



Institute of Actuaries of Australia

# XIth Accident Compensation Seminar 2007

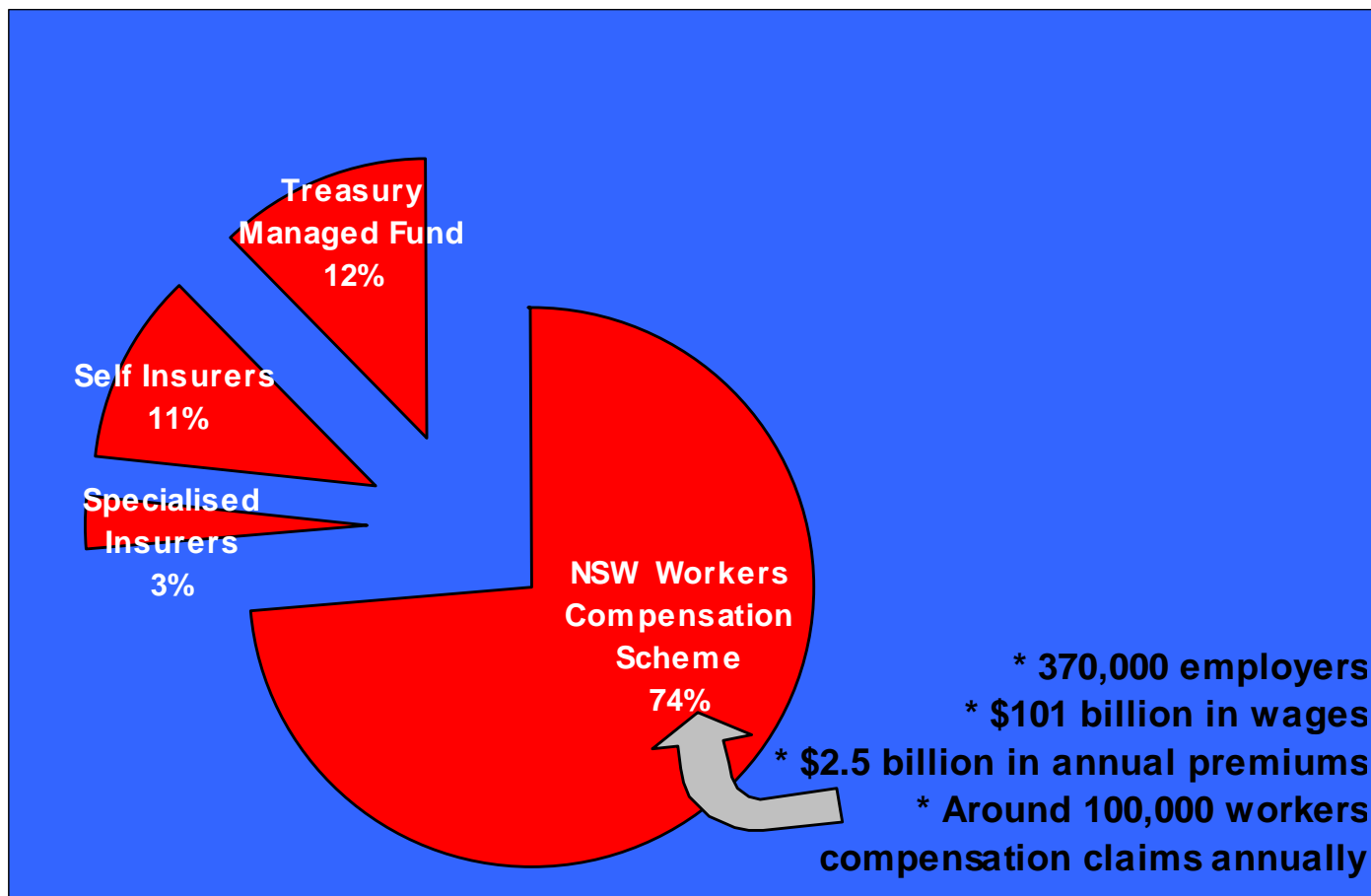
## **Reforming the NSW Workers' Compensation System**

