



Institute of Actuaries of Australia

XIth Accident Compensation Seminar 2007

The Comcare Self-Insurance Option

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This presentation to be read in conjunction with the authors' paper.

Agenda

1. Productivity Commission report and the “Comcare option”
2. Employer survey
3. OH&S implications
4. Workers’ comp implications
5. Self-insurance regulation
6. Impact on state schemes
7. Conclusions and discussion

Productivity Commission Report

- 2003-04 Inquiry “to assess possible models for establishing national frameworks for workers’ compensation and OH&S arrangements”

Recommended:

- OH&S: national uniformity in OH&S regulation “as a matter of priority”
- Workers’ comp: progressive expansion of an alternative national scheme operating alongside state schemes

Government response

- OH&S:
 - Establish ASCC
 - Allow access to Commonwealth OH&S regime: *OHS and SRC Legislation Amendment Act September 2006*
 - ASCC to develop uniformity of legislation
- Workers' comp:
 - Accepted Step 1 of progressive national scheme = encourage self-insurance under Comcare
 - Rejected Step 2 (alternative national self-insurance) and Step 3 (alternative national underwritten scheme)

Eligibility

- Optus case
 - High Court confirmed Commonwealth power to allow companies into Comcare
- Competition Test
 - John Holland eligibility implies broad interpretation of competition
- 15 Self Insurers
- 9 Eligible but not yet licensed

