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WorkCover WA

Legislation changes costings

November 2022

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Chris White
Chief Executive Officer
WorkCover WA
2 Bedbrook Place
Shenton Park WA 6008

23 November 2022

Dear Chris

Please find enclosed our report on the costing estimates for a number of legislation changes to entitlements in the *Workers Compensation and Injury Management Bill 2022* (2022 Bill).

The overall impact, in respect of the changes we have been able to model, is to increase the risk cost by 2.96% and a 2.83% increase in the premium rates.

Yours sincerely

Andrew Smith

Fellows of the Institute of Actuaries of Australia

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Key findings

Context of our review

The purpose of this report is to provide the results of the potential cost impact for a number of legislation changes to entitlements in the *Workers Compensation and Injury Management Bill 2022* (2022 Bill) and to document the analysis undertaken to reach the costing estimates. The changes we have considered are:

- Increasing medical and health services cap from 30% to 60% of the prescribed amount
- Increasing the period before weekly payment step-downs apply from 13 to 26 weeks
- Allowance for provisional payments
- Changes to the definition of workers
- Changes to settlement provisions
- Default Insurance Fund (DI Fund) and increases in Act of Terrorism limit.

The analysis has been undertaken using data for premium rating returning entities only. This includes all insurers and RiskCover. It therefore excludes data relating to entities that have been granted a self-insurance licence.

We have estimated the cost impact on the Recommended Premium Rates for WA insurers and have not consider the impact of changes to other Acts that rely on the WA Workers Compensation Act, such as the *Police (Medical and Other Expenses for Former Officers) Act 2008*.

The costing in this report is based on the draft *Workers Compensation and Injury Management Bill 2022* dated 4 October 2022. If the final Bill differs from the current draft this costing may not reflect the legislation changes enacted.

Our findings

Total impact

The table below shows the combined impact on premium rates of the medical and health services limit increase, weekly benefit step down change and catastrophic injuries.

Component	Increase in risk cost	Increase in premium rate
Weekly benefit step downs	1.03%	0.92%
Medical and health expenses	0.91%	0.91%
Catastrophic injuries	1.02%	1.00%
Total	**2.96%**	**2.83%**

Overall, these changes lead to a **2.96% increase in the risk cost** and a **2.83% increase in the premium rates**. This impact on the premium rates is slightly less than the impact on the risk cost as the increase in benefits for some of the components will have a different impact on expenses. If this increase was applied to the 2022/23 premium rating year it would increase the 2022/23 average recommended premium rate from 1.822% to 1.874%.

The catastrophic injury analysis can be found in our separate report titled *Costing of Catastrophic Injuries* dated November 2022. The catastrophic levy is a levy on insurers and self-insurers similar to the General Account levy. In calculating the impact on the recommended premium rates we have assumed this cost is passed on in full to employers as per the allowance for the General Account levy.

We have not included the other four aspects reviewed in the above estimate as either the cost impact is too uncertain or unknown (allowance for provisional payments and changes to the settlements provision), immaterial (changes to the definition of workers and DI Fund) or is assumed to be funded retrospectively if an event occurs (increases in Act of Terrorism limit).

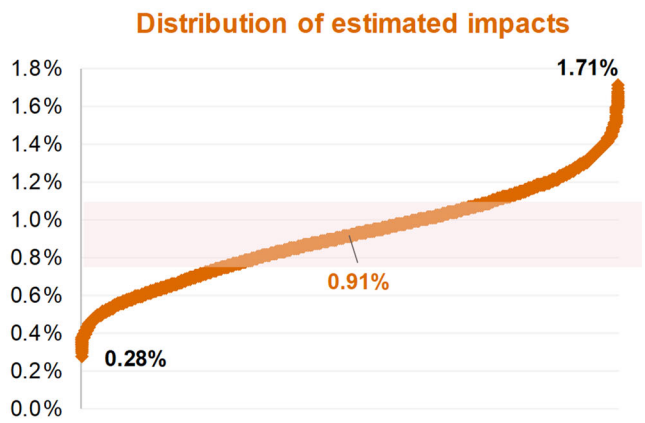
Medical and health services cap

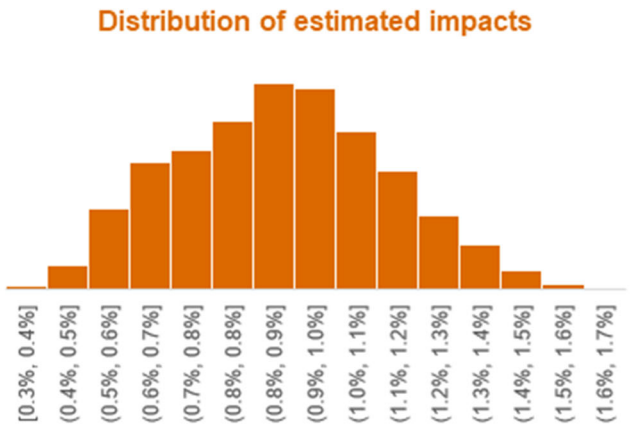
Medical and health services under the *Workers' Compensation and Injury Management Act 1981* (current Act) are capped at 30% of the Prescribed Amount (PA), with two extensions available subject to certain criteria. For the 2022/23 year this equates to $73,197 (30% x $243,991 (PA)), plus a further $50,000 for the first extension and a further $250,000 for the second extension.

The 2022 Bill increases the medical and health services cap to 60% of the Prescribed Amount which equates to $146,395 (60% x $243,991) for the 2022/23 year. The extensions will also be linked to the Prescribed Amount are equal to a further $58,558 for the 2022/23 year for the first extension and a further $278,150 for the 2022/23 year for the second extension. Emergency transportation for treatment is not included within the medical and health expenses cap in the 2022 Bill, whereas it is included in the cap for the current Act.

In the data provided there were 72,913 claims reported for accident years 2017 to 2019. Over the same period, 1,169 claims had medical and health service payments 95% of the cap or above, this represents **1.6% of total claims** which are estimated to be impacted by changes to the medical and health services cap.

The below chart shows the estimated impact of the increase, the impacts are shown as a range (based on the outcomes from multiple scenarios) due to the high level of uncertainty around these changes. See Section 2.5 for commentary on the uncertainty in the impact due to changes in medical and health services cap.





Note: the pink band in the first graph represents the 25% to 75% percentile so the probable range for the ultimate cost.

Overall, the estimated impact is a **0.91%** increase in medical and health services claims costs from increasing the caps which is the central estimate from the scenarios run. We estimate that the insurers' expenses would also increase so the impact on the premium rate would be a **0.91%** increase.

There is significant uncertainty in the ultimate impact of extending the medical and health services statutory entitlements. Based on the scenarios run the impact could be between **0.28% to 1.71%** of claims cost.

See section 2 for more details about the estimated impact of the medical and health services cap.

Weekly payment step downs

The step downs for Award and non-Award workers are different. In the current Act Award workers have limited step-downs, there is the removal of some bonuses and other payments which many Award workers may not receive and non-Award workers have a step-down of 15% to 85% after the 13 weeks. The 2022 Bill increases the period before step downs until after 26 weeks.

