

# Injury Schemes Seminar

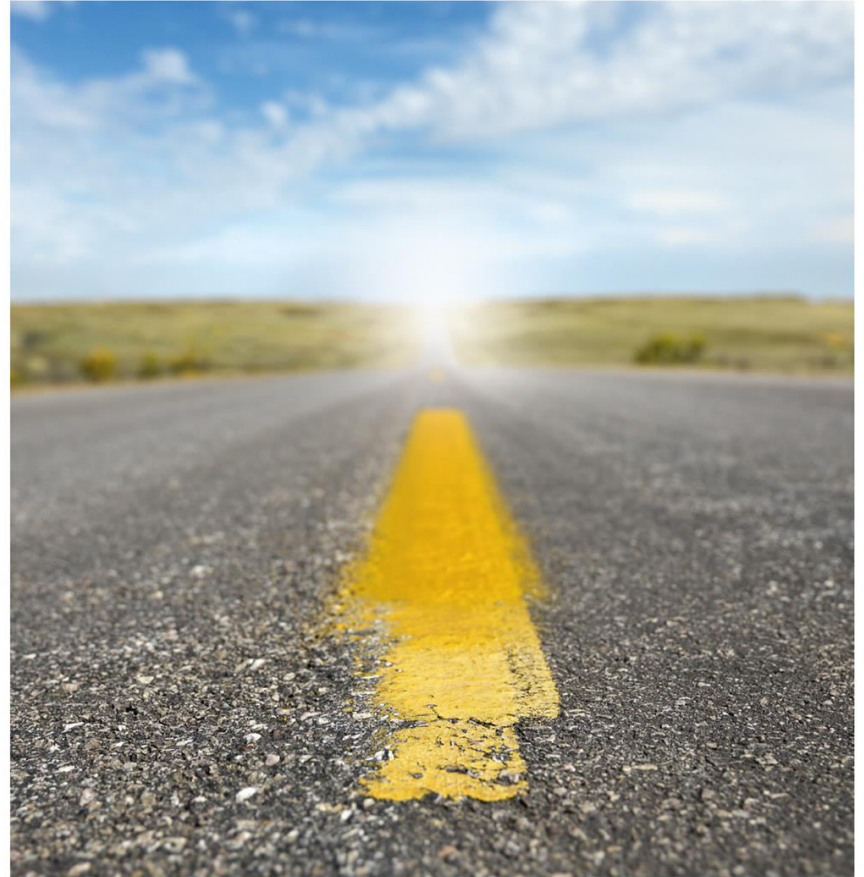
**Road to Recovery**



**Actuaries  
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# ReturnToWorkSA New Employer Incentive Scheme

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*This presentation has been prepared for the Actuaries Institute 2015  
Injury Schemes Seminar.*

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responsible for those opinions.*

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- Karen Foundas
- Lee Hayford
- Sally Fox
- Rob Cordiner
- Michael Francis
- Greg McCarthy

## Overview

- Key issues in employer incentive scheme design
- ReturnToWorkSA new scheme
- Cost of the scheme and other matters

# KEY ISSUES IN EMPLOYER INCENTIVE SCHEME DESIGN

## What makes a good incentive scheme?

- Encouraging the **desired** behaviour
  - Injury prevention
  - Employer participation in supporting return to work (RTW)
- Fundamentally **fair**
- **Perceived** as **fair** by the employers
- Low administration **costs**
- **Simple**

# Encouraging desired behaviour



- Number of claims
- Cost of claims
- RTW rate

Not reporting claims  
Hiding claim costs  
Arguing about case estimates  
Gaming RTW rate formula