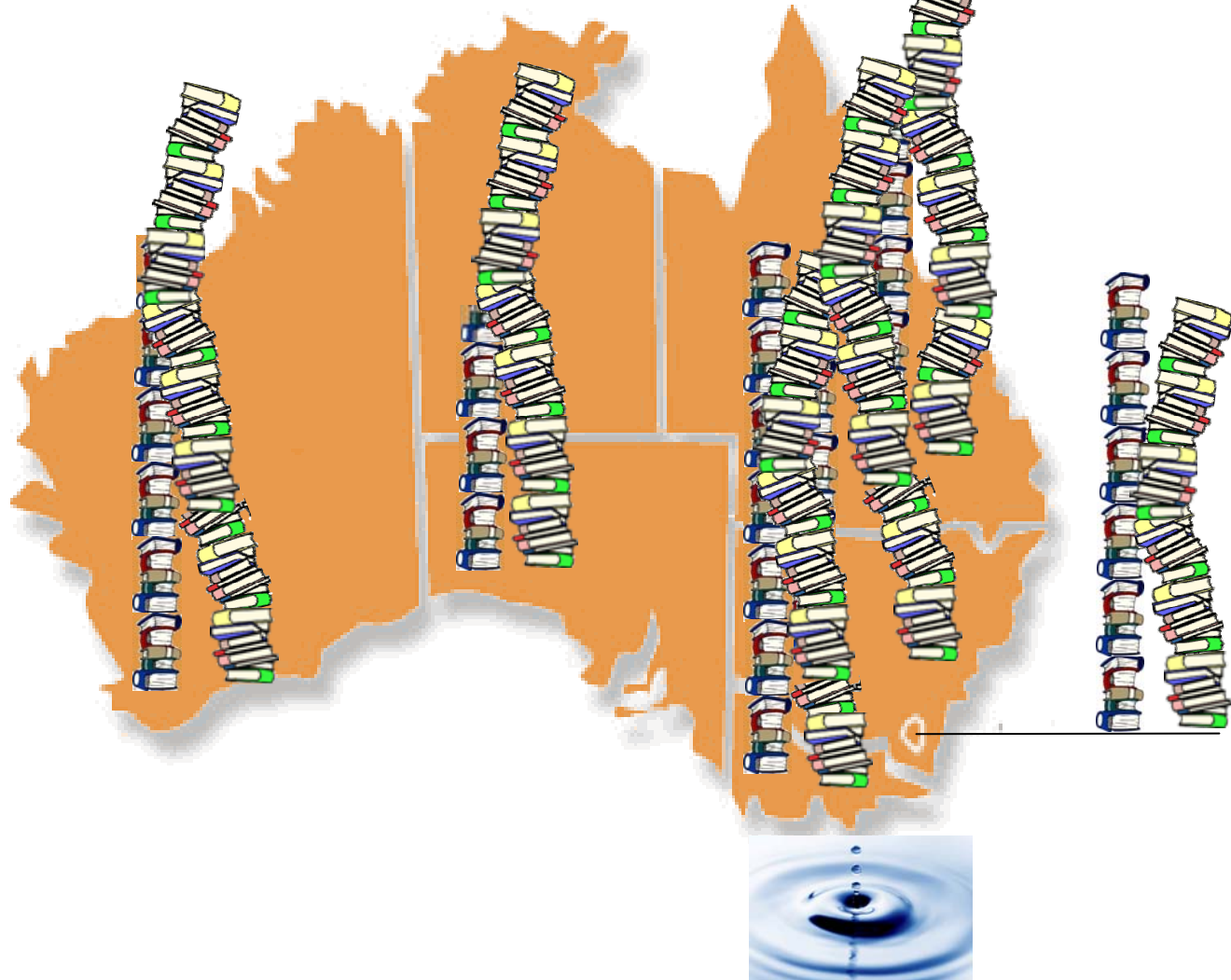
2. Survey of National Employers

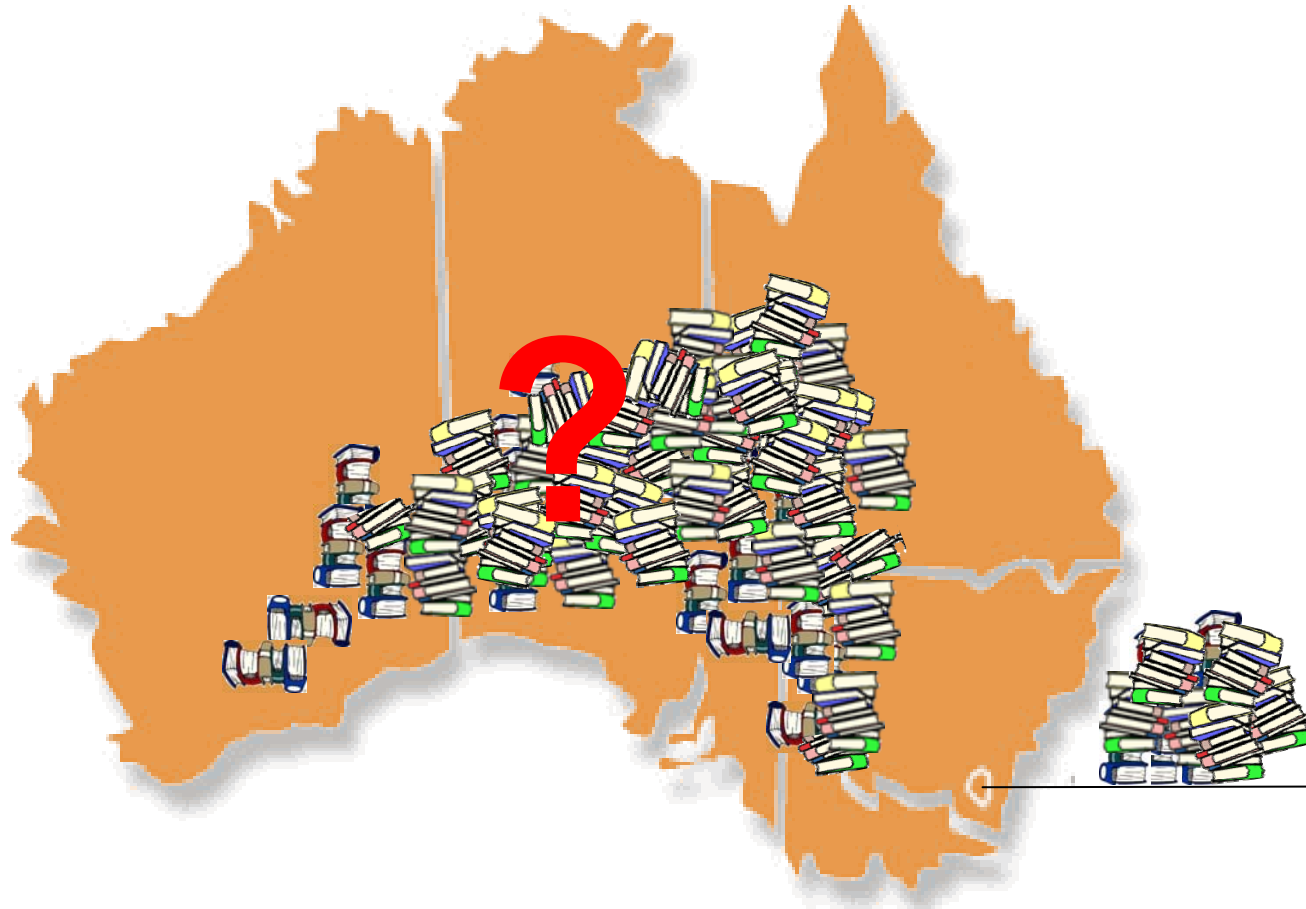
- Major Considerations
 - Workers' comp financial implications (100%)
 - Workers' comp regulation / compliance (100%)
 - OH&S financial implications (83%)
 - OH&S regulation / compliance (100%)
 - Strict OH&S liability (50%)
- Uniform legislation
 - Consistently emphasised