In the data provided there were 72,713 claims reported for accident years 2017 to 2019. Over the same period, we estimate that the cost of 13,029 claims would increase if the weekly payment step-downs were increased, this represents **17.9% of total claims.**

The total impact on the cost of claims due to changes in weekly payment step-downs is shown in the table below:

Increase period from step-downs from 13 weeks to 26 weeks					
Accident year	Total payments to date (a)	Increase in weekly payments (b)	Increase in redemptions (c)	Total increase (d)	% increase in paid (e)
2015	843,316,240	7,073,803	1,478,017	8,551,820	1.01%
2016	833,840,451	7,381,996	1,475,090	8,857,086	1.06%
2017	823,342,530	7,039,936	1,461,720	8,501,657	1.03%
2018	832,616,325	7,235,401	1,474,857	8,710,258	1.05%
2019	883,833,782	7,494,785	1,421,049	8,915,834	1.01%
2020	825,262,242	8,204,807	1,350,458	9,555,266	1.16%
2021	749,226,973	9,469,587	1,006,599	10,476,186	1.40%
Adopted (2017 to 2019)	**2,539,792,637**	**21,770,122**	**4,357,627**	**26,127,749**	**1.03%**

See section 3.3.2 for notes to the table.

The estimated increase in the cost of claims after increasing the period prior to step-downs from 13 weeks to 26 weeks is **1.03%.** This is based on adopting the experience for the 2017 to 2019 accident years and includes an allowance for behavioural change. The increase without allowing for behavioural change is 0.58%.

It is estimated this would result in a **0.92% increase in the premium rate.** There would be no impact on expenses from the 0.58% increase that arises from no changes to claimant behaviour just the increase in payments per week. The proportion of the increase that relates to behavioural change (0.45%) would require an increase in expenses to manage the extended claims duration.

Section 3.3.3 shows our analysis of the return to work rate for claims and section 3.4 contains commentary on the uncertainty of the impact due to changes in weekly payment step-downs.

Allowance for provisional payments

The 2022 Bill provides for provisional payments to be made if an insurer or self-insurer has initially deferred a liability decision and subsequently not given a liability decision notice by the due date either accepting or declining liability. The current Act has no provisional payments requirement.

In the data provided there were 8,542 claims reported for accident years 2017 to 2019. Over the same period, we estimate that the cost of 708 claims would have provisional payments made where previously no payments were made which is 8.29% of claims with a decision after 28 days and 1.0% of total claims. Psychological injuries have a greater prevalence of having a decision lag compared to physical injuries.

There are a number of aspects that will influence the ultimate impact of introducing provisional payments for pended claims. While on the surface this is creating additional payments, we understand the purpose of introducing these payments is to drive behavioural change to incentivise quicker decision making and not to increase benefits. This behavioural change may ultimately lead to cost reductions as there is some evidence to suggest that early and timely intervention may improve recovery and return outcomes for injured workers. Therefore, our best estimate of the cost impact of introducing provisional payments is between a **reduction of 0.14% to an increase of 0.21%** in claims cost. Therefore, the cost impact is estimated to be relatively neutral in light the evidence that other schemes have had improvement in return to work rates.

See section 4 for more discussion on the allowance for provisional payments, including commentary on the uncertainty of the impact.

Changes to the definition of workers

Our analysis showed that if a majority (more than 60%) of contractors and sub-contractors were no longer covered under the 2022 Bill and total expenses could not be reduced in proportion to the reduction in contractors, the impact may be an increase in the recommended premium rates of 0.002% (1.822% to 1.824%).

If, however total expenses could be reduced in proportion to the reduction in contractors there would be an insignificant impact on the recommended premium rates (less than 0.001%).

Therefore, we do not expect the change to the definition of worker to have a material impact on the recommended premium rates.

See section 5 for more discussion on the changes to the definition of worker, including commentary on the uncertainty of the impact.

Changes to settlement provisions

WorkCover WA have advised us that changes to the settlement provisions are not expected to have any direct cost impacts but potentially could lead to behavioural change.

The current Act has some constraints on statutory settlement, but these can be avoided by the current section 92f pathway. The 2022 Bill closes off the common law pathway for settling statutory claims but has removed barriers to the settlement of statutory claims. It is assumed statutory claims which were previously settled via section 92f will be settled with a settlement agreement. However, there is the potential that the total number of settlements could increase as there are no constraints on eligibility to register a settlement agreement. It is very uncertain whether an increase in settlements will increase or decrease claim costs. It depends upon how the lump sum compares to paying claims to completion without a settlement.

Due to this difficulty, we have not included an estimated cost of this change.

In section 6 we have discussed some potential upside opportunities and downside risks of the changes to settlement provisions.

Default Insurance Fund and increases in Act of Terrorism limit

The creation of the DI Fund is not expected to change the costs related to uninsured employers or insolvent insurers. Claims as related to uninsured employers or insolvent employers are currently paid by the General Account or Supplementation Fund and funded through levies on those Funds. For these claims the creation of

the DI Fund is largely an administrative change. It would not be unreasonable for these same funding approaches to continue.

There are two areas where the DI Fund has a broader coverage than currently. These are:

1 increasing the Act of Terrorism limit above $25 million
2 providing coverage in the event of a self-insurer becoming insolvent.

Coverage in the event of a self-insurer becoming insolvent

Providing coverage in the event of a self-insurer becoming insolvent is unlikely to have a material impact on the contributions collected for the DI Fund. In reaching this conclusion we note that self-insurers are still required to have a bank guarantee which has margins included compared to the central estimate of the claims costs and that there have been no self-insurer insolvencies in the past 20 years.

Increases to the Act of Terrorism Limit

Amounts paid to satisfy terrorism event claims are to be paid from the Default Insurance Fund via a levy on licensed insurers and self-insurers (this approach being preferable to a levy paid directly by employers). It is to be expected that insurers will want to fully pass the cost of a levy on to employers via higher premium rates.

The 2022 Bill does not specify the limit of the value of claims for a Terrorism event, this will be included in the regulations. We understand that the intention is to increase the limit from $25m to $100 million, though we have also been asked to review the impact of a limit of $50 million.

Initial capital implications

There is the potential for capital implications for insurers as APRA capital requirements include an insurance concentration risk charge which is based on a 1 in 200 year event for other accumulations. However, it is likely that most, if not all, insurers have an insurance concentration risk charge which is higher than the funding for an Act of Terrorism. This could be due to either other larger workers compensation events or the insurer's insurance concentration risk charge is based on another class of business due to a higher maximum event retention.

In calculating the contingency margin for the recommended premium rates, we allow for an insurance concentration risk charge of $100 million. Therefore, increasing the Act of Terrorism limit to $100 million will not increase the insurance concentration risk charge in the contingency margin. This value was set based on previous information provided by insurers about the estimated size of a 1 in 200 year event and adjusted for the whole scheme.

Impact on premium rates, if an event occurs

The impact on premium rates of a $100 million limit will depend on the funding approach.

The funding approach and capital management plan will depend upon the risk appetite of the Board and will need to be developed upon the commencement of the DI Fund. We recommend that the Board consult with the insurance industry when developing the funding approach and capital management plan. Cashflow management is also an important consideration to ensure funds are available in a timely manner to pay claims arising from an event.

A range of funding options could be considered, including:

- Retrospectively funded via a levy after an event

- Prospectively accumulate capital via a levy charge to partially, or fully, fund any event. Any shortfall would then be funded retrospectively via a further levy

- Use an annual levy to purchase reinsurance.