Preventing injuries  
Helping injured workers  
to get back to work



## What to do about undesirable behaviour?

**Non-reporting of claims**

**Don't use claim count as KPI**

**Hiding of claim costs**

**Ensure that paying claim costs from own pocket has no advantage to employer**

**Arguing about case estimates**

**Exclude future costs from the incentive scheme**

**Gaming RTW formula**

**Don't use RTW rate as KPI**



## Leverage

- **Leverage** occurs when the additional premium costs more than premium-impacting claims
- Why is this a problem?
  - Perceived unfairness
  - Gives rise to cost-hiding:
    - => The scheme does not collect all budgeted premium
    - Unreported/ late reported claims do not receive the appropriate treatment

## Leverage (continued)

- Fundamental problem of most incentive schemes that apply loading to the standard rate
- A small % penalty applied to large standard premium may results in large cost in \$ terms

# Leverage in WorkCover premium formula (2012/13 to 2014/15)

**$P = \text{Remuneration} \times \text{Industry Rate} \times [1 - \text{Sizing Factor} (1 - \text{ECCR}/\text{ICCR})]$**

- Sizing factor  $\in (0,1)$  depends on employer size
- Employer Claim Cost Ratio (ECCR) = Claims / Remuneration
- Industry rate and Industry Claim Cost Ratio (ICCR) are published in the Gazette

# Leverage (continued)

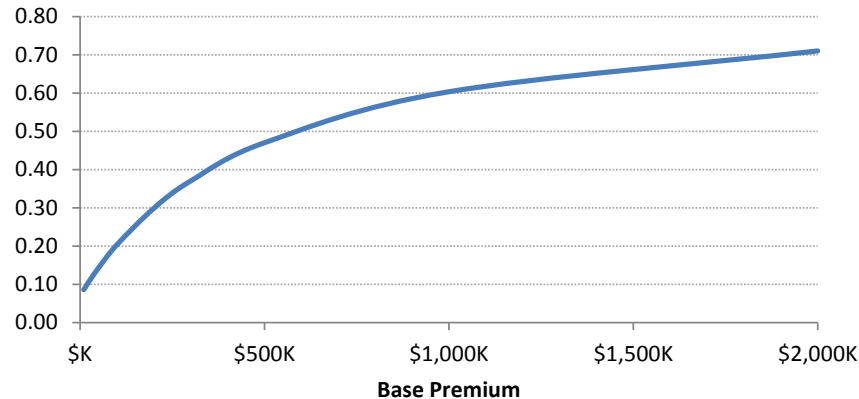
Published industry rates and ICCRs for 2014/15

Industry code	Description	Industry rate	ICCR	Industry rate / ICCR
012401	POULTRY FARMING	5.61%	1.00%	5.6
013401	GRAPE GROWING	2.67%	0.48%	5.6
013601	FRUIT GROWING (EXCEPT GRAPE)	4.74%	0.85%	5.6
014401	VEGETABLE GROWING	4.93%	0.88%	5.6
018101	GRAIN GROWING	3.48%	0.62%	5.6
018201	GRAIN-SHEEP/GRAIN-BEEF CATTLE	3.43%	0.61%	5.6
018401	SHEEP-BEEF CATTLE FARMING	5.66%	1.01%	5.6
018501	SHEEP FARMING	5.81%	1.04%	5.6
018601	BEEF CATTLE FARMING	6.31%	1.13%	5.6
018701	DAIRY CATTLE FARMING	6.88%	1.23%	5.6
018801	PIG FARMING	7.50%	1.50%	5.0

## Premium impact of \$1 of claim costs

$$dP/dC \approx \text{Sizing Factor} \times \text{Industry Rate} / \text{ICCR} \approx \text{Sizing Factor} \times 5$$

Sizing factor



\$200K employer - **\$1.5** per \$1 cost

\$500K employer - **\$2.5** per \$1 cost

# ReturnToWorkSA new Premium System

## Objectives for the new scheme design

- Simple
- Fair
- Targeted focus on return to work
- Includes employers of all size
- No use of case estimates

## Fairness

From employer feedback, we found that employers perceive incentive schemes as fair, if:

- Dollar impact on their premium is transparent and does not exceed the cost of claims
- They see how their own actions can improve the outcomes
- There is a balance between risk and reward. Our rule of thumb is:

**Maximum Penalty = 2 x Maximum Reward**



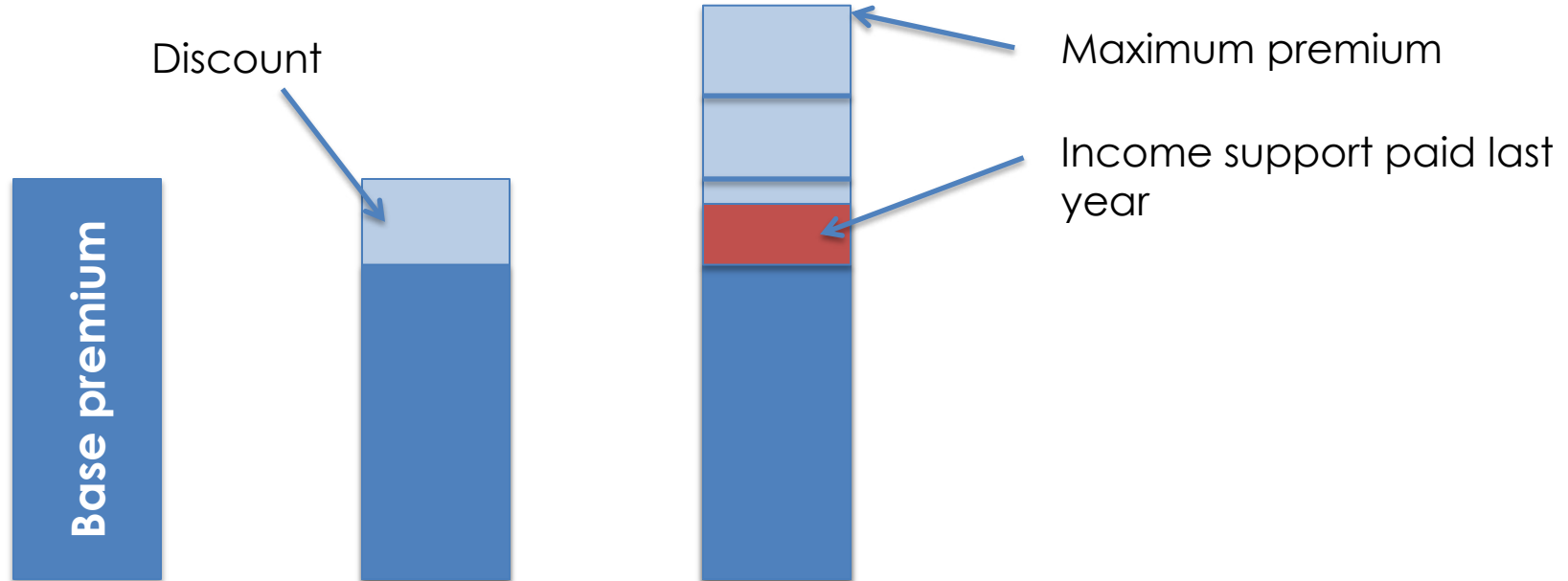
## Insurance excess

- Most insurers offer a lower premium in exchange for higher excess, e.g. for a motor policy:
  - \$1,000 premium with \$200 excess
  - \$600 premium with \$1,000 excess
- Excess transfers part of risk to policyholders and influences their behaviour

# Return to Work Premium System

$P = \text{Base Premium} (1 - D) + \text{Retained cost}$

$\text{Retained cost} = \min (\text{Income Support cost}, 3D \times \text{Base Premium})$



## Return to Work Premium System (cont'd)

Premium discount and max retained cost depend on employer size

Base Premium	Discount Factor (D)
\$0 to \$10K	5%
\$10K to \$50K	10%
\$50K to \$100K	15%
\$100K to \$500K	20%
\$500K to \$1m	25%
\$1m and above	30%

# Return to Work Premium System (cont'd)

Retained cost is Income Support paid last year for claims incurred in past 3 years.

