Appendix 2

Financial evaluation of the 2001 NSW Workers Compensation systems reforms for the WorkCover Scheme

from Tillinghast-Towers Perrin

Financial evaluation of the 2001 NSW Workers Compensation systems reforms for the WorkCover Scheme

WorkCover New South Wales, 400 Kent Street, Sydney 2000. Tel: 9370 5000 Fax: 9370 5999 ALL MAIL TO G.P.O. BOX 5364 SYDNEY 2001



Reverend the Hon. F.J. Nile, M.L.C. E.D. L.Th. Chairman, General Purpose Standing Committee No. 1 Legislative Council, Parliament House, Macquarie Street SYDNEY NSW 2000

14 JAN 2002

Dear Reverend Nile,

The Minister has asked me to provide you with the attached **final** report on the Financial Evaluation of the 2001 Workers Compensation System Reforms, for inclusion in the Committee's pending 2nd interim report.

Tillinghast-Towers Perrin has indicated that there have been significant changes from the 26 November 2001 draft evaluation report, which should be withdrawn forthwith.

Under the circumstances, I would be grateful if you would consider the draft evaluation report withdrawn, and not suitable for inclusion in the Committee's 2nd interim report.

Yours sincerely

Kate McKenzie General Manager

> Legislative Council GENERAL PURPOSE STANDING COMMITTEES

> > 1 4 JAN 2002

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http://www.workcover.nsw.gov.au

DX 13067, MARKET ST, SYDNEY

Level 17, MLC Centre 19-29 Martin Place Sydney NSW 2000 GPO Box 3279 Sydney NSW 2001 Tel: (02) 9229 5555 Fax: (02) 9229 5566 Fax: (02) 9229 5588

Management Consultants and Actuaries

Tillinghast - Towers Perrin

14 January 2002

Mr Rod McInnes Assistant General Manager WorkCover Authority of NSW Level 11 400 Kent Street SYDNEY NSW 2000 Legislative Council
GENERAL PURPOSE
STANDING COMMITTEES

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Dear Rod

Please find enclosed our final report on the effect of the 2001 legislative reforms on the financial position of the WorkCover Scheme.

There have been significant changes from our 26 November 2001 draft report. After the Further Amendment Act was passed (in December 2001), a number of regulations and guidelines were developed, finalised and issued. These include provisional liability guidelines, the rules and start dates for the Workers Compensation Commission and the legal cost regulations.

The legal fee basis for dispute resolution was also negotiated and finalised after 26 November 2001. This has altered our costings. After discussions with WorkCover and the Motor Accidents Authority, we have also allowed for a marginal improvement in claims costs due to better return to work outcomes. The final report also includes analysis by accident year and an assessment of the impact on the Scheme deficit.

These issues have been more clearly resolved since our draft report of 26 November 2001 and the draft report should be withdrawn forthwith. This report also supersedes any previous advice to the Parliamentary Standing Committee. Also note, our 7 January 2002 letter in regards to actuarial projections of funding scenarios for the Scheme refers to our 26 November 2001 draft report; this should now be considered to refer to this report.

Please do not hesitate to call me if you need further clarification of any aspects of the report.

Yours sincerely

Dave Yum

Dave Finnis

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Towers, Perrin, Forster & Crosby, Inc. ARBN 002 551 019 is incorporated in USA and has limited liability

Financial Evaluation of the 2001 NSW Workers' Compensation System Reforms for the WorkCover Scheme	Table of Contents Table of Contents EXECUTIVE SUMMARY
14 January 2002	PPENDICES Settler Settler Settler Act) Act) Accide
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1 EXECUTIVE SUMMARY

The WorkCover Authority of NSW ("WorkCover") and the NSW Government have developed a package of reforms intended to improve the NSW Workers Compensation Scheme ("the Scheme") efficiency and increase savings while providing a higher proportion of the Scheme cost as benefits to injured workers. The initiatives include:

- restructuring the dispute resolution system to include a greater focus on dispute prevention and processing efficiency;
 - prevention and processing efficiency; reducing the number of disputes by improving and updating injury definitions;
- changing the common law claims handling process, access and scope of chanages;
- providing a higher proportion of the Scheme cost as benefits to injured workers;
- restricting the use of commutations.

This package of reforms has been given effect by:

- the Workers' Compensation Legislation Amendment Act 2001 (No. 2).
- the Workers' Compensation Legislation Further Amendment Act 2001
- regulations and guidelines under the provisions of these Acts.

WorkCover engaged Tillinghast - Towers Perrin ("Tillinghast") to estimate the savings to the financial impacts of the intended effects of the reforms. The purpose of this report is to summarise Tillinghast's analysis of those financial impacts and to update earlier analysis to incorporate the legislation, regulations and guidelines as commenced on 1 January 2002. This report is the culmination and summary of analysis and modelling progressively undertaken over the past 12 months as part of this reform process.

The primary approach used was to model the existing and proposed arrangements on a year's worth of claims recently settled or finalised. The advantage of this approach is that it is relatively straight forward to establish and forms a firm basis for modelling alternative scenarios (ie. the numbers of claims settled, their type, nature, duration etc. and amounts paid are known). This approach will provide the expected financial impact on claim payments in current dolar terms assuming the reforms apply to all relevant processes and payments on claims settled in a recent year. A settlement year basis is also

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consistent with the previous approach to measuring outcomes of dispute resolution (ie.,
the original basis for the reform package) in the Trowbridge report¹, but not necessarily
directly applicable to providing the impact on the Scheme deficit or on future accident
years. For example, as the number of common law claims have been increasing, current
common hav settlements will under-estimate the numbers of common hav claims
projected for future years. Therefore the settlement year basis will under estimate the
savings for future accident years.

The results on a settlement year basis have subsequently been converted to accident year results to provide estimates of the financial impact on the Scheme deficit and on future accident years (please note this analysis was not included in earlier draft versions of this report). The estimates contained in this report represent the latest results, but in preparation for December 2001 valuation we would expect further refinement of our analysis.

We have not attempted to estimate the longer-term or cultural impact of these reforms in this report since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated financial impacts of changes and does not purport predict the actual saving. Due to limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the impact of changes on claimant behaviour, substantial uncertainty surrounds our findings.

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of possible implementation scenarios ranging from one in which all the WorkCover reform targets and objectives are fully met to a scenario where the reforms are highly compromised, result in unintended consequences and are poorly implemented. In the body of our report we have focused on the two scenarios which are the most appropriate assuming the reforms operate (kargely) as intended and are effectively implemented.

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 [&]quot;Evaluation of Performance from April 1999 to March 2000" by Trowbridge Consolding, chied September 2000.

The two seenarios are:

Targets mainly achieved: Assumes the reforms operate as intended and are effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between the Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions Implementation and monitoring of the reforms (le. in implementing the reforms scenario will form the basis of performance WorkCover will be aiming to equal or better these targets) underlying this

Moderate position: This moderate case reflects an expectation for all of the critical initiatives reducing legal and investigation costs to be implemented with a moderate' level of effectiveness, in conjunction with no erosion in the crucial building blocks' of the system (eg rigorous monitoring and corrections for any slippage found). In broad terms this position is consistent with the actuarial valuation basis, and hence may be described as the actuarial best estimate.

scenarios, and indeed may be beyond the outcomes described in our full range of It should be noted in some circumstances outcomes may differ substantially from these These are discussed in Appendices A, B, C and D on a settlement year basis and Appendix F on an accident year basis. scenarios.

Table 1.1 summarises the saving estimates provided in the body of this report. These estimates were developed over more than a year (beginning in 2000) as various proposals and amendments were pursued. It should also be noted that significant elements of the reforms, mainly the form of regulations and guidelines, were introduced subsequent to the 26 November 2001 draft estimate of the effects of these regulations on the legal and investigation costs in this version of this report (specifically the Workers Compensation (General) Amendment year basis and accident year basis respectively. Please note we have refined certain aspects of the modelling and taken into account finalised regulations and guidelines report. Tables 1.1 and 1.2 summarise the savings impact of the reforms on a settlement (Costs) Regulation 2001 - Final (gazetted December 2001). We have since our 26 November draft issue of this report. 14-July 12-13-12-SPECIANDACHOGOM DRANISMENT CARCOTOC

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TABLE 1.1

Estimated Armual Scheme Savings from Reforms (recent stable settlement year)

		Estimated Scho	Estimated Scheme Savings (\$MI)
lin.	hitiative	Targets Mainly Achieved	Moderate Position
•	Restructure the dispute resolution system"	052	165
•	Restructure common law claims processing*	9	35
• 1 1	Section 66, 67 and common law benefits* Incorporates use of the WCA Guides, and Changas in access to common law (Sheahan)	(04)	(06)
•	Restrict commutations ²	100	88
0	TOTAL	320	190

issuand this repart.

We have not performed an independent analysis of the effect of restricting commutations. These figures are based on the PircenstehouseCoopers report. "Analysis of trends in NSW Morkers Compensation Commuted Claims", clated 8 October 2001 and their additional analysis (e-mol dated 28 November 2001).

To allow for protectial leakage, we have applied an approximately \$20 Million reduction to the savings figure for the Modeste scenario.

Projected Savings from Scheme Reforms - Accident Year Basis (\$M)

Moderate/Low 8 810 8 8 8 Targets Mainly Achieved/High 1,330 8 400 430 438 Accident Year 2005 prior to 01/01/2002 Accident year 2002 Accident Year 2003 Accident Year 2004 Accident periods Accident Period Ветоврестие Prospective

includes a small allowance for batter return to work outcomes has been as and prospective savings that was not included in the sattlement year estim

Table 1.2 summarises the savings impact of the reforms on the deficit as at 1 January 2002 and on future accident years. These results have been derived from the settlement

2 BACKGROUND AND SCOPE

year results adjusted for the differing characteristics of claims by accident years versus

settlement years.

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There is a one-off impact on the Scheme deficit as at 1 January 2002 as a number of the reforms will apply to existing claims after certain dates. The most significant of these being the new dispute resolution system and associated costs which will apply to

applications for determination lodged after 1 April 2002.

The WorkCover Authority of NSW ("WorkCover") and the NSW Government have developed a package of reforms intended to improve the NSW Workers Compensation Scheme ("the Scheme") efficiency and increase savings while providing a higher proportion of the Scheme cost as benefits to injured workers. The initiatives include:

- restructuring the dispute resolution system to include a greater focus on dispute prevention and processing efficiency;
- reducing the number of disputes by improving and updating injury definitions;
- changing the common law claims handling process, access and scope of damages;
- providing a higher proportion of the Scheme cost as benefits to injured workers;
- restricting the use of commutations.

This package of reforms has been given effect by:

- the Workers' Compensation Legislation Amendment Act 2001 (No. 2).
- the Workers' Compensation Legislation Further Amendment Act 2001.
- regulations and guidelines under the provisions of these Acts

WorkCover engaged Tillinghast - Towers Perrin ("Tillinghast") to estimate the savings The purpose of this report is to summarise Tillinghast's analysis of those financial to the financial impacts of the intended effects of the reforms

summary of analysis and modelling progressively undertaken over the past 12 months as guidelines as commenced on 1 January 2002. This report is the culmination and impacts and to update earlier analysis to incorporate the legislation, regulations and part of this reform process.

Late in 2000, WorkCover engaged Tillinghast - Towers Perrin (Tillinghast) to has taken a number of turns along the way and our role has been challenged by the need examine the potential for savings from reforms to the dispute resolution service. This later progressed to providing estimates of the potential financial effects of further changes to the Scheme. This has proved to be an immense exercise. The reform "route" to retain discipline and consistency in the advice being presented to WorkCover. This

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accident years (please note this analysis was only recently completed and not included in

earlier draft versions of this report). We have provided a commentary on the techniques and methods used to convert the savings from settlement year to accident year in preparation for the 31 December 2001 valuation (see section 7). These estimates will be revised and further dealt with in our 31 December 2001 valuation report and in future

The results on a settlement year basis have subsequently been converted to accident year results to provide estimates of the financial impact on the Scheme deficit and on future

year basis will under estimate the savings for future accident years.

