WorkCover WA

Removal of age limits costing

September 2011

PricewaterhouseCoopers

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Michelle Reynolds
Chief Executive Officer
WorkCover WA
2 Bedbrook Place
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12 September 2011

Dear Michelle

Please find attached our report on the cost of removing age limitations on entitlements in Workers Compensation and Injury Management Act 1981. This report discusses the:

- Cost impact on weekly benefits, permanent incapacity and noise induced hearing loss entitlements
- Costs on a prospective basis as a percentage of the 2010/11 Scheme estimated risk and total cost

Our analysis and findings are presented in the attached report.

Yours sincerely

Peter Lurie
Fellow of the Institute of Actuaries of Australia

Kathryn Cannon
Fellow of the Institute of Actuaries of Australia

Key findings

Context of our review

The deliverables of this costing of removing age limits on entitlements are:

- Cost impact on a prospective basis on claims receiving benefits under section 56 (weekly benefits), 217(4)(a) (extension to prescribed amount for total permanent incapacity), 24A and 31E (noise induced hearing loss)
- The corollary cost impact on Schedule 1 Redemption payments and section 92(f) claims due to the potential increase in claim duration and common law

The costing has been performed on a prospective basis based on the 2010/11 estimated WA workers compensation scheme (Scheme) cost and to allow for potential changes in claimant behaviour, only for claims incurred on or after the date of promulgation.

We have used the claims data for approved insurers and Insurance Commission of Western Australia (ICWA). We have excluded all self-insurers (other than ICWA) to match the basis for the premium rates. Note the premium rates only include RiskCover not other ICWA data but the data from WorkCover's Q1 system cannot separate ICWA into RiskCover and other. The impact should be negligible as we are using claims with a date incurred from 1 July 2004 so the only other ICWA data is from the General Account for uninsured employees.

The 2011 Amendment Act has been approved by Parliament and those affecting benefits ie age limits and common law access to General Account will be effective from 1 October 2011. The age limit change applies claims to incurred after 1 October 2011, except all asbestos claims lodged from 1 October 2011 will have the new Act applied. As the purpose of this report is to cost the act changes for the 2011/12 premium rates and as the asbestos claims were incurred many years ago we have not costed this element.

The other Act change affecting benefits is common law access to the General Account. Our 23 March 2011 assessment of the cost of allowing common law access to the General Account showed the impact on recommended premium rates to be immaterial.

Findings

Costing

Our estimate of the cost impact of removing the age limits on entitlements in the Workers' Compensation and Injury Management Act 1981 based on Scheme experience to 30 June 2011 is shown in the table below:

	Initial impact			Erosion impact		
	Cost ($000s)	% Risk Cost	% Total Cost	Cost ($000s)	% Risk Cost	% Total Cost
Section 56	6,277	0.95%	0.73%	11,219	1.71%	1.30%
Other costs	1,274	0.19%	0.15%	2,278	0.35%	0.26%
Redemptions	1,473	0.22%	0.17%	5,228	0.79%	0.60%
Section 92(f)	1,182	0.18%	0.14%	3,058	0.46%	0.35%
Common law	690	0.10%	0.08%	2,976	0.45%	0.34%
NIHL	623	0.09%	0.07%	929	0.14%	0.11%
Section 217(4)(a)	413	0.06%	0.05%	825	0.13%	0.10%
Total	**11,933**	**1.81%**	**1.38%**	**26,513**	**4.03%**	**3.06%**

Notes: **Section 56:** weekly benefits
Other costs: medical, hospital and other non-weekly benefit costs
Redemptions: commutation of weekly benefits
Section 92(f): common law agreements
Common law: increase in future loss of income component
NIHL: noise induced hearing loss claims
Section 217(4)(a): extension on weekly benefits
Risk Cost: inflated/discounted cost of claims incurred before allowances for brokerage, management expenses, contingency and prudential risk margins
Total Cost: inflated/discounted cost of claims incurred including allowances for management expenses, contingency and prudential risk margins

As could be expected weekly benefits is the primary driver of the increase in the Scheme's costs following the removal of age limits.

The 1.38% of total cost is the estimated initial impact of the percentage increase that should be applied to the 2011/12 premium rates. The total cost impact of 1.38% increases the average 2011/12 premium rate from 1.547% to 1.569%. Those premium rates which have the minimum premium rate of $0.25 per $100 of wages will not increase therefore the other premium rates will need to increase by more than 1.38%. These premium rates will increase by 1.45%.

As per all legislation changes, the potential cost impacts can take several years to emerge, while individuals reach the affected ages and changes in claimant behaviour occur. The erosion impact should be interpreted as the cost impact once the system reaches a steady state and is the annual ongoing cost.

Risk/Uncertainty

With all legislation costings, there is the risk that the actual interpretation of the revised legislation differs from the intended interpretation. We recommend closely monitoring claims to identify adverse shifts in claim durations particularly from those claims which utilise the new legislation (weekly benefit claims with a duration of greater than one year, where the claimant is 64 years of age or older).

Section 217(4)(a) applications are still developing since their introduction in the 2004 Reform Act, and their actual cost impact is highly uncertain. In 2010/11 the number of applications almost doubled compared with 2008/09 and 2009/10, however they are still very low in number. We recommend monitoring for significant increases in the number of section 217(4)(a) applications.

Unforeseen changes in the claims experience of the Scheme, or sudden shifts in the underlying composition of the workforce (demographic factors) could lead to unexpected increases/decreases in the cost impact of the legislation.

If the perceived notion of standard retirement age extends past 65 years of age, we may see benefit cost increases in lump sum benefit types (section 92(f), redemptions, common law) for younger claimants and a transfer and increase in costs from redemptions to 92(f) for older claimants. We have not allowed for this deterioration.

Contents

1 About this report

Key points of this section
• The purpose of this report is provide an estimate of the cost impact from removing age limits on entitlements in the Workers Compensation and Injury Management Act 1981.

1.1 Introduction

This report has been prepared in response to an email dated 24 August 2011 from WorkCover WA requesting a cost estimate of removing the age limits on entitlements in the Workers' Compensation and Injury Management Act 1981. A letter of engagement dated 26 August 2011 which was subsequently signed by WorkCover WA confirmed our involvement in this engagement.

The scope of this report covers the cost impact of removing the reference to age limits in the following sections of the Workers' Compensation and Injury Management Act 1981:

- 56 (weekly benefits), this was extended to include the impact on Schedule 1 (redemptions), section 92(f) claims and common law claims
- 217(4)(a) (extension to prescribed amount for total permanent incapacity)
- 24A and 31E (noise induced hearing loss) of the Workers' Compensation and Injury Management Act 1981

We have used the claims data for approved insurers and ICWA. We have excluded all self-insurers (other than ICWA) to match the basis for the premium rates. Note the premium rates only include RiskCover not other ICWA data but the data from WorkCover's Q1 system cannot separate ICWA into RiskCover and other. The impact should be negligible as we are using claims with a date incurred from 1 July 2004 so the only other ICWA data is from the General Account for uninsured employees.

The 2011 Amendment Act has been approved by Parliament and those affecting benefits ie age limits and common law access to General Account will be effective from 1 October 2011. The age limit change applies to claims incurred after 1 October 2011, except all asbestos claims lodged from 1 October 2011 will have the new Act applied. As the purpose of this report is to cost the act changes for the 2011/12 premium rates and as the asbestos claims were incurred many years ago we have not costed this element.

The other Act change affecting benefits is common law access to the General Account. Our 23 March 2011 assessment of the cost of allowing common law access to the General Account showed the impact on recommended premium rates to be immaterial.

1.2 Limitations

Report and advice

This report has been prepared for the sole use and benefit of WorkCover WA. It should not be used or relied upon by any other person for any purpose.

You agree to use this report only in connection with the purpose in respect of which this report is provided being to estimate cost impact of removing age limits on entitlements in the Workers Compensation and Injury Management Act 1981. We therefore accept no liability or responsibility for any loss or damage arising from use of the report for any other use or purpose.