	Accident year	Development year			Premium year	Retained cost
		1	2	3		
	---					
	2010/11	33	20	7	2015/16	$36+16+5=56$
	2011/12	40	13	10	2016/17	$100+21+7=128$
	2012/13	38	22	5	2017/18	$32+80+4=116$
	2013/14	32	16	7		
	2014/15	35	21	4		
Premium policy year =>	2015/16	100	80			
Premium policy year =>	2016/17	32				
Premium policy year =>	2017/18					

## Example calculation

\$400K employer

Discount factor = 20%

Discount =  $\$400,000 \times 0.2 = \$80,000$

Premium year 2015/16

Retained cost = \$56,000

Premium=\$376,000

Premium year 2016/17

Retained cost = \$128,000

Premium=\$448,000

## Does the new system motivate the desired behaviour?

No claims means no IS costs



Incentive to prevent injuries

If there is a claim, employer can minimise cost by

- Full RTW
- Partial RTW



Incentive to offer suitable duties

No leverage because costs are directly added to premium

No future cost estimates to argue about

# NEW SCHEME COST

## Net cost of the scheme

- Total value of premium discounts ~ \$80m
- Total value of retained IS costs ~ \$40m
- The shortfall of \$40m is covered by loading the industry rates by 10%
  
- Without the incentive scheme the industry rates would aim for **1.95%** average premium rate
- With the incentive scheme the industry rates aim for **2.15%** average premium rate
- The difference is returned to employers in the form of premium discounts under the RTW incentive scheme



## Annual rate review under the new scheme

The net cost of the incentive scheme is the only parameter needed to set the industry rates for the forthcoming year.

It is easily predictable:

- By April more than 75% of retained IS cost for the next premium year are already paid
- The remainder is easy to estimate with standard actuarial methods

## Back to the question of fairness

Under the new scheme

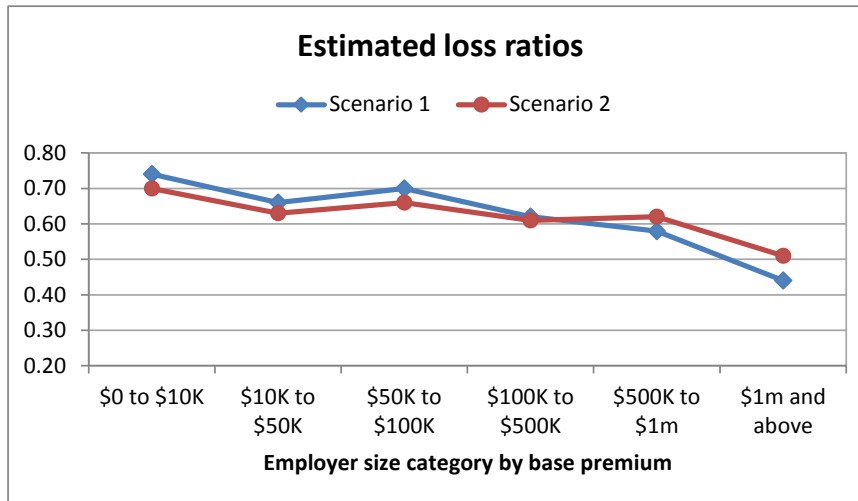
- industry rates are increased by **10%** to fund the incentives
- Small employers (<\$10K base premium) only get **5%** discount

**Is this fair?**

## Let us look at the loss ratios

Scenario 1. No incentive scheme, industry rates collect 1.95% average

Scenario 2. With the incentive scheme, industry rates collect 2.15% average



The incentive scheme improves the fairness of premium burden distribution between large and small employers

# CONCLUSIONS

## Did we meet the original objectives?

Simplicity



Our call centre received hardly any calls since the new system was introduced

Fairness



Employer feedback is very positive

Targeted focus on RTW



Want low premium => re-employ injured workers ASAP

Include small employers



No case estimates



# Questions?