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This approach is not necessarily directly applicable to providing the impact on the Scheme deficit or on future accident years. For example, as the number of common law clains have been increasing, current common law settlements will under-estimate the numbers of common law claims projected for future years. Therefore the settlement

report relates to the main focus of our advice throughout 2001 and has been broken down into three main areas

- Annual legal system cost saving estimates for dispute reforms as detailed in:
- The Worker's Compensation Legislation Amendment Act 2001 (No.2)
- The recommendations with implications for legal costs of the 'Commission of Inquiry Into Workers Compensation Common Law Matters' directed by Justice Terry Sheahan ("Sheahan Inquiry")
- The finalised legal cost regulations² ('the Cost Regulations')
- Estimate Section 66, 67 and common law benefits changes, based on:
- Using the American Medical Association Guides to the Evaluation of Permanent Authority developed permanent impairment Guides ("WCA Guides") for Impairment, 5th Edition ('AMA V') as a base to establish WorkCover assessing permanent impairment:
- The recommendations of the Sheahan Inquiry in relation to common law

financial impacts of changes and does not purport predict the actual saving. Due to

limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the

mpact of changes on claimant behaviour, substantial uncertainty surrounds

We have not attempted to estimate the longer-term or cultural impact of these reforms in this report since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated

> We have also been asked to examine the financial effects of restricting the use of commutations by the imposition of controls on the use of the commutation option as detailed in The Worker's Compensation Legislation Further Amendment Act

We have included our findings on all the significant interim developments in the attachments to this report. The primary approach used was to model the existing and proposed arrangements on a years worth of claims recently settled or finalised. The advantage of this approach is that it is relatively straight forward to establish and forms a firm basis for modelling and amounts paid are known). This approach will provide the expected financial impact on claim payments in current dollar terms assuming the reforms apply to all relevant alternative scenarios (ie. the numbers of claims settled, their type, nature, duration etc. processes and payments on claims settled in a recent year.

are fully met to a scenario where the reforms are highly compromised, result in unintended consequences and are poorly implemented. In the body of our report we save focused on the two scenarios which are the most appropriate assuming the reforms

operate (largely) as intended and are effectively implemented.

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of possible implementation scenarios ranging from one in which all the WorkCover reform targets and objectives

Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (gueened December 2001).

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3 DISTRIBUTION AND USE

This report is provided solely to the WorkCover Authority of NSW for internal use in relation to the changes to the dispute resolution procedures. It is not intended, nor necessarily suitable for any other purpose. We understand that WorkCover may wish to provide a copy of the report to a range of stabeholders in the Scheme, including members of NSW Parliament. Permission is hereby granted for such distribution on the condition that the report must be distributed in its entirety, that Tillinghast be informed of such distribution and all recipients must be aware that Tillinghast is available to discuss or explain any aspect of this report. Any further distribution or reference to this document or to Tillinghast in relation to this document in any report, accounts, other form of publication or any verbal report is not authorised without our prior written consent. We cannot be held responsible for conclusions drawn from our reports by unauthorised third parties. Third parties, whether authorised or not, should place no reliance on this report that would create any duty or liability by Tillinghast to the third party. sudgements about the conclusions drawn in this report should be made only after considering the report in its entirety. Finally, we remain available to answer any questions that may arise regarding this report.

RELIANCES AND LIMITATIONS

We are In preparing this advice, Tillinghast has relied on historical data and other quantitative and qualitative information supplied by WorkCover without audit or independent However, such a review does not constitute a full audit or independent data by We have reviewed this information for reasonableness and internal Therefore, any material discrepancies discovered in this WorkCover should be reported to us and the report amended accordingly. available for further discussion of these findings as and when necessary. verification. consistency. verification.

Our analysis assumes that the range and cost of injuries that have occurred historically are indicative of those to appear in the future. It is possible that this may not be the case. For example, due to changes in effectiveness of risk prevention procedures, changes in industry mix, attitude of claimants, other cultural or structural Scheme changes, court settlements/precedents or other external effects, Scheme outcomes may This report provides estimates of the savings of reforms to WorkCover's dispute resolution system. We have not estimated start up costs or maintenance costs of implementing the changes. Apart from changes to permanent impairment benefits and access to common law damages we have not estimated the effects (direct or indirect) of reforms on claims costs, apart from a minor allowance in the conversion to accident year analysis. This analysis merely provides a guide to the potential financial effects of changes and does not purport to deliver a firm estimate of the likely costs.

change in an unpredictable manner.

reforms in this report since these are dependent on effects beyond the scope of an We have not attempted to estimate the long-term or cultural impact impact of these actuarial analysis. It is important to note that the estimates of the future effects (see section 7) assume that of the Scheme reforms will remain constant over time and not educe as a result of slippage in effectiveness or efficiency.

findings. The financial outcome is also largely dependent on the manner and degree by Due to limitations, largely caused by the lack of data, and Scheme experience with the changes underlying the reform amendments, significant uncertainty surrounds our which reforms are implemented. This increases the uncertainty in our saving estimates. We have attempted to formulate implementation assumptions and scenarios by eviewing reports supplied by WorkCover and through discussions with WorkCover

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Review of the Workers Compensation Resolution Service ("WCRS") indicated that the

5 LEGAL SYSTEM SAVINGS

5.1 Current System

original aims of the service were not being achieved? A major concern was that the current system did not have the capacity to deal with the current high number of disputes. As a result, a large proportion of cases - seen to be unacceptably large - pass through to the court system (Chart 5.1, reproduced from page 5 of the Trowbridge

September 2000 report).

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staff. However, due to the lack of relevant data, many of the assumptions have been formed from what we believe are reasonable projections of outcomes from reforms. In forming these projections, we have, in our judgement, employed assumptions and techniques that are appropriate, and the conclusions presented herein are reasonable given the information currently available. A range of other issues were also addressed in the modelling, most requiring various subjective or non-numerically derived assumptions due to the appropriate data being These are discussed in the attachments. In brief, there are specific difficulties in each of the following areas: unavailable.

- Identifying each claim's Current Table of Disabilities nature of injury type
- Maximum amounts available for permanent impairment;
- Multiple injury identification
- Estimating an existing claim's whole of person permanent impairment percentage under the WCA Guides;
- New diseases eligible under the WCA Guides:
- Psychiatric illnesses eligible under the WCA Guides;
- Severity distribution of commutation and common law claims;
- Behavioural effects of changing common law access and damages: and

Effects of restricting commutations

CHART 5.1 - Current Structure of the Workers Compensation Resolution Service (cases per month) Resolve before nsation Court nutations not through WCRS Lack of capacity (1000) 99 suitable for Nog Applications for Concil 1500 200

In addition, approximately 130 common law disputes per month in NSW are pursued independently of the WCRS. Compounding the dispute problem are high legal and investigation costs for all these disputes and common law actions. These place further financial strain on the Scheme

mance from April 1999 to March 2000" by Trowbridge Consoliting. "Evaluation of Perfor September 2000.

Mulmer to the shadowner and removed and the

5.2 Reforms

Initiatives to reform the dispute resolution system were agreed following consultation

between WorkCover and scheme stakeholders in response to reviews of the WCRS.

The current status of these reforms is detailed in the recently passed Further Amendment Act⁴. These initiatives replace the WCRS with a new Workers They include a greater focus on dispute

prevention and a more efficient dispute resolution system involving separate focus on expedited, medical and claims assessment (Chart 5.2). There is also the provision for

Compensation Commission ("WCC").

common law claims to be dealt with through the new WCC rather than automatically

be dealt with by the Court.

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estimates in our view, will depend significantly on reductions in legal activity from two key drivers:

- 1. Dispute prevention initiatives to reduce the high number of disputes identified as a major issue in the current Scheme. By preventing disputes from developing, there will be a significant reduction in demand on any resolution service, and hence the numbers of disputes requiring legal representation and related costs.
- Dispute resolution reforms aim to resolve disputes quickly and efficiently after they By providing a structure that encourages early resolution for those cases open to such action, major legal cost savings may be achieved. have arrisen.

have addressed the move to using the WCA Guides in section 6 headed 'Changes to A further key part of the reforms involves assessing permanent impairment injuries using the WorkCover Authority Guides ("WCA Guides") rather than by reference to the Current Table of Disabilities ('Current Table'). This move will affect the claim benefits We have assumed a claims cost neutral position in this part of the saving estimates, and paid to permanently injured workers, as permanent injuries will be assessed differently. Section 66, 67 and Common Law Benefits'.

5.3.1 Initial Dispute Reform Proposals

Claims

Medical

Expedited Assessment

Allocation of disputes for Workers

Statutory applications to new Workers Compensation

Common Law cases raw 'Workers Compensation Commission'

CHART 5.2 - New System Structure: Workers Compensation

assessment by central registry

Not suitable for mediation

numbers of disputes. If these targets were mostly achieved following implementation of Our initial analysis⁵ of the potential reforms focused on the Workers Compensation Legislation Amendment Bill 2001 ("Bill 1") (see Appendix B.1). These figures were revisited at a later date and updated with the latest valuation cost estimates (Appendix B.2). WorkCover determined objectives and targets for the reforms, for example the reforms, an expected annual saving of \$300M on a stable settlement year basis was estimated. A the time this analysis was done the dates of application of the reforms were not final, and therefore any impacts on the outstanding liability were not estimated. These have been considered in section 7 of this report.

> Our analysis of the new dispute resolution process focused on legal system costs as the key to potential savings. Our resulting estimates are based on the version of the bills as

5.3 Estimated Legal System Savings

the Cost Regulation). We did not estimate the start-up or maintenance costs of

implementation, hence estimates of such costs are not included in this report.

Significant costs are incurred by the Scheme in providing legal representation for both

claimants and insurers in the conciliation process and at the court. Cost saving

released for consultation with subsequent adjustments incorporated where possible (eg.

Tillingbast Report Proposed Diepute Prevention and Resolution Process - Financial Evaluation* (dated 31 January 2001)

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The Workers' Compensation Legislation Further Amendment Act 2001 introduced on the 27 November 2001

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We see the following initiatives as crucial to achieving the legal and investigation cost

avings objectives of the reform process:

valuation basis, and hence may be described as the actuarial best estimate.

Dispute Prevention: Establishment of prescribed guidelines for assessing permanent

impairment for the provision of lump sum compensation for non-economic loss. Establishment of a Claims Advisory Service and a pre-liability approval mechanism. Dispute Resolution: Establishment of a new dispute resolution commission and an

efficient dispute processing system.

Removal of the requirement of the Court to approve lump sum commutations.

Legal Representation and Costs: Introducing a regulatory fixed scale of applicable

fees for legal advice and placing limits on fees recoverable

5.3.3 Sheahan Inquiry

Part of the compromise resulting in the final Amendment Act was to appoint an

independent inquiry into the treatment of common law and consider the resulting

recommendations. The Governor of NSW appointed Justire Terry Sheahan to direct 'Commission of Inquiry into Workers Compensation Common Law Matters' The Sheahan Inquiry recommendations were presented on 31

"Sheahan Inquiry").

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Moderate position: This moderate case reflects an expectation for all of the critical initiatives reducing legal and investigation costs to be implemented with a moderate' level of effectiveness, in conjunction with no erosion in the crucial building blocks' of the system (eg rigorous monitoring and corrections for any slippage found). In broad terms this position is consistent with the actuarial

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5.3.2 Amendment Act

After negotiations, a further compromise package was passed into legislation in June 2001 - The Workers Compensation Legislation Amendment Act 2001 (No. 2) ('Amendment Act'). This Act contained a range of structural and procedural changes to the original Bill 1 that caused us to review, in particular, our estimate of the effect in legal system costs. Following the compromise implicit in the Amendment Act, the estimate of the \$300M cost savings for the "Targets Mainly Achieved" scenario reduced to approximately \$220M (Appendix C.1). The Amendment Act deferred changes to the treatment of common law, and consequently any potential legal cost savings relating to common law. This reduced the expected savings by approximately \$45M to \$175M (Appendix C.2) - for the "Targets Mainly Achieved" scenario

Amendment Act: Estimated Annual Scheme Savings (recent stable settlement

	Legal and Im	Legal and Investigation Savings (\$M p.a.)	gs (\$M p.a.)
Rederm Scanario	Initial Dispute Reform Savings	Common Law Savings'	Amondment Act Total Savings
- Targets Mainly Achieved	220	(45)	175
- Moderate Position	115	(40)	K

Included in initial dispute reform estimates of \$220 and \$115 (\$M)

Definitions of the scenarios are as follows:

Targets mainly achieved: Assumes the reforms operate as intended and are effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between the Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions implementation and monitoring of the reforms (ie. in implementing the reforms scenario will form the basis of performance WorkCover will be aiming to equal or better these targets) underlying this

system costs, the Further Amendment Act includes provisions for the Workers

Compensation Commission to manage a pre-litigation mediation process.

implications on both legal system costs and benefit payments. In regard to the legal

August 2001 and incorporated into the Further Amendment Act.

mediation process, and a range of new rules regarding the recovery of legal costs, is

should provide significant saving in the legal system costs currently occurring for common law claims. We have estimated that the resultant saving on a settlement year may be up to \$25 Million per annum ('Targets Mainly Achieved'). This is less

aimed at early and cost-effective settlement of each potentially disputed daim.

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than the \$45 Million saving estimate for Bill 1 treatment of common law as there is potential for more claims to reach court since the mediation process is voluntary, although this is partially off-set by cost penalties for parties that do not respond to reasonable offers. Table 5.2 summarises these adjustments.