**Rob Thomson**  
**General Manager, Workers Compensation**  
**WorkCover NSW**

## Outline

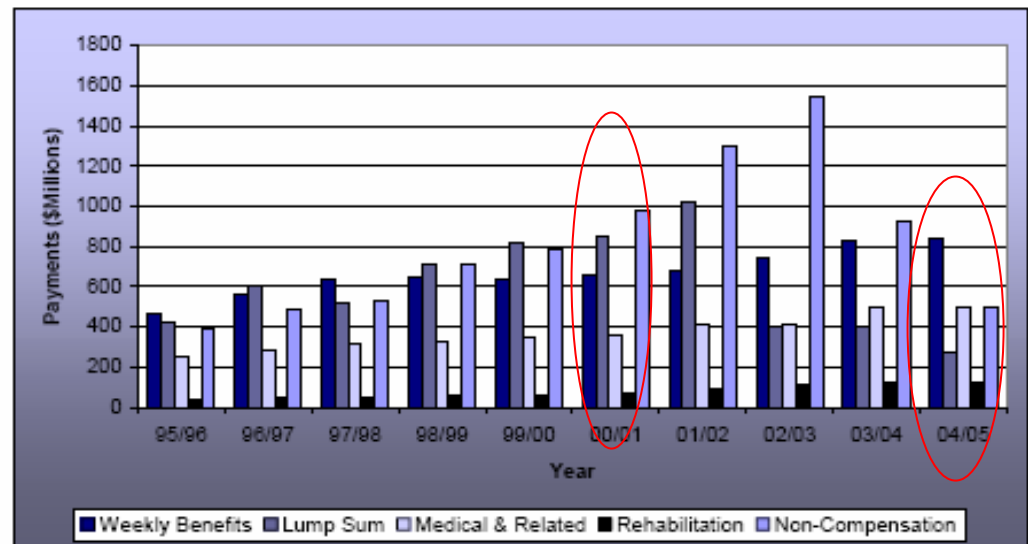
- NSW System overview
- NSW Scheme performance
- Reforming the NSW System
- Recent initiatives
- The future

# NSW Workers Compensation System



## Underlying System Principles

- Improve health outcomes, assist recovery and safe return to work while providing financial support
- System principles strengthened by 2001 reforms, prior to which there was a more prominent focus on monetary settlement