Judgements based on the contents of this report should be made only after studying the report and the attachments in their entirety, as conclusions reached by a review of an aspect or section in isolation may be misleading.

The conclusions reached in this report are reliant on the completeness and accuracy of information compiled and provided by WorkCover WA. Other than preliminary data checks, we have not conducted an independent review of this information. We do not accept any liability or responsibility for errors or omissions arising from the provision of inaccurate or incomplete information to us.

Third parties

This report and the advice contained in it are confidential.

You agree not to disclose the report and/or our advice to third parties by any means (including orally or in writing) without our prior written consent. We may, at our discretion, withhold or give our consent subject to conditions, including:

- the report is to be released in its entirety in response to a request, including all appendices and attachments
- we accept no liability or responsibility to any other person or entity other than WorkCover WA in relation to this report, and
- no one other than WorkCover WA should rely on this report for any purpose.

1.3 Compliance with professional standards

Our advice to you constitutes a Professional Service as defined in the Code of Professional Conduct (the Code) issued by the Institute of Actuaries of Australia and our advice complies with the Code in this respect.

2 Overall cost impact

Key points of this section

- We estimate an overall first year cost impact of $11.9 million, which is 1.8% of the estimated 2010/11 risk cost or 1.4% of the estimated 2010/11 total cost
- After allowing for erosion over several years this increases to $26.5 million which is 4.0% of the estimated 2010/11 risk cost or 3.1% of the estimated 2010/11 total cost
- Payments under section 56 and the indirect impacts of this on Schedule 1 (Redemptions) and section 92(f) claims are the biggest contributors to the estimated cost increase
- We recommend monitoring the:
  - duration of time lost claims for claimants over 60 years of age and over 65 years of age in particular
  - use of section 217(4)(a) to identify any abnormal increase that may occur

2.1 Overall cost impact

Our estimate of the cost impact of removing the age limits on entitlements in the Workers' Compensation and Injury Management Act 1981 based on Scheme experience to 30 June 2011 is shown in the table below:

	Initial impact			Erosion impact		
	Cost ($000s)	% Risk Cost	% Total Cost	Cost ($000s)	% Risk Cost	% Total Cost
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Other costs: medical, hospital and other non-weekly benefit costs
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Section 92(f): common law agreements
Common law: increase in future loss of income component
NIHL: noise induced hearing loss claims
Section 217(4)(a): extension on weekly benefits
Risk Cost: inflated/discounted cost of claims incurred before allowances for brokerage, claims handling, contingency and prudential risk margins
Total Cost: inflated/discounted cost of claims incurred including allowances for brokerage, claims handling, contingency and prudential risk margins

For the initial impact as expected the costs from changes to section 56 has the largest cost impact, followed by redemptions, section 92(f) and common law costs due to their use for the commutation of weekly benefits.

Other costs are expected to have similar costs to section 92(f).

Section 217(4)(a) claims are smallest (0.06% of risk cost) due to their low usage to date.

Based on the 2010/11 estimated incurred claims cost we estimate that the legislation changes will have a total cost impact of 1.38%, which is an annual ongoing cost.

The total cost impact of 1.38% increases the average 2011/12 premium rate from 1.547% to 1.569%. Those premium rates which have the minimum premium rate of $0.25 per $100 of wages will not increase therefore the other premium rates will need to increase by more than 1.38%. These premium rates will increase by 1.45%.

We expect the erosion impact to emerge over several years following the promulgation date.

2.2 Entitlements affected

We have costed the potential change in benefits claimed under the following entitlements following removal of the age limits.

2.2.1 Weekly benefits

Section 56

Under current legislation a claimant's weekly benefits terminate at the earliest of:

- The prescribed amount is reached
- The claimant turns age 65 if injured prior to age 64
- One year after injury occurrence if injured at age 64 or later.

We expect that the primary cost impact of the legislation will be increases in the duration of claims for claimants aged 60 years or older, with older claimants experiencing the longest duration increases.

While there should not be an increase in the claim frequency as all claimants are eligible to receive benefits for a period of time, we are aware of the possibility that not all claimants realise this so we have allowed for an increase in the number of claims for claimants over 60. The frequency by age data shows a slight reduction for claimants aged 60-64 and more significant reductions for claimants aged 65+. We have allowed for an increase in claim frequency for 60-64 and 65+ so they have a similar frequency as age 55-59.

Individual's perceptions of the retirement age changes will impact the average claim size, though this is capped by the prescribed amount.

We have not allowed for workforce demographic changes under either the initial or erosion costing.

Other costs

As an indirect impact we expect an increase in other benefit classes, despite currently not being restricted by age limits, due to an increased awareness of available benefits and claimants potentially being in the WA workers compensation scheme longer.

Schedule 1 (Redemptions) and section 92(f)

We have costed the potential impact in terms of the increased use/size of Schedule 1 (Redemptions) and section 92(f) claims as the potential for increased claim duration means these options may be utilised more.

We have allowed for an increase in the number of Schedule 1 and section 92(f) claims. We also allowed for an increase in the average claim size as the data shows that the lump sum payments for individuals aged 64 and older is significantly less than that of the average population.

The prescribed amount will also limit the potential increase in the average claim size of redemptions though this could result in a transfer of costs to section 92(f). We have not allowed for this potential cost transfer / increase.

The cost impact for section 92(f) is extremely uncertain as WorkCover WA has only captured detailed data about the use of section 92(f) legislation since 1 July 2010 and the allocation of costs to the different payment classes is dependent upon the views of the individual insurer.

We have assumed that the number of 92(f) settlements in 2010/11 is a reasonable reflection on the number of 92(f) settlements incurred for each accident year.

Common law

There is the potential for the size of common law claims to increase for older ages as the future loss of earnings will increase.

The common law costs as a percentage of the risk cost from the 2011/12 premium rates includes an allowance for 92(f) settlements as the recommended premium rates data does not separate these settlements. We have removed the estimate of the 92(f) settlements from the estimated 2010/11 common law cost to avoid double counting. This is a high level estimate of the split between 92(f) settlements and common law.

The methods, assumptions and data used to calculate the cost impact are detailed in attachment A.

2.2.2 Section 217(4)(a)

This is an indirect cost impact of the removal of age limits. The legislation change will increase the duration of claims and the likelihood of reaching the prescribed amount, requiring an application under section 217(4)(a) for an extension to weekly benefits.

Section 217(4)(a) applications to date have been low to date, though has almost doubled in the last year which may be a result of benefit substitution such as section 92(f) claims. We have factored this into the costing.

Overall we expect minimal additional costs from the increased usage of section 217(4)(a) applications as a result of the removal of age limits but we recommend that WorkCover WA continue to monitor the growth in section 217(4)(a) for any adverse trends.

The methods, assumptions and data used to calculate the cost impact are detailed in attachment B.

2.2.3 Noise induced hearing loss claims

Under the current legislation claimants are not entitled to benefits under section 24A and 31E for hearing loss incurred after the age of 65.

The removal of age limits will increase the number of claims under section 24A and 31E by increasing the number of claimants:

- Who reach the 10% hearing loss impairment and can make a successful first election
- Who make a second (or subsequent) election by increasing the period over which a deterioration in hearing loss can be recompensed

The percentage of hearing loss impairment is also expected to increase given the increased period over which deterioration in hearing loss can be recompensed. This will lead to an increase in the lump sum payable.

We have considered the potential prospective claim incidence and claim size increases as a result of the change in legislation.

The methods, assumptions and data used to calculate the cost impact are detailed in attachment C.

2.3 Risks / Uncertainties

With all legislation costings, there is the risk that the actual interpretation of the revised legislation differs from the intended interpretation.

We expect that the majority of the cost impact will arise from increased duration of claims leading to higher average claim sizes, as opposed to increased incidence of claims (ie change in frequency) as may occur under different legislation changes.

We recommend closely monitoring claims which utilise the new legislation particularly those weekly benefit claims with a duration of greater than one year, where the claimant is 64 years of age or older.

We recommend closely monitoring the change in the median duration of time lost claims where the claimant is 60 years or older.