The table below shows the impact on the 2022/23 recommended premium rates if the costs are funded retrospectively and collected over different periods. We have assumed a claims handling expense (CHE) of 10.5% based on the current CHE rate for the Supplementation Fund claims. This table also shows the impact of prospectively charging a levy to build up capital over a period of time.

	Time period over which the costs are collected			
Terrorism limit	**1 year**	**2 years**	**3 years**	**5 years**
Cost required to be collected per year (including CHE)				
$25 million (current limit)	27.6	13.8	9.2	5.5
$50 million	55.3	27.6	18.4	11.1
$100 million	110.5	55.3	36.8	22.1
Increase as a % of wages				
$25 million (current limit)	0.031%	0.015%	0.010%	0.006%
$50 million	0.061%	0.031%	0.020%	0.012%
$100 million	0.123%	0.061%	0.041%	0.025%
Increase in premium rates				
$25 million (current limit)	1.7%	0.8%	0.6%	0.3%
$50 million	3.4%	1.7%	1.1%	0.7%
$100 million	6.7%	3.4%	2.2%	1.3%

The largest impact is a 6.7% increase in premium rates i.e. the 2022/23 premium rate would increase from 1.822% to 1.945% if a $100 million limit is applied and collected all at once, compared to a 1.7% increase in premium rates based on the current $25 million limit.

The levy would be shared between insurers and self-insurers based on their proportion of the premium pool. The insurer with the largest share of the premium pool has about 25% of the insurer premium pool, after accounting for self-insurers having approximately 9% of wages this reduces to 22.5%. Therefore, the largest insurer, based on the premium pool would need to fund $24.9 million if a $100 million limit (plus expenses of $10.5 million) is applied and collected all at once which is $18.7 million more than currently.

Retrospectively collecting the levy over short time periods has the potential to impact insurers cashflows and liquid assets they have available, depending upon the time set between the DI Fund issuing the levy invoice and requesting payment and the insurers' ability to pass on costs to employers through the policy renewal process. This can be mitigated by retrospectively funding over a longer period of time. The DI Fund may also experience cashflow challenges in paying claims in a timely manner where funding occurs retrospectively.

See section 7 for more discussion on the Default Insurance Fund and increase in Act of Terrorism limit.

Overall Risk and Uncertainties

For each of the six changes reviewed, we have discussed the uncertainty in the estimates in the body of the report.

The legislation changes that we have reviewed were decided upon in consultation with WorkCover WA. It was also based on feedback from different stakeholders on the draft legislation in 2021 about which aspects of the

legislation may have an impact on benefits. We have not independently reviewed the 2022 Bill to identify other possible areas that may impact benefits.

As with any legislation change, there is the potential for unintended consequences when lawyers and courts start reviewing the legislation in detail and case law is developed. We understand WorkCover WA has tried to mitigate this risk with the public consultation phase in 2021.

Contents

1 About this report

1.1 Context for our review

The purpose of this report is to provide the results of the potential cost impact for a number of legislation changes to entitlements in the *Workers Compensation and Injury Management Bill 2022* (2022 Bill) and to document the analysis undertaken to reach the costing estimates. These changes are:

- Increasing medical and health services cap from 30% to 60% of the prescribed amount
- Increasing the period before weekly payment step-downs apply from 13 to 26 weeks
- Changes to the definition of workers
- Allowance for provisional payments
- Changes to settlement provisions
- Default Insurance Fund (DIF) and increases in Act of Terrorism limit.

This report has been prepared for WorkCover WA in accordance with our engagement letter dated 10 October 2022.

The costing in this report is based on the draft *Workers Compensation and Injury Management Bill 2022* dated 4 October 2022. If the final Bill differs from the current draft this costing may not reflect the legislation changes enacted.

We have estimated the cost impact on the Recommended Premium Rates for WA insurers and have not consider the impact of changes to other Acts that rely on the WA Workers Compensation Act, such as the *Police (Medical and Other Expenses for Former Officers) Act 2008*.

The analyses and costings presented in this report are based on claim data as at September 2022 as supplied by WorkCover WA. The analysis has been undertaken using data for premium rating returning entities only. This includes all insurers and RiskCover. All self-insurers, other than RiskCover, are excluded from the analyses. See Section 8 for more detail of the data used.

The method and assumptions are described in greater detail in Sections 2 to 7.

1.2 Compliance with standards

Our advice complies with the Actuaries Institute Code of Conduct.

1.3 Reliances

We have relied on data provided by WorkCover WA to estimate the impact of the legislation changes.

We have also relied on ABS catalogue “Employees Earnings and Hours” undertaken in May 2021 and published in January 2022 to estimate the proportion of claims that are for Award workers and non-Award workers.

2 Medical and health services cap

2.1 Legislation change

Medical and health services under the *Workers' Compensation and Injury Management Act 1981* (current Act) are capped at 30% of the Prescribed Amount (PA), for the 2022/23 year this equates to $73,197 (30% x $243,991) as per section 17 of the current Act. Section 18A of the current Act allows for an extension of medical benefits up to a further $50,000 initially subject to the worker meeting a few criteria including consideration of their social and financial circumstances. However, WorkCover WA has advised that there have been no recent extensions which have been rejected due to their social and financial circumstances. After the first extension is exhausted, claimants can apply for the second extension of up to a further $250,000 but this is subject to strict criteria, particularly the requirement for surgery and a whole person impairment of not less than 15%. There are therefore limited second extensions that are present in the data. In the current Act, emergency transportation of a worker to hospital or other place for treatment is included within the cap on medical benefits.

The 2022 Bill increases the base medical and health services cap from 30% to 60% of the PA (defined as the "medical and health expenses general maximum limit" in the 2022 Bill) which equates to $146,395 (60% x $243,991) for the 2022/23 year. There will continue to be two further extensions with similar criteria to be able to access them as per the current Act. The "first extension" is referred to as the standard increase in the 2022 Bill and it is capped at 40% of the medical and health expenses general limit amount i.e. a further $58,558 for the 2022/23 year (40% x 60% x $243,991). The "second extension" is referred to as "the special" extension in the 2022 Bill and it is capped at a further 40% of the medical and health expenses general limit amount i.e. $278,150 for the 2022/23 year (190% x 60% x $243,991). The 2022 Bill does not include emergency transportation of a worker to hospital or other place for treatment within the medical and health expenses cap.

This will ultimately only impact the claims where medical and health services payments have been close to or more than 30% of PA.

2.2 Methodology and assumptions

An outline of the methodology and assumptions used to estimate the impact of the changes to the medical and health services cap is detailed below:

- Claims have been split into the following cohorts:
    1. Claims which have medical expenses of between 95% and 100% of the 30% x PA cap – there may be some claims that are capped at the 30% of PA and don't get the first extension because either they don't meet the extension criteria (limited circumstances) or potentially because the requirement to apply acts as a deterrent.
    2. Claims which received up to 95% of the first extension – these claims may not increase further as they have not exhausted all of the first extension, but behavioural change could lead to an increase in their payments.
    3. Claims which received between 95% and 100% of the first extension – these are likely to increase (potentially significantly) given medical benefits were likely to be restricted as they weren't eligible for the second extension.
    4. Claims which received second extension – these claims could increase if not all required medical treatment was related to surgery or the other second extension criteria.
- In calculating a claimant's medical expenses, we have added together payments from the following payment categories: Medical and hospital; other treatment or appliance; allied health; medical non-scheduled. We have also included 26% of lump sum no election registered payments (see section 8.3 for

details on this assumption). We have excluded any claims which have a lump sum election registered payment.