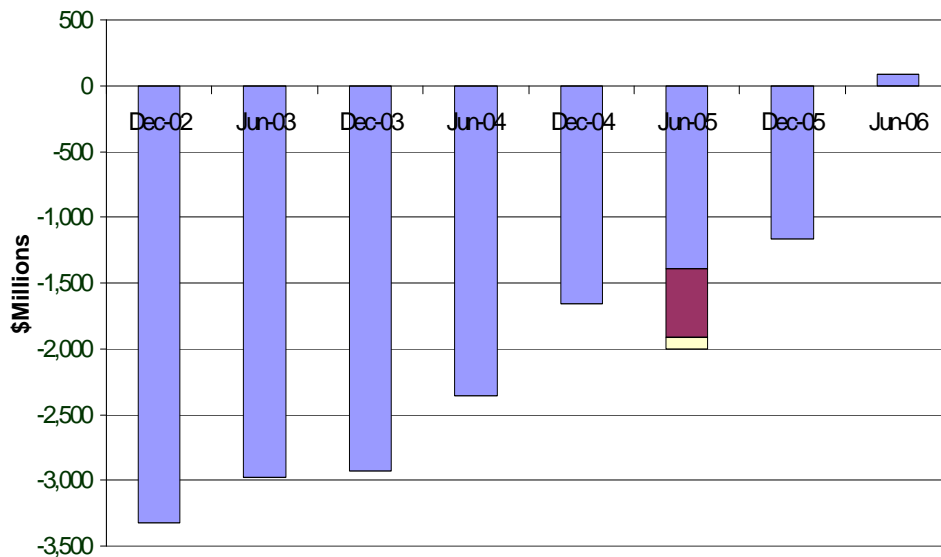


## Ten Point Plan to Guide Reform

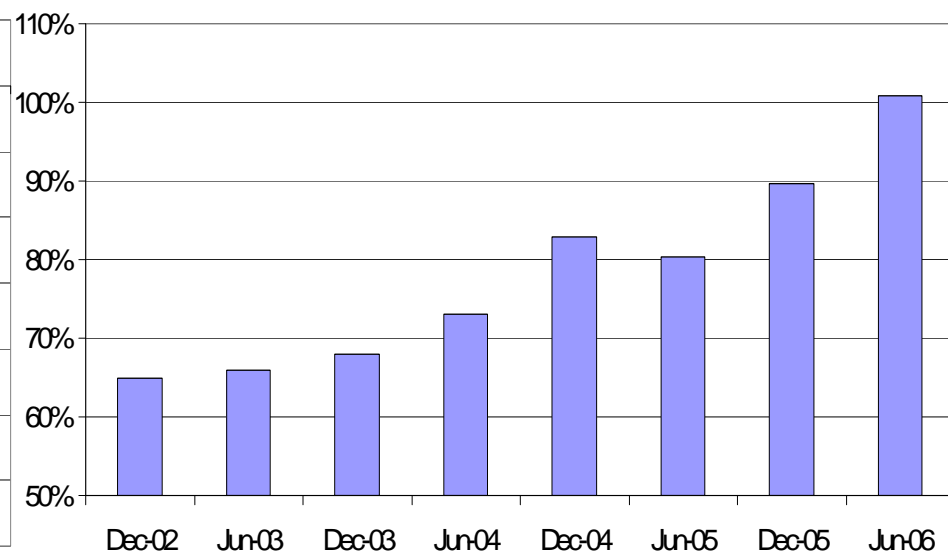
- Focus on injury management and early return to work
- Review of dispute resolution processes and structures
- Implementation of medical treatment protocols
- Introduction of market incentives and performance benchmarks
- Provision of timely and accurate information to Scheme participants
- Control professional fees and ensure value for money
- Removal of cross-subsidies between employers
- Strategies to retire Scheme deficit
- Use of industry based schemes and self-insurance
- Strategies to target employer compliance