This costing allows for erosion and behavioural change though this could be different to what we have allowed for. Erosion and behavioural change is explored further in section 4.2.2.

As some of the affected benefit types, section 217(4)(a) applications in particular are still developing since their introduction in the 2004 Reform Act, the actual cost impact is highly uncertain. In 2010/11 the number of applications almost doubled compared with 2008/09 and 2009/10, however they are still very low in number. It is possible that the need for section 217(4)(a) has reduced due to the increasing use of section 92(f) claims, but this is still uncertain.

We recommend monitoring the number of section 217(4)(a) applications for any rapid increases in usage.

Unforeseen changes in the claims experience of the Scheme, or sudden shifts in the underlying composition of the workforce (demographics factors in this case) could lead to unexpected increases/decreases in the cost impact of the legislation.

If the view of retirement age significantly shifts from the current perceived notion of 65 years of age, we may see benefit cost deterioration in lump sum benefit types (section 92(f), redemptions, common law) for younger claimants which we have not explicitly allowed for.

Although over time we may see the ‘normal’ retirement age increase due to changes in Commonwealth legislation, this impact is not expected to be seen for at least a decade or more, and then we would expect only a gradual increase. Although not expected, this legislation may artificially increase the perceived retirement age over a much shorter time period due to availability of benefits and increasing use of lump sum benefits.

3 Data

Key points of this section
• We have relied upon the data, analysis and results obtained for the 2011/12 Recommended Premium Rates analysis • Data was provided in a suitable format.

3.1 Assumptions

We have assumed that the risk and total cost of claims incurred in the 2010/11 financial year as reported in our 8 April 2011 Recommended Premium Rates report is a reasonable estimate of the cost incurred. We used the 2010/11 financial year as it matches the data supplied as described below.

The risk cost of claims is the inflated/discounted cost of claims incurred before allowances for brokerage, management expenses, and contingency and prudential risk margins. The total cost of claims is the risk cost plus these allowances, except brokerage.

As such we have also relied upon the analysis, assumptions and calculation methods underpinning that report particularly the distribution of Scheme payments by payment type.

Given the high level of uncertainty involved in calculating the cost impact of legislation changes we have not made any assumptions regarding inflation or discounting. As such the cost presented is slightly conservative.

3.2 Data

We were supplied with a listing of all claims with a date incurred from 1 July 2004 to 30 June 2011. This data included:

- claim ID
- date of accident
- finalisation date
- date of birth
- estimated total cost
- total payments and payments split into each payment type
- insurer type
- asbestos flag
- 92(f) flag.

We were also provided with:

- Section 217(4)(a) applications made from 1 July 2008 to 30 June 2011
- Noise induced hearing loss claim data provided for the 2011/12 Recommended Premium Rates updated to 30 June 2011.

We reconciled the data with the data provided for the 2011/12 premium rates and the quarterly data provided over the 2010/11 financial year and the data reconciled well.

4 Implementation and reliance on costing

Key points of this section
• Whilst we have costed the removal of age limits to the best of our ability, the complex nature of the workers compensation scheme may result in the legislation change having unintended/unexpected cost impacts • Any legislation change which increases the benefits available to claimants should be closely monitored to ensure cost impacts are within expected levels.

4.1 Implementation

The introduction of a revised benefit structure in workers compensation systems most often results in changes in experience which are quite different from those anticipated by an analysis of the pre-change claim experience. This effect is referred to as behavioural change, which is simply the response of claimants and their advisers to the new benefit structure.

Non-benefit related matters which also influence the cost of a workers compensation system are:

- the actual wording of the legislation introducing the changes
- how the new legislation is applied and interpreted by the Courts, claimants, insurers, solicitors etc
- the role taken by the regulator
- administrative efficiency
- claims management principles and application
- general economic activity and social conditions
- mix by industry, which varies by jurisdiction, eg mining, timber
- influence on claim rates of benefit structure and industry mix
- litigation
- industrial relations
- environmental issues
- risk management, and
- occupational health and safety.

As discussed in section 2.3 earlier, these aspects mean that the estimation of the cost impact of a revised benefit structure is highly uncertain.

4.2 Interpretation of costing

The analyses presented in this report are based on the data supplied by WorkCover WA which was provided by insurers to WorkCover WA.

The valuation of workers compensation risks is subject to a high level of uncertainty, particularly the cost impact of legislation changes that will act to increase benefits as there is not a reliable body of historical data available on which to base the costing.

We have taken every care in the preparation of this report. However the data limitations mentioned above, as well as other possible errors in the data, mean that the conclusions reached in this report may not be identical with those reached using ideal data.

For costings of this nature it is not possible to calculate exact outcomes with precision. Therefore reliance should be placed on the relative, rather than the absolute impact of the various components of the proposal costed.

We cannot estimate the current cost of the scheme's claims experience with certainty since it is based on future uncertain events such as:

- the amount of individual claims are uncertain
- claims experience is subject to random fluctuations
- claims management practices vary over time
- external elements such as economic and social conditions, workplace agreements etc
- the still emerging cost impacts of the 2004 Reform Act amendments (with reference to section 217(4)(a) applications).

In addition, predicting the cost of changes to the system adds significantly to the above uncertainty. It has to combine the impact that the changes may have on claimant behaviour and two well-known related effects :

- Erosion effect which can cause changes where the potential claimant base is expanded by increased claimant participation and claim size above expected as individuals become aware of the increased benefits. From experience in other compensation schemes in Australia it is likely that this erosion cost will build up over a period of three to five years, though a longer time period might be expected in this situation due to small claimant population affected

- Transfer effect whereby claimants and their advisers act to increase the potential level of benefits available to them by utilising other types of benefits that previously may not have been accessed (or accessible) within the system eg we expect a greater number of clause 18A claims (additional medical benefits) under the revised age limits as there is greater potential for these claims to develop because the increased retirement age will increase the likelihood of exhausting other benefit types (ie medical). This is also referred to as substitution or replacement effect.

Our legislative change costings are usually based on the two scenarios described below. In this case the impact of erosion and transfer effects are not distinct, so we have combined the initial and interim elements.

Initial

The changes have close to the full theoretical effect, with little change to claimant behaviour and no erosion or transfer effects.

This represents the "best case" result. It is likely such an outcome could only be maintained for a short time before the effects of erosion and transfer from other benefit categories became apparent.

Longer term

We have made a moderate allowance for the effects of erosion and transfer from other benefits. This can be taken to represent the immediate effect of the legislative changes if claimant behaviour changes in a logical fashion, or alternatively the effect in the two to three years after the changes if there is a "honeymoon" effect.

The erosion in average claim size is limited as a result of the prescribed amount capping total weekly benefits and redemptions. However this could result in a transfer of costs to 92(f) settlements.

We stress that in the long term the effect on claim costs may well prove to be much more extensive than either of the above scenarios would suggest. The effects of any change can erode completely within three to five years and adverse trends emerge.

In times of stable experience, legislative change with benefit liberalisation can quickly cause adverse trends to commence.

The costings are only one of a range of possible outcomes influenced not only by

- estimation uncertainty
- the unpredictability of changes in claimant behaviour on future claim costs

- how well the intent of any proposed changes are reflected in the Act amendments and how well they are implemented.

Attachments

Attachment A Section 56

What this attachment covers
• We estimate an initial cost impact of the legislation changes to section 56 (including indirect impact on redemptions, section 92(f) and common law claims) of $10.9 million or 1.7% of the 2010/11 estimated Scheme risk cost or 1.3% of the 2010/11 estimated Scheme total cost • We estimate an erosion cost impact of $24.8 million which is 3.8% of risk cost or 2.9% of total cost.

Section 56 (weekly benefits) and commutation

Description

Before legislation changes, section 56 allows workers injured before age 64 to receive weekly benefits until the earlier of when the claim is finalised or claimant reaches age 65. Claimants injured at age 64 or older, are entitled to a maximum of one year of weekly benefits from the date of occurrence.