3. OH&S Implications

- Framework
- Enforcement





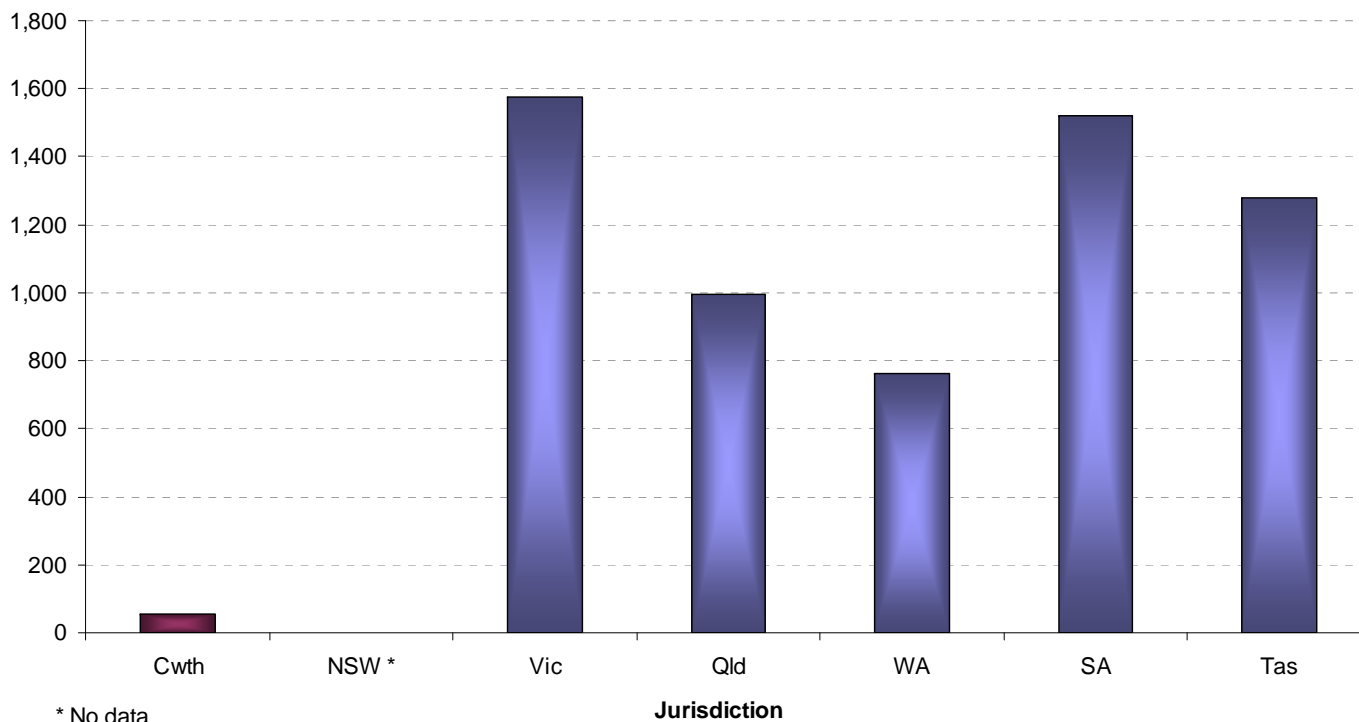


Strict liability

- In NSW, the occurrence of a workplace injury prima facie shows the employer had failed to provide a safe workplace
 - onus of proof is on the employer to show they had done everything practicable to establish a safe workplace
- Cited as a significant factor for considering a move to Comcare

