



Institute of Actuaries of Australia

# XIth Accident Compensation Seminar 2007

## **Ageing Population and Accident Compensation**

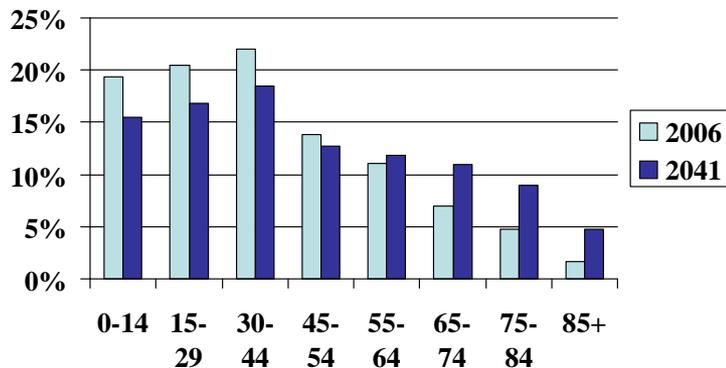
**John Walsh and Anne-Marie Feyer**

## Contents

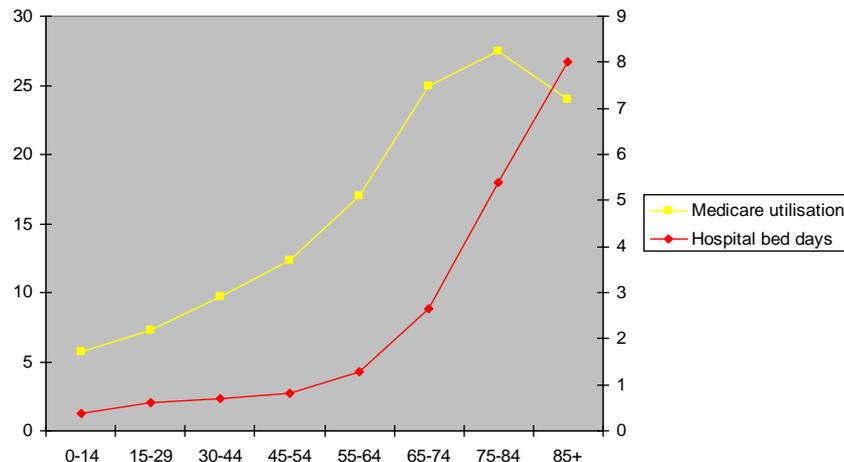
- The “ageing” issue
- Mythbuster
- Accident compensation experience / issues
  - Workers compensation
  - CTP
  - Lifetime Care
- New issues / “sleepers” / opportunities
- Conclusions

# The “ageing” issue

**Population pyramid 2005 - 2041**



**Healthcare utilisation by age**



**Future aged care (\$b) - Hogan**

	2002-03	2022-23	2042-43
RAC - high	5.2	20.3	73.5
RAC - low	1.5	6.0	21.2
CACP	0.3	0.5	1.2
HACC	0.9	3.1	10.9
<b>Total</b>	<b>7.9</b>	<b>29.9</b>	<b>106.8</b>

## Impact on health and aged care

- Health cost percent of GDP now nearly 10%
- Projected (by some) to reach 15% around 2030-2040
- The ageing demographic a significant contributor to growth, but not the only one – also technology, pharmaceuticals, prosthetics
- Ageing may contribute around 1% pa “superimposed inflation” to health system