Under the revised legislation, the limit on the duration of weekly benefits will be removed. This will potentially lead to duration and average claim size increases. Additional behavioural changes are also expected, these are:
- potential change in composition of workforce as greater benefits available
- increased benefit substitution. Use of benefits to commute weekly benefits, such as Redemptions and Section 92(f) may increase as they become more attractive to claimants. This will lead to increased incidence and potential average claim increases of these benefit types

Overall the incidence of claims shouldn't increase as a result of the change in legislation given individuals over the age of 65 are already able to claim all benefit types not related to weekly benefits. However we are aware of the possibility that some claimants are unaware of their ability to claim over the age of 65 so there could be an increase in claims.

The legislation changes are for prospective claims only (ie those incurred from 1 October 2011) .

Unless otherwise stated our calculation is based on RPR returning entities data as at 30 June 2011.

The prospective cost impact is assumed to be a proportion of the estimated risk cost over the 2011 financial year.

Data Used

We were supplied with a listing of all claims with a date incurred from 1 July 2004 to 30 June 2011. This data included:
- claim ID
- date of accident
- finalisation date
- date of birth
- estimated total cost
- total payments and payments split into each payment type
- insurer type
- asbestos flag
- 92(f) flag

Increase in weekly benefits

The number of weekly benefit claims, payments and average claim size by accident year reported and paid to 24 August 2011 are as follows:

	Number of claims with weekly benefits				
Age group	**2007**	**2008**	**2009**	**2010**	**2011**
15 - 19	1,550	1,439	1,190	873	900
20 - 24	2,204	2,127	1,929	1,744	1,707
25 - 34	3,768	3,618	3,481	3,156	2,908
35 - 44	4,040	4,042	3,830	3,484	2,979
45 - 54	3,910	3,959	3,777	3,709	3,098
55 - 59	1,351	1,401	1,424	1,316	1,055
60 - 64	627	745	767	845	722
65+	172	185	212	212	217
Total	**17,622**	**17,516**	**16,610**	**15,339**	**13,586**
% 60+	4.5%	5.3%	5.9%	6.9%	6.9%

	Weekly benefits				
Age group	**2007**	**2008**	**2009**	**2010**	**2011**
15 - 19	3,101,348	3,969,134	3,320,769	2,431,759	2,103,688
20 - 24	9,167,077	13,805,210	11,308,159	9,286,069	6,718,116
25 - 34	31,050,107	33,816,363	36,404,702	29,379,369	18,168,674
35 - 44	46,819,483	52,379,046	52,091,190	40,351,359	22,365,355
45 - 54	50,988,314	56,913,409	57,444,316	46,109,122	25,835,180
55 - 59	18,871,844	22,053,779	23,818,208	17,586,854	8,781,969
60 - 64	7,966,512	9,484,371	11,300,369	11,006,923	5,616,932
65+	1,524,719	1,630,849	2,195,348	2,637,971	1,824,511
Total	**169,489,405**	**194,052,161**	**197,883,062**	**158,789,426**	**91,414,425**
% 60+	5.6%	5.7%	6.8%	8.6%	8.1%

	Average weekly benefit size				
Age group	**2007**	**2008**	**2009**	**2010**	**2011**
15 - 19	2,001	2,758	2,791	2,786	2,337
20 - 24	4,159	6,490	5,862	5,325	3,936
25 - 34	8,240	9,347	10,458	9,309	6,248
35 - 44	11,589	12,959	13,601	11,582	7,508
45 - 54	13,040	14,376	15,209	12,432	8,339
55 - 59	13,969	15,741	16,726	13,364	8,324
60 - 64	12,706	12,731	14,733	13,026	7,780
65+	8,865	8,815	10,355	12,443	8,408
Total	**9,618**	**11,079**	**11,913**	**10,352**	**6,729**

The accident years are at different stages of development which is why there is an increasing trend of the percentage of payments by accident year. However as over 75% of weekly benefits are paid within the first two years and over 90% are paid within the first three years so 2007 to 2009 are reasonably comparable.

While the average claim size is similar by age from 35 onwards for 2011 it can be seen that the average claim size reduces for ages 60 to 64 and reduces further for 65+ for the 2007 to 2009 accident years.

The number of claims reported to date for 2011 for each age from 60 to 63 is 150 on average, this drops significantly to 98 claims for 64 years old, 59 claims for 65 year olds, 46 claims for 66 year olds, 32 claims for 67 year olds and 28 claims for 68 year olds. While the exposure will be reducing over these age groups it is likely that there are also claimants who don't realise they are eligible for workers compensation or weekly benefits after age 65. The claims with weekly benefits as a percentage of total claim numbers is relatively consistent by age so this would not suggest that reported claims are only claiming for medicals and other non-wage related benefits.

We expect there to be a weighted increase in payment patterns from claimants aged approximately 55 and older. The level of increase in weekly benefits will be higher for those claimants who are injured later in life due to the propensity of a later retirement age to apply and reduced possibility of rehabiliation.

From WorkCover's annual statistical report we have been able to review incidence rate per employee and frequency per million hours worked. These ratios include self insurers as they are included in the ABS employment data and are on a claims lodgement basis not accident year basis. However we consider the tables to be reasonable for comparison purposes.

Incidence rate by employee

Age group	2006	2007	2008	2009	2010	5 yr ave
15-19	1.54%	1.64%	1.58%	1.28%	1.01%	1.41%
20-24	1.95%	1.81%	1.70%	1.62%	1.38%	1.68%
25-34	1.97%	1.84%	1.73%	1.63%	1.39%	1.70%
35-44	2.06%	1.91%	1.87%	1.76%	1.66%	1.85%
45-54	1.98%	1.86%	1.95%	1.82%	1.86%	1.89%
55-59	1.92%	1.95%	1.94%	1.85%	1.72%	1.87%
60-64	1.69%	1.74%	1.66%	1.74%	1.74%	1.73%
65+	1.20%	1.18%	1.09%	1.07%	1.06%	1.11%

Note: The 5 year average for 60-64 excludes the low 2008 value

Frequency rate by million hours worked

Age group	2006	2007	2008	2009	2010	5 yr ave
15-19	13.72%	13.98%	13.58%	11.54%	9.49%	12.54%
20-24	11.71%	10.90%	10.15%	9.57%	8.38%	10.09%
25-34	10.51%	10.04%	9.26%	8.60%	7.60%	9.14%
35-44	11.66%	10.60%	10.21%	9.88%	9.22%	10.29%
45-54	10.92%	10.37%	10.77%	9.94%	10.17%	10.42%
55-59	10.84%	10.79%	11.13%	10.74%	10.01%	10.68%
60-64	10.29%	10.55%	9.85%	10.42%	10.94%	10.58%
65+	8.61%	8.74%	7.73%	9.03%	9.25%	8.93%

Note: The 5 year average for 60-64 and 65+ excludes the low 2008 value

The five year averages shows that there is a small reduction in frequency and incidence rates from 55-59 to 60-64 and a significant reduction for 65+. Reviewing the incidence and frequency rates across the reporting years there is a generally reducing trend for younger age groups and the scheme as a whole however the frequency rate for 60-64 and 65+ have a generally increasing trend.

2010/11 incurred weekly benefits

Age group	Claims (a)	Average claim size (b)	Estimated cost (c)
15-19	935	3,593	3,359,133
20-24	1,773	7,913	14,031,201
25-34	3,021	13,466	40,678,016
35-44	3,095	18,352	56,791,642
45-54	3,218	20,515	66,021,838
55-59	1,096	22,402	24,551,586
60-64	750	19,422	14,567,076
65+	225	13,589	3,063,126
Total	**14,113**	**15,805**	**223,063,617**

Notes: (a) The number of claims are extrapolated to incurred using adopted reporting patterns from the 2011/12 Recommended Premium Rates
(b) Total payments are extrapolated to ultimate using the adopted payment patterns from the 2011/12 Recommended Premium Rates. The total average claim size is determined by total payments / total claims. The average claim size by age is calculated using the ratio of weighted average from 2007 to 2009 of the average claim size by age group divided by the total average claim size.
(c) = (a) x (b)

The initial impact is the increase of the average claim size to similar values to other age groups. Based on data above for 2007 to 2009 accident year we would expect a 65% increase in average claim size to individuals aged 65 and older, we would also expect a smaller increase for claimants aged 60 to 64 of approximately 15% so the average claim size is similar to those aged 45 -59.