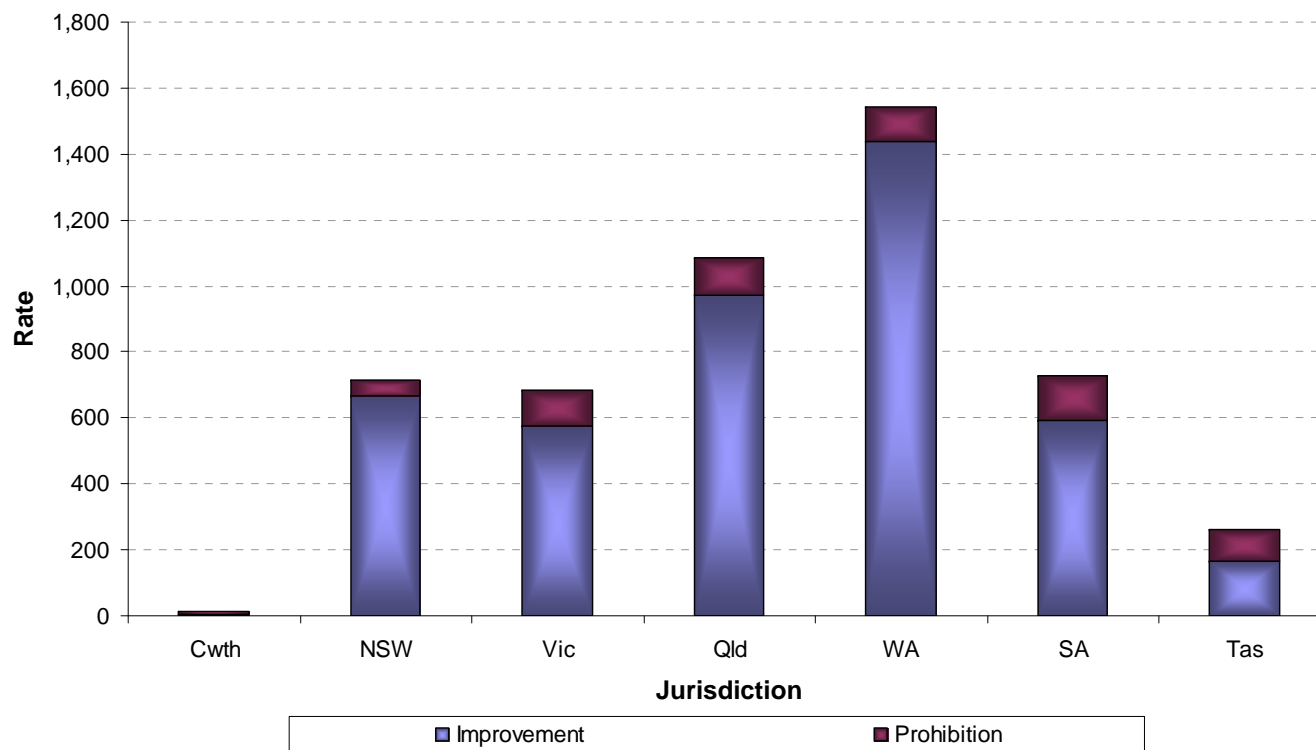
Enforcement

Proactive Interventions per 100,000 Employees



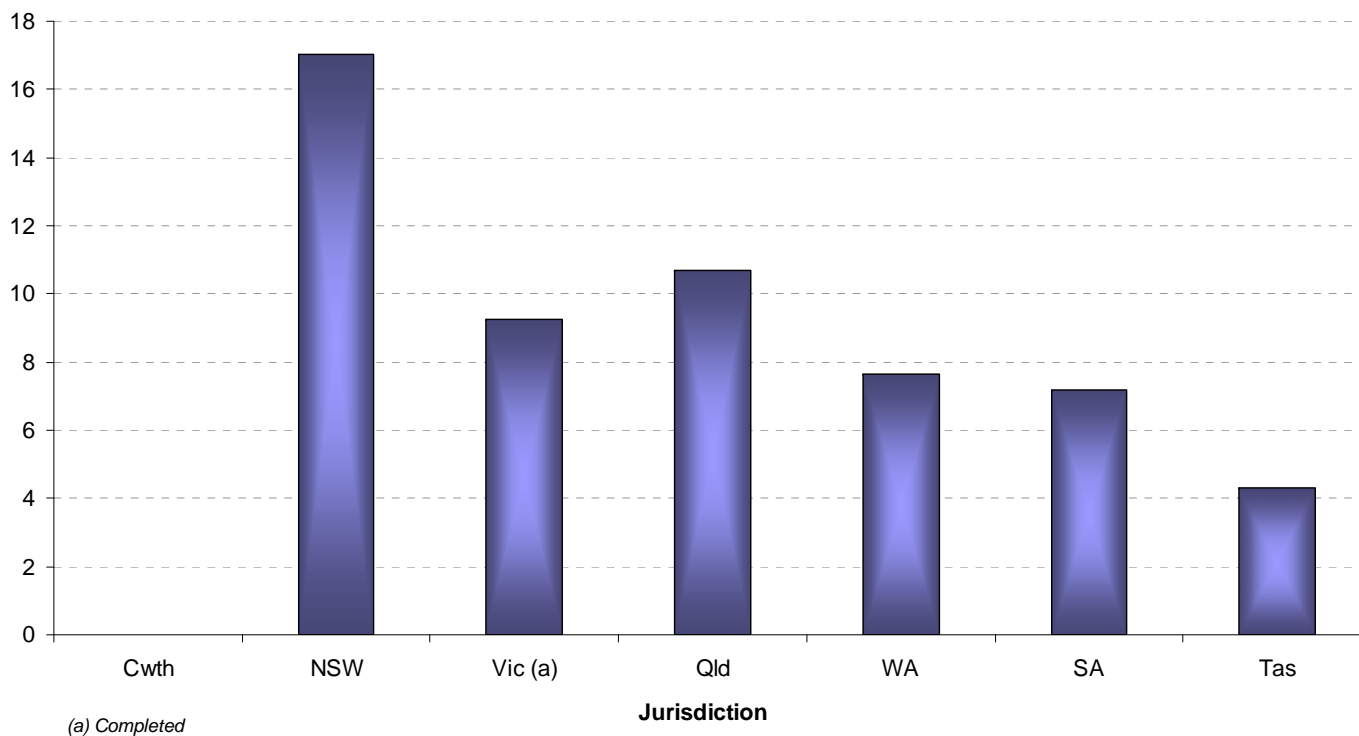
Enforcement

Notices per 100,000 Employees



Enforcement

Legal Proceedings Commenced per 100,000 Employees



OH&S conclusions

- Frameworks are broadly similar but myriad minor differences
 - Significant advantage for employers in working under one regulatory framework
 - NSW strict liability a particular factor
- Greatest differences come through approach to enforcement:
 - Comcare currently “light touch”
 - May need to change approach & beef up resources to operate in new workplaces

Workers' Compensation

- Single set of benefits
- Benefit comparison
- Claim cost comparison
- Disputes

Comcare benefit structure

- Weekly benefits generally more generous
 - 100% for 45 weeks
 - long-term entitlement
- Limited redemptions
- Limited access to common law
- Lump sums generally lower than states