TABLE 5.2 Further Amendment Act: Estimated Amual Scheme Savings (recent stable settlement year)

	Legal and In	Legal and Investigation Savings (\$Mp.a.)	(\$Mp.a.)
Reform Scenario	Statutory Savings	Sheahan Common Law Savings	Statutory Savings Sheahan Common Further Amendment Law Savings Act Total Savings
- Targets Marity Achieved	175	35	210
- Moderate Position	75	25	100

5.3.4 Legal Cost Regulation

Since the Workers' Compensation Legislation Further Amendment Act 2001 was passed by Parlament, a regulation has been developed and finalised to regulate and limit legal fees payable in the new statutory and common law environments [Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (gazetted December 2001)]. The regulation limits the level of fees payable and reduces the variation in fees payable for similar classes of claims. As a result the projected savings from legal and investigation cost are greater than previously modelled.

- Provisions in the cost regulations represent a reduction of approximately 50% in statutory legal and investigation costs compared with the old system and an approximately 30% decrease compared with our moderate assumptions prior to the finalisation of the regulations.
- Provisions in the cost regulations represent a reduction of approximately a 63% decrease in common law legal and investigation costs compared with the old system and an approximately 30% decrease compared with our moderate assumptions prior to the finalisation of the regulations.

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 The reduction in costs per dispute has been varied by xenarios to reflect potential leakage or inadequate implementation, even though it is derived from a specified set of legal cost regulations.

Table 5.3 summarises the adjustments to the estimates due to the Cost Regulations.

TABLE 5.3

Amendment Act: Estimated Annual Scheme Savings based on the Cost Regulation (recent stable settlement year)

	Legal	Legal and Investigation Savings (\$M p.a.)	Savings (\$M p.	a)
	Statutor	y Savings	Common	aw Savings
	Pre-cost	Additional \$	Pre-cost	Additional \$
Reform Scenario	regulation	regulations*	regulation	regulations.*
- Targets Mainly Achieved	175	7.5	50	5
- Moderate Position	75	96	25	10

hose regulations were findined subsequent to the 26 November daft issue of this report.

5.3.5 Other Regulations and Guidelines

After the Further Amendment Act was passed, a number of regulations and guidelines have also been developed, finalised and issued. These include:

- Workers Compensation (Ceneral) Amendment (Transitional Serving and Other Matters) Regulation 2001
- Workers Compensation (General) Amendment (Cost of Claims) Regulation 2001
 - WorkCover Guides on the Assessment of Permanent Impairment
- WorkCover Medical Assessment Guidelines
- WorkCover Provisional Liability and Claims Guidelines.
- Interim Workers' Compensation Commission Rules
- Workers' Compensation (Medical Practitioner Fees) Order 2001

These regulations and guidelines are broadly consistent with previous expectations. Therefore no adjustment has been made to earlier projections as a result of the Introduction of these regulations and guidelines. While this is the case their Implementation is reassuring and provides added support for the two key scenarios savings projections.

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section 6.3 'Alternative Benefit Options')). Different injuries would end up with

different relative reductions, depending on how they were classified and evaluated under

the Current Table versus the WCA Guides

We attempted to determine the average change of an injury's impairment percent

percentages when compared to the Current Table (this reduction was to be more than off-set by increasing the amount of hump sum dollars paid at each assessed % (see

CHANGES TO SECTION 66, 67 AND COMMON LAW BENEFITS

One of the aims of the reforms is to channel some of the legal system cost saving into more generous statutory benefit payments for chimants, with a special focus on providing more severely injured claimants with greater compensation. WorkCover asked Tillinghast to investigate the impact on chimants and benefit dollars resulting from:

 a move from using the Current Table to the use of WCA Guides for determining the level of permanent impairment for injured workers.

percentages and the consequent impact on permanent impairment claims costs in a

move to the WCA Guides. These steps covered the following main aims:

Determine the current profile of permanent impairment is settlements as a percentage of potential maximum impairment.

A range of steps were required to be able to estimate the change in impairment

classification when moving from the Current Table to the WCA Guides for assessment

daims

- the recommendations of the Sheahan Inquiry; and
- different s66 incremental benefit dollars for impairment percentage bands

Section 66 and common law reforms provide a respective cost or savings effect to the Scheme. The net effect of this negative and positive impact on savings is benefit augmentation for all scenarios. We have modelled the potential effects using a specially developed 'Benefit Augmentation' model the key assumptions and methodology as described in the rest of this section. We used the results from this model to estimate the 'Moderate' position. For other scenarios we assumed different assumptions to reflect more optimistic or conservative outcomes and hence lower or higher benefit augmentation results.

6.1 Use of AMA Guides to Support Injury Impairment Definition

with an accident date occurring between 1 July 1996 and 31 December 2000 and a

file extract.

December 2000 claim

section 66 ('s66') payment from WorkCover's

Industrial hearing loss, or deafness claims (with WorkSafe nature of injury code = 250) were excluded from the analysis as compensation for hearing loss claim is not

Section 66: Based on its WorkSafe location of injury code each claim was classified under one of the 48 'nature of injury' types in the Current Table, or some combination

of Current Table injuries

b) Allocate Each Claim to a Current Table Injury Type:

anticipated to change as a result of the reforms.

Section 66: For the purpose of this analysis we have used all claims (open and closed)

Include Extension of Coverage (EoC) to new diseases and psychiatric illness
 5.1.1 Determine the current profile of permanent impairment annual claims

Translate Current Table % to WPI9

settlements as a percentage of potential maximum impairment

a) Extract Existing Claims

The Current Table provides compensation payable for permanent injuries in 48 types of defined injury.⁶. This compensation is represented as the percentage of the maximum dollars available for an injury type assessed as 100% impaired. If the injury is medically determined to be less than 100% impaired, the claimant is entitled to their assessed impairment percentage of the maximum amount available for that injury type.

The amendments propose the use of the WCA Guides to assess permanent impalment injury levels rather than by reference to the Current Table. The WCA Guides evaluate all permanent injury impairments as a Whole of Person Permanent Impairment (WPI) % which generally provide permanent impairment injuries with reduced impairment

"Workers Compensation Act 1987" pages 65,551 - 65,552

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across the Current Table impairment percentages (from 0% to 100% at 1% intervals)

using the distribution as presented by PwC in their recent report.

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c) Annual Claims Counts:

review of the liabilities of the WorkCover Statutory Funds as at 30 June 2000 to Serion 66: The number of section 66 permanent injury claims were then normalised to approximately 10,000 the ultimate number of non-zero, non-hearing loss settlements we would expect in settlement year 2001. (We used the findings from our actuarial estimate this figure.)

percentages (from 0% to 100% at 1% bands). This spread was determined by

divided by 1000, to be an approximation for the injury's Current Table impairment

percentage.

assuming each claim's section 66 estimate (the highest value over the life of the claim).

At this stage we have established a base position for current system claims counts and benefit payments from which to determine the impact of any changes in benefit dollars of using the WCA Guides. Table 6.1 shows current permanent impairment claim

settlements broken down by section 66, commutations, section 67 and common law,

Common Law: The estimated annual number of settled common law claims (excluding learing loss) of approximately 1,600 was spread across the Current Table impairment

> Commutations: We have calculated the total annual number of commuted settlements arising from non-bearing loss permanent impairment claims to be approximately 70% This equates to approximately 7,000 annual commutation settlements (ie. very broadly 70% of the total of s66 non-hearing loss permanent impairment settlements. number of commuted claims).

Common Law: The estimated 2001/02 annual number of common law settlements for permanent impairment claims, was calculated to be approximately 1,600 per annum (1,850 * 95% (excl. hearing loss claims) * 90% (excluding notifications only). (Note, this focus is on settlement year results. Accident year estimates for common law in particular may be different. Accident year estimates are owered in Section 7.

d) Estimate Each Claim's Current Table Impairment Level:

1,600

11.000 267

7.000 S66 Commutations Statutory

10.000

fotal Claims Counts

S66

130

125

135

Aserage (\$'000)

Costs (SMP

Lump sum payments

Common Law

998

Current Situation: Permanent Impairment Claims (recent stable settlement year)

TABLE 6.1

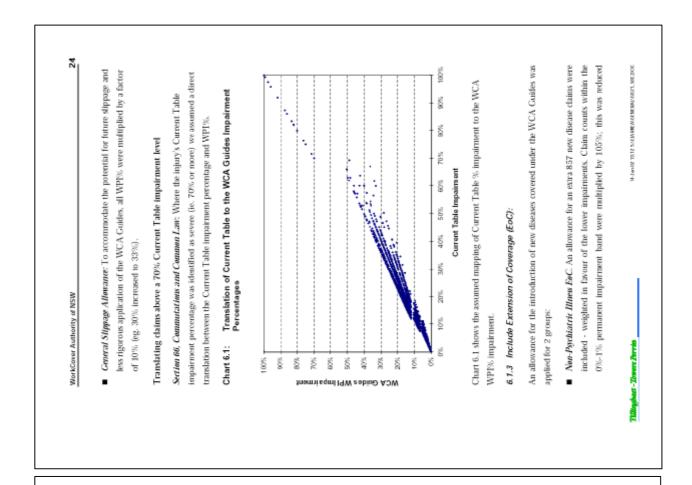
MAIMSimpairment % = Percent of max amount = \$66 payment ×1009

Section 66: Individual historical s66 claim payments were expressed as a percentage of the current maximum amount payable under s66. This ratio was used as a proxy of the true total impairment level of the claimant. For example, if the amount of s66 paid for a particular claim was \$50,000, as the maximum amount payable of \$100,000, we deemed that the injured was 50% impaired. Communications: The estimated annual number of settled commutations of approximately 7,000 (with a permanent impairment, excluding hearing loss) was spread PrirematerbouseCoopers *Analysis of trends in NSW Workers' Compensation Command Claims*, dated 8 October 2001, pg 19

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percentage was added, linearly increasing from 0% - 3%. From 8% onwards the full

extra 3% pain allowance was added (eg. 27% increased to 30%)

the calculated WP1% base for 'pain'. This allowance is not related to s67 benefits for

pain and suffering". Where the WPT% is between 5% and 8% an extra 0% - 3%

Allowance for Pain: The WCA Guides allow for up to an extra 3% to be added to

Commutations and Common Law: Each current situation claim as summarised in Table

6.1, had its Current Table impairment level multiplied by 60% (the average size of a

WPPs, impairment versus Current Table %).

Section 66, Commutations and Common Law: We also made the two following

Section 66: Each current situation claim, as summarised in Table 6.1, was classified and

translated to the WCA Guides WPI% based on Table 6.2

Translating daims below a 70% Current Table impairment level

to be multiplied by in order to get the estimated the WCA Guides WPP%. These were

percentage (under the Current table) would have proportion that a permanent impairment claims

The three data sources provided indications of the

estimated at 14 injury groups, plus a Not Otherwise Classified ("NOC") group (see

[able 6.2].

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WPI as a % of Current Table

Injury Typo Back Chest Fingers

n nodn

combination of data and informed interpretations

including:

To determine how injuries would be assessed

under the WCA Guides we relied

6.1.2 Translating Current Table % to WPI%:

WorkCover Authority of NSW

60% 67% 65% 65% 65% 67% 60% 60%

Hands E PE Mack MOC

a stratified sample of 96 s66 claims comparing

Current Table and the WCA Guides

impairment % by expert medical advisors;

discussions with WorkCover staff, and

advice from an expert medical advisor.

linearly down to 100% for claim counts within the 99%-100% permanent impairment band.

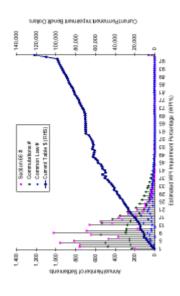
Based on The introduction of psychiatric diseases as a class of EoC claims provides a much higher the number of permanent impairment claims than other discussions with WorkCover Psychlatric Illness EoC. claims. estimate of potential

Chart 6.2: Psychiatric Illness Distribution 2,500 2,000 1,500 1,000 2,000 980 The state of the s about their intended Psychiatric Guides we estimated that with no minimum WPES impairment % there was the potential for almost 3,500 psychiatric illness claims to qualify for a s66 permanent impairment payment (see Chart 6.2).

6.1.4 Translation Results

The left-hand axis of Chart 6.3 below shows the number of annual permanent Impairment dain settlements (by payment settlement type, le. s66, commutation or common law) assumed under the WCA Guides. The average WPI% and current average section 66 lump sum payment for these daints are shown on the horizontal and right-hand axis respectively.