While all workers are currently eligible for some length of time on weekly benefits we are aware that part of the reason for the frequency reduction over 60 is that not all workers realise they are eligible for weekly benefits. If we expect all workers over age 55 to have the same frequency and incidence rates from the frequency and incidence tables above the following increases are required:
* for the 60-64 age group the frequency to increase by1%, while the incidence rate to increase by 8%
* for 65+ age group the frequency to increase by 20%, while the incidence rate to increase by 68%.

For the initial impact we therefore adopt a 25% increase in the number of claims for individuals aged 65 years and older and 5% increase in the number of claims for individuals aged 60 to 64, due to increased awareness of benefits.

Initial 2010/11 incurred weekly benefits after legislation change

Age group	Claims (a)	Average claim size (b)	Estimated cost (c)	Impact (d)
15-19	935	3,593	3,359,133	0
20-24	1,773	7,913	14,031,201	0
25-34	3,021	13,466	40,678,016	0
35-44	3,095	18,352	56,791,642	0
45-54	3,218	20,515	66,021,838	0
55-59	1,096	22,402	24,551,586	0
60-64	788	*22,336*	*17,589,744*	3,022,668
65+	282	22,421	*6,317,697*	3,254,571
Total	**14,207**	**16,143**	**229,340,856**	**6,277,239**

Notes: (a) = (a) from table above (for initial impact assume no increase in number of claims)
(b) = (b) from table above x percentage increase stated above to equalise average claim size
(c) = (a) x (b)
(d) = (c) - (c) from table above

Erosion occurs due to behavioural changes such as more claimants claiming and these claimants staying on benefits longer.

As older ages will probably require a longer recovery time than younger ages due to overall medical health for the erosion impact we assume that the 55-59 year olds will have a 10% increase in average claim size to $24,600 and 60+ average claim size will increase to this level also.

We have adopted the same increase in the number of claims as under the initial scenario.

Erosion 2010/11 incurred weekly benefits after legislation change

Age group	Claims (a)	Average claim size (b)	Estimated cost (c)	Impact (d)
15-19	935	3,593	3,359,133	0
20-24	1,773	7,913	14,031,201	0
25-34	3,021	13,466	40,678,016	0
35-44	3,095	18,352	56,791,642	0
45-54	3,218	20,515	66,021,838	0
55-59	1,096	24,643	27,006,745	2,455,159
60-64	788	24,667	19,425,195	4,858,120
65+	282	24,731	6,968,611	3,905,485
Total	**14,207**	**16,491**	**234,282,380**	**11,218,764**

Notes: (a) = (a) from table above (for initial impact assume no increase in number of claims)
(b) = (b) from table above x percentage increase stated above to equalise average claim size
(c) = (a) x (b)
(d) = (c) - (c) from table before any legislative change

As for increasing the number of weekly benefit claims we consider there is the potential for the increased duration and awareness of benefits to increase the use of other benefit types such as medical and hospital despite the lack of age restrictions on these benefit types.

As such we have assumed that the removal of age limits on weekly benefits will lead to a 10% increase in other claim related expenses.

	Initial	Erosion
Weekly benefit cost impact	6,277,239	11,218,764
Weekly benefits as a percentage of total benefits	33.0%	33.0%
Maximum other claim cost impact	12,744,698	22,777,490
Assumed percentage impact	10.0%	10.0%
Estimated benefit risk cost impact	**1,274,470**	**2,277,749**
Estimated total benefit risk cost impact	**7,551,709**	**13,496,513**

There is also the potential for increases in the number and size of redemptions ,section 92(f) claims and common law claims due to the increased duration of claims making them more attractive options from a claims management and potentially claimants perspective. This cost increase is costed in the next section.

Redemptions

The table below shows the data for redemption claims with date incurred from 1 July 2006 to 30 June 2011. Where the claim had a 92(f) payment flag or had no weekly benefits paid we excluded these from our analysis.

Age at Occurrence

Age group	Redemption claims	Total claims	% of all claims with redemption payment	Redemptions to date	Total payments for redemption claims	% Redemp pymt of total payments	ACS redemp (paid / reports)
0 - 50	3,965	138,701	2.9%	134,203,965	436,867,424	30.7%	33,847
51 - 55	702	17,291	4.1%	26,661,852	83,240,143	32.0%	37,980
56 - 60	631	12,618	5.0%	24,728,358	73,094,908	33.8%	39,189
61 - 63	231	4,663	5.0%	7,842,684	24,054,228	32.6%	33,951
64+	127	3,096	4.1%	3,146,557	9,552,875	32.9%	24,776
Total	**5,656**	**176,369**	**3.2%**	**196,583,416**	**626,809,578**	**31.4%**	**34,757**

Distribution by age

Age Group	Redemption claims	Total claims	Redemption to date	Total payments for redemption claims
0 - 50	70.1%	78.6%	68.3%	69.7%
51 - 55	12.4%	9.8%	13.6%	13.3%
56 - 60	11.2%	7.2%	12.6%	11.7%
61 - 63	4.1%	2.6%	4.0%	3.8%
64	2.2%	1.8%	1.6%	1.5%
Total	100.0%	100.0%	100.0%	100.0%

From the table above we can see that the average claim size of redemptions decreases dramatically for claimants who were 64 years or older at the time of injury.

For this initial scenario under the change in legislation we expect that there will be an equalisation in the average claim size (ACS) for redemptions for individuals aged 64 and older due to the average redemption payout for younger claimants. For the redemptions to equalise we expect a 50% increase for claimants aged 64+. We also expect a 10% increase for individuals injured between the age of 60 and 63 due to longer duration expectations.

We also allow an increase in claims for individuals aged 64 and older as insurers will now try to commute more benefits due to potential increased duration. Based on the % of all claims with a redemption payment by age above we assume a 25% increase.

	$000s
2010/11 estimated risk cost (a)	657,856
Redemptions as a % of total risk cost (b)	12.4%
2010/11 estimated redemptions (c)	81,883
% where claimant injured 56-60 years of age (d)	12.6%
% where claimant injured 61-63 years of age (d)	4.0%
% where claimant injured 64+ years of age (d)	1.6%

Notes: (a) Risk cost is from page 9 of our 8 April 2011 report entitled *WorkCover WA 2011/12 Recommended Premium Rates Report*
(b) Redemption payments as % of total from *WorkCover WA 2011/12 Recommended Premium Rates Report*
(c) = (a) x (b)
(d) = % of redemption payments from table above

Initial impact	Claimant age	61-63	64+	Total
Exp 2010/11 redemption cost (a)		**3,267**	**1,311**	**4,577**
Expected increase in ACS (b)		10.0%	50.0%	
Increase in claims (c)		0.0%	25.0%	
Benefit multiplier (d)		*110.0%*	*187.5%*	
After legislation change (e)		**3,593**	**2,457**	**6,051**
Impact (f)		***327***	***1,147***	***1,473***
% of risk cost (g)				**0.22%**

Notes: (a) = (c) from table above x (d) from table above
(b) increase in average claim size, so redemption average claim size is equal by age
(c) assumed increase in number of claims due to longer duration due to removal of age limits
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / (a) from table above

For the erosion impact we assume that the ACS for redemptions will increase an additional 10% on top of the initial impact for all claimants over 56 years old and that the frequency of claims will increase to 5.5% (10% increase). The percentage increase from the base are displayed below:

Erosion impact	Claimant age	56-60	61-63	64+	Total
Exp 2010/11 redemption cost (a)		**10,300**	**3,267**	**1,311**	**14,878**
Expected increase in ACS (b)		10.0%	27.0%	74.0%	
Increase in claims (c)		10.0%	10.0%	35.0%	
Benefit multiplier (d)		*121.0%*	*139.7%*	*234.9%*	
After legislation change (e)		**12,463**	**4,564**	**3,079**	**20,105**
Impact (f)		***2,163***	***1,297***	***1,768***	***5,228***
% of risk cost (g)					**0.79%**

Notes: (a) = (c) from summary table above x (d) from summary table above
(b) increase in average claim size to $43k
(c) increase in claim frequency to 5.5%
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / (a) from summary table above

Section 92(f) claims

Section 92(f) claims present a challenge as the Q1 data system at WorkCover WA has only captured detailed 92(f) payment data since 1 July 2010 and the allocation of payments to the various payment type classes is dependent upon the views of the insurer.