- We have used the increase as a proportion of paid to date rather than the increase as a proportion of incurred cost. This approach removes the requirement to develop the claims data to ultimate and allocation by payment type of future payments. This removes the extra assumptions and uncertainty that arises from this.

2.3 Scenarios

Due to the lack of available data around how much current capped medical expenses would increase if the caps on medical benefits were increased, we have run a number of scenarios, based on four different distributions about the potential impacts. An explanation of the four scenarios is provided below the table.

The distributions for each scenario are shown in the table below.

	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension
Value that mean % and standard deviation % is applied to	$73,197	$73,197	$81,755	$109,905
Scenario 1				
Mean %	10%	10%	85%	85%
Standard Deviation %	2.50%	2.50%	5.00%	5.00%
Average increase ($)	7,320	7,320	69,492	93,419
Scenario 2				
Mean %	15%	15%	85%	85%
Standard Deviation %	3.75%	3.75%	5.00%	5.00%
Average increase ($)	10,980	10,980	69,492	93,419
Scenario 3				
Mean %	20%	20%	85%	85%
Standard Deviation %	5.00%	5.00%	5.00%	5.00%
Average increase ($)	14,639	14,639	69,492	93,419
Scenario 4				
Mean %	10%	10%	85%	43%
Standard Deviation %	2.50%	2.50%	5.00%	5.00%
Average increase ($)	7,320	7,320	69,492	46,710

For cohorts 1 and 2 we have assumed that there will be a limited increase in their benefits given these claims have yet to exhaust the current benefits available to them. We have also used the same value of the increase in benefits to apply the distribution to given they have not used all their first extension benefits. This makes an allowance for behavioural change. We have assumed three scenarios of their benefits increasing by 10%, 15% or 20% of the additional available benefits available ($73,197). We have varied the standard deviation in line with the change in mean. As shown in the table in section 2.4.1 below, 86% of affected claimants are part of cohort 1 and 2.

We have assumed that the increase in caps on medical benefits will have the most impact on cohorts 3 and 4 as these claims had their medical benefits capped. We have assumed that they will access 85% of the additional benefits available to each cohort. For cohort 4 we have also run a scenario of these claims only accessing 42.5% (half of the 85%) of the additional benefits available as these claimants might have been subject to less restrictions on their medical benefit entitlements than claimants in cohort 3. Cohort 3 only account for 2% of claims, so the impact of changing the assumption is relatively immaterial compared to other cohorts. If assume cohort 3 payments increase by half of the assumption i.e. 42.5% the impact decreases by 0.04% of payments compared to cohort 4 which decreases by 0.26% of payments).

2.4 Estimated impact

2.4.1 Impacted claims

The total impacted number of claims using the methodology and assumptions listed in Section 2.2 above is shown in the table below:

Accident year	Total number of claims	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total affected claims	Proportion impacted
2015	29,142	51	228	5	49	333	1.1%
2016	27,332	46	224	6	41	317	1.2%
2017	24,917	69	270	8	40	387	1.6%
2018	24,301	53	259	9	49	370	1.5%
2019	23,695	66	288	9	49	412	1.7%
2020	22,562	51	254	3	46	354	1.6%
2021	23,364	28	158	3	25	214	0.9%
2022	21,836	9	44	1	3	57	0.3%
2017 to 2019	**72,913**	**188**	**817**	**26**	**138**	**1,169**	**1.6%**

In the data provided there were 72,913 claims reported for accident years 2017 to 2019. Over the same period, 1,169 claims had medical and health service payments 95% of the cap (30% x PA) or above, this represents 1.6% of total claims. We have excluded:

- 2015 and 2016 due to significantly higher number of total claims and a lower proportion of impacted claims which we do not consider representative of 2022/23 or future years.
- 2020 to 2022 due to under development of claims for these accident years.
  - While the percentage of affected claims for 2020 in the table above may be similar to the ultimate experience, the proportion of payments in section 2.4.2 below appears underdeveloped so we have therefore excluded 2020 from the number of claims table above.

The proportion of claims impacted has been relatively steady over 2017 to 2019, varying from 1.5% in 2018 to 1.7% in 2019.

The split of affected claims by category is:

1 16% of claims which have medical expenses of between 95% and 100% of 30% x PA cap

2 70% of claims which received up to 95% of first extension

3 2% of claims which received between 95% and 100% of first extension

4 12% of claims which received second extension.

2.4.2 Impact on cost of claims

The total estimated impact on the cost of claims using the methodology and assumptions listed in Section 2.2 above is shown in the table and chart below:

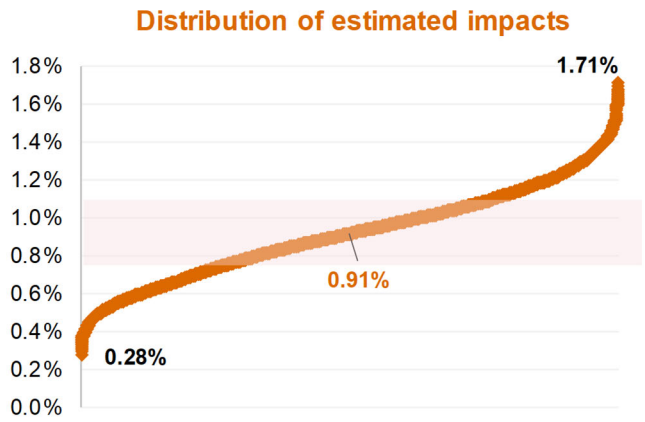
Medical and health expenses cap increase - All scenarios		Expected increase (b)					
Accident year	Total payments to date (a)	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	843,316,240	7,165,110	2,137,200	5,760,100	7,165,110	8,492,700	13,019,976
2016	833,840,451	6,489,816	1,945,900	5,197,200	6,489,816	7,685,400	11,989,431
2017	823,342,530	7,242,276	2,133,300	5,765,200	7,242,276	8,588,600	13,830,141
2018	832,616,325	7,775,639	2,413,100	6,271,100	7,775,639	9,190,000	14,201,696
2019	883,833,782	8,198,808	2,476,100	6,582,300	8,198,808	9,706,600	15,289,496
2020	825,262,242	7,042,754	1,975,100	5,602,200	7,042,754	8,386,600	13,200,165
2021	749,226,973	4,126,700	1,181,300	3,285,400	4,126,700	4,904,800	7,810,165
2022	370,938,442	848,805	224,000	653,900	848,805	1,018,275	1,784,155
Adopted (2017 to 2019)	**2,539,792,637**	**23,216,723**	**7,022,500**	**18,618,600**	**23,216,723**	**27,485,200**	**43,321,334**