## NSW Scheme Performance

### NSW Scheme Surplus



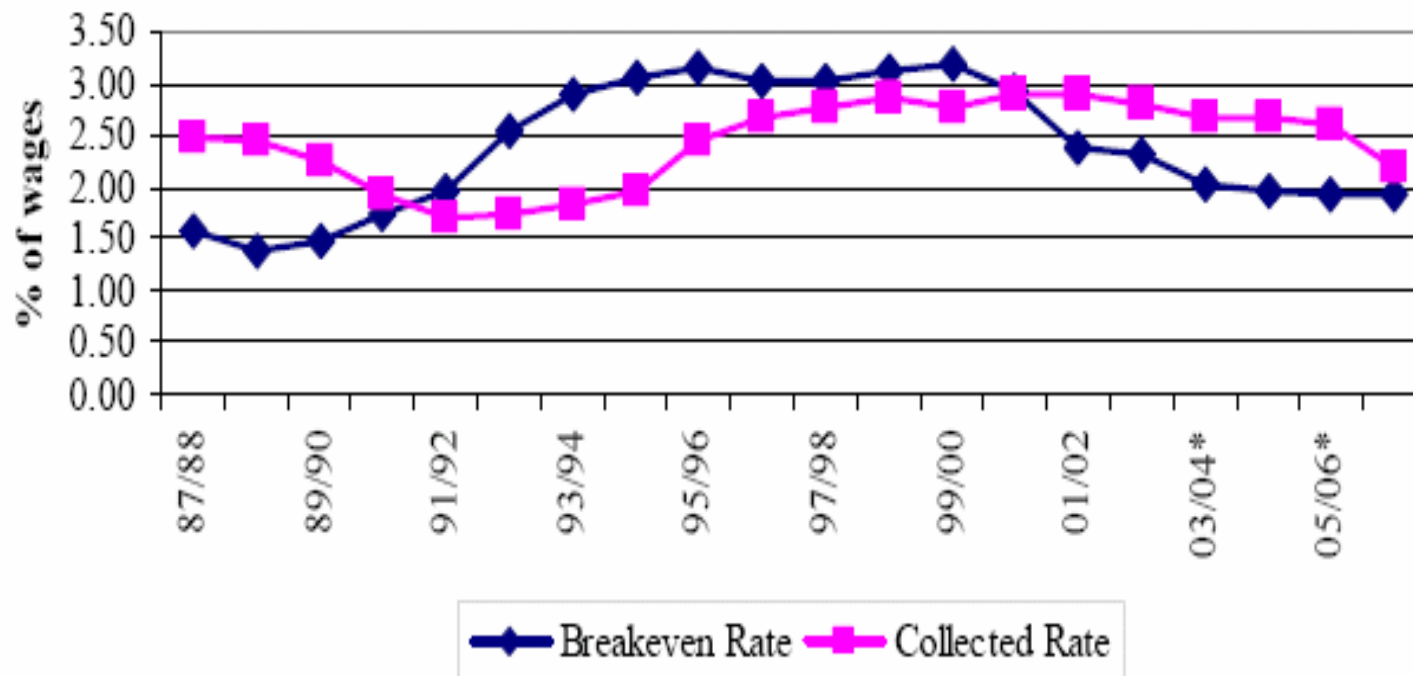
### Funding Ratio



As at 30 June 2006

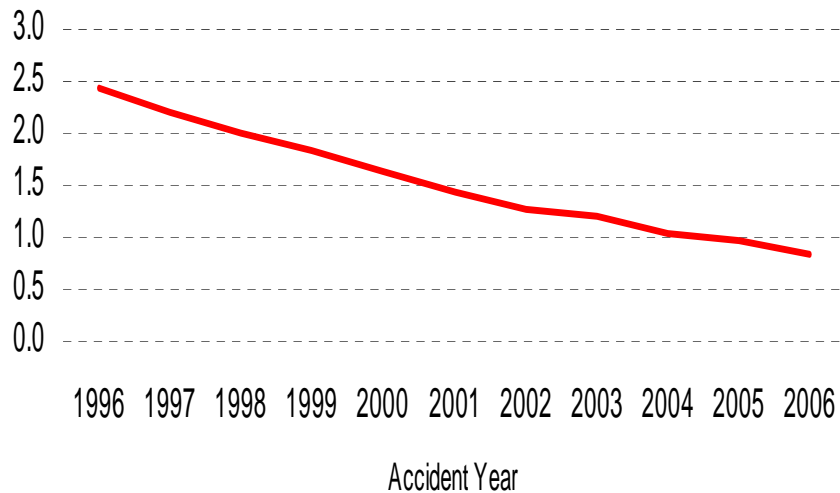
# NSW Scheme Performance

## Collected and Breakeven Premium Rates



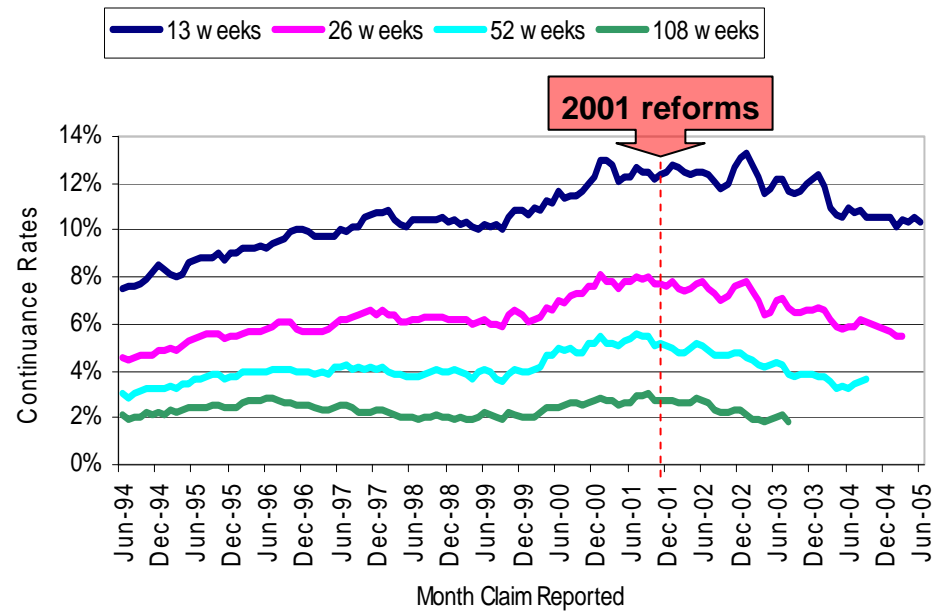
# NSW Scheme Experience

Ultimate Claim Frequency



Record low claim rates

Continuance Rates



Continuing improvement in RTW post 2001 reforms



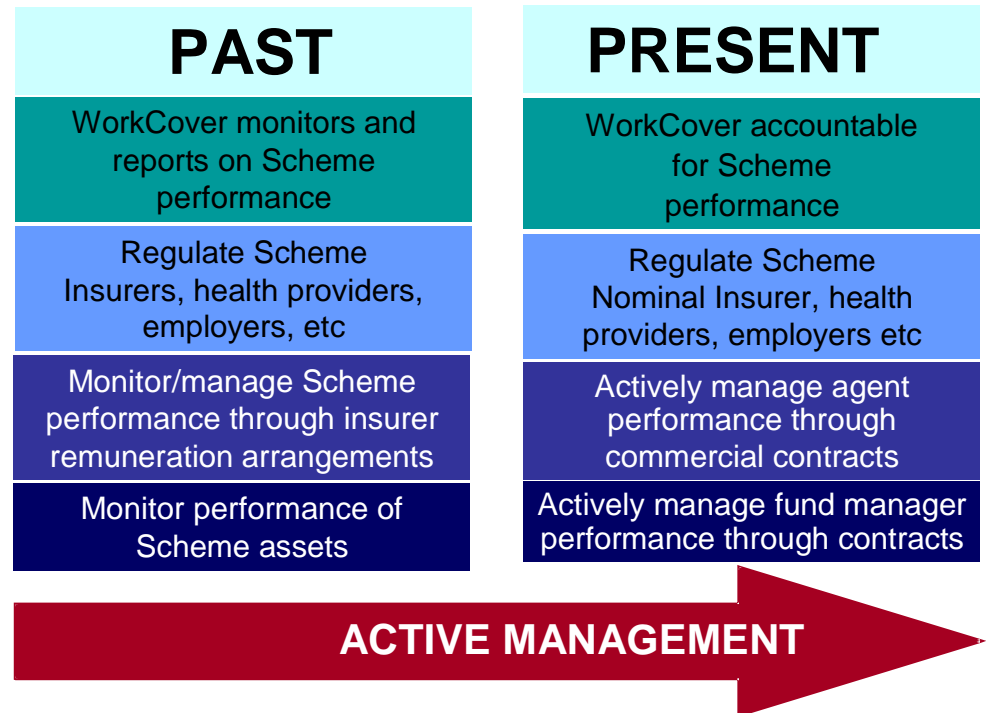
## NSW Scheme: Funding Position

\$ millions

Valuation date	Dec-05	Jun-06
Risk Margin	1%	3%
Probability of adequacy	55%	60%
Investments	8,537	9,444
Claims recoveries	471	458
Other assets	1,091	804
<b>Total Assets</b>	<b>10,099</b>	<b>10,707</b>
Gross outstanding claims (including CHEs)	9,508	8,882
Unearned premium provision	1,206	634
Unexpired risk provision	0	0
Other Liabilities	547	1,105
<b>Total liabilities</b>	<b>11,261</b>	<b>10,621</b>
<b>Surplus/(Deficit)</b>	<b>-1,162</b>	<b>85</b>
<b>Funding ratio</b>	<b>89.7%</b>	<b>100.8%</b>
Net outstanding claims (central estimate)	8,948	8,179
Risk margin \$m	89	245

## Improvement Drivers

- 2001 legislative reforms
- Transition to active management of Agents
- Contracts and outcome based remuneration
- Agent education and awareness
- Improved Case Management
- Tail strategies
- Dispute process



## Recent Reform

- Stabilisation of the Scheme has allowed for premium reductions and benefit increases:
  - 20% premium reduction since November 2005
  - Apprentice Incentive Scheme: apprentice wages not used to assess premium
  - 15% increase: lump sum for permanent impairment of the spine
  - 10% increase: lump sum for permanent impairment (non-spinal injury)

## Recent Reform: Premium

- Simpler, fairer premium formula
- Enhanced protection: small and medium employers
  - only the largest 8% of employers experience adjusted
  - new caps on maximum premium increases
- Experience rating (medium and large employers)
  - new, simpler, two tier experience formula
  - experience rating assessed at the start, and again at the end, of the policy year
  - new employers to undergo experience adjustment from first policy year