# Mythbuster

# Ageing has been happening for a long time

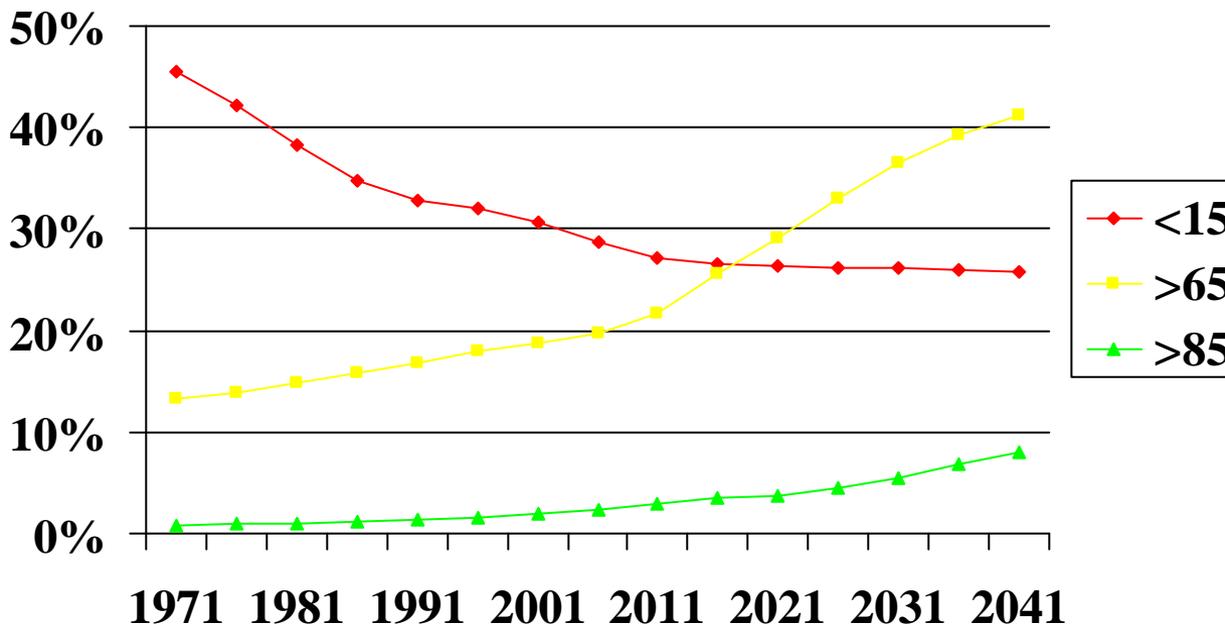
- Ageing indicators

Year	Mean age	% Aged > 65	% Aged > 85
1971	31.2	8%	0.5%
2006	37.6	13% (+60%)	1.6% (+220%)
2041	44.2	25% (+85%)	4.8% (+195%)

- The mean age will change at the same rate in the next 35 years as it has in the past 35
- Similarly, the % of the population “aged” will continue a trend started long ago