Chart 6.3: Profile of Claims Under the WCA Guides



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5.2 Impact of the Sheahan Inquiry on Common Law Benefits

August 2001 and was passed into legislation in the Workers' Compensation Legislation Further Amendment Act 2001. In regard to the impact on benefit dollar, the Inquiry The Sheahan Inquiry into common law matters, implemented as part of the compromise agreement, presented its recommendations to the Governor of NSW on 31 recommended a range of alterations to the access and implementation of common law cenefits. Those that impact financially on permanent impairment benefits arminiarised as follows:

Key Sheahan Recommendations for Common Law Costing

	Sheahan Recommendation		Implication for Banefit Model
=	Aside from establishing liability, only workers assessed to have a whole person impairment of	•	Provides objective and comparative measure for access to commonlaw. Goves the Second
	20% or more (final bill passed at 15%) should		gateway' to common law claims. (Section 151H)
	have entitlement to recover damages at	•	Provides a minimum WPTS for claims
	common law.		
2	Repeal of the requirement to 'elect' between	•	Will increase the number of statutory claims
	pursuing common law and receiving statutory		closer to the threshold willing to apply for
	ontitlements		common law
জ	Common last actions are limited to recovering	•	Reduces the types of damages payable for
	only economic loss damages - which remain		common law settlements and so the difference
	capped and calculated only to age 65.		between settlements under common law versus
Ŧ	All claims in respect of 'non-economic losses'		ongoing weekly statutory payments
	are dealt with under the statutory scheme.	•	Will change the mix of common law applicants
a	Recovery demages precludes the receipt of any		toward those who do not require significant
	further statutory benefits.		ongoing medical attention by eliminating further
			treatment benefits
G	Increase the maximum amount recoverable	•	increases the amount of dolars available at the
	under section 66 and 67.		maximum and of the impairment scale.
e	Transfer access for domostic personal care to	•	The intent is to transfor these payments into the
	the statutory system on a restricted basis		statutory system for those in clear need.
			Intended outcome to be cost neutral.

6.2.1 Changes in the Number of Common Law Actions

aw - especially around the threshold. Based on discussions with WorkCover staff we Recommendation 1 defines access to common law as only those claims that are assessed The legislation passed incorporated a 15% WPI impairment threshold. This change closes the second or 'nominal' gateway (Section 151H of the current Act) for claims under the threshold. Recommendation 2 provides a compensating effect by removing the uncertainty and risk of nominating for common to be 20% WPI impairment.

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have assumed 25% of claims in the statutory system in the 15 - 30 WPP% impairment Another effect on increasing common law claim counts is the effect of introducing band will take common law action and 15% of claims between 30 - 40 WPI% psychiatric illness claims as an EoC claim under the WCA Guides. The net result of these three effects is an increase in the number of common law claims expected to be settled annually (approximately 1,600 up to 2,500)

Differing Legal Costs

For modelling purposes the assumed legal costs for a claim settling under common law is \$2,000 more than a claim settling in the statutory system

6.2.3 Limiting Common Law to Recovery of Economic Loss Only

We have estimated common law settlements currently compensate claimants up to an common law, the difference may be significantly reduced. The estimates are broken the interpretation by the courts of the new measures. It is anticipated that savings will extra \$35,000 per claim in benefits compared to those similar claimants using the statutory benefit option, plus a further \$15,000 extra in legal system costs³. This down by two heads of damages ('HoD'') - non-economic loss (s66/s67) and all other beads. It must be emphasised that the saving that might eventuate is heavily reliant on difference could even be higher?. By limiting the heads of damage available under be partially off-set by increases to statutory benefits

Pre-Sheahan

Non-Economic Los (s66/s67): The extra TABLE 6.5 dollars received for a s66 HOD unc statutory element of the Scheme was set a \$27,000 for all impairment percentages common law compared to that in

	200				
der	Common Law Extra HoD Dollars p.a.	v Extra HoD	Dollars p.	ė	
e t	Pre-Sheahan	Extra s66/s67	Extra Other	TOTAL	
	Claim Counts			1,582	
	Costs (SM)	43	13	92	
	Average (\$1000)	22	***	35	

Extrapolated/derived from the Scheme June 2001 Valuation
Price/saterhouseCoopers "Analysis of trends in NSW Workers" Compensation Common Law
Claims* dated 25 July 2003.

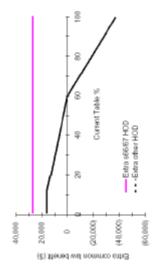
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Impairment levels reducing down to \$0 at 60% and finally to negative \$47,000 at 100% 411 Other HoDx: Based on discussions with WorkCover an estimate was made of the other heads of damage dollar difference received under common law versus statutory. This was estimated to range from approximately \$16,000 extra at low WPPs WPI impairment (on average -\$8,000 per claim)

The average cost per claim of both these extra HoDs is approximately \$35,000.

Chart 6.4: Pre-Sheahan Extra Common Law Benefits



Post-Sheahan

Non-Economic Loss (s66867): Sheahan recommendations 1, 2 and 3 in Table 6.3 move any s66/s67 damages payments out of the scope of common law and into statutory payments. This will eliminate the extra s66's67 HoD common law dollars currently paid when settling under common law

settlements. The reduced amount was estimated to range from approximately \$13,000 All Other HaDx By limiting common law to economic loss damage only, a range of other benefits will not be compensated under common law (eg. medical and 3W extra at low impairment levels to no additional cost at 60% WPI impairment, and down to a saving per claim of \$46,000 at 100% WPI impairment (see Chart 6.5). Even though the modelling assumed reduced amounts paid out under this HOD at each impairment level, the average economic loss head of damages is approximately the same at \$8,000. This is because a 15% Common Law Threshold allows claimants to access to reduces other HoD payments available under common rehabilitation). This

under the reformed system based on the WCA Guides WPI% results in an estimate of be entitled to 10 x \$1,250 + 10 x \$1,500 + 5 x \$2,500 = \$40,000. This formula is graphically reproduced in Chart 6.6 below and provides a maximum payment amount benefit costs. Comparing these total dollars, to those in the current system, gives the The selected formula is shown in Table 6.6. For example an impairment of 25% would Applying this \$200K maximum amount formula to all permanent impairment claims William OF TEXTS SACTA BREAKCHARD WILLIAM DOCUMENT Permanent Impairment Formula 1,500 2,500 1,250 3,500 \$200K Max Option 8 10.1-20 2017 40.1-75 Ranges WPI% 75.1 up 0-10 TABLE 6.6 AMA V Impairment Percentage (WPIS) Chart 6.6: Graphical Illustration of Payment Formula Band 2 Band 3 Band 4 Band 5 Band 1 formula was applied to different impairment To achieve this, an incremental payment a focus on increasing the maximum amount available, especially for the most severely providing approximately \$50 Million in percentage bands and evaluated to the extent that it best addresses the multiple aims of: additional benefit dollars per annum. leaving most claimants better off, WorkCover Authority of NSW impaired, and 50,000 250,000 200,000 100,000 150,000

29 the potentially higher 'Other HODs' payments available at lower impairment levels, Sheahan also recommended increasing the maximum available for both non-economic than current benefits to claims at some or all impairment levels. Increasing the maximum available will be based on application of formula incremental dollars and is One of the aims of the reforms is to channel some of the legal cost saving gained by the reforms to extra benefit dollars for claimants, with a special focus on providing more W.J. en IZ T.Z. YOLD RELOCEN BRACK SIZE SECTION loss benefits combined (s66/s67). The maximum can be increased by providing greater Chart 6.5: Post-Sheahan Extra Common Law Economic Loss Benefits severely injured claimants with significantly greater compensation. ۶ 1 modelled in the section 6.3 'Alternative Payment Options'. 6.2.4 Increasing the Maximum Benefit Available 6.3 Alternative Payment Options NRK than under the current scheme. WorkCover Authority of NSW 60000 00000 20,000 Extra common lawbenesti (\$)

15% WPI

The claimant has a permanent incapacity of at least

3

accordance with the WorkCover Guides

To address this ineffectiveness, the Bill passed by parliament allows parties the ability to

agree to a commutation only if the following criteria are met:

For purposes of estimating the financial effect of this proposal we have assumed that a 15% of WPI to be approximately equal to 18.5 % of Current Table Two years must have elapsed since the date of the first weekly benefit claim

Section 66 and 67 benefits have been paid.

3 3

impairment

Setting a two-year qualification threshold may result in a behavioural change

leading to reduced claims management prior to the two year limit. An attempt

to address this has been made in option (d).

All opportunities for injury management and return to work have been

exhausted.

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Costs above current? (\$Mi)

We agree that a strengthening of the requirement to implement appropriate claim management options (eg. RTW, injury management) before the 2 year limit should reduce the tendency to stall claims until a commutation option We also believe consideration should be given to the value

becomes available.

the use of Section 52A can provide in finalising claims before the two year duration, or in some cases where if a commutation offer is made Section 52A The injured worker has an existing ongoing entitlement for weekly

compensation

Regular weekly payments have been made for the past 6 months.

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can have a positive effect on closure of the claim.

consistent with interpretations of Tillinghast's recent Scheme valuation as at June

2001), and are clearly contrary to the purpose of their intended introduction.

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extra cost of moving to the WCA Guides under the Sheahan structure. The results in Table 6.7 below show the extra estimated costs over current benefits for:

- s66 statutory payments (s66 and commutations);
- common law (with a threshold of 15% WPI impairment)
- psychiatric illness (with a s66 threshold of 15% WPI impairment); and
- s67 (with a threshold of 10% WPI, except psychiatric illness claims at a threshold of

15%).

'\$200k Max' Benefit Formula Estimated Annual Scheme Costs' (recent stable settlement year)

TOTAL		7
s67 Statutory	255	All With Guiles
Psychiatric	siff, Commutations & Common last	WCA Guides psychiatric illness
Common Law	Camontas	WCA Guides - excl., psychiatric
see Statutory	See N. 188 Commutations	WCA Gaides - exid. psychiatric
Benefit Type	Payment Types	Injury Type

9700 220 2,500 17,000 Claim Numbers

Restricting Access to Commutations

WorkCover has explored the efficacy and cost effectiveness of commutations as a means of settling claims in the Scheme. They commissioned a study to explore the characteristics and costs of commuting statutory benefits in the Scheme¹¹. PwC revised commutations are no longer effective in reducing Scheme costs (this is broadly this analysis" using a considerably stricter definition of the control group at the lower levels of severity. It may be interpreted from the independent report and revision that

Pricewaterhouse/Coopers "Analysis of trends in NSW Workers' Compensation Commuted Claims", 8 October 2001, pg 96
Prirewaterhouse/Coopers: Michael Playford - e-mail and attachments to Tillinghast dated 21

November 2001

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Includes some adjustment for different legal costs between statutory and com

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Due to the short time frame available, the definition we have used for 'regular weekly payments for a minimum of six months' corresponds to the valuation definition of 'Active' claims ie, that they have received at least one payment for weekly benefits in the last three months. The data does not necessarily distinguish between this payment in respect of one week's absence from work or for the whole three months period. Therefore we chose a three rather than a six-month definition as at least one payment is made in the last three months as opposed to six months. As a consequence of the lack of data sensitivity there may be an over-estimate of the number of claims qualifying for a commutation of benefits under this new criteria in our current analysis, which may imply an understatement in our savings estimate. In practice, the requirement for 'regular' weekly payments needs to be supported by reference to the specific claim file.

(g) The injured worker has not had payments discontinued under section 52A or reduced under section 38A.

Any powers that are approved for WorkCover to verify the above criteria need to be mustle as objective as possible to reduce potential for slippage in standards.

6.4.1 Analysis of Savings

In our modelling of the potential savings we have used the original PwC control group values for severities of 30% and up and the revised PwC control group values for severities below 30%.

It may be interpreted from this analysis of the results of the independent report that if commutations were restricted under the criteria, the Scheme will save approximately \$100M per annum on the same basis (ie. recent stable settlement year) as for the other analysis in this report. To allow for potential leakage we had applied a \$20 Million reduction to the savings figure for the moderate scenario.

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BASES FOR EVALUATION OF REFORM IMPACT ON DEFICIT

 Conversion of Settlement Year Savings to 'Retrospective' and 'Prospective' Savings for Scheme Valuation Purposes

year basis will under-estimate the savings for future accident years. Therefore, in accident occurs. The advantage of this approach is that it is relatively straightforward to The primary approach used was to model the existing and proposed arrangements on a year's worth of claims recently settled or finalised, rather than the year in which the establish and forms a firm basis for modelling alternative scenarios (ie, the numbers of claims settled, their type, nature, duration etc. and amounts paid are known). This approach will provide the expected financial impact on claim payments in current dollar terms assuming the reforms apply to all relevant processes and payments on claims settled in a recent year. A settlement year basis is consistent with the previous approach to measuring outcomes of dispute resolution (ie. the original basis for the reform package) in the Trowbridge report¹², but not necessarily directly applicable to the Scheme valuation and consequently the deficit. For example, as the number of common law claims have been increasing, current common law settlements will under-estimate the numbers of common law claims projected for future years. Therefore the settlement preparation for the 31 December 2001 Scheme valuation we have assessed the impact of Scheme reforms on an accident year basis, with particular focus on their effect on the outstanding claims liability (please note this analysis was not included in earlier draft versions of this report). The estimates contained in this report represent the latest results, but in preparation for December 2001 valuation we would expect further refinement of our analysis.