This makes it difficult to determine the allocation between the individual paytypes, and the proportion that was paid before the 92(f) settlement. Flagged 92(f) claims payments for the 12 months to 30 June 2011 with accident date from 1 July 2004 are shown in the table below

Age at Occurrence

Age group	Claims	Finalised	Years to finalisation	Total payments	Outstanding	Total estimate	Average claim size
0 - 50	517	449	2.10	46,091,878	852,407	46,944,285	90,801
51 - 55	96	89	2.47	10,900,514	150,447	11,050,961	115,114
56 - 60	66	57	1.84	6,064,192	48,216	6,112,408	92,612
61 - 63	31	24	1.25	3,148,565	47,657	3,196,223	103,104
64+	27	23	1.32	1,533,185	63,604	1,596,790	59,140
Total	**737**	**642**	**2.07**	**67,738,334**	**1,162,332**	**68,900,666**	**93,488**

Distribution by age

Age group	Claims	Finalised	Total payments	Outstanding	Total estimate
0 - 50	70.1%	69.9%	68.0%	73.3%	68.1%
51 - 55	13.0%	13.9%	16.1%	12.9%	16.0%
56 - 60	9.0%	8.9%	9.0%	4.1%	8.9%
61 - 63	4.2%	3.7%	4.6%	4.1%	4.6%
64+	3.7%	3.6%	2.3%	5.5%	2.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

As for redemptions we can see that the average claim size decreases once the claimant turns 61. What is interesting however is that despite being flagged as a 92(f) claim, some claims are still open despite 92(f) settlements being used as a mechanism for closing claims. This could be due to timing differences in the insurer updating its own system and Q1.

As for redemptions we assume the average claim size by age will equalise, so have assumed a 10% increase for ages 61 to 63 and a 100% increase for ages 64+. We also assume the increase in the number of 92(f) settlements will be similar to redemptions. Therefore we have assumed a 25% increase in the number of 92(f) settlements for 64+ and no increase in the number of settlements for ages 61 to 63.

2010/11			
Section 92(f) claims (a)			737
Total payments ($000s) (b)			67,738
Redemptions/common law as % of 92(f) cost (c)			45.2%
2010/11 estimated 92(f) settlement ($000s) (d)			30,630
% individual aged 56 to 60 (e)			*9.0%*
% individual aged 61 to 63 (e)			*4.6%*
% individual aged 64+ (e)			*2.3%*

Notes: (a), (b) from table above
(c) = % of total payments for 92(f) settlements which are redemptions or common law payment types
(d) = (b) x (c)
(e) = % of total payments for 92(f) settlements from table above

Initial impact ($000s)	Claimant age	61-63	64+	Total
Exp 2010/11 92(f) settlement cost (a)		**1,424**	**693**	**2,117**
Expected increase in ACS (b)		10.0%	100.0%	
Increase in claims (c)		0.0%	25.0%	
Benefit multiplier (d)		*110.0%*	*250.0%*	
After legislation change (e)		**1,566**	**1,733**	**3,299**
Impact (f)		***142***	***1,040***	***1,182***
% of risk cost (g)				**0.18%**

Notes: (a) = (d) from table above x (e) from table above
(b) increase in average claim size, so 92(f) average claim size is equal by age
(c) assumed increase in number of claims due to longer duration
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / $657.9M risk cost

For the erosion impact we assume similar increases to redemptions in the number of claims. We assume that the ACS for 92(f) settlements will increase by 10% above the initial scenario for all claimants over 56 years old.
The percentage increase from the base are displayed below:

Erosion impact ($000s)	Claimant age	56-60	61-63	64+	Total
Exp 2010/11 92(f) settlement cost (a)		**2,742**	**1,424**	**693**	**4,859**
Expected increase in ACS (b)		35.0%	20.0%	110.0%	
Increase in claims (c)		10.0%	10.0%	35.0%	
Benefit multiplier (d)		*148.5%*	*132.0%*	*283.5%*	
After legislation change (e)		**4,072**	**1,879**	**1,965**	**7,917**
Impact (f)		***1,330***	***456***	***1,272***	***3,058***
% of risk cost (g)					**0.5%**

Notes: (a) = (d) from summary table above x (e) from summary table above
(b) increase in average claim size, so 92(f) average claim size is $125k
(c) same as claim frequency increase for redemptions
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / $657.9M risk cost

Common law claims

The table below shows the data for common law claims with date incurred from 1 July 2004 to 30 June 2011. Where the claim had a 92(f) payment flag we excluded these from our analysis.

Age at Occurrence

Age Group	Common law claims	Total claims	% of all claims with common law payment	Common law payments to date	Total payments for common law claims	% C/law pymt of total payments	ACS com law (paid / reports)
0 - 50	1,390	200,845	0.7%	161,084,965	285,192,664	56.5%	115,888
51 - 55	263	24,123	1.1%	22,575,847	42,378,460	53.3%	85,840
56 - 60	177	17,336	1.0%	13,035,724	25,771,990	50.6%	73,648
61 - 63	57	6,043	0.9%	4,506,093	8,189,309	55.0%	79,054
64+	29	3,986	0.7%	2,337,071	4,265,614	54.8%	80,589
Total	**1,916**	**252,333**	**0.8%**	**203,539,700**	**365,798,036**	**55.6%**	**106,232**

Distribution by age

Age group	Common law claims	Total claims		Common law payments to date	Total payments for common law claims
0 - 50	72.5%	79.6%		79.1%	78.0%
51 - 55	13.7%	9.6%		11.1%	11.6%
56 - 60	9.2%	6.9%		6.4%	7.0%
61 - 63	3.0%	2.4%		2.2%	2.2%
64+	1.5%	1.6%		1.1%	1.2%
Total	100.0%	100.0%		100.0%	100.0%

From the table above we can see that less claims have a common law payment for age 61 onwards compared to ages 51 to 60. Given that the level of impairment is a restriction to common law and older claimants are entitled to all medical expenses there is no reason for the number of common law claims to be less. A possible reason that there are less claims for older ages could be due to the industry and type of work undertaken. They are less likely to be working in manual jobs which have higher claims experience.

It is surprising that the average claim size for ages 61+ is higher than for ages 56-60 as we would expect the average claim size for common law claims to be lower for older age groups as they would only be entitled to future earnings to age 65 (of claimants under 64) or for one year for claimant over 64. However as common law claims are the largest claims this could be due to the underlying volatility in claim size.

For the initial impact we assume no change to the number of common law claims.

We assume that for claimants 64+ none of the common law payment related to future loss of earnings as the court process would have taken longer than the year of weekly benefits they were entitled to. We have added the increase in 92(f) settlements for these claims ($60k or 75% increase in ACS). For 61 to 63 we also added a similar increase in ACS to 92(f) settlements; this is about $10k or 15%.

