

28 November – 1 December 2004

# Xth Accident Compensation Seminar

2004



Institute of Actuaries of Australia

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## The Last Decade – WA Workers' Compensation

**Dr Rob Guthrie, Curtin University and  
Peter Lurie, PricewaterhouseCoopers Actuarial**



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# Adventures of a Report Writer, the Actuary and the Politician

- Introduction
- June 1993 changes
- October 1999 changes
- 2004 reform package
- Dutch, Hewitt v Benale, Dossert
- lessons

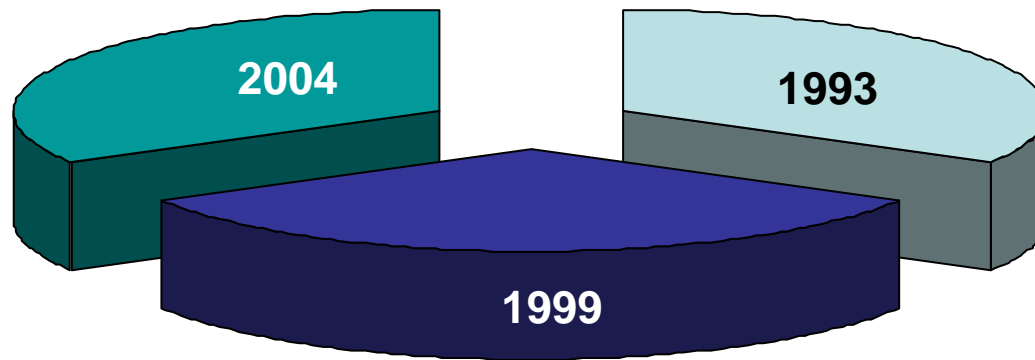


# Adventures of a Report Writer, the Actuary and the Politician - Introduction

- Review of
  - Objectives of each change
  - Intended impacts
  - Key drivers
  - Behavioural change
  - Erosion / robustness



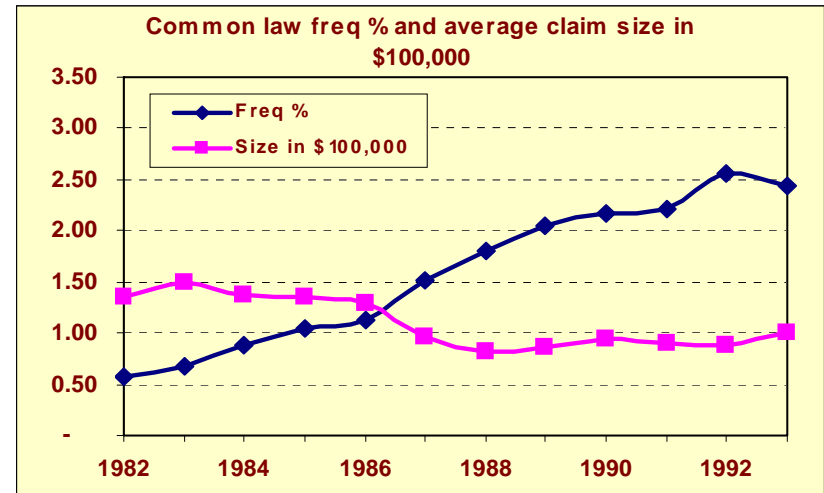
# Adventures of a Report Writer, the Actuary and the Politician – The Last Decade's Changes





## June 1993 Changes

- Common law escalation
- Lump sums added to discharge c/law
- c/law restricted for first time
- Chart shows
  - fivefold increase in frequency
  - One-third reduction in average claim size