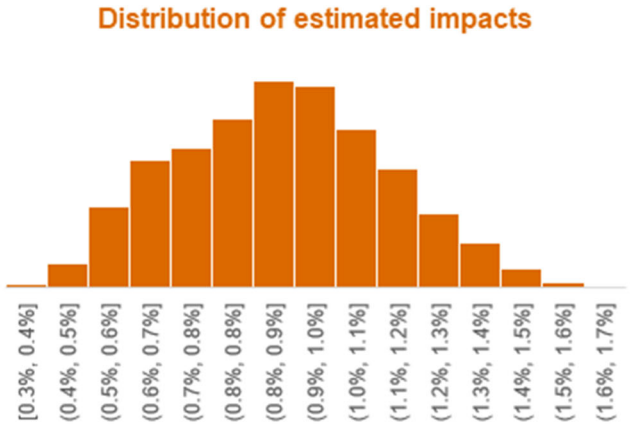
Medical and health expenses cap increase - All scenarios	% increase in paid (c)					
Accident year	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	0.85%	0.25%	0.68%	0.85%	1.01%	1.54%
2016	0.78%	0.23%	0.62%	0.78%	0.92%	1.44%
2017	0.88%	0.26%	0.70%	0.88%	1.04%	1.68%
2018	0.93%	0.29%	0.75%	0.93%	1.10%	1.71%
2019	0.93%	0.28%	0.74%	0.93%	1.10%	1.73%
2020	0.85%	0.24%	0.68%	0.85%	1.02%	1.60%
2021	0.55%	0.16%	0.44%	0.55%	0.65%	1.04%
2022	0.23%	0.06%	0.18%	0.23%	0.27%	0.48%
Adopted (2017 to 2019)	**0.91%**	**0.28%**	**0.73%**	**0.91%**	**1.08%**	**1.71%**

(a) Actual total payments made to date (uninflated undiscounted for all payment types)

(b) Increase in estimated medical payments from increasing medical expense caps

(c) (b) / (a)





Note: the pink bar in the first graph represents the 25% to 75% percentile so the probable range for the ultimate cost.

Overall, the estimated impact is a 0.91% increase in medical and health services claims costs from increasing the caps which is the central estimate from the scenarios run. We estimate that the insurers' expenses would also increase so the impact on the premium rate would be a 0.91% increase.

There is significant uncertainty in the ultimate impact of extending the medical and health services statutory entitlements. Based on the scenarios run the impact could be between 0.28% to 1.71% of claims cost.

The cost by cohort is shown in the table below.

Medical and health expenses cap increase - All scenarios for 2017 to 2019 accident years by cohort % increase in paid					
Cohort	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total
Best estimate	0.07%	0.32%	0.07%	0.44%	0.91%
Min	0.01%	0.05%	0.06%	0.16%	0.28%
25% percentile	0.05%	0.23%	0.07%	0.40%	0.75%
Mean	0.07%	0.32%	0.07%	0.44%	0.91%
75% percentile	0.09%	0.41%	0.07%	0.52%	1.09%
Max	0.19%	0.83%	0.08%	0.60%	1.71%

Almost half of the cost increase is due to claims on the second extension, which have an increase of 0.44% of total payments on average. While they account for only 12% of claims affected, they have the largest estimated increase in payments and therefore are the largest component of the increasing cost.

Claims on the first extension but less than $47,500 is used are the second largest cost component with an increase of 0.32% of total payments on average. This cohort has the largest number of claims affected at 76%, though are estimated to have a lower cost increase per claim as they have not exhausted their existing benefits, so we are allowing for potential behavioural change.

Both claims within 95% of the first extension and claims within 95% of the second extension have an average increase of 0.07% of total payments. However, we have allowed for greater variability of the estimated impact for claims within 95% of the first extension so while on average they have an estimated increase of 0.07% of total payments this could vary from 0.01% to 0.19% of total payments.

The 2022 Bill does not include emergency transportation within the medical and health service cap. WorkCover WA have provided us with data that identifies the emergency transport payments for each claimant. For the majority (77%) of claims over 2017 to 2019 accident years that belong to cohort 1 to 4 they had no emergency transport costs included in medical expenses. Only 7% of claims over 2017 to 2019 accident years that belong to cohort 1 to 4 had an emergency transport cost of over $1,000. There were 3 claims between the 2017 and 2019 accident years which are in cohort 3 (claimants which received between 95% and 100% of first extension) and had an emergency transport cost of over $1,000 so are likely to have an increase in their medical expenses once the cap is increased and emergency transport is removed from the cap. This is 11% of claims in cohort 3. Overall, the exclusion of the emergence transport costs from the cap has an immaterial and is captured within our estimates of the increasing in the medical and health expenses cap.

Appendix A contains the results for each scenario.

This is the cost impact on the Recommended Premium Rates for WA insurers and does not consider the impact of changes to other Acts that rely on the WA Workers Compensation Act, such as the *Police (Medical and Other Expenses for Former Officers) Act 2008*.

2.5 Uncertainty

The impact of the change in medical and health services caps and extensions are highly uncertain as it is extending benefits for claimants so there is no historical data to use. This is the driver behind running a large number of scenarios to understand a potential distribution of claim cost impacts.

There are a number of sources of uncertainty with the changes in caps and extension levels:

- The main source of uncertainty is the amount that claims which had been capped will now increase by. As the claims had been capped it is difficult to project how much medical and health service payments would have been had the claim not been capped.
- Additional uncertainty is whether any behavioural change would occur with the increase in caps. Such behavioural change may be whether the request for a first extension acts as a deterrent to claimants and the removal of extensions would result in payments for a number of claims increasing.
- It is also uncertain to what extend the lump sum benefits include medical expenses and therefore how many lump sum claimants are impacted by the caps.

The range of results in Section 2.4.2 show how uncertain the impact of changes in the medical and health services caps are due to the unknown increase in capped claims and the potential for impacts due to behavioural change.

We have included any claimant who has benefits within 95% of the cap based on discussion and agreement with WorkCover WA. Behavioural change could lead to even more claimants increasing their benefits i.e. those within 85% or 90% of the cap could remain on benefit for longer. This would increase the impact further.

3 Weekly payment step-down

3.1 Legislation change

The current Act has a step-down in weekly benefits to 85% of worker's pre-injury weekly rate of income after 13 weeks. The 2022 Bill increases the period before step downs until after 26 weeks.

This will mostly impact the claims where claimants received more than 13 weeks of weekly payments. There could be some behavioural impact as the step down from week 14 may have incentivised some claimants to return to work shortly prior to 14 weeks. These claims may now potentially stay off work for longer once the period to step down has increased.