The chosen commencement dates for the various reform provisions have a significant influence over quantification of outstanding liability effects and hence the one-off impact on the Scheme deficit. For example, if the Scheme reforms were only applicable to claims with accident dates after 31 December 2001 there would be no savings to the outstanding claims liability estimate as at 31 December 2001. Until all the individual reform provisions commencement dates were finalised (tate November 2001 for some reforms), the savings were calculated on a settlement year basis ignoring the impact on

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^{II} Tevaluation of Performance from April 1999 to March 2000* by Trawbridge Consoliting, chied September 2000.

In this report (apart from a small allowance for improved return-to-work outcomes in the accident year analysis) since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated financial impacts of changes and does not purport predict the actual saving. Due to limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the OHL

impact of changes on claimant behaviour, substantial uncertainty surrounds

It is important to note that all scenarios assume that the future effects of the Scheme reforms will remain constant over time and not reduce as a result of slippage in effectiveness or efficiency. It should be noted that the level of savings achieved may fall below or above this range depending on implementation efficiency, slippage of quality standards and extraneous effects from sources outside the reform scope. We regard the modelling of such cultural change as beyond the scope of an actuarial review, although

We have not attempted to estimate the longer-term or cultural impact of these reforms

actuarial perspective, we would consider this an optimistic scenario

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there is objective evidence to show that the targets in relation to the Scheme reforms are being achieved. At this stage, without the benefit of objective evidence, from an

the outstanding claims liability estimate or implementation ramp-up issues honeymoon effects'.

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The impact of the reforms on the deficit can be defined in terms of two components

- Retrospective Savings: There are several areas in which the reform package has the The claims affected would have an accident date prior to 1 January 2002 but would still qualify for coverage under the reforms. Clearly if such savings are achieved, its potential to affect claims outstanding at 31 December 2001 or the "tail liability" effect would be to reduce the current Scheme deficit position
- Prospective Savings: Secondly, the reforms are expected to result in cost savings on new claims (ie. claims incurred on or after 1 January 2002). To the extent that this increases the funding power of ongoing premium, the projected Scheme financial position will improve. However, note that at current premium rates, income is not sufficient to meet outgoing claims and expenses

7.2 Reform Saving Scenarios

To estimate the expected effects of the reform package on the deficit, we converted The range of scenarios analysed is broadly consistent with those estimated for the settlement year estimates into a range of expected outcomes on an accident year basis. settlement year basis and consists of "moderate/low" and "targets mainly achieved/high" reform savings positions, explained as follows:

this basis aims to reforms emerges (and, for some reforms, such evidence may take some time to starting point for a Scheme valuation basis and might be adopted immediately after incorporate saving estimates which are based on objective analysis with some foundation in historical Scheme data. As evidence on the effects of the Scheme The moderate/low savings scenario reflects a position that represents a possible emerge), progressive revisions to this savings scenario can take place. To a large extent, implementation of the Scheme reforms.

2001 we expect the one-off reduction in the deficit due to retrospective claims to be in

the order of \$810M and \$1,330M for the moderate and high positions respectively.

The reduction in the deficit due to the reform effects on the

estimated to be approximately \$230M and \$400M for the moderate and high positions

respectively. Table 7.1 sets out these estimates in more detail.

The retrospective and prospective saving estimates allow for the finalisation of cost regulations that were not included in the settlement year savings estimated in our draft

26 November 2001 report.

Based on Information provided to us by WorkCover and our analysis over the course of

7.3 Expected Impact

our models may be useful in projecting the effects of various potential cultural changes.

Over time, it is possible that sufficient evidence of the success of the Scheme reforms may emerge to allow the Scheme actuary to adopt a valuation basis that reflects a higher savings scenario due to targets from the reforms being achieved in the future. It is likely that the Scheme valuation would adopt this savings scenario only when

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Projected Savings	Projected Savines from Scheme Reforms - Accident Vear Basis (\$MI)	Apar Basis (4M)
Accident Period	Targets Mainly Achieved/High	Moderate/Low
Retrospective		
Accident periods prior to 01/01/2002	1,330	810
Prospective		
Accident year 2002	900	230
Accident Year 2003	400	230
Accident Year 2004	410	230
Acridont Year 2005	83	230

Reform savings are inflated and discounted to 31 December 2001 for tail claims and to the beginning of each year for each future accident year. The economic assumptions are the same as used in our June 2001 valuation model.

We have not allowed for any savings/losses from 'indirect' or cultural effects as they can be difficult to estimate without the benefit of experience data. However, a small allowance for better injury management and return to work outcomes has been added for in both the retrospective and prospective savings.

7.4 Converting Settlement Year Savings to Accident Year Savings

Each of these projections is made up of several components that broadly link to those developed for the settlement year estimates (except for an extra allowance for claim cost reductions). To convert settlement year savings to retrospective (past accidents) and prospective (future accident years) savings we:

 Projected patterns of the relevant number of claims/disputes for the periods concerned;

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- Allowance for the payment pattern of each particular accident period under consideration;
- Applied the appropriate savings per claim /dispute to the relevant number of claims/disputes for the period concerned;
- Made adjustments to allow for implementation dates and honeymoon effects that were investigated after our calculation of settlement year savings in November 2001 - and
- Allowed for any updated benefit restrictions and the revised cost regulations

Savings from Legal and Investigation Costs

The new Workers' Compensation Commission ('WCC') opens on 1 January 2002. For accidents prior to 1 January 2002, and where an application for determination has been made prior to 1 April 2002, the matter will be referred to the Compensation Court without any interaction with the WCC. For accidents on or after 1 January 2002, and accidents prior to 1 January 2002 which are reported after 31 March 2002, all disputes will be dealt with by WCC.

27 November 2001 was the cut-off date for lodging a common law claim under the old system. Where a common law claim is lodged after this date it will be dealt with in the new reformed system. The savings from legal and investigation costs are calculated as the difference between expected legal and investigation costs under the old system in comparison with those under the new system. The settlement year savings, retrospective accident year savings and prospective accident year savings for legal and investigation costs are approximately proportional to the number of common kw claims and number of statutory disputes expected in each of these periods. Compared to the numbers estimated for a settlement year, the proportions of common law claims and statutory disputes are approximately 350% and 250% for the retrospective accident year model and 135% and 90% for the prospective accident year model.

	WentCover Authority of NSW	40
	return to work outcomes. These account for al savings and 15% for prospective savings	These account for approximately 10% of retrospective ive savings
	Results	
	Table 7.2 shows our estimates of the components of the Moderate/Low savings scenario for the 2002 accident year. Other future accident years show similar estimates	its of the Moderate/Low savings cident years show similar estimates
	of savings.	
	TABLE 7.2	
	Components of Projected Savings from Scheme Reforms 2002 Accident Year Basis Example (\$M)	Reforms
		Moderate / Low
	Antioniva	
	 Restructure the dispute resolution system¹ 	021
	 Restructure common law claims processing! 	09
	Soction 66, 67 and Comment Law benefits changes Horogrades are of the WLR delace; and Changes in access to common law (Sheahar)	.(05)
	Restrict commutations	09
	 Allowance for botter return to work outcomes? 	40
	TOTAL	230
	includes the effects of the Workers Companisation (Seneral) Amenchment (Costs) Regulation 2001 – Final (gazetted December 2001). 7 Not evaluated in the settlement year estimates.	ij Amendment (Coats) Regulation 2001 –
	\$50Mil comprises: \$10M \$368 Sentency \$10 \$57 Santony \$25 Common Law	
	\$35M Poychamic	
	Tillingshart - Dower Norvin	74. Are set 13. UT sycoladed door 1919-kijo del Larcid de
\neg		

Claim Cost Reductions

number of commutations in the period. Relative to the number of commutations in a

commutations from past accident years (retrospective) and 20% less commutations in

each future accident year (prospective).

to be approximately 250%

The savings from restricting commutations are approximately proportional to the

The restricted access to commutations applies to all claimants who have not filed an

application for determination prior to 27 November 2001

Indirect claim cost reductions were not allowed for in the settlement year savings contained in our draft report of 26 November 2001, but after subsequent investigations and discussions with WorkCover and the Motor Accidents Authority we have included some savings in the retrospective and prospective calculations as an allowance for better

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Retrospective claims (accidents prior to 1 January 2002) and prospective claims (chims

occurring on or after 1 January 2002) are modelled separately

Sections 66/67 and Common Law Benefit Changes

to the common law reforms. Consequently, permanent impairment claims with accident dates prior 1 January 2002 will be affected by the common law reforms but not the

permanent impairment reforms. Prospective claims will be subject to both common

law and permanent impairment reforms.

Accidents occurring on or after 1 January 2002 are subject to the section 66/67 lump sum reforms, whereas common law claims fodged after 27 November 2001 are subject Both the permanent injury and common law reforms apply to settlement year savings

and prospective savings, but retrospective savings are only relevant to common law.

These savings are linearly related to the numbers of common law and section 66/67

As past accidents

(retrospective ciaims) are only affected by the common law reforms we estimate savings on a retrospective basis which are not offset by the increasing costs arising from the

permanent impairment lump sum benefit augmentation.

Restricting Access to Commutations

claims assumed in the respective settlement and accident years.

APPENDIX A

Settlement Year Scenario Definitions

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of five possible implementation scenarios ranging from one in which WorkCover's dispute prevention targets are fully met to a more conservative outcome in which the modes of implementation may be strongly opposed.

- Targets Activeved: This is the optimal scenario where all initiatives are implemented very effectively. In this scenario, the targets for reform set by WorkCover should be all achieved and maximum savings gained.
- Targets mainly achieved: Assumes the reforms operate as intended and are the Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions underlying this scenario will form the basis of performance targets for effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between implementation and monitoring of the reforms (ie. in implementing the reforms WorkCover will be aiming to equal or better these targets)
- Moderate position: This moderate case reflects an expectation for all of the critical of the system (eg rigorous monitoring and corrections for any slippage found). In level of effectiveness, in conjunction with no erosion in the crucial 'building blocks' broad terms this position is consistent with the actuarial valuation basis, and hence initiatives reducing legal and investigation costs to be implemented with a 'moderate' may be described as the actuarial best estimate.
- position is possible reform policies are presented as confusing or complicated, if there is no ongoing monitoring or corrections for slippage in standards, or if leakage starts occurring in key cost saving initiatives. There is the potential for the reforms to actually cost the Scheme rather than provide savings if not implemented or monitored appropriately. Rigorous monitoring of outcomes is recommended to Reform compromise: This position reflects poor implementation of initiatives. This ensure this does not happen.
- By implementing policies which are confusing and complicated or allocating disputes to incorrect tiers, additional costs will be incurred both indirectly in the form of a bottleneck of unresolved disputes and also directly through the extra resources used Postanistic: 'Poor' implementation of initiatives and compromising on the critical ones will likely lead to additional costs to the system rather than any benefits gained. by the disputing parties

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APPENDIX B

Settlement Year Saving Estimates for the Worker's Compensation Legislation Amendment Bill 2001 - ("Bill 1")

Initiatives Implemented
Ā
ī
1.0
Savings
System
lega
-
Annual
Estimated
Bill

TABLE B.1

		Costs			
(\$M)	Statutory	Common	Total	Total Savings ¹	Updated Savings ²
Current System	351	51	442		
Reform Scenaries					
Targets Fully Achieved	98	m	107	335	369
Targets Mainly Achieved					300
Moderate Position	218	14	232	210	235
Reform Compromise	305	19	321	121	140
Pessimistic	454	23	447	(5)	8

recent stable settlement year includes court and irrestigation costs

"Proposed Dispute Prevention and Resolution Process - Financial Reproduced from the Tillinghast report 'P Evoluation' (dated 31 Annary 2001), page 7.

Updated with the latest December 2000 valuation cost estimates. Weld-Cover took an amount of 5,00M as the assisting most labely expected at later time. Reproduced from WCA Advancy Count Proceedings Appl 2001; Werknown's expected estimate haved order most laday edicorne it as gast were to be mostly achieved.

A estimated breakdown of these savings by payment type is shown below

Bill 1: Estimated Annual Legal System Savings by Payment Type

		Costs			ota
(\$W\$)	Statutory*	Statutory* Common Law* Investigations Total	Investigations	Total	Savings
Current System	582	10	109	483	
Reform Scenarios					
Targets Fully Achieved	74	14	88	14	389
Targets Mainly Achieved	121	80	42	183	300
Moderate Position	165	58	15	248	235
Reform Compromise	228	37	22	83	140
Pessimistic	319	ŝ	113	481	(8)

Approduced from WCA Advisory Council Presentation (April 2001)

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K-Land Tata Sutt ABONG INSTALLIBETION

Whyshar - Towns Brris

APPENDIX C

Settlement Year Saving Estimates for the Workers Compensation Legislation Amendment Act 2001 (No. 2) ("Amendment Act") Act. This Act contained a range of structural and procedural changes to the original A further compromise package was passed into legislation in June 2001 - ' Amended Bill that we incorporated into revised legal cost savings. Following the compromises implicit in the Amended Act, our estimate of the \$300m Targets Mainly Achieved cost savings reduced to approximately \$220m and the

the proposed treatment of common law. This effectively excluded the potential legal A substantial group of reforms were still to be decided. Part of the compromise agreement was to appoint an independent inquiry (claired by Justice 'Shealsan') into cost savings relating to common law (ie, \$45 M). Moderate position from \$235m to \$114m.