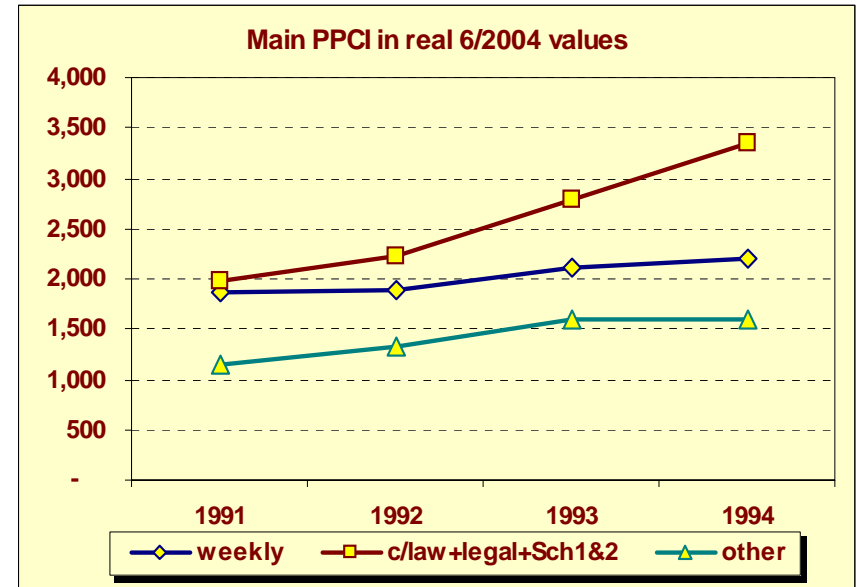






## June 1993 Changes

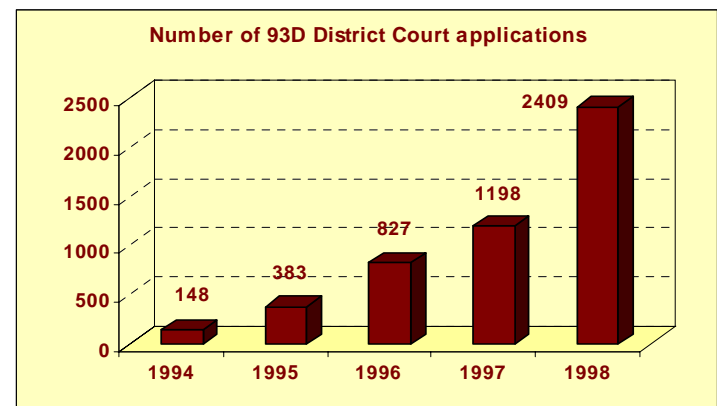
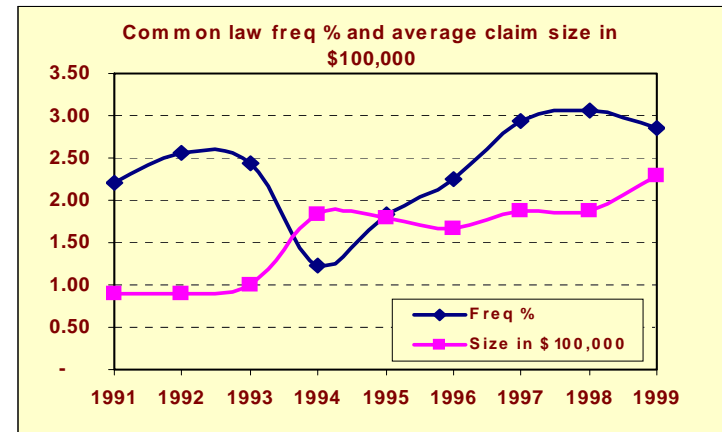
- Evidence of strong SI
- Access via first & second gateways
- c/law benefits not capped
- Second gateway a late addition
- Key source of erosion
- Transitional register
- Intention - lower lump sum focus - not achieved





## Did the June 1993 changes work ?

- One year reduction in freq
- Then strong increases
- C/law ACS doubles
- Key driver – 93D second gateway
- Pecuniary loss threshold  
=> stay on benefit longer
- Redemptions restricted
- Claim durations lengthen

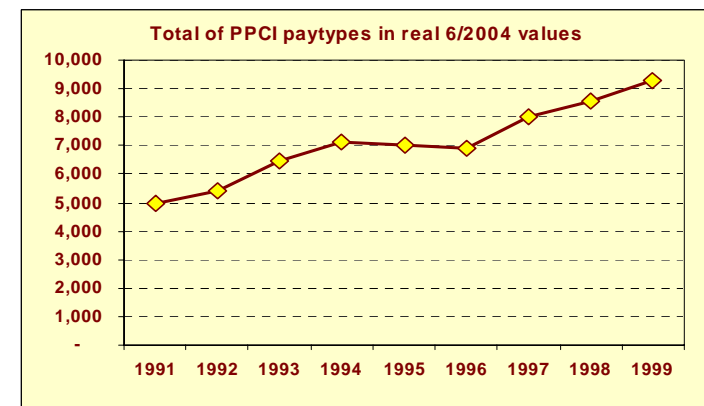
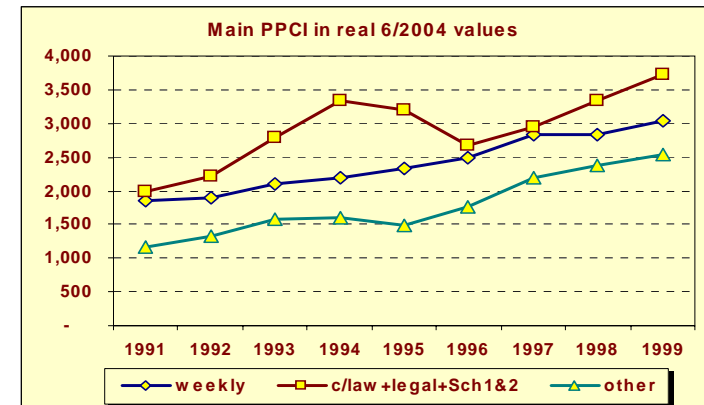






## Did the June 1993 changes work ?

- C/law PPCI's down
- Then increase strongly
- Total PPCI's stable then strong increases
- 93D second gateway applications indicate system out of control by late 1997
- Need for remedial action recognised !