.....but

Dependent age groups % working age



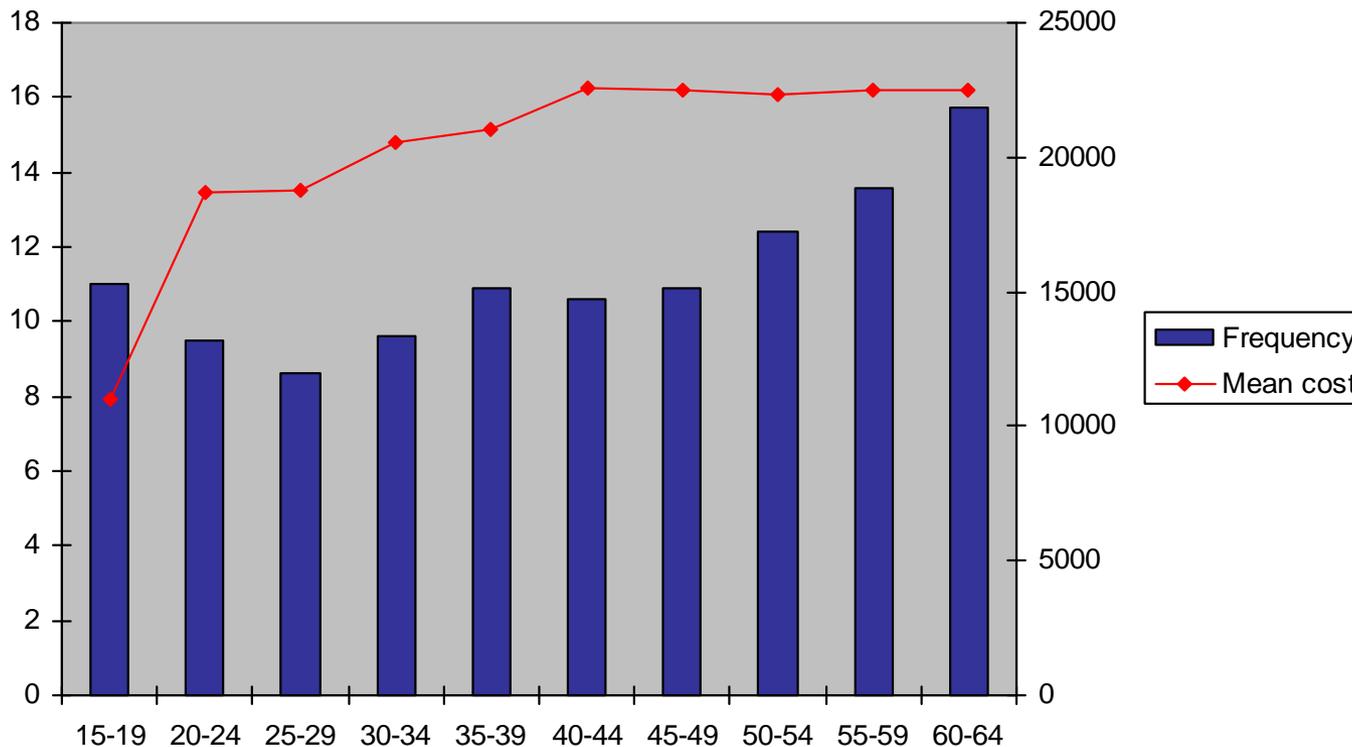
- The workforce “coverage” of the aged population will diminish rapidly
- Pressure on servicing increasing health and social welfare budgets will be acute

# Accident compensation / casualty experience

# Workers compensation

## Workers Compensation Claims Experience

NSW WorkCover Experience



Notes: Frequency is Employment Injuries per million hours worked  
 Mean cost is reported incurred cost in current values

} Lost time claims only

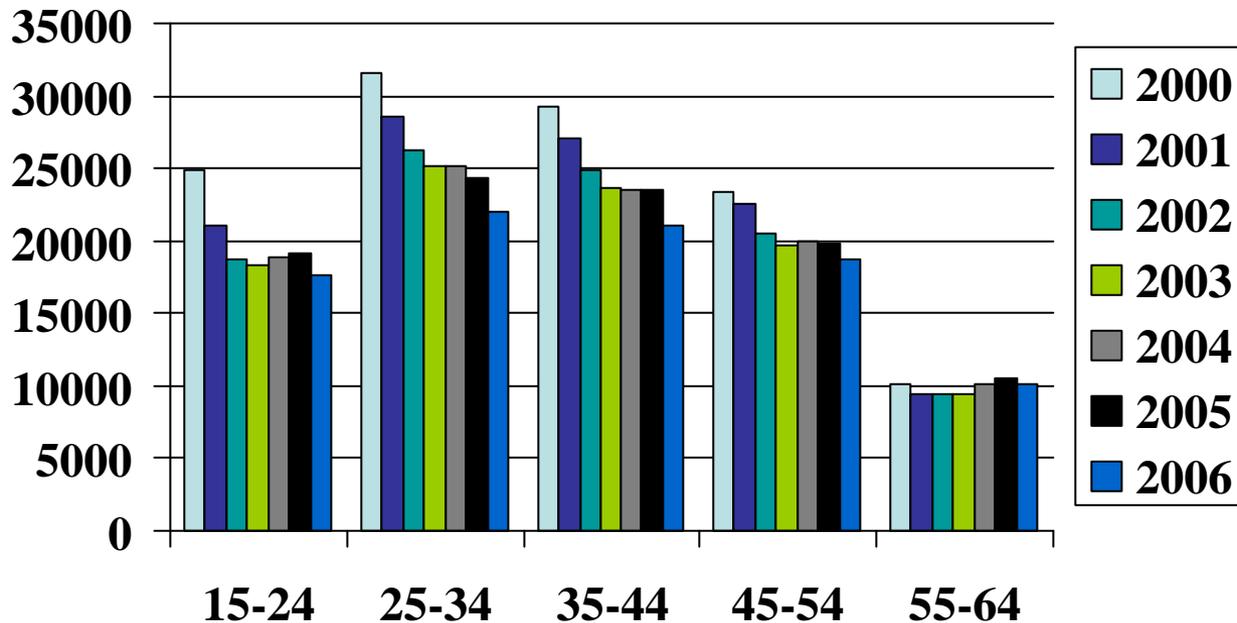
## Workers Compensation Claims Experience Commentary