	$000s
2010/11 estimated risk cost (a)	657,856
Common law as a % of total risk cost (b)	13.4%
2010/11 estimated common law (incl 92f) (c)	88,441
2010/11 estimated common law (excl 92f) (d)	57,812
% where claimant injured 56-60 years of age (e)	6.4%
% where claimant injured 61-63 years of age (e)	2.2%
% where claimant injured 64+ years of age (e)	1.1%

Notes: (a) Risk cost is from page 9 of our 8 April 2011 report entitled *WorkCover WA 2011/12 Recommended Premium Rates Report*
(b) Common law as % of total from *WorkCover WA 2011/12 Recommended Premium Rates Report*
(c) = (a) x (b)
(d) = (c) - (d) from 92(f) table
(e) = % of common law payments from table above

Initial impact ($000s)	Claimant age	61-63	64+	Total
Exp 2010/11 common law cost (a)		**1,280**	**664**	**1,944**
Expected increase in ACS (b)		15.0%	75.0%	
Increase in claims (c)		0.0%	0.0%	
Benefit multiplier (d)		*115.0%*	*175.0%*	
After legislation change (e)		**1,472**	**1,162**	**2,634**
Impact (f)		***192***	***498***	***690***
% of risk cost (g)				**0.1%**

Notes:
(a) = (d) from table above x (e) from table above
(b) increase in average claim size, so additional average claim size is same a 92(f) settlements
(c) no assumed change to the number of claims
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / $657.9M risk cost

For the erosion impact we are allowing for an increase in the number of common law claims. We assume that the number of common law claims as a % of the total will equalise by age. Therefore we assume a 10% increase in common law claims for 61 to 63 year olds and a 50% increase for 64+ year olds.

The erosion impact increase in the average claim size for common law claims is based on the dollar value increase for each age group for 92(f) settlements in the erosion scenario.

Erosion impact ($000s)	Claimant age	56-60	61-63	64+	Total
Exp 2010/11 common law cost (a)		**3,703**	**1,280**	**664**	**5,646**
Expected increase in ACS (b)		45.0%	25.0%	80.0%	
Increase in claims (c)		0.0%	10.0%	25.0%	
Benefit multiplier (d)		*145.0%*	*137.5%*	*225.0%*	
After legislation change (e)		**5,369**	**1,760**	**1,494**	**8,622**
Impact (f)		***1,666***	***480***	***830***	***2,976***
% of risk cost (g)					**0.5%**

Notes:
(a) = (d) from summary table above x (e) from summary table above
(b) increase in average claim size same as 92(f) settlements
(c) increased so common law is similar % of total claims across all age groups
(d) = (1 + (b)) x (1 + (c))
(e) = (a) x (d)
(f) = (e) - (a)
(g) = (f) / $657.9M risk cost

Cost impact as a percentage of 2010/11 risk and total cost

	Initial Cost ($000s)	% Risk Cost	% Total Cost	Erosion Cost ($000s)	% Risk Cost	% Total Cost
Section 56	6,277	0.95%	0.73%	11,219	1.71%	1.30%
Other costs	1,274	0.19%	0.15%	2,278	0.35%	0.26%
Redemptions	1,473	0.22%	0.17%	5,228	0.79%	0.60%
Section 92(f)	1,182	0.18%	0.14%	3,058	0.46%	0.35%
Common law	690	0.10%	0.08%	2,976	0.45%	0.34%
Total	**10,897**	**1.66%**	**1.26%**	**24,758**	**3.76%**	**2.86%**

Notes: Risk and total cost is from page 9 of our 8 April 2011 report entitled *WorkCover WA 2011/12 Recommended Premium Rates Report*. The 2010/11 risk cost is $657.9 million and total cost is $865.6 million.
Given the low real rates of return and the data is in current values we have not adjusted for inflation and discount rates.

Attachment B Noise induced hearing loss

What this attachment covers
• We estimate an initial cost impact from noise-induced hearing loss claims made under section 24A or 31E of $623k or 0.09% of the 2010/11 Scheme risk cost or 0.07% of total cost • We estimate an erosion cost impact of $929k which is 0.14% of risk cost or 0.11% of total cost.

Noise Induced Hearing Loss - Section 24A and 31E

Section 24A deals with noise induced hearing loss claims.

Section 24A(2)(b)(ii) defines a further hearing loss if the worker has reached age 65 years or on retirement before that age.

Section 24A(3) states that a worker who retired before age 65 years, has made a successful election under section 24A(2)(b)(ii) and has returned to work, can make an election under section (2)(b).

Section 24A(4) states that a worker is not entitled to compensation under this section for noise induced hearing loss *incurred* after age 65 years.

This sub-section (4) is an aspect that requires actuarial costing for removing the age limit .

Section 31E was introduced in the 2004 Reform Act and deals with lump sum payments for noise induced hearing loss claims under the new impairment model, but otherwise contains identical provisions to section 24A.

We have been asked to estimate the cost impact of continuing workers' compensation benefits, under section 24A and 31E , to noise induced hearing loss incurred up to the revised age entitlements limit of the affected worker.

Data provided

We have used the unit claim data files as provided for the calculation of the 2011/12 Recommended Premium Rates, updated to 30 June 2011. This has been provided separately for the first and second elections.

First election claims are the first time a claimant is assessed and require a hearing loss of greater than 10% to be successful.

Second election claims are those claims which were successful first election claims and the claimant is now being assessed for additional hearing loss after further exposure. Second election claims require a loss of greater than 5% and a worker can claim multiple times.

Only claims that have completed the process are included in the file. The noise-induced hearing loss (NIHL) data does contain claims from non-premium rating returning entities as they are unable to be removed due to the fact that one claim could have multiple insurers/self-insurers and this information is hidden within the text string of a claim.

Summary tables of the data provided are below:

Noise-induced hearing loss - first election claims based on assessment date

Financial year assessment date	Elections	Payments	Average payment	Average loss (%)	Average age	Average duration (years)
1998	14	162,115	11,580	14.7	55.3	4.9
1999	35	431,104	12,317	15.5	55.2	6.0
2000	57	817,905	14,349	16.4	55.1	6.8
2001	43	678,100	15,770	17.2	57.5	8.3
2002	52	819,596	15,761	16.7	55.4	9.1
2003	52	794,919	15,287	15.8	57.9	10.3
2004	69	1,146,681	16,619	16.3	55.8	11.1
2005	76	1,415,727	18,628	17.7	56.1	11.6
2006	70	1,212,581	17,323	15.8	58.1	13.0
2007	85	1,661,125	19,543	17.1	56.4	13.8
2008	72	1,328,009	18,445	15.6	57.6	14.7
2009	60	1,281,180	21,353	16.9	57.7	15.5
2010	74	1,756,762	23,740	17.8	59.0	16.1
2011	69	1,573,251	22,801	16.6	58.3	16.9

Age at first election assessment date

Age min	Age max	Count	Percentage of total
0	55	293	34.7%
55	60	227	26.9%
60	63	172	20.4%
63	64	37	4.4%
64	65	46	5.4%
65	66	43	5.1%
66	100	27	3.2%
Total		**845**	**100.0%**

Interestingly, approximately 8% of claims are from claimants aged 65 or older at the assessment date. The assessment of their noise-loss may be reduced to estimate that incurred before the age of 65.

We can see from the data that the average hearing loss on the first election is 14%-18% and is an increasing interval from the baseline test date (most likely a result of changing workplace practices), also that the median age for a first election is slowly increasing.

Individuals with subsequent elections - based on financial year of first election

Financial year of first election	Subs elections	% with subsequent election	Payments	Average payment	Average loss (%)	Average duration (years)
1998	2	14.3%	40,163	20,082	19.5	6.5
1999	5	14.3%	55,528	11,106	10.8	5.1
2000	9	15.8%	99,550	11,061	10.0	6.2
2001	6	14.0%	89,372	14,895	12.1	5.5
2002	8	15.4%	133,409	16,676	14.1	4.7
2003	2	3.8%	19,551	9,776	8.2	5.6
2004	6	8.7%	132,284	22,047	17.5	5.0
2005	6	7.9%	95,657	15,943	12.6	3.7
2006	6	8.6%	78,185	13,031	9.8	4.1
2007	4	4.7%	63,293	15,823	12.0	2.7
2008	1	1.4%	12,929	12,929	9.4	3.5
2009	1	1.7%	27,784	27,784	20.2	2.4
2010	0	0.0%	0	N/A	N/A	N/A
2011	0	0.0%	0	N/A	N/A	N/A

The data above suggests that approximately 15% of individuals will make a second election (only one to date has made a third election) and the additional loss will be approximately 60%-80% of the first election.