Recent amendments

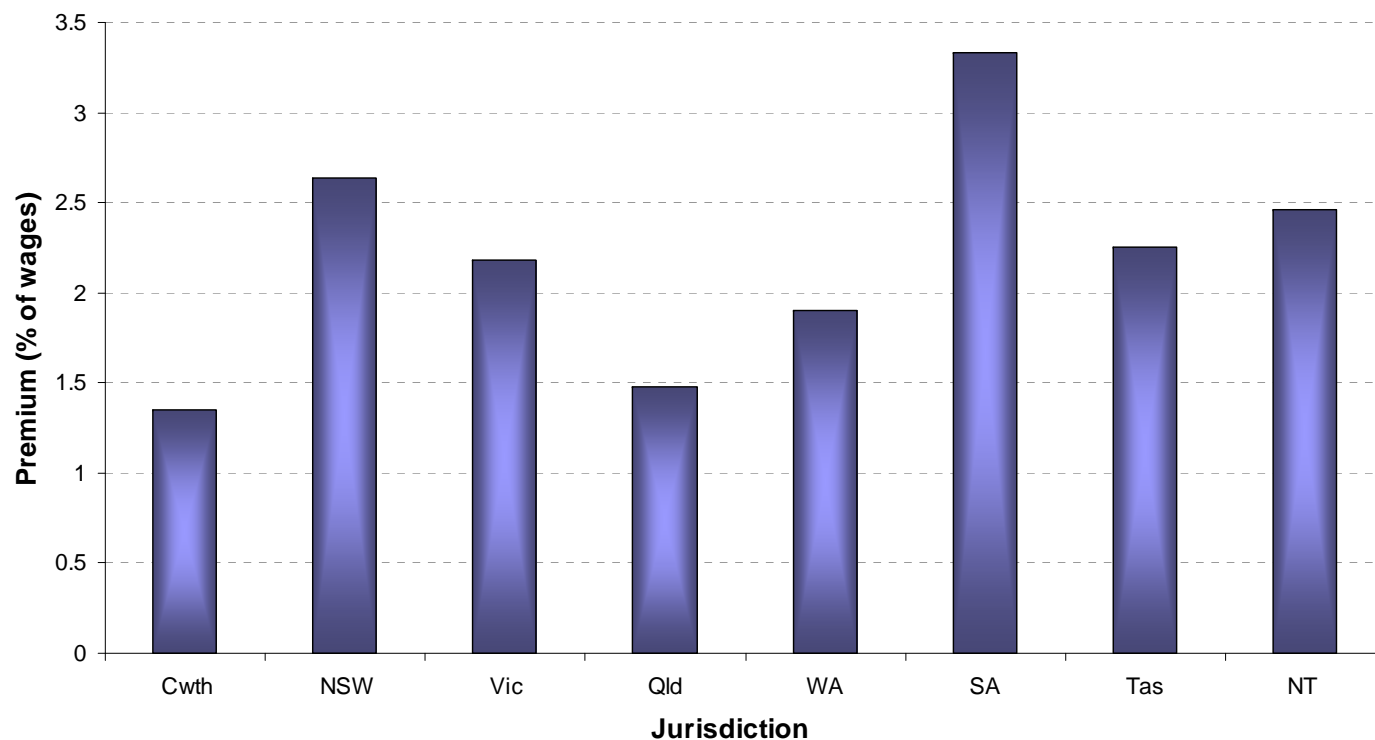
SRC Amendment Act (passed 27 March 2007):

- Remove journey claims
- Limit coverage of stress claims
- Broaden suitable employment test for establishing potential earnings for long-term partial claims