- Similar data from VWA and Australia (Worksafe), and reducing frequency trend for >55.
- Increasing frequency, especially females, occupational disease and fatalities.
- Claim size flat post age 40.
- When frequency is combined with mean claim size, there is an increasing unit cost per million hours worked.
- This is partly offset by increasing wages with age.

# Workers Compensation Claims Experience

## Recent trends

### NSW Claims 2000-2006



- Reducing claim numbers except in “baby-boom” – but these increased in population by 15-20% over this period.

## Workers Compensation Claims Experience Conclusions

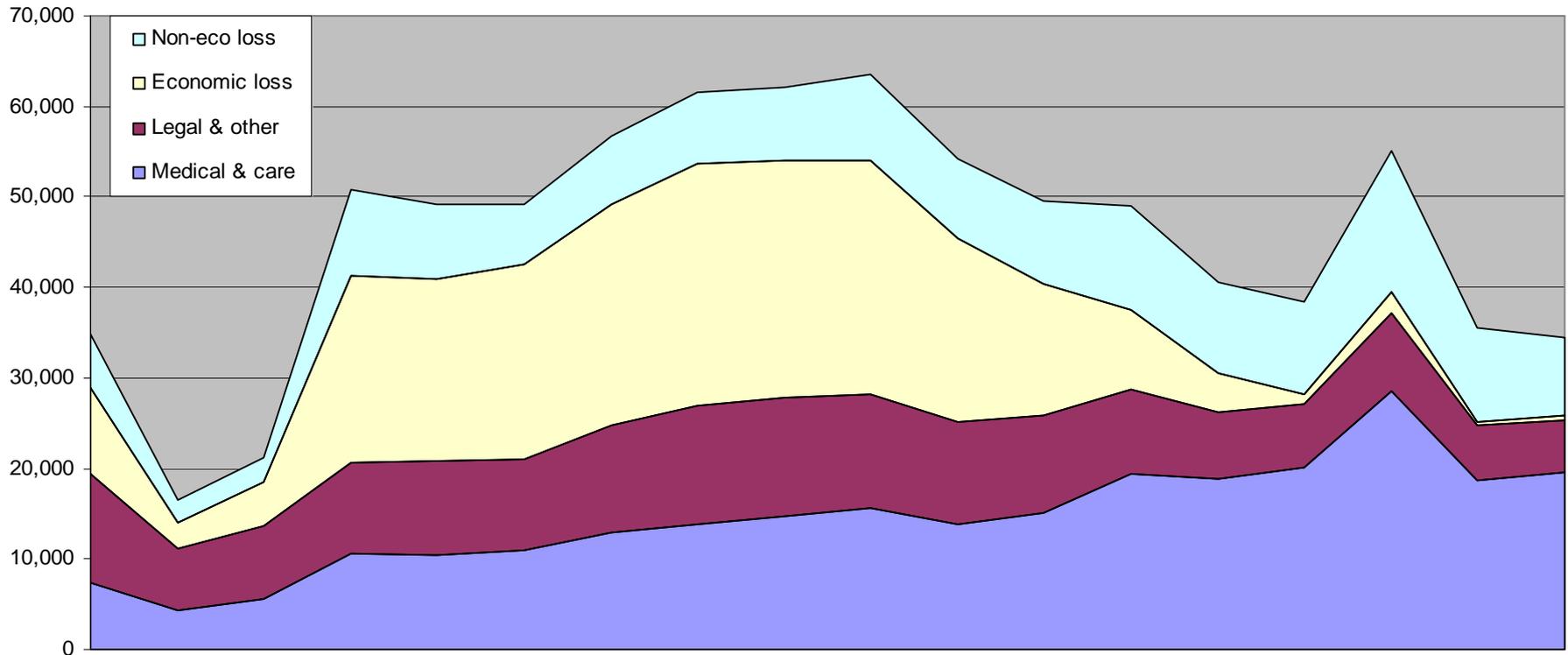
- Based on claims data and demographic data, unlikely to be a big deal.
- For long tail schemes, income support finishes at age 65. The worst is probably past – many baby-boomers now retiring or about to retire.
- For medicals and care, these will make up an increasing % of scheme costs over time, but presently comprise only 20-30% of benefits and liability, so “ageing” superimposed inflation likely to be less than 0.5% pa – more than offset by long term frequency trends.
- Major issues are likely to be sleepers – we will discuss later.