## October 1999 changes

- A few attempts made
- Pearson (WA Auditor General) review commenced early 1999
- Des Pearson assisted by Rob Guthrie and Brendan McCarthy
- Reported presented 30 June 1999
- Act amendments assented 5 October 1999



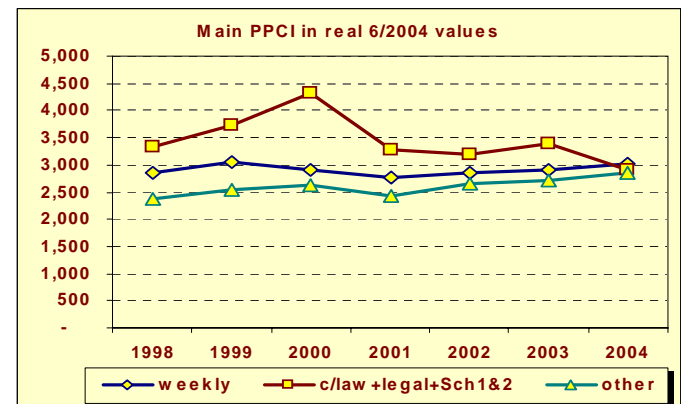
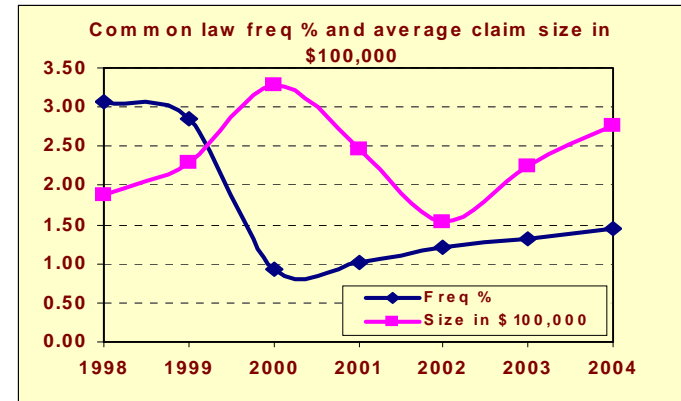
## October 1999 changes

- Main changes :
  - 6 month election for c/law
  - Stat benefits cease on election
  - Second gateway on disability and capped
  - Weekly benefits capped at 1.5 x AWE and stepdown to 85% after 4 weeks
- Some recommendations not taken up eg :
  - <30% threshold introduced
  - Dispute resolution not changed



## October 1999 changes

- c/law frequency reduced dramatically
- ACS volatile around pre-Oct 99 levels
- PPCI's increase for one year
- Then down significantly due to c/law
- General increase trend form 2001 to 2004
- Robust – little erosion effect





## 2004 Reform Package

- Labour party direction statement
- Guthrie Report Sept 2001
- Protracted package development/consultation
- Most Guthrie recommendations accepted
- Actuarial costing estimated +12.7%pa initially, eroding to +20.4%
- Two additional aspects :
  - death benefit up from \$140k to \$200k
  - Clause 18A for >15% WPI not  $\geq 25\%$



## 2004 Reform Package

- Retrospective cost on Stat benefits estimated at \$41M (3.8% of NCE)
- Major aspects :
  - Stepdowns extended from week 4 to week 13
  - Weekly benefit cap up from 1.5 x to 2.0 x AWE
  - Common law
  - Dispute resolution
  - Injury management focus
  - Liberalises rather restricts benefits





## 2004 Reform Package

- New c/law rules based on date of accident
- Phased implementation intended
- Interesting times ahead
  - collecting data on the early experience
  - monitoring the initial impact
  - determining impact on recommended rates
  - examining robustness/erosion



## Dutch, Hewitt v Benale, Dossert

- Dutch
  - medical evidence not in accordance with Act
- Hewitt v Benale
  - removes common law restrictions on negligent third parties
- Dossert
  - remedy provisions now included
  - gave Oct 1999 Act claims right to use June 1993 c/law access rules, for DOA to 5 Oct 99
  - applies from date of proclamation only



## Lessons

- Legislative change takes time
- Claimants respond during this time
- Impact of stakeholder consultation
- Beware last minute changes
- Changes can impair design integrity
- Act wording/implementation can subvert intended impacts
- Well-balanced package => robustness



## Lessons

- Actuarial costings are difficult
- Should be used as a relative guide
- Need focus on all key drivers
- June 1993 changes eroded quickly
- October 1999 changes particularly robust
- 2004 Reform Package – time will tell !

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