Amendment Act: Estimated Annual* Legal System Savings TABLE C.1

(www)				
	Anglinal CSC	Original ESC Opposed ESC	Common Law Processin	w Processing
			Include	Exclude ²
Reform Scenarios				
Targets Fully Achieved	335	369	324	279
Targets Mainly Achieved		300	220	1754
Moderate Position	210	235	115	754
Reform Compromise	121	140	(20)	(38)
Pessimistic	(5)	Ð.	(283)	(303)

Amendment Bill 2001" (dated 23 May 2001), page 5

Based on 30 Ame 2000 valuation figures

*Changes due to updated 31 December 2000 valuation figures (wage-roll and legal cost percentages) Reproduced or derived from Tillinghast documents

Letter Legislative Council Standing Committee Questions; (dand 27 August 2001), page 6
 Letter 'Re: Worker's Compensation Legislation Amendment 881 2001 (No.2). First Print (2000/07); (dated 29 August 2001), page 1

Reproduced from the Tillhophast letter 'Progress of the Draft Worker's Compensation Legislation Amendment Bill 2001' (dated 23 May 2001), pages 5 Presentation "Fatorm Savings Modelling" (dated 16 August 2001).

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Settlement Year Saving Estimates for the Workers Compensation Legislation Amendment Act 2001 (No. 2) ("Further Amendment Act")

APPENDIX D

Preliminary Estimates

The Sheahan inquiry indicated that their recommendations for the treatment of common law processing would be a pre-litigation mediation process managed by the on a settlement year basis, may be up to \$25 million p.a. This is less than the \$45 proposed Workers Compensation Commission. We estimated that the resultant saving million saving estimate for Bill 1 treatment of common law as there is potential for more claims to reach court since the mediation process would be voluntary, although this is partially off-set by cost penalties for parties that do not respond to reasonable offers. Also to be finalised was the impact of the Sheahan inquiry on benefits, and negotiations redirect \$75m into around the application and formula for compensating permanent impairment injuries Based on preliminary indications we estimated that this may augmenting benefits.

Recommendations to be Finalised Further Amendment Act: Estimated Annual* Savings to be Finalised

	Amendment		
(M2)	Act	Common Law Processing Benefit Augmentation ¹	Benefit Augmentation [†]
Reform Scenario			
Targets Fully Achieved	6/2	304	627
Targets Mainly Achieved	175	200	125
Moderate Position	75	100	25
Reform Cempromise	(98)	(09)	(7.9)
Pessimistic	(303)	(278)	(293)

Derived from the Tillinghast latter Progress of the Draft Worker's Compensation Legislation Amendment BH 2001* (dated 23 May 2001), pages 6.8.7 Rocent stable settlement year.
 Includes both moving to the AMA IV Guides and the impact of Shexhan recommendations.

Settlement Year Saving Estimates for the Workers Compensation Legislation Amendment Act 2001 (No. 2) ("Further Amendment APPENDIX E

APPENDIX F

Accident Year Saving Estimates for the Workers Compensation Legislation Further Amendment Act 2001

WDRKCOVER AUTHORITY OF NSW

Roberta compromise: This position reflects poor implementation of initiatives. This position is possible reform policies are presented as confusing or complicated, if there is no organing monitoring or corrections for slippage in standards, or if leakage starts occurring in key cost saring initiatives. There is the potential for the reforms to actually cost the Scheme rather than provide savings if not implemented or monitored appropriately. Rigorous monitoring of The moderate/low savings scenario reflects a position that represents a possible starting point for a Scheme valuation basis and might be adopted immediately after implementation of the Scheme reforms. To a large extent, this basis aims to incorporate saving estimates which are based on objective analysis with some foundation in historical Scheme chir. As evidence on the effects of the Scheme reforms emerges (and, for some reforms, such evidence may take some time to

outcomes is recommended to ensure this does not happen.

Over time, it is possible that sufficient evidence of the success of the Scheme reforms may emerge to allow the Scheme actuary to adopt a valuation basis that reflects a higher sortings scenario due to targets from the reforms being achieved in the future. It is likely that the Scheme valuation would adopt this savings scenario only when there is objective evidence to show that the targets in relation to the Scheme reforms are being achieved. At this stage, without the benefit of

emerge), progressive revisions to this savings scenario can take place.

objective evidence, from an actuarial perspective, we would consider this an optimistic scenario.

TABLE F.1

Updated Estimates

Workers Compensation Legislation Further Amendment Act 2007

Estimated Annual Scheme Savings from Reforms (recent stable settlement year)

			-	County of the same	(mark)	
	Targets Mainly	Mainly				
Anthativo	Achieved	wed	Moderat	Moderate Position	Compromi	Compromise Position
la la	Cost Regulation Effects*	ion Effects*	Cost Regula	Cost Regulation Effects*	Cast Regulation Effects*	ion Effects*
	Not	Additional	Not	Additional	Not	Additional
	included	Serings*	pepnou	Savings*	included	Savings*
Restructure the dispute	175	75	52	06	1400	170
resolution system	2	2	2	2	/out	3
 Restructure common 	15	u	ĸ	5	15	15
law daims processing	3	,	3	2	2	2
 Section 66, 67 and 						
common law benefits?						
 Incorporates use of the 	and the		6		100	100
WCA Guides; and	(nr)		8	(90)	Ē	(1001)
 Changes in access to 						
common law (Sheahan)						
 Restrict commutations 	100	0	80	80	9	99
TOTAL	320	9	-	190	_	10

Workers Compensation (Seneral) Amendment (Sosts) Regulation – Final 2001. These regulations were finalized subsequent to the 25 Morenteel order (seared this report. We have not performed an independent analysis of the effect of restricting commutations. These figures are based on the Picowardenteerachoopers report. "Analysis of trends in NSW Workers" Compensation Communed Claims", dated 8 October 2001 and their additional analysis (semal dated 23 Neverthes 2001).

Raform Compromise 23 <u>କ୍ରର୍ଗ୍ର</u> Projected Savings from Scheme Reforms - Accident Year Basis (\$MI) Moderate/Low 810 230 230 230 230 Targets Mainly Achieved/High 338 400 410 420 Accident Year 2003 Accident Year 2004 Accident Year 2005 Accident periods prior to 01/01/2002 Accident year 2002 Accident Period **Aptrospactive** Pospective

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Allingshare - Towers Pervies

14-July 12-12 SYCLABRING WIRALGERY, SECTION

MSN		Maximum Loss Translation - MAIMS to AMA IV and V	40 50 24 15 15 8		90	78 60	32	10 20	100	28	22 22	19	95			69	38 25	ght assessment	Stratified Sample Assessment Study	A sample of approximately 100 claims with specific permanent injury locations was	the description of the content of the first of the first	undertaken by WorkCover to determine the extent their whole of body (WOP)	impairment level departed from the existing Table. The results of this study, together	with the final adopted figures is provided below. Anecdotal evidence from the effects of	a similar move in Victorian Workers' Compensation Scheme was also used to determine			Ourrest Table to AMA V Stratified Samuling Accessment	Study Result Salested	Percent of Current Tuble Percent of Current Tuble	%99	200	653	45% 45%	16% 60%	R 25	40%	80%		
WORKCOVER AUTHCRITY OF NSW	TABLE G.1A	Maximum Loss Translati	43 Nack 44 Prints	45 Fadal distiguisment		48 ALS 49 Ava of right and left arm at or above ellow		51 Ang of right and left arm below elbow. 52 Ave of dole and left hand.			56 Avaitand frames and frumbs		-	59 Aug head and neck	61 Head and nock		64 Upper and lower limbs 65 Avgall	Source : Troubridge analysis Based on medical expert Dr Dwight assessment	B Stratified Sample	A sample of approximatel	Charles to Mind	undertaken by WorkCove	impairment level departed	with the final adopted figu	a similar move in Victorian	the selected proportions.	TARLE G.18.	Current Table to AMA V	Intervenient appears # in Sample			Finaers		Leg 24		Bolyso Bolyso			Upper Limbs 4	TOTAL 96

	APPENDIX G enefit Analysis	riol impact			npairment		Included in analysis?	D and parties ()
	APPER	is to the noten	D to the protect		e maximum ir		Selected 5 th Ed AMA ²	MM 台口的基本的可能
	mpairme	ndication a	Hillington		ect on the	> pue	Maximum % 4th Ed 8	AMA
	manent	J omnide and	Total Service		s to the eff e to AMA C	to AMA IV	Current	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
WORKCOVER AUTHORITY OF NSW		G.1 Permanent Injury Mapping A raise of information was outleved to provide an indication as to the potential immed	of moving to AMA V Guides.	A Maximum Loss Translation	A range of opinions were compiled as to the effect on the maximum impairment percent of moving from the current Table to AMA Guides.	TABLE G.1A Maximum Loss Translation – MAIMS to AMA IV and V	MAMS ID Intury Type	Property Types

TABLE G.1C

Works	afe ¹ Location of Inju	ry Code to MAIMS
Bodily Lo	cations	
1	2	Description
Head	Crantum	Cramium
		Brain

2 Cranium	Description	Code	Comments	ID Injury Type	%	%
Cranium						
	Crantum	110	Skull	55 Aug head Interv	54%	301
	Brain	111		41 Brain damage	108%	675
Eve	Eveball	120		8 Eveball	22%	158
L)-	Doular adnessa		Brows/lids/lashes			15
			DE CHIS & GO 18011CO			671
						27
For			Inicknot = 250			44
Line		130				13
Mouth	Mouth	1.00	III) CONTRACT ASSO			40
			Importment -479			23
Niconi	PACHU	150				
			Impairment ≤17%			11
						36
						30
Neck & spine						24
						24
				43 Neck	41%	24
	Neck - unspecified	219		43 Neck	48%	24
Black - upper & lower	Upperback	210		42 Back	61%	36
	Lowerback	311		42 Back	68%	36
	Back - other A multiple	318		42 Back	61%	36
						30
Chart (Horse)						
Cuestinion						
			house become Lot 2000			32
	Breast	332				32
	Linear	0.00	Impairment < 30%			
Abdomen &petric region	Abdoninal muscles & fendons	340		n/a n/a	N/a	. N
	Stoniach			n/a n/a	N/a	
				37 Bowel function		36
	Liver & intrapepatic ducts	343		n/a n/a	N/a	. N
	Gallbladder & extrahepatic bile ducts	344		37 Bowel function	65%	36
	Pancreas	345		n/a n/a	Nia	
	Pehisbones, muscles & tendons			44 Pohis	1996	8
						36
						26
	Abdonen - other & multiple Abdonen - unspecified	358 359		n/a n/a n/a n/a	N/a N/a	
	Epe Ear Mouth Nose Face, not disenfore classified Head - multiple locations Head - unspecified locations Head - unspecified locations Heak & spine Black - upper & lower Chest (thorax) Abdomen & pointe region	Eye Systall Ocular adness Eye - other A multiple locations Head - multiple locations Head - multiple locations Head - multiple locations Head - unspecified locations Head - unspecified Ionations	Eyebul	Eyeball 120	Eyebar	Eyebal