# **Motor injury compensation (excluding Lifetime Care)**

# Motor Injury Compensation Claims Experience

## Average claim size – as you would expect

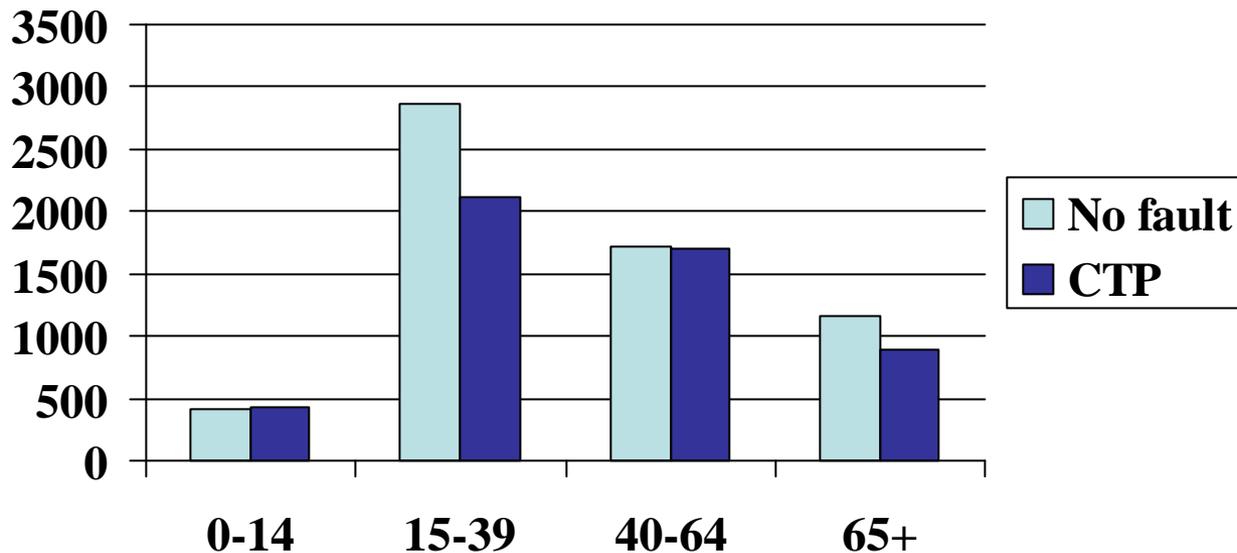
CTP Average Claim Size  
(by payment type)



# Motor Injury Compensation Claims Experience

## Claim frequency – Can you believe it?

Motor injury claims per million population



- Claim frequency falls with age
- Males higher at all ages
- Combined with average claim size, a benign projection prospect