3.2 Methodology and assumptions

An outline of the methodology and assumptions used to estimate the impact of the changes in the weekly payment step-down is detailed below:

- Using the individual claims data to determine which claims received at least 13 weeks of weekly payments based on total weekly benefits / pre-injury payments per week. While the step downs take affect from week 14 we have included claimants who received 13 weeks of weekly payments to allow for behavioural change.
- For the claims where claimants received at least 13 weeks of weekly payments, check that the total of the weekly benefits (WB) + weekly portion of redemptions © (assumed to be 63% of the lump sum no election registered category, see section 8.3 for details on this assumption) + permanent impairment (PI) benefits are less than the Prescribed Amount (PA).
- Where the total of the WB + R + PI benefits are greater than the PA, while the WB would increase this would be offset by a decrease in the R or PI benefits and we have therefore excluded these claims. We have also excluded any claims which received a lump sum election registered payment.
- Under the current Act, weekly payment step-downs for Award and non-Award workers are different.
  - Award workers have limited step-downs, there is the removal of some bonuses and other payments which many Award workers may not receive.
  - Non-Award workers have a step-down of 15% after the 13 weeks to 85% of pre-injury earnings.
  - The claim data does not identify whether the claimant is an Award or non-Award worker.
  - To estimate the proportion of Award and non-Award workers we have relied on ABS data. A special ABS catalogue "Employees Earnings and Hours" was undertaken in May 2021 and published in January 2022 that provided information by method of setting pay. In WA, Award and collective agreements account for 60% of workers. As there is a higher weighting of part-timers on Award/collective agreements, once this is taken into account 55% of full-time equivalent workers are Award workers.
  - The assumed average step-down for each claim has been estimated to be **93%** from week 14. This is based on assuming no step-down for Award workers and a 15% step-down for non-Award workers. 93% = (100% x 55% + 85% x –1 - 55%)).
- For each claim included the increase in the weekly payments is calculated from week 13 to the 26 weeks, the new step-down time. Any increase in total benefits is then capped to the PA (referred to as the general maximum limit in the 2022 Bill).

- Given the potential for behavioural change for claimants to stay on benefits longer if it's closer to their normal salary we have also included an allowance for claims between 12 to 26 weeks of weekly benefits to have a decrease in the return to work rates. Our analysis showed that on average we may expect the weekly return to work rate to increase by 0.43% per week between weeks 13 to 26 if step-downs are extended. On average, this adds another 0.6 weeks per claim that had weekly benefits paid for at least 13 weeks.
- For settlements, we have taken a similar approach to weekly benefits by calculating the impact on an individual claims basis.
- Consideration was given to whether settlement impacts should be included as claims are not meant to be able to get a redemption before receiving six months of payments. However, from the data:
  - Approximately 28% to 32% of lump sum no election registered have no weekly benefits.
  - 10% to 12% have less than 13 weeks of weekly benefits.
  - 8% to 9% have 13 to 26 weeks of weekly benefit.

  Given this, it was our opinion that it was prudent to include an allowance for increases in settlements.
- We have used the increase as a proportion of paid to date rather than the increase as a proportion of incurred cost to remove the requirement to develop the claims data to ultimate and allocation by payment type of future payments. This removes the extra assumptions and uncertainty that arises from this.

3.3 Estimated impact

3.3.1 Impacted claims

The total impacted number of claims using the methodology and assumptions listed in Section 3.2 above is shown in the table below:

Accident year	Total number of claims (a)	Impacted claims (b)	Proportion impacted (c)
2015	29,142	4,295	14.7%
2016	27,332	4,386	16.0%
2017	24,917	4,262	17.1%
2018	24,301	4,359	17.9%
2019	23,695	4,408	18.6%
2020	22,562	4,757	21.1%
2021	23,364	5,433	23.3%
Adopted (2017 to 2019)	**72,913**	**13,029**	**17.9%**

(a) From the data, claims reported to September 2022 for premium rating returning entities

(b) Claims where cost is projected to increase with change in weekly payment step-down

(c) (b) / (a)

In the data provided there were 72,913 claims reported for accident years 2017 to 2019. Over the same period, we estimate that the cost of 13,029 claims would increase if the weekly payment step-downs were increased, this represents 17.9% of total claims. As for the medical and health services cap analysis we have excluded:

- 2015 and 2016 due to significantly higher number of total claims and a lower proportion of impacted claims which we do not consider representative of 2022/23 or future years.

- 2020 to 2022 due to under development of claims for these accident years. COVID-19 may have also had an impact on the return to work rates in 2020 and 2021 which we do not consider to be representative of the expected experience in the future.

There has been an increasing trend in the proportion of claims impacted over the period shown. This is due to a relatively stable number of claims which are estimated to be impacted combined with the reduction in total overall claim numbers. This is reflective of the broader scheme trends we have seen in the recommended premium rates analysis with claims durations lengthening and a reduction in the number of shorter duration claims.

3.3.2 Impact on cost of claims

The total impact on the cost of claims using the methodology and assumptions listed in Section 3.2 above is shown in the table below:

Increase period from step-downs from 13 weeks to 26 weeks					
Accident year	Total payments to date (a)	Increase in weekly payments (b)	Increase in redemptions (c)	Total increase (d)	% increase in paid (e)
2015	843,316,240	7,073,803	1,478,017	8,551,820	1.01%
2016	833,840,451	7,381,996	1,475,090	8,857,086	1.06%
2017	823,342,530	7,039,936	1,461,720	8,501,657	1.03%
2018	832,616,325	7,235,401	1,474,857	8,710,258	1.05%
2019	883,833,782	7,494,785	1,421,049	8,915,834	1.01%
2020	825,262,242	8,204,807	1,350,458	9,555,266	1.16%
2021	749,226,973	9,469,587	1,006,599	10,476,186	1.40%
Adopted (2017 to 2019)	**2,539,792,637**	**21,770,122**	**4,357,627**	**26,127,749**	**1.03%**

(a) From the data, payments made to September 2022 for premium rating returning entities for all payment types

(b) Estimated increase in weekly payments after increasing the period for step-downs from 13 weeks to 26 weeks

(c) Estimated increase in redemptions after increasing the period for step-downs from 13 weeks to 26 weeks

(d) (b) + (c)

(e) (d) / (a)

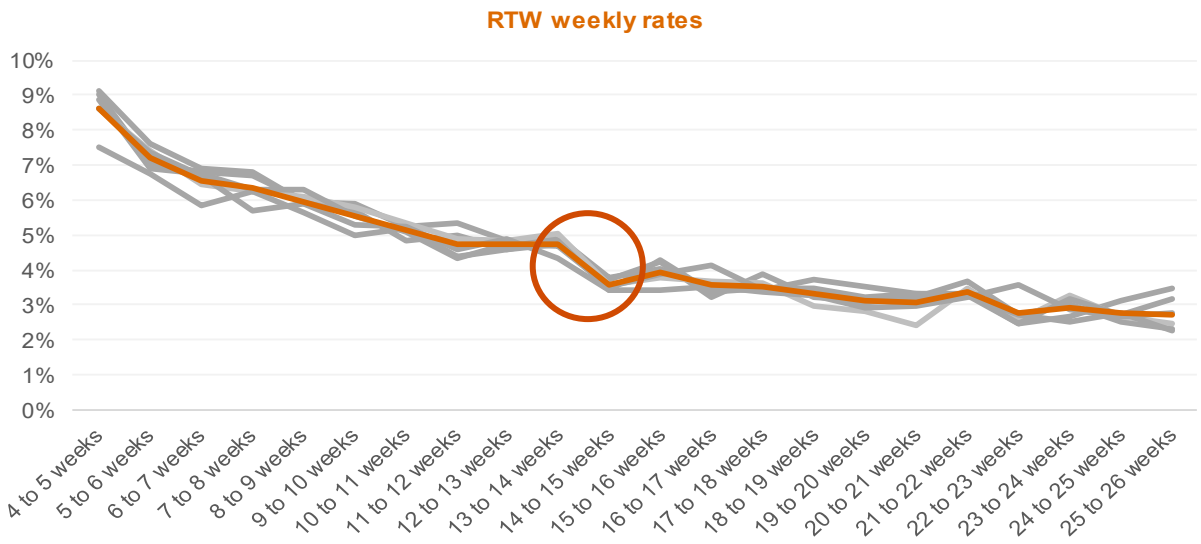
The estimated increase in the cost of claims after increasing the period prior to step-downs from 13 weeks to 26 weeks is **1.03%.** This is based on adopting the experience for the 2017 to 2019 accident years and includes an allowance for behavioural change. The increase without allowing for behavioural change is 0.58%.

