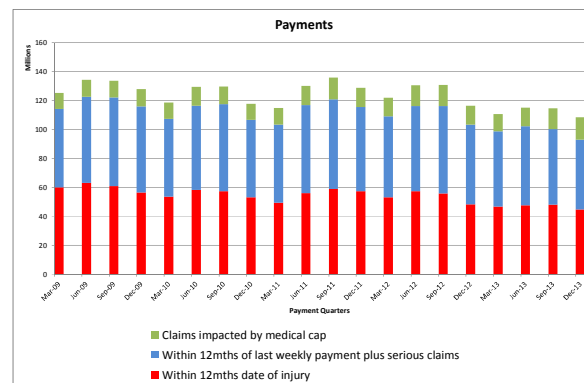


Figure 2 illustrates that approximately \$11m in medical payments per quarter can be expected to be eliminated by the initial application of the medical cap from 31 December 2013.

Scenarios for removing the cap on medical benefits

Our approach to estimating the financial impact of removing the cap

We have estimated the impact of:

- Removing the medical cap in the range 30% to 20% Whole Person Impairment (WPI)
- Removing the medical cap in the range 30% to 10% WPI
- Complete removal of the medical cap.

We have estimated a lower and upper estimate.

The lower estimate is based on the reduced number of claims reports and active number of claims observed in the Scheme in the quarters immediately prior to 31 December 2013 and to which the December 2013 valuation had been calibrated.

The upper estimate considers the potential for claim numbers (both reported and active) to increase back towards levels observed prior to the June 2012 reforms. It also considers the potential for other payment types to also be impacted by increased propensity to claim were thresholds to be lowered. With a 10% WPI threshold we have also considered the potential for there to be some “slippage” in WPI assessments to circumvent the 10% WPI threshold.

It is entirely possible for actual experience to be outside the bounds of the upper and lower estimates produced from our analysis.

In my opinion it is more likely that actual experience will be closer to the upper estimate.

Summary of results

The following table and graphs summarise the results of the analysis:

Figure 3: Potential scenarios for removing medical caps – impact on the outstanding claims liability for existing claims

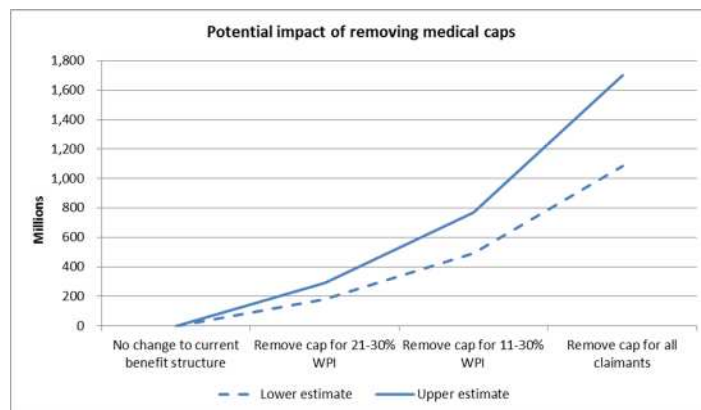


Table 1: Estimate of financial impact of modifying the medical cap

	Outstanding claims liability		Future annual cost	
	Lower estimate	Upper estimate	Lower estimate	Upper estimate
Difference to the Dec13 valuation				
No change to current benefit structure	\$m	\$m	\$m	\$m
Remove cap for 21-30% WPI	0	0	0	0
Remove cap for 21-30% WPI	183	290	18	62
Remove cap for 11-30% WPI	490	770	38	127
Remove cap for all claimants	1,085	1,700	84	282



Removal of medical cap on hearing aids and prostheses

We have also estimated the impact of modifying the existing medical cap, such that it would not apply with respect to:

- Hearing aids
- All aids and appliances (hearing aids, prostheses etc)

From an outstanding claims perspective we estimate the December 2013 liability for hearing aids to be around \$20m with the cap in place. This would likely increase by an amount in the order of \$75-100m should this exemption occur. The expected increase in the annual cost would be in order of approximately \$14-16m p.a.

Overall we estimate that the removal of the cap for all aids and appliances (hearing aids, prostheses etc) would increase the outstanding claims liability by approximately \$100-140m, and increase the annual claims cost by around \$20m pa.

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

Yours sincerely,

A handwritten signature in black ink that reads "Michael Playford".

Michael Playford FIAA
Partner