## ..... but .....what the numbers don't show

- Particularly in motor injury, “claims” do not equal risk factors – rather they are the *consequence* of “risky behaviour”
- Especially in CTP, the claim is by the person *not at fault*
- There is a huge increase in “risky driving” with advancing age (especially post age 70), due to a range of age-related cognitive changes.
- The ageing population will increase the overall “riskiness” of the driving population due to the changing demographics
- This will be exacerbated as older drivers have greater driving exposure [eg through a longer working life] or a different mix of vehicles

## Motor injury compensation.....summary

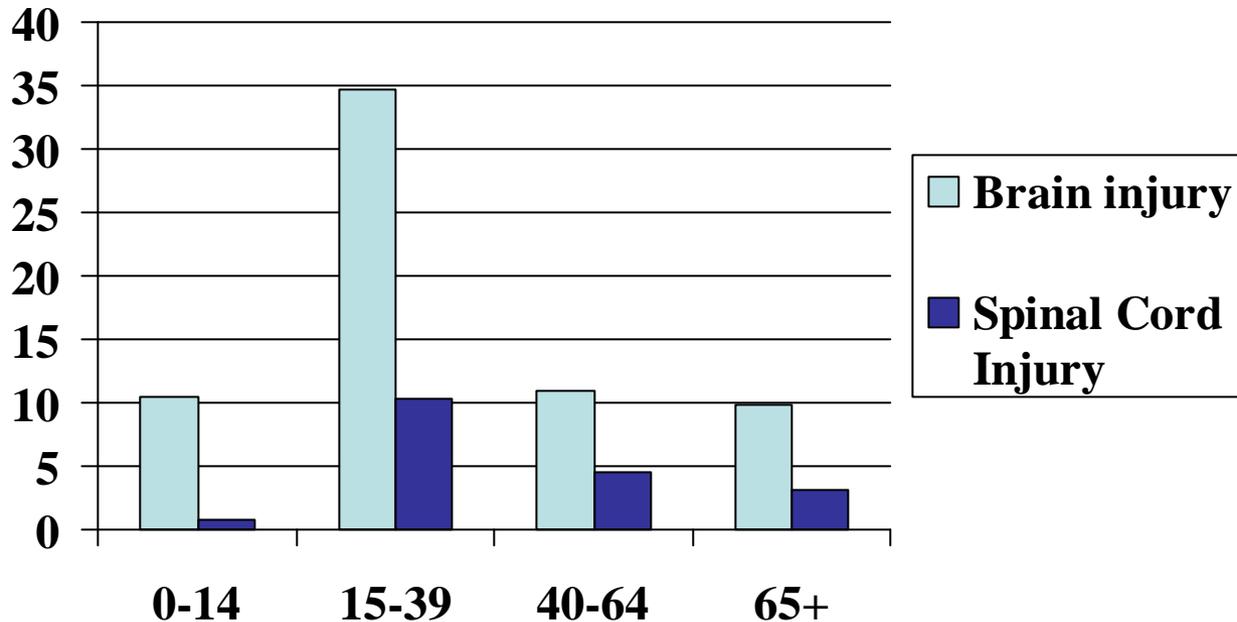
- As the population ages the nature of compensation will change more to medical and care heads of damage – but not a significant cost impact
- More exposure by older drivers who are “young at heart” (ie baby-boomers) is likely to increase the overall riskiness of schemes. This should kick in in a material way from about 2015.
- The question is whether this will be offset by the continuing downward trend in claim frequency, and what mitigating steps can be taken.....(see handout 1 from *PwC Centre for Ageing Studies*)