It is estimated this would result in a **0.92% increase in the premium rate** as there would be no impact on expenses from the 0.58% increase that arises from no changes to claimant behaviour just the increase in payments per week. The proportion of the increase that relates to behavioural change (0.45%) would require an increase in expenses to manage the extended claims duration.

3.3.3 Return to work rates

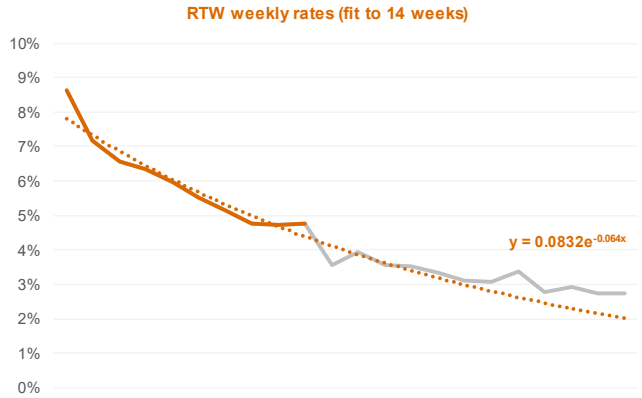
We analysed the weekly return to work rates by accident year and by number of weeks of weekly payments.

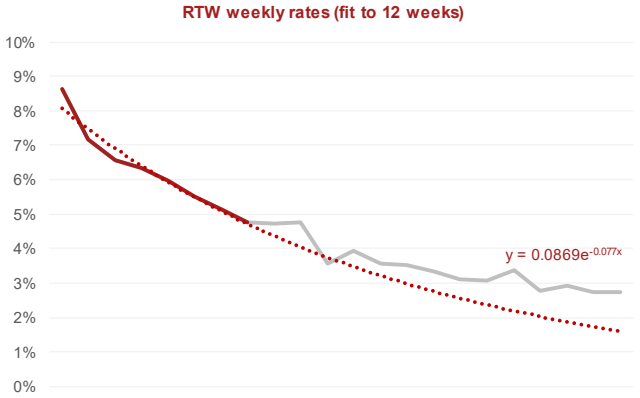
The graph below shows the average weekly return to work rates for the 2015 to 2020 accident years, the grey lines represent the return to work rates for a particular accident year while the orange line shows the average of the five accident years.



Analysing the weekly return to work rate, the graph shows a significant reduction (1.2%) between week 13 and 14 to week 14 and 15. We have interpreted the higher (flatter) return to work rates for weeks 11 to 13 to be due to the impending reduction in weekly payments.

We fit an exponential function to the average return to work rates from weeks 4 to 12 (prior to the flattening of the curve) as well as fitting an exponential function to the average return to work rates from week 4 to 14.





Up to 13 weeks all Award and non-Award workers have the same entitlements. After 13 weeks Award workers are only expected to have a minor decrease in their benefits, so these claims are expected to continue as per the fitted line to week 12, while the fitted line to 14 weeks is a blend of the increase in return to work rates for non-Award workers due to the step-downs and no change for the Award workers.

On average over the projected weeks 13 to 26, the return work rates were 0.43% lower for all workers, which equates to 0.96% lower for non-Award workers if it is assumed that there is no change for Award workers. From this analysis, our base assumption is that increasing the step-downs from week 13 to 26 would increase the weekly benefits paid by **0.96%** for each week for non-Award workers who have had between 13 and 26 weeks of weekly benefits. This is based on their time off work to date and applied to their time remaining weeks to week 26. The average additional time off is 1.3 weeks for claims with more than 13 weeks of weekly benefit.

3.4 Uncertainty

The impact of the change in weekly payment step-downs is uncertain. The main source of uncertainty relates to any potential changes in the length of claims due to behavioural change for claimants staying on benefits longer if it's closer to their normal salary.

The baseline assumption is that any claim where the weekly payments increase, the length of the non-Award claims will increase by 0.96% per week for each week between week 13 and 26.

The table below shows the estimated impact if we made different assumptions around the change in the weekly return to work rates.

Scenario	Estimated increase in cost	Difference from baseline
Step-downs at 26 weeks		
No increase in length of claims	0.58%	-0.45%
0.48% decrease in weekly RTW rate (50% lower than baseline)	0.80%	-0.23%
0.96% decrease in weekly RTW rate (Baseline)	1.03%	
1.92% decrease in weekly RTW rate (100% higher than baseline)	1.51%	0.49%

- If there is no increase in the length of time off work, the estimated increase in cost is 0.58%, 0.45% lower than the baseline
- If the decrease in the weekly return to work rate halves to 0.48%, the estimated increase in cost is 0.80%, 0.23% lower than the baseline
- If the increase in the weekly return to work rate doubles to 1.92%, the estimated increase in cost is 1.51%, 0.49% higher than the baseline

The results above show how much the impact of step-downs are affected by whether claim lengths increase due to behavioural change.

We have not allowed for settlements or weekly benefits to increase where the claim does not have any weekly benefits or has less than 13 weeks of weekly benefit. These may also increase as part of general negotiations on settlements or behavioural changes to weekly benefits.

We cannot identify from the claims data whether a claimant is an Award or non-Award worker. If the percentage of Award workers in the claims data is different to the assumption based on the ABS data then this could also change the result. Also, for Award workers we have assumed no impact. Some Award workers may experience a reduction in their benefits after 13 weeks where they received bonuses and other payments or allowances that are not included after 13 weeks.

We have used the average of 2017 to 2019 accident years in our analysis. We have excluded 2020 due to underdevelopment of total payments. The number and percentage of impacted claims is higher for 2020 than all prior years. It is also unclear what impact, if any, COVID lockdowns had in extending the duration of claims. If 2020 was included and an average of 2017 to 2020 was selected this would increase the impact from 1.03% to 1.06%.

4 Allowance for provisional payments

4.1 Legislation change

The 2022 Bill provides for provisional payments to be made if an insurer or self-insurer has initially deferred a liability decision and subsequently not given a liability decision notice by the due date either accepting or declining liability. The current Act has no provisional payments requirement.

Provisional payments in the 2022 Bill include income compensation and medical and health expenses. The provisional payments commence from the day the worker has an incapacity for work for income compensation or the day on which the injury occurs for medical and health expenses. Provisional medical and health expenses will be capped at 5% of the medical and health expenses limit which is $7,175 in 2022/23 values.

There are a number of aspects that will influence the ultimate impact of introducing provisional payments for pended claims. While on the surface this is creating additional payments, we understand the purpose of introducing these payments is to drive behavioural change to incentivise quicker decision making and not to increase benefits. This behavioural change may ultimately lead to cost reductions as there is some evidence to suggest that early and timely intervention may improve recovery and return outcomes for injured workers. Comcare and Safe Work Australia have both undertaken studies that showed reductions in return to work for both physical and psychological claims.