Despite the lower hearing loss, payments are generally higher due to the higher prescribed amount at the time a subsequent election is lodged and accepted.

Calculation

With the age limits removed, we expect that there will be an increase in the number of first and subsequent elections, and also the average claim size due to the increased exposure period for hearing to deteriorate.

The potential incurred cost impact on the 2011 financial year is:

2011 financial year - First elections

Elections (a)	Average % hearing loss (b)	Average claim size (c)	Payments (d)
72	17%	21,000	1,512,000

Notes:
(a) average of 2007 to 2011 for first election claims
(b) average of 2007 to 2011 for first election claims
(c) average of 2007 to 2011 for first election claims
(d) = (a) x (c)

2011 financial year - Subsequent elections

% of First (a)	Subsequent elections (b)	Average % hearing loss (c)	Average claim size (d)	Payments (e)
15%	11	13%	16,059	173,435

Notes: (a) average 1998 to 2002 from subsequent election table above
(b) = (a) x (a) from table above
(c) average 1998 to 2009 from subsequent election table above
(d) = (c) from table above x (b) from table above / (c)
(e) = (b) x (d)

2011 financial year - NIHL claims

Election	Count	Payments
First	72	1,512,000
Subsequent	11	173,435
Total	**83**	**1,685,435**

This is an estimated cost of $1.7 million from noise-induced hearing loss claims with an initial assessment date in 2010/11.

The tables below show the projected impact before legislative changes and after allowing for the initial impact.

2011 financial year - Initial impact of legislation change on first elections

Item		Status quo (a)	Legislation change
Elections (b)		72	79
Average % hearing loss (c)		*17.0%*	*20.0%*
Average claim size (d)		21,000	24,706
Payments (e)		1,512,000	1,956,706
Impact (f)			**444,706**

Notes: (a) from first election table above
(b) assume 10% of claims is over 65 and 100% increase for these claims
(c) increase equivalent to delay of assessment by three years
(d) Assume ACS proportional to hearing loss, maximum compensation is 75% of PA therefore: = ACS (a) x average hearing loss % (20%) / average hearing loss (17%)
(e) = (b) x (d)
(f) = legislative change payments - status quo payments

2011 financial year - Initial impact of legislation change on subsequent elections

		Status quo (a)	Legislation change
% of first (b)		*15.0%*	*20.0%*
Elections (c)		11	16
Average % hearing loss (d)		*13.0%*	*18.0%*
Average claim size (e)		16,059	22,235
Payments (f)		173,435	352,207
Impact (g)			**178,772**
Total initial impact (h)			**623,478**

Notes: (a) from subsequent election table above
(b) assumed % of claims now eligible for subsequent election
(c) = (b) x (b) from table above
(d) increase equivalent to delay of assessment by two years
(e) Assume ACS proportional to hearing loss, maximum compensation is 75% of PA therefore: = ACS (a) x average hearing loss % (18%) / average hearing loss (13%)
(f) = (b) x (d)
(g) = legislative change payments - status quo payments
(h) = (g) + (f) from table above

Erosion we have assumed double the increase in the number of claims and the same increase in the average claim size as the initial impact

2011 financial year - Erosion impact of legislation change on first elections

Item		Status quo (a)	Legislation change
Elections (b)		72	86
Average % hearing loss (c)		*17.0%*	*20.0%*
Average claim size (d)		21,000	24,706
Payments (e)		1,512,000	2,134,588
Impact (f)			**622,588**

Notes: (a) from first election table above
(b) assume 10% of claims is over 65 and 100% increase for these claims
(c) increase equivalent to delay of assessment by three years
(d) Assume ACS proportional to hearing loss, maximum compensation is 75% of PA therefore: = ACS (a) x average hearing loss % (20%) / average hearing loss (17%)
(e) = (b) x (d)
(f) = legislative change payments - status quo payments

2011 financial year - Erosion impact of legislation change on subsequent elections

		Status quo (a)	Legislation change
% of first (b)		*15.0%*	*25.0%*
Elections (c)		11	22
Average % hearing loss (d)		*13.0%*	*18.0%*
Average claim size (e)		16,059	22,235
Payments (f)		173,435	480,282
Impact (g)			**306,847**
Total erosion impact (h)			**929,435**

Notes: (a) from subsequent election table above
(b) assumed % of claims now eligible for subsequent election
(c) = (b) x (b) from table above
(d) increase equivalent to delay of assessment by two years
(e) Assume ACS proportional to hearing loss, maximum compensation is 75% of PA therefore: = ACS (a) x average hearing loss % (18%) / average hearing loss (13%)
(f) = (b) x (d)
(g) = legislative change payments - status quo payments
(h) = (g) + (f) from table above

Cost impact as a percentage of 2010/11 risk cost

($000s)	Impact	% Risk Cost	% Total Cost
Initial	623	0.09%	0.07%
Erosion	929	0.14%	0.11%

Notes: Risk and total cost is from page 9 of our 8 April 2011 report entitled *WorkCover WA 2011/12 Recommended Premium Rates Report*. The 2010/11 risk cost is $657.9 million and total cost is $865.6 million.
Given the low real rates of return and the data is in current values we have not adjusted for inflation and discount rates.

Attachment C Section 217(4)(a)

What this attachment covers
• We estimate an initial cost impact of additional section 217(4)(a) to be $413k (0.06% of 2010/11 risk cost or 0.05% of total cost). • We estimate an erosion cost impact of $825k which is 0.13% of risk cost or 0.10% of total cost.

Applications for extension of Prescribed Amount under Section 217(4)(a)

Description

Under the terms of section 217(4)(a) of the Workers Compensation Reform Act 2004 (the 2004 Reform Act) workers with a permanent total incapacity are currently able to seek an additional amount over and above the prescribed amount (PA) to a maximum of 75% of the PA. For the financial year beginning 1 July 2010 this is equal to 0.75 x $183,394 = $137,546.

We have been asked to estimate the cost impact of extending weekly benefits, under section 217(4)(a), if the age limit on entitlements is removed.

The removal of the age limit will have two impacts, firstly it will increase the incidence of section 217(4)(a) applications as claimants will have increased time to reach the PA for weekly benefits. Secondly it will increase the average claim size as claims will have an extended duration to claim.

Data provided

We were provided with a list of section 217(4)(a) applications over the period from 1 July 2008 to 30 June 2011 this is summarised in the table below.

Year ending 30 June	Accepted	Rejected	Total
2009	7	0	**7**
2010	9	1	**10**
2011	15	3	**18**
Total	**31**	**4**	**35**

Use of section 217(4)(a) has been limited to date, though has almost doubled in 2011.

Of the successful applicants, six were above the age of 55 at the time the application was sealed (19%) of all applications).

Although date of birth and incidence date were provided, we have had limited success matching the successful applications to the unit claims data provided by Workcover WA for this investigation, so we were unable to determine the proportion of the additional allowance that is utilised.

Calculation

There is likely to be limited impact on the number of section 217(4)(a) claims from the change in age entitlements. It is more likely that claimants will utilise lump sum benefits available under section 92(f), redemptions or common law to commute their claim duration given the reduced potential of a return to work.

For the initial impact we assume an additional three successful applications under the age entitlement changes. This is equivalent to 20% of that projected for 2010/11 (18).

Under the assumption that the full entitlement is used for each, the total expected cost impact is $413,000.

For the erosion impact we assume an additional six applications will request an extension for full extension amount, so the cost impact $825,000.

Cost impact as a percentage of 2010/11 risk cost

($000s)	Impact	% Risk Cost	% Total Cost
Initial	413	0.06%	0.05%
Erosion	825	0.13%	0.10%

Notes: Risk and total cost is from page 9 of our 8 April 2011 report entitled *WorkCover WA 2011/12 Recommended Premium Rates Report*. The 2010/11 risk cost is $657.9 million and total cost is $865.6 million.
Given the low real rates of return and the data is in current values we have not adjusted for inflation and discount rates.

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