# **Compensation for Lifetime Care & Support of major claimants**

# LTCS Compensation Claims Experience

## Claim frequency

LTCS claims per million population

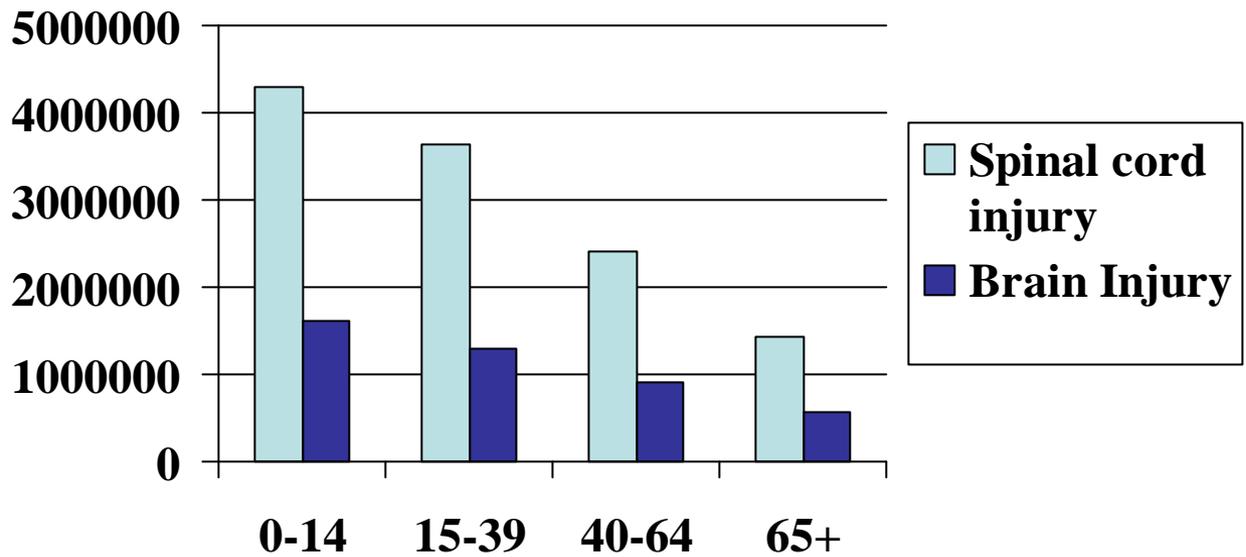


- Claim frequency highest at young ages
- Males higher at all ages

# LTCS Compensation Claims Experience

## Claim frequency

LTCS average claim size (current values)



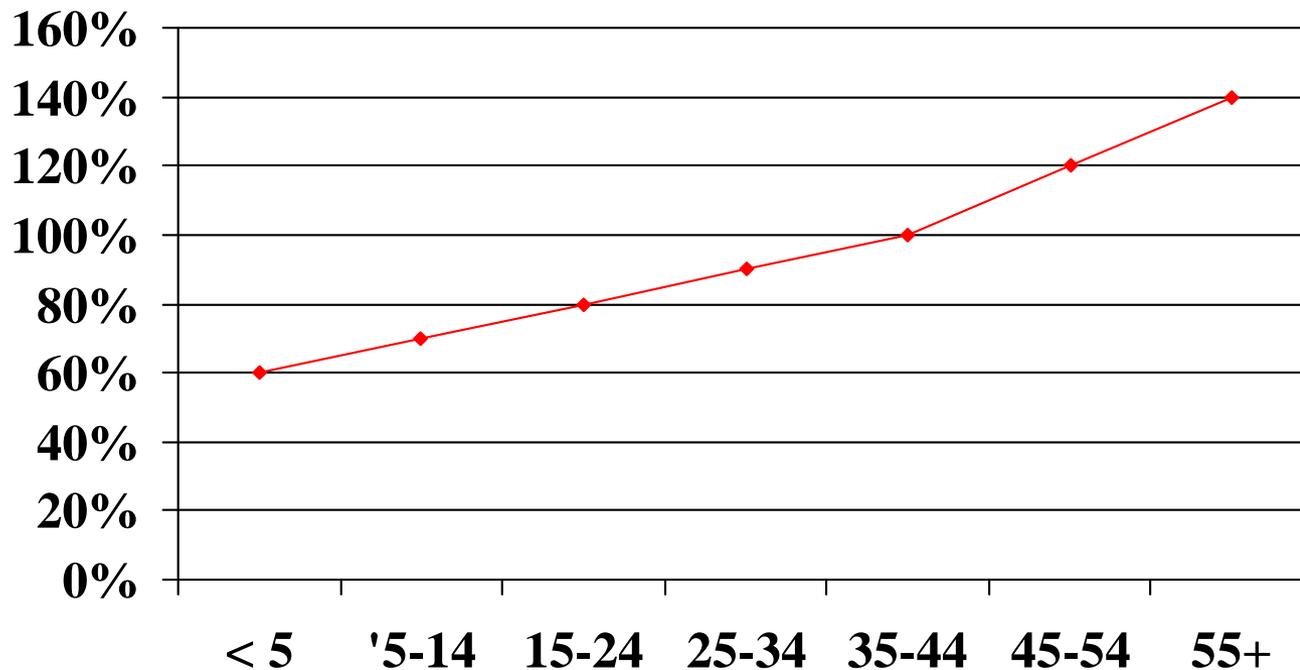
- Claim size highest at young ages
- Combined with claim frequency, a *favourable* projection prospect within an ageing population