## Recent Reform: Premium

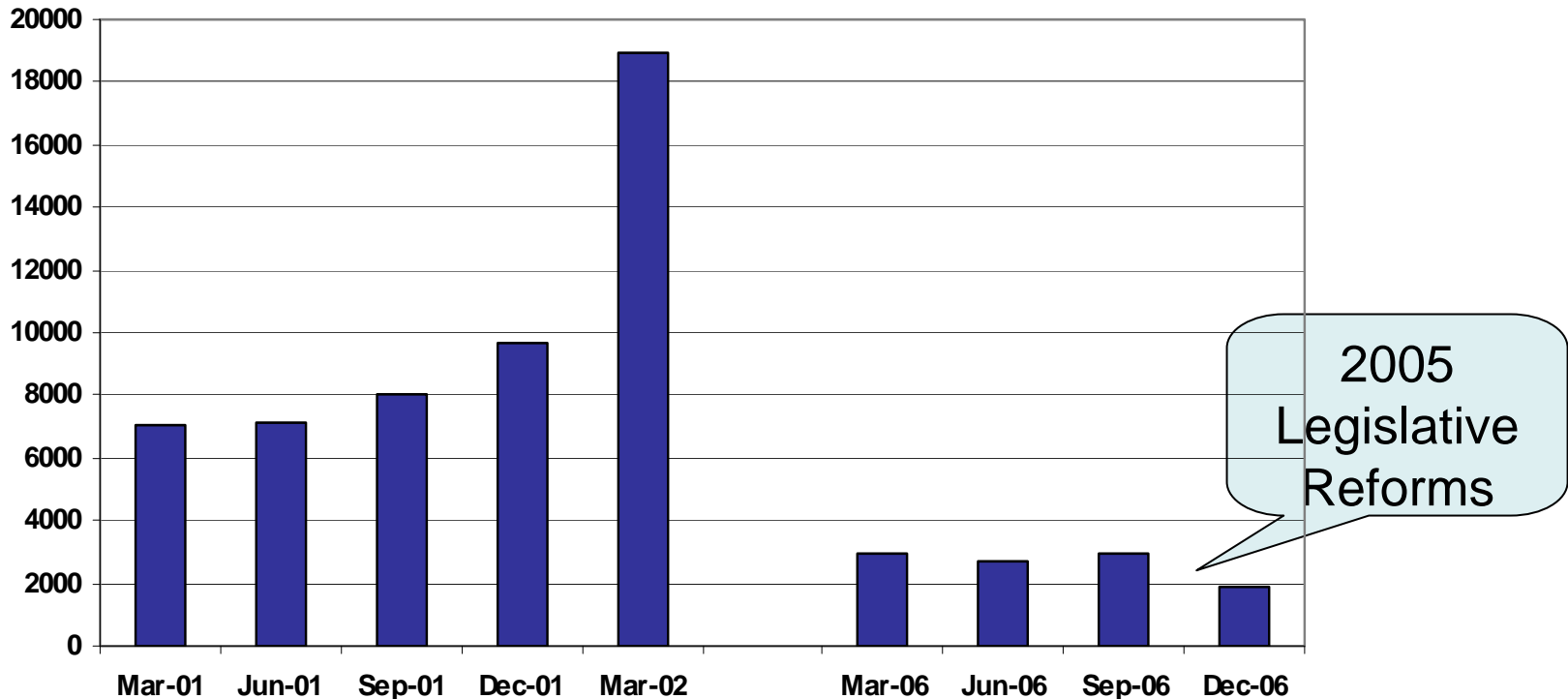
- Claim excess incentives
  - claim excess changed from \$500 to one week of injured worker's weekly compensation
  - no option for small employers to buy out excess
  - excess waived if claim reported within five days
- Grouping of related employers
  - related employers with combined wages over \$600,000 will be grouped
  - common sizing factor for all group members

## Dispute Resolution: 2000

- In 2000:
  - NSW had the highest level of disputed claims in Australia
  - 45% of major claims were referred for conciliation
  - Only 10% of disputes were settled through conciliation
  - over 20,000 claims lodged with Compensation Court and of these, less than 10% proceeded to judgement
  - almost 50% of disputes arose from delays in decisions by insurers