Will reduce cost of Comcare benefits

Premium rates

Standardised Premium Rates

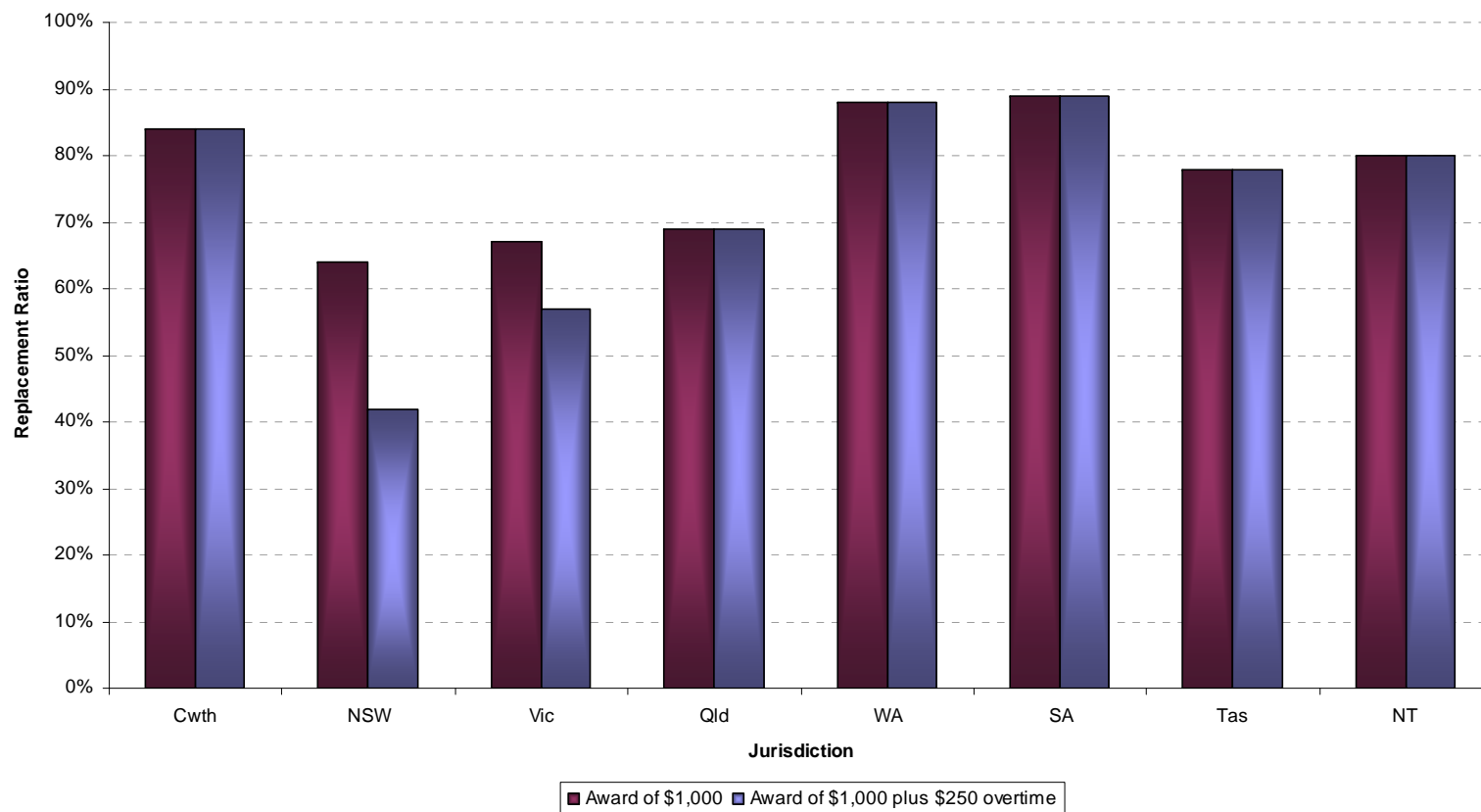


Premium rates

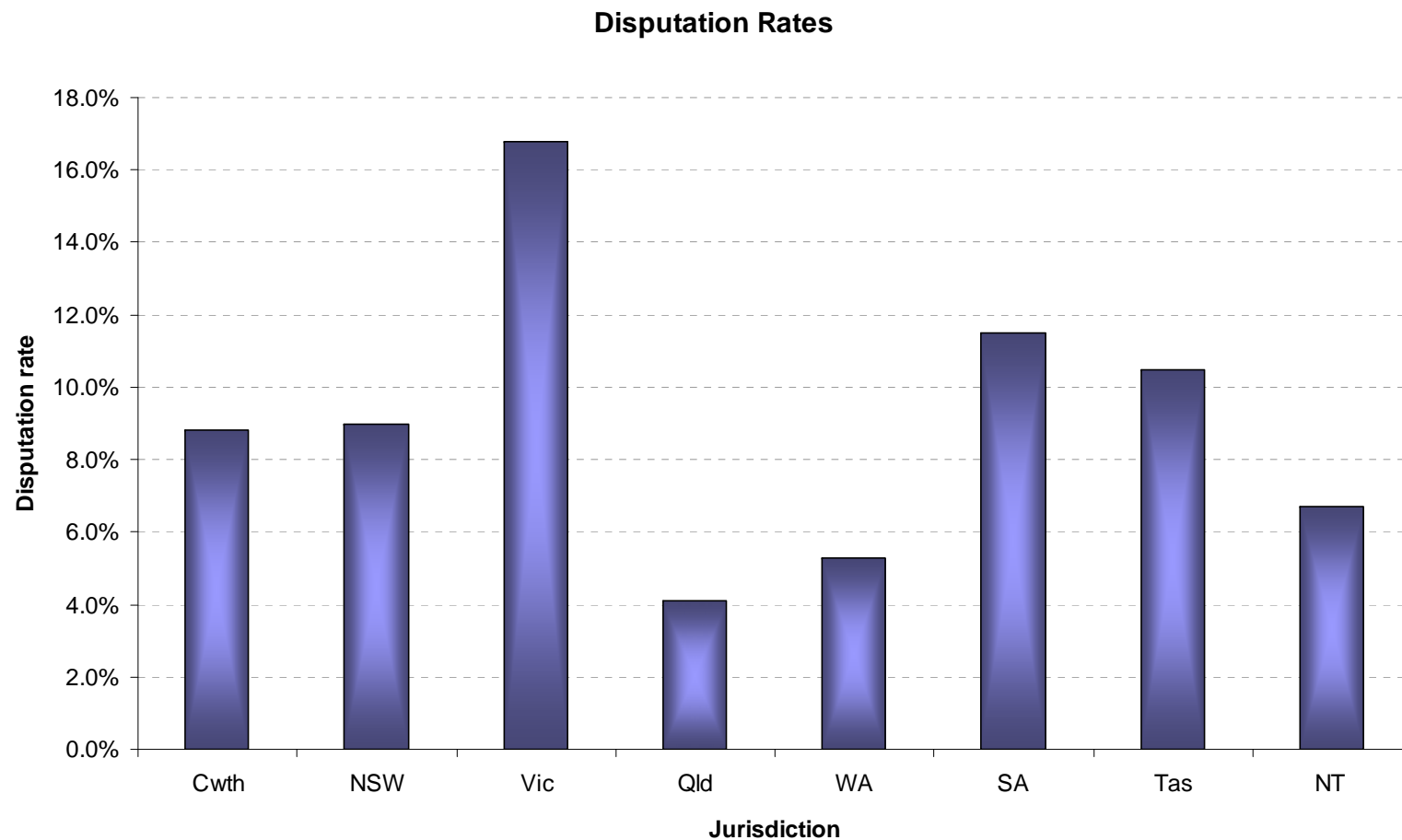
	2002-03		2003-04	
	Comcare	Aust. Avg.	Comcare	Aust. Avg.
	%	%	%	%
Transport & Storage	1.05	3.57	1.17	3.48
Finance & Insurance	0.89	0.52	1.25	0.54
Property & Business Services	0.57	1.14	0.82	1.07