## ..... but there is another ageing population here

- Consider each cohort of claimants, each ageing and subject to all the cost pressures discussed for the health system
- In a funded system (such as TAC, ACC, MAIB, LTCS), this ageing risk is totally borne by the scheme, and hence must be allowed for in projections and liability assessment
- The risk is partly offset by the diminished life expectancy of the most costly claimants

## LTCS allowing for ageing claimants

Age adjuster to base average costs



# **New issues / “sleepers” / opportunities**

## Big picture: Commonwealth v State/Territory issues

- Social welfare costs are set to rise across the board, with concurrent reductions in revenue sources
- Clear need for whole of government approach in areas where progress has traditionally been inhibited by the federal divides:
  - Health funding structure
  - Disability and Home & Community Care
  - Residential aged care
- Need for clarity around State vs. Commonwealth roles
- Need to engage the community, individuals and private sector in service delivery and funding structures

## Cost of health and aged care

- More demand and conditions for the health workforce
  - Increased Commonwealth-State funding of “care” will put pressure on the supply and also cost of the health and care workforce
  - Exacerbated by a diminishing gratuitous care sector (smaller families and more female workforce participation)
  - Further exacerbated by the ageing carer workforce and need for more stringent OH&S regulations
  - Will lead to cost pressures particularly on LTCS schemes and the care cost component of other schemes
  - New drugs, prosthetics and pharmaceuticals will further add inflationary pressure

## Importance of work health will be more than ever

- Longer working life
  - A 5 year addition to retirement age would give a material one-off increase in workers compensation costs (and liabilities?) – maybe 1% to 3% depending on benefit structure. Lower impact for motor.
  - Would probably increase exposure of risky aged drivers
  - Would possibly increase nature & condition and latent claims
- Increased incidence of chronic disease in the workplace
  - Complex and chronic disease prevalence (eg mental illness, diabetes, arthritis, cardiac disease, respiratory disease) is increasing, and increases with advancing age. The workplace (and workers compensation) will need to deal with these

## Work health (cont)

- Fitness for duty issues (could go two ways)
  - With change in physical and mental capacity, exposure to disease (eg stress, chemical exposure) and injury (eg musculo-skeletal strain) in some jobs may functionally increase (ie people don't cope as well, exposure goes on for longer 'working lifetime')
  - Alternatively, exposure may actually decrease if people start to move to other work areas through earlier retraining etc (eg construction field job vs desk job), particularly in the face of "smart" strategies to target markets and skills shortages (eg 'grey tellers' for banks to better match the population of customers)
- Retaining skilled workers
  - The Finland experience several decades ago is interesting in this regard. The aging bump and the early retirement of affluent societies hit there some time ago, with a consequent looming huge skills gap

## Finally.....

- Ageing baby-boomers will be different..... (see handout 2 from *PwC Centre for Ageing Studies*)

**Questions??**