WORKCOVER AUTHORITY OF NSW

TABLE G.1C	

Bodily Locati	ons		WorkSafe		Mains	Maims	AMA.
1	2	Description	Code	Comments	ID Injury Type	%	%
	Trunk - multiple locations	Trunk - multiple locations	380		rua nra	Nua	
	Trunk - unspecified locations	Trunk - unspecified locations	390		nia nia	Nia	
Joper Limbs	Shoulder	Shoulder	410		49 Aug of right 8 left arm at or above elbow	78%	43
	Upper arms	Upperanns	420		49 Aug of right 8 left arm at or above elbow	78%	43
	Elbow	Elbow	430		50 Aug of right 8 left arm	75%	- 4
	Forearm	Foream	440		51 Aug of right K left arm below elbow	7.3%	- 4
	Wrist	Wrist	450		52 Aug of right 8 left h&	68%	4
	H&, finger & thumb	h&	460		52 Aug of right 8 left h&	68%	4
		Fingers	461		53 Aug of all fingers except thumb	16%	1
		Thumb	462		54 Aug of right & left thumb	28%	- 1
		H&, fingers & thumb - other & multiple	468		56 Aug his, fingers is frumbs	20%	- 1
		H&, fingers & thumb - unspecified	469		56 Aug h&, fingers & frumbs	20%	1
	Upper limb - multiple locations	Upportimb - multiple locations	480		57 Aug upper limbs (arms, thumbs, h&)	61%	3
	Upper limb - unspecified locations	Upper limb - unspecified locations	490		57 Aug upper limbs (arms, thumbs, h&)	61%	3
ower limbs	Hip	Hip	510		44 Pelvis	15%	
	Upper leg	Upperleg	520		30 Leg at or above knee	79%	
	Knee	Клее	530		30 Leg at or above knee	79%	- 3
	Lowerleg	Lower log	540		31 Leg below knee	70%	3
	Ankle	Ankle	550		32 Foot	66%	3
	Foot & loss	Foot	560		32 Foot	65%	3
	TOOL OF ECHIN	Toes	561	Impairment >6%		22%	-
		Linea	301	Impairment < 6%		6%	
		Foot & toes - other & multiple	568	impairment is the	32 Foot	65%	3
		Foot & toes - unspecified	569		32 Foot	65%	3
	Lower limb - multiple locations	Lower limb - multiple locations	580		58 Aug lower limbs (pelvis, leg. foot)	56%	ž
	Lower limb - unspecified locations	Lower limb - unspecified locations	590		58 Aug lower limbs (pelvis, leg. foot)	56%	2
							5
	Neck & spine	Neck & spine	610 620		60 Neck & spine	85% 70%	4
	Head & neck Head & others	Head & neck Head & others	630		61 Head & neck 62 Head & others	69%	
			640				6
	Trunk & limbs	Trunk & limbs			63 Trunk & limbs	100%	
	Upper & lower limbs	Upper & lower limbs	650		64 Upper & lower limbs	88%	4
	Other specified multiple locations	Other specified multiple locations	680		65 Avg all	38%	2
	Other specified multiple locations	Other specified multiple locations	GDD		65 Aug all	20%	- 2
fultiple	Unspecified multiple locations	Unspecified multiple locations	690		65 Aug all	38%	
ystemic	Circulatory system	Circulatory system	710	600-600	nia nia	N/ia	
	Respiratory system	Respiratory system	720		nia nia	Nia	
	Digestive system	Digestive system	730		nia nia	N/in	
	Genitourinary system	Genitourinary system	740		38 Sexual organs	47%	
	Nervous system	Nenrous system	750		nia nia	N/ia	
	Other & multiple systemic conditions	Other & multiple systemic conditions	780		nia nia	N/ia	
	Unspecified systemic conditions	Unspecified systemic conditions	790		nia nia	Nia	
lon-physical	Psychological system	Psychological system	800		nia nia	Nia	
Anspecified	Unspecified locations	Unspecified locations	900		nia nia	Nia	

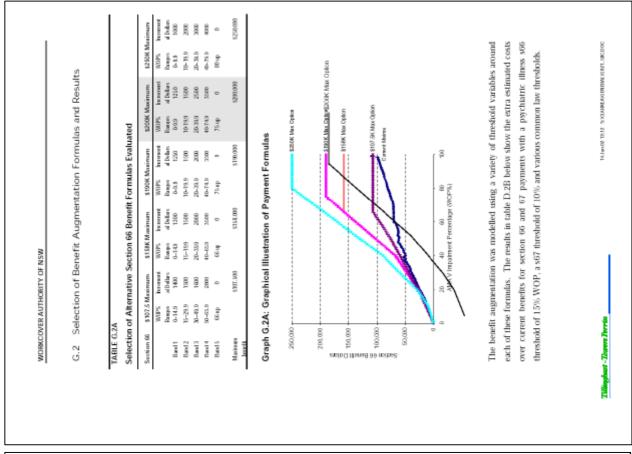
1 WorkSafe location of injury code as per WorkCover's claim file (Injdisk)

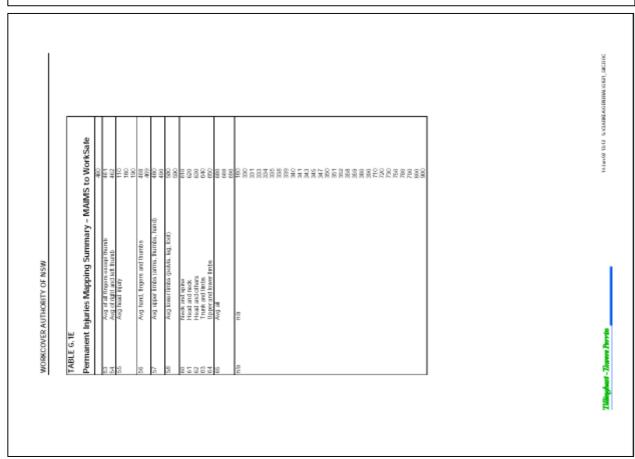
Tillingbast - Thwere Perris

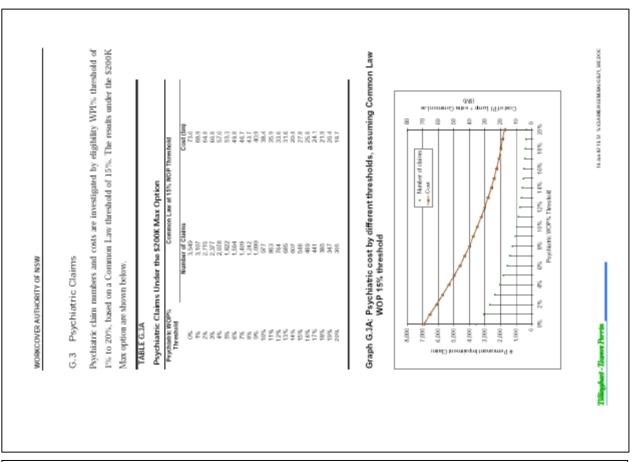
14-Jon-02 1912 | 5:30, ARREW GENERAL GEST .. SRC. DOC

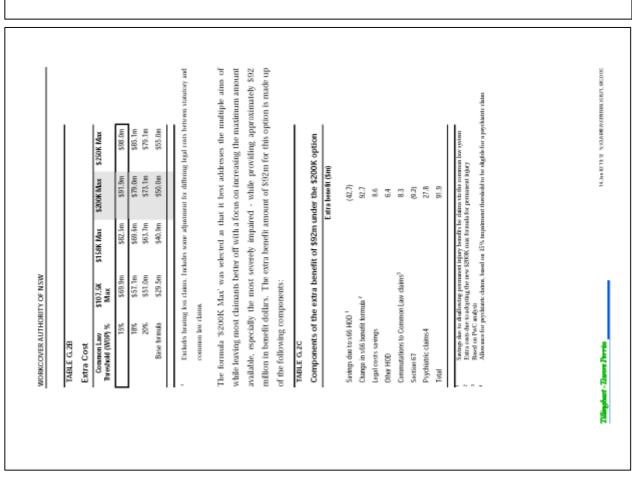
WORKCOVER AUTHORITY OF NSW	TABLE G.1D	Permanent Injuries Mapping Summary - WorkSafe to MAIMS	61 Head and heck 62 Head and others										5 Hearing - one ear 35 Any Office foe 30 The beautiful
TABLE		Permar	88	040	680	88	28	730	150	282	900	0 2	2N 25

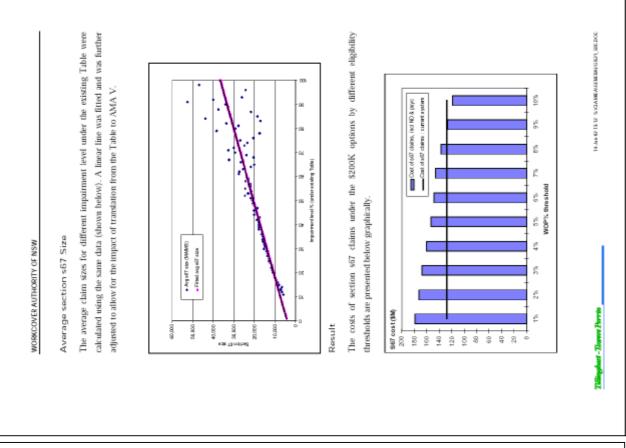
de W s	Any head there was head to be was the was head to be was the was head to be was h
BLEG.10 manent Rank code	6660 5120











Using the same data as section 66 modelling, we calculated the proportion of section 66 claimants receiving section s67 benefits, by different impairment level under the existing Table. The graph below shows the take-up rate for different impairment level. The proportion was reasonably stable at around 90% for impairment level greater than 15% This includes claims arising from statutory, commutation and common law, the impact Using the results from other sections, we have calculated the number of eligible claims. 14-An-42/13/2 SYCLARREMARKING BATLSBCD DC of new diseases and psychiatric chims, and the assumed take uprate described above. Proportion of eligible claims receiving section 67 benefits (take-up rate) 510-96 1607-08 1637-78 and accordingly we have assumed an average take-up rate of 90%. 518-08 The costs of section 67 claims are analysed by its components: W42-92 G.4 Pain and Sufferings (section 67) Claims wie-se 1600-08 1600-16 /WCGCC N.12-08 N.12-08 N.12-08 N.12-08 N.12-08 N.12-08 Number of section s67 Claims ■ Number of section s67 claims WORKCOVER AUTHORITY OF NSW wie-es 1685-66 1682-16 Average section 67 size W15-00 961-61 961-61 Take-up Rate 160-18 NSO-78 800 800 ś Š 404

G.5 Analysis of Section 66 Effects

Change in Statutory antitlement amount using WorkCover Impairment Cuides and \$200K May Ontion Formula

Numbers of Permanent Injury Claims by Injury Type and Difference														
Difference	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Polvis	Toos	Trunk	Am	Other	Tota
\$20,000 plus less	0	0	0	0	D	0	0	0	0	0	0	0	0	
\$10,000 to \$20,000 less	0	0	0	0	D	0	0	0	0	0	0	0	0	
\$5,000 to \$10,000 less	0	0	0	0	D	43	0	0	0	14	0	0	0	57
\$2,000 to \$5,000 less	0	0	114	0	D	1,837	14	0	0	60	0	0	0	2,015
0 to \$2,001 less	736	278	982	233	38	349	95	202	50	35	33	1,580	19	4,629
0 to \$2,001 more	21	12	2	12	50	14	0	12	0	0	5	5	36	169
\$2,000 to \$5,000 more	1.046	2,405	28	787	300	45	9	257	57	0	71	889	171	6,066
\$5,000 to \$10,000 more	1.801	442	0	501	102	0	3	253	5	0	139	205	264	3,698
\$10,000 to \$20,000 more	219	57	5	85	81	0	0	24	3	- 0	54	52	74	654
\$20,000 plus more	96	43	0	40	71	0	0	21	2	0	21	21	62	375
Total	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674
Total worse off	736	278	1,102	233	38	2,229	112	202	50	109	33	1,580	19	6,711
Total better off	3.182	2,959	29	1.424	604	59	9	551	67	0	298	1,172	608	10,962
Total PI daims (excl CL)	3,918	3,237	1,131	1,658	642	2,289	121	753	117	109	321	2,752	627	17,674
		Total 0	ollar Diffe	rence by Inj	ury Type ar	d Differenc	e (\$1000)							
Difference	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Am	Other	Total

Total Dollar Difference by Injury Type and Difference (\$'900)														
Difference	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Am	Other	Total
\$20,000 plus less	0	0	0	0	D	0	0	0	0	0	0	0	0	0
\$10,000 to \$20,000 less	0	0	0	ő	D	0		0	0	-96	0	0	0	0
\$5,000 to \$10,000 less	ō	Ü	ō	Ö	0	-222	Ö	ō	ō	-96	ō	Ö	0	
\$2,000 to \$5,000 less	0	0	-265	0	D	-5,410	-34	0	0	-214	0	0	0	-5,923
0 to \$2,00 t less	-304	-29	-1,352	-16	-9	-413	-122	-60	-37	-53	-4	-1,112	-2	-3,513
0 to \$2,001 more	1,293	650	195	689	3,411	1,099	0	947	0	0	156	405	1,629	10,463
\$2,000 to \$5,000 more	433	1,230	7	514	190	8	0	117	65	. 0	84	1,287	104	4,039
\$5,000 to \$10,000 more	5,502	1,833	0	2,157	449	0	13	712	22	0	610	498	1,047	12,842
\$10,000 to \$20,000 more	1,577	373	33	613	503	0	0	172	22	0	397	358	464	4,512
\$20,000 plus more	1,246	585	0	590	1,165	0	0	297	26	0	298	296	863	5,326
Total	9.847	4,642	-1,382	4,548	5,710	-4,949	-143	2,084	99	-362	1,530	1,702	4,105	27,429