Claims costs

Average Replacement Ratio (120 Weeks)

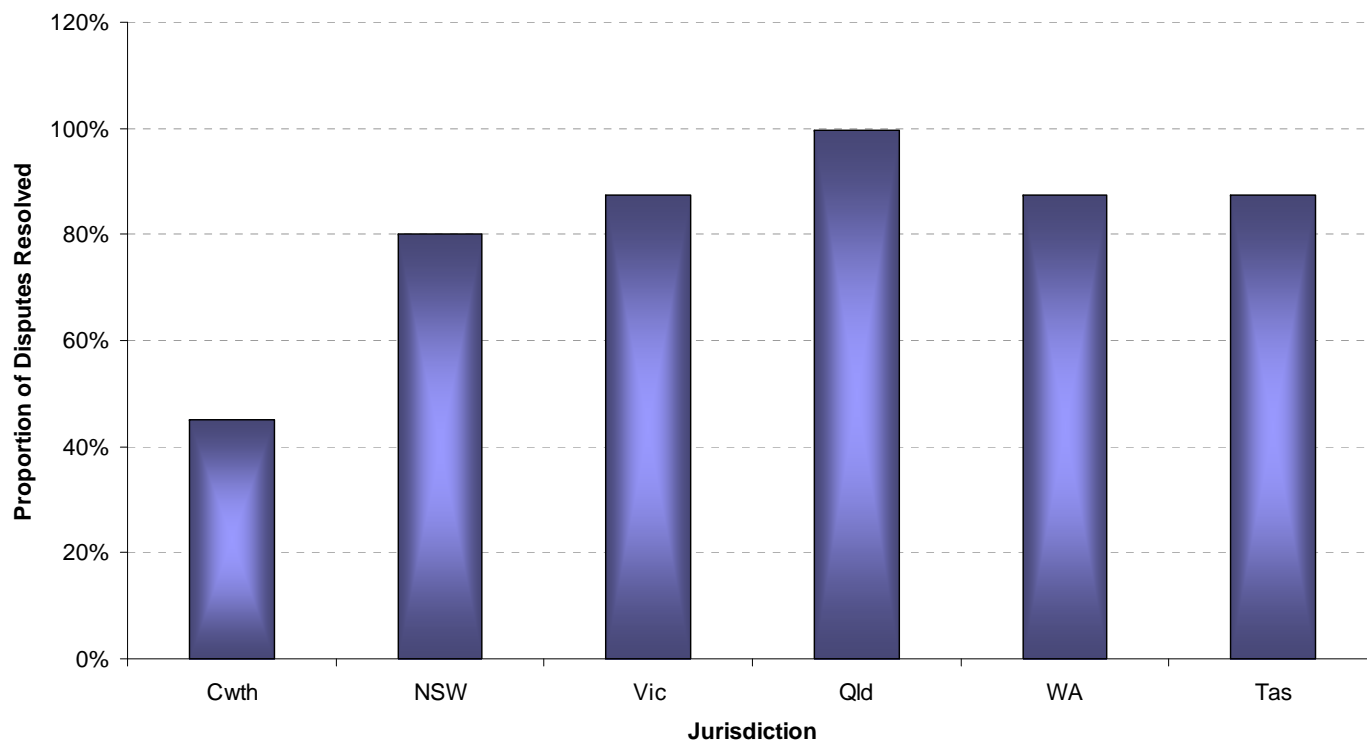


Disputation Rates



Disputation Rates

Proportion of Disputes resolved < 9 Months



Conclusions: Workers' comp

- Comcare generally more costly because of weekly benefit design (around 10%)
 - recent amendments will reduce the difference
- Dispute resolution framework is another factor driving different claim outcomes
- Operational and practical benefits for employers from a single framework