## Dispute Resolution: 2006

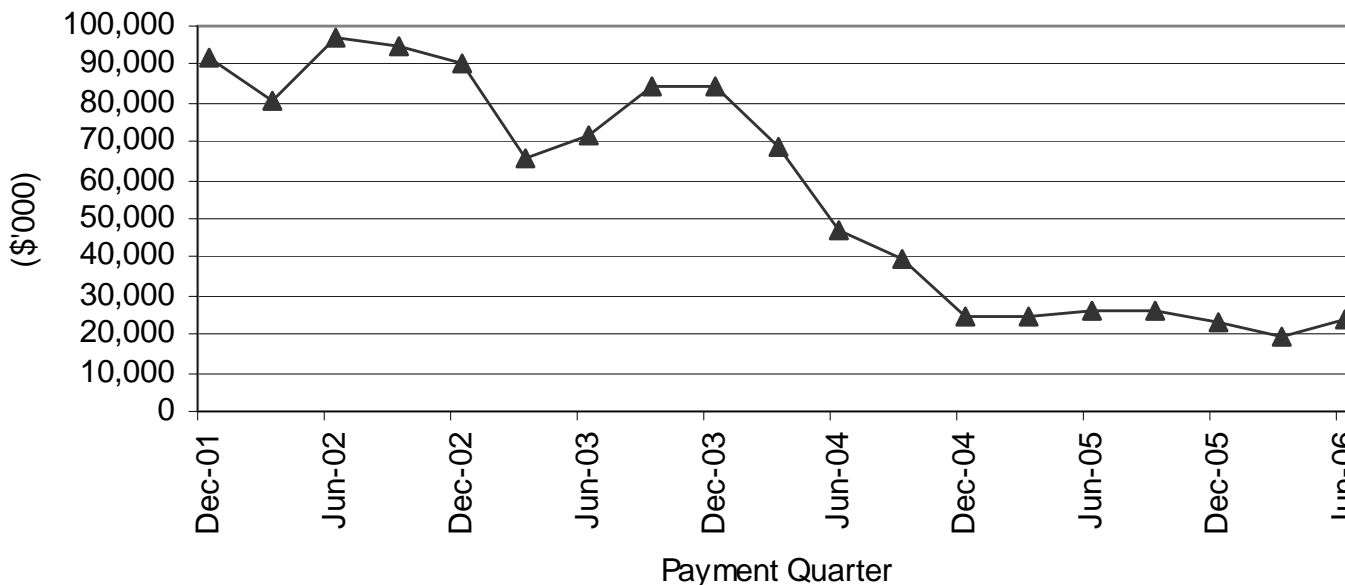
- In 2006, the number of new disputes have fallen significantly



# Dispute Resolution: 2006

- Streamlining and reductions in disputation contributed to legal cost reductions

Legal Payments (Inflated to June 06 Dollars)





# Reforming Dispute Resolution: A Three Pronged Approach

- Preventing disputes
  - provisional liability
  - Claims Assistance Service
- Resolving disputes
  - Workers Compensation Commission
- Fair benefits for all
  - access to commutations and Common Law
  - permanent impairment assessment guides

## **Recent Reform: Dispute Resolution Refinement**

- Provided clearer guidelines for all parties
- Ensuring up front exchange of information between parties
- Accepting only genuine disputes at the Workers Compensation Commission
- Streamlined Workers Compensation Commission procedures
- Appropriate remuneration for legal representatives

## **Recent Reform: Outcome Based Remuneration**

- Shift from process to outcome focus in 2004/05
- Remuneration on the basis of contribution to identified Scheme outcomes
- Broad key outcome measures
  - return to work
  - financial outcomes

## Recent Reform: Harmonisation

- Committed to upholding existing safety standards, while streamlining workers compensation arrangements
- Streamlining:
  - tax agent no longer required to certify wage declarations prior to purchasing a workers compensation policy
  - workers compensation certificate of currency valid for 12 months, instead of four months
- Cross border legislation enacted
- Additional initiatives in development
  - common claim forms
  - premium payments by instalment

## The Future

- System streamlining and harmonisation
- Review of statutory benefits
- Ongoing refinement of dispute process
- Revised financial strategies: Scheme in surplus
- Premium Review
  - large employers: burning cost model
  - labour hire industry classification
- Self and Specialised Insurer focus