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WORKCOVER AUTHORITY OF NSW

TABLE G.5B			

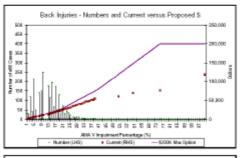
		Number	s of Perma	nent Injury	Claims by I	njury Type	and Differ	mce						
Difference	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pehis	Toss	Trunk	Ami	Other	Tota
100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 - 50% less	0	0	439	0	0	1,847	35	0	0	109	0	0	0	2,429
10 - 20% less	86	0	423	0	0	364	35	0	16	0	0	430	0	1,354
0 - 10% less	549	278	235	233	38	17	40	202	35	0	33	1,150	19	2,928
0 - 10% more	969	1,214	5	394	133	D	12	218	35	0	9	689	73	3,769
10 -20% more	1,628	539	28	395	88	45	0	226	24	0	62	41B	104	3,557
20 - 50% more	549	1,102	0	601	309	2	0	98	2	0	212	33	383	3,291
50 - 100% more	12	100	0	2	60	5	0	5	7	0	- 5	31	45	273
100% plus more	3	5	2	33	14	7	0	3	0	0	0	2	3	73
Total	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674
Total worse off	736	278	1,096	233	38	2,229	112	202	50	109	33	1,580	19	6,711
Total better off	3,182	2,959	35	1,424	684	59	9	551	67	0	288	1,172	608	10,962
Total PL claims (cod CL)	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674
				Difference	by Injury Ty	ype and Diff	ference							
Difference	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pehils	Toes	Trunk	Λm	Other	Total
100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 - 50% less	0	0	-655	0	0	-4,841	-45	0	0	-362	0	0	0	-5,905
10 - 20% less	-77	0	-742	0	0	-1,148	-59	0	-21	0	0	-55.6	0	-2,604
0 - 10% less	-227	-29	-220	-16	-9	-55	-62	-60	-17	0	-4	-555	-2	-1,246
0 - 10% more	424	224	3	149	8	0	13	113	37	0	- 1	982	4	1,959
10 -20% more	5,045	735	36	469	143	В	0	607	70	0	83	1,031	166	8,394
20 - 50% more	3,397	3,046	0	3,312	2,144	114	0	650	26	0	1,295	380	2,300	16,663
50 - 100% more	937	212	0	39	2,130	235	0	370	3	0	156	218	1,330	5,630
100% plus more	348	453	175	594	1,293	739	0	406	0	0	0	202	307	4,538

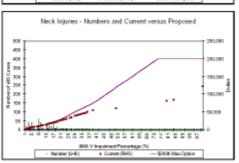
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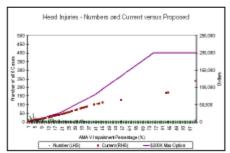
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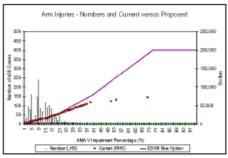
G.6 Comparison of Existing Benefits to the New Section 66 Formula

The following graphs compare the existing benefits under the existing Tables to the new '\$200K Max' formula by different injury type.





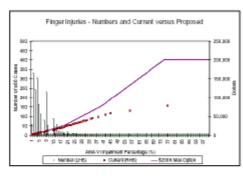


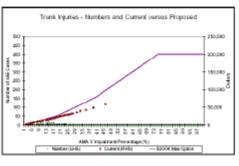


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Hand Injuries - Numbers and Current versus Proposed

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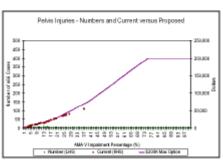
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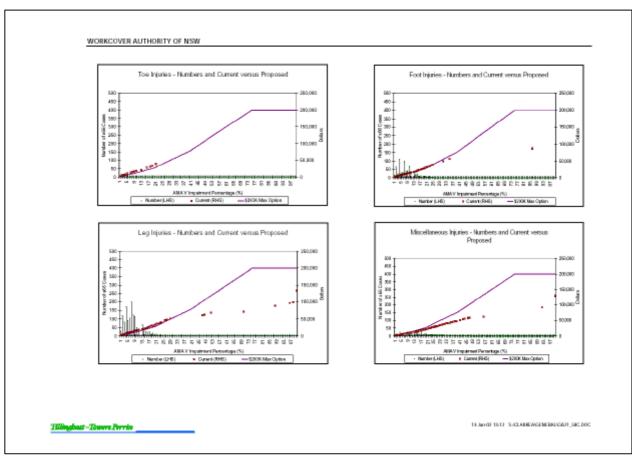
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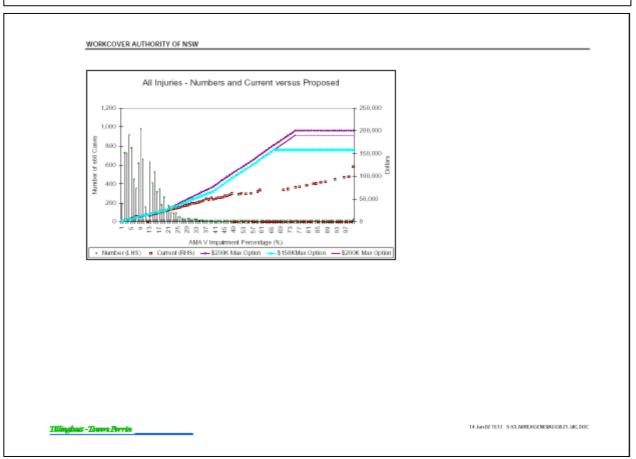
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By far the biggest component of these EoC diseases will be psychiatric illness, which

New Diseases - Use of the WCA Guides adds a number of Extension of Coverage (EoC) diseases that will newly qualify for a s66 permanent impairment payment

average adjustment.

we have modelled separately. From discussions with WorkCover, we have estimated the likely impact of non-psychiatric illness EoC to be approximately 857 cases per year. This number was derived by adding an extra 5% of existing claim counts at the 0%-1% WPI impairment band - the % added was then decreased linearly to 0% for the 99%-100% band. This allowance was weighted in favour of the lower impairments as the more severe the permanent EOC disease or injury the ligher the likelihood the claimant already qualifies under one or other of the

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APPENDIX H

and lodged on or after 12 January 1997 the maximum allowable individual loss or impairment injury amount is \$100,000. Those claims lodged between 1 July 1996 and 12 January 1997 may qualify for a higher maximum amount for which we have

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than \$100,000 for a single injury. The s66 entitlement dollars of the different injuries are added and capped at this figure. We were not able to identify with any degree of certainty whether a claimant has sustained 'multiple injuries' from WorkCover data. Accordingly it has been assumed that under the Current Table the % impairments for multiple injuries are cumulative and any over 100% were put

Multiple Injuries – Multiple injuries are entitled to a maximum of \$121,000 rather

not adjusted in our analysis.

Estimating an Existing Claim's Whole of Person % (WPI) Permanent Impairment under the WCA Guides - We relied upon a stratified sample of 97 s66 claims and discussions with WorkCover staff and advisers. Even though this sample was targeted at the more numerous injury groups and severities, there were many injury types for which data was lacking at certain severities, and averages of related injury types had to be used. For both commutations and common law, we did not derive a breakdown of the injury types of the permanent impairment claims and multiplied their Current Table's permanent impairment amount by 60%, which was the average proportion of all injury types' WPI% impairment compared to their Current Table amount. This assumes that on average common law claims have an

into the 99% - 100% band.

A range of uncertain data issues was addressed in the modelling. Most issues required subjective experience to determine assumptions due to the appropriate data being Specific Data Issues mavailable

- The Current Table of Disabilities ("Current Table") in Section 73 of the Workers Compensation Act 1987 ("the Act") provides compensation for permanent injuries varying according to 48 specific nature of injury types in the Current Table of Identifying Each Claim's Current Table of Disabilities Nature of Injury Type -Disabilities.
- impairment claim percentages may be derived from a combination of impairments to different 'nature of injury' types caused by the one injury. For example if a back injury has caused a loss of movement in the arms, this loss is estimated and calculated as a percentage of the Current Table's arm maximum. This is added to compensation dollar amount from a combination of different hature of injury' types However, WorkCover's claim records do not currently identify the Current Table's nature of injury' type for claims compensated. In fact single injury permanent What that calculated from the Current Table's back maximum. and their available maximums.

The only item in the claims file similar to the Current Table's 'nature of injury' type most significant location that injury affects. We have attempted to map the 48 Where there was no identifiable link, an average of a combination of 'nature of injury' types was used. Even so, 28 WorkSafe injury codes were unable to be linked and were excluded from the analysis. These issues with identifying the make-up and measure is the WorkSafe Tocation of Injury code. This is a broad indicator for the nature of injury' types in the Current Table to the WorkSafe location of injury code. measurement of claim impairments increase the level of uncertainty in our results. Maximum Amount Available - For the purpose of this analysis we have used all claims (open and closed) with an accident date occurring between 1 July 1996 and 31 December 2000 and section 66 ('866') payment on those claims from WorkCover's December 2000 claim file extract. According to the WorkCover Benefits Guide (April 2001 Edition), for claims made on or after 1 February 1992

Current Table's injury types

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for common law – especially around the threshold. Based on discussions with WorkCover staff we have assumed 25% of claims currently in the statutory system in the 20 - 30 WPFs impairment band will take common law action and 15% of claims between 30 - 40 WPFs. However, there may be a range of other behavioural

WorkCover Authority of NSW

Effects of restricting commutations – We have not done any independent analysis into the cost to the Scheme of commutations as compared to the costs of equivalent non-commuted statutory claims. Any analysis presented is based on the PwC report

implications that occurr which cannot be forseen before implementation

Cover Authority of NSW

Psychiatric Illness – The introduction of psychiatric diseases as a dass of EoC claims provides a much higher estimate of the number of potential permanent impairment claims than other, anon-psychiatric. EoC claims. At low levels of limpairment there is the potential for substantial numbers of claimants to be elligible for a permanent psychiatric impairment gayment. Anecdotal evidence from the introduction of psychiatric diseases to a statutory non-economic loss benefit indicates that they are potentially up to 5 times more numerous than other EoC claims. We estimated that with no minimum WPPS impairment % there was the potential for up to 4000 psychiatric illness claims to qualify for a s66 permanent impairment payment. We estimated the effects of restricting the qualification of s66 benefits for psychiatric illness to 10%, 15% and 20% WPI impairment. This restriction reduced the s66 claim count estimates for psychiatric illness to 1,000, 550 and 300 respectively.

■ Commutations – We have calculated the total annual settlements of commutations arising from non-hearing loss permanent impairment claims to be approximately 70% of 800 non-hearing loss permanent impairment settlements. This equates to approximately 7,000 annual commutation settlements in 2000/01 (ie. very broadly 70% of the total number of claims). We have distributed these according to the severity pattern as presented in the table on page 19 of the recent report into commutations²³.

Common Law claims - An annual number of continuon law settlements excliding hearing loss, was calculated to be approximately 1,600 in 2000/01 (1,850 * 95% (le. excluding 5% hearing loss claims) * 90% (le. excluding 10% intimations). To determine the impairment distribution we have estimated the impairment level of a common law claim by capturing the Maximum 866 claim over the claim's history (note: anomalous 0% estimates were excluded from the distribution proportions). This exercise was done for all settled common law claims incurred in the last 4 years to December 2000.

The effect of changes to Common Law access and damages. The Sheahan recommendation have wide ranging implications for potential behavioural change in relation to accessing common law. Removes the uncertainty and risk of nominating $^{\rm th}$ Priewaterhouse Coopers 'Analysis of trends in NSW Workers' Compensation Commuted Claims', 8 October 2001 Tillinghart - Touses Beards

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Appendix 3

Letter to the Chairman from the Minister for Industrial Relations

dated 9 January 2002

Letter to the Chairman from the Minister for Industrial **Relations**



Special Minister of State Minister for Industrial Relations Assistant Treasurer Minister Assisting the Premier on Public Sector Management and Minister Assisting the Premier for the Central Coast

The Hon Reverend Fred Nile, MLC Parliament House Macquarie Street SYDNEY 2000

Legislative Council GENERAL PURPOSE STANDING COMMITTEES

0 9 JAN 2002

RECEIVED

Dear Reverend Nile,

I note the actuarial projections provided by Tillinghast-Towers Perrin at the request of General Purpose Standing Committee No.1.

The projections confirm the new Scheme should, for the first time in ten years, collect more than it will spend.

As I have indicated to the parliament, most recently when the Government withdrew legislation to proceed to private underwriting, the Government is committed to improving Scheme design.

t am also advised the Committee is interested in holding a seminar on the third stage of reform.

I am happy for the WorkCover Authority to organise such an event in conjunction with the Committee. Ms Kate McKenzie can be contacted on 9370 5858.

Should it be the wish of the Committee, I can appear before General Purpose Standing Committee No.1 in February to discuss further improvements to the workers compensation scheme.

ohn Della Bosca

Level 30 Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000, Australia Tel: (02) 9228-4777 Fax: (02) 9228-4392 E-Mail: office@dellabosca.minister.nsw.gov.au