5. Licensing & Regulation

- Tail provisions and exit fees
- Comcare self-insurance licensing arrangements
- Compliance costs

6. Implications for State Schemes

“..a substantial exit of employers from any scheme will detrimentally impact the financial viability of the scheme they have left” (WorkCover Queensland submission to Productivity Commission)

- Scale diseconomies
- Premium rate impacts
- State self-insurance viability

Scheme expense rates (government underwritten)

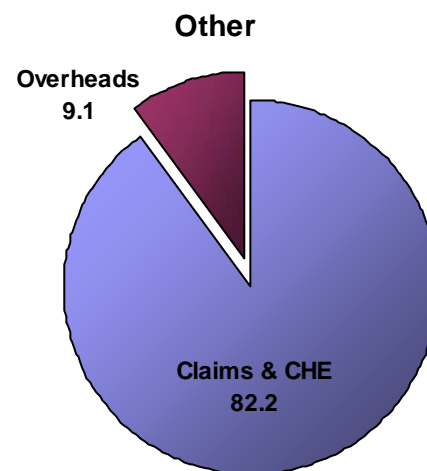
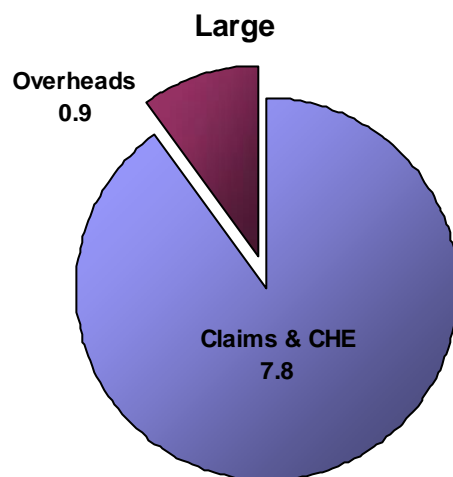
	Scheme annual reports 2005/06			CPM-8: Expenses as % Claims	
	Premium	Expenses	Expense Rate	2004/05	2000/01
	<i>\$m</i>	<i>\$m</i>	<i>% Premium</i>	<i>% Claims</i>	<i>% Claims</i>
NSW	2,925	1,004	34.3%	28.1%	18.3%
Victoria	1,668	392	23.5%	31.1%	18.9%
Queensland	861	157	18.3%	22.3%	22.5%
SA	544	80	14.7%	17.0%	18.7%
Comcare (Cth)	190	24	12.4%	17.5%	17.4%
Average (weighted by 2005/06 Premium)			26.8%	26.8%	19.1%

Premium Rate Impacts: An Illustration

- 10% of insured premium base moves to Comcare
- These employers have been providing 15% cross-subsidy
- Fixed costs currently 10% of premium pool

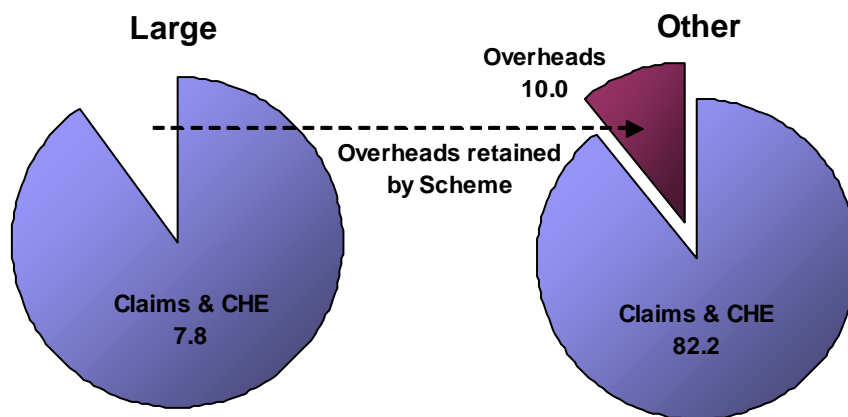
Before

	Large Employers	Other Employers	Total Scheme
Wages	500	4,500	5,000
Required Premium	1.74%	2.03%	2.00%
Actual Premium	2.00%	2.00%	2.00%
Cross-Subsidy	15.0%	-1.4%	-



After

	Other Employers
Wages	4,500
Required Premium	2.05%
Previous Premium	2.00%
Increase	
% of Insured Wages	0.05%
% of Premium	2.42%



Conclusions: State Scheme Impacts

- Scale diseconomies: not a serious problem
- Premium impacts: shouldn't be a problem, but depends on current cross-subsidies in premium design
- Self-insurance: possible loss of critical mass in smaller jurisdictions

Conclusions: Overall

- Significant operational advantages for an employer from adopting uniform frameworks for OH&S, workers' comp benefits and self-insurance regulation
- May create more complexity for workers
- Comcare currently a "light touch" OH&S regulator – expect this to change
- Workers' comp likely to be more costly
- Any impact on State schemes is mainly self-imposed

Questions and Discussion