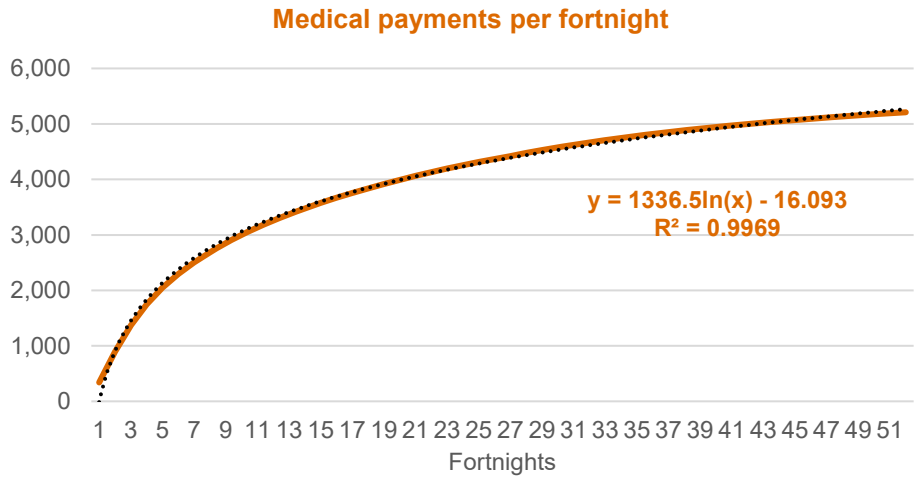
4.2 Methodology and assumptions

An outline of the methodology and assumptions used to estimate the impact of the introduction of provisional payments is detailed below.

- WorkCover WA advised that we should use 28 days as the due date for provisional payments. This is the estimate of the date that will be defined in the regulations.
- WorkCover WA provided a subset of the individual claims data to determine which claims had an initial liability decision greater than 28 days. There were 21,134 claims for premium rating entities from the 2015 to 2021 accident years
- Further segmenting this data to only include claims which ultimately were not accepted, finalised with no payments made to the worker and excluding deafness and fatality claims under the advice of WorkCover WA. This resulted in 1,912 claims (9.05%) across the seven accident years which may receive provisional payments where previously no payments had been made.
- The other 19,222 claims would also receive provision payments if the initial liability decision was delayed beyond 28 days, however, we are assuming there is no cost increase for these claims by introducing provisional payments as the ultimate cost would have included an allowance for income compensation and medical and health expenses incurred up until the liability decision is made.
- We capped the estimated time to make a decision under the 2022 Bill to 120 days. While a number of claims in the data had significant lags between the reporting of a claim and a decision being made, we are of the opinion that when insurers are required to make provisional payments, these lags would not be so significant
- We estimated the amount of weekly benefits that the worker would have received as a provisional payment. This was based on the expected lag in the decision time and their pre-injury earnings or based on an average wage for the cohort if pre-injury earnings were not available. We have assumed 58% of

claims will have lost time based WorkCover WA's scheme status report. This is similar to the 61% of claims that had a decision after 28 days but were ultimately accepted or were paid that were lost time claims. This is higher than the 35% of the 1,912 claims that had an estimate of time lost of greater than 0. However, as these claims were never paid, and this data field doesn't normally get used we are uncertain how reliable this data is so have not used this information.

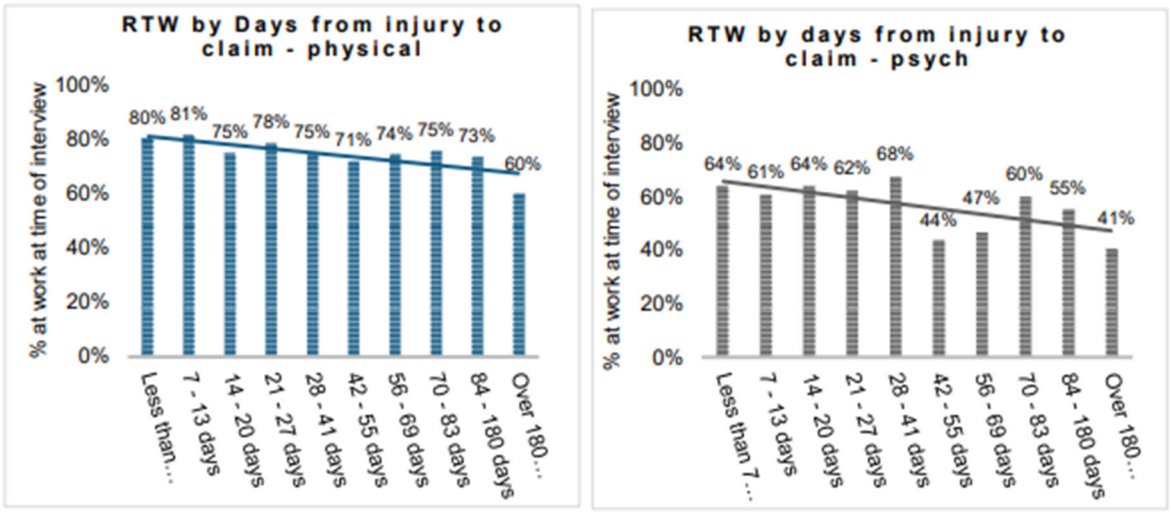
- To estimate the medical and health expenses payments that may be paid as provisional payments, we analysed the average medical payments made each fortnight for all claims with a medical payment from the time of reporting of a claim for the 2018 to 2020 accident years. The graph below shows the medical and hospital payments per fortnight and fitted function.



- The payments in the graph above only include medical and hospital payments so we increased the costs by 30% for allied health expenses. This was based on our 2022/23 recommended premium rates report and allied health expenses per claim in the first year as a percentage of medical and hospital expenses. Using this function including the loading for allied health and based on the estimated lag in the decision time, were able to estimate the amount of medical and health expenses provisional payments for each claim. This estimate was capped at 5% of the medical and health expenses limit.
- We also ran different scenarios around potential improvements in the return to work for the 21,134 claims as there is some evidence to suggest that early and timely intervention may improve recovery and return outcomes for injured workers. We have assumed that all claims where the decision was after 28 days would have a reduction in costs.
- We have been able to find only limited public information about the extent of savings that could be achieved through early intervention.
  - In Safe Work Australia's report *Return to Work: A comparison of psychological and physical injury claims*[1] they published the graphs below about the return to work rates for physical and psychological injuries by days between injury and claim.

[1] https://www.safeworkaustralia.gov.au/system/files/documents/1711/return-to-work-a-comparison-of-psychological-and-physical-injury-claims.pdf page 18

Figure 7 – Percentage RTW by time from injury to claim lodgement



  - For physical injuries this shows the return to work rate is slightly lower for claims between 28 to 180 days (71% to 75%) after the injury compared to lodged 21 to 27 days after the injury (78%). The difference is greater for psychological injuries where the return to work rate is slightly lower for claims between 28 to 180 days (44% to 68%) after the injury compared to lodged up to 27 days after the injury (61% to 64%). The graphs above are for delay between injury and claim reported but we've assumed if a claim is reported at the time of injury but there's a delay in treatment commencing due to a delay in the decision to accept the claim that the outcomes may be similar.
  - In Superfriend and Safe Work Australia's *Taking Action: A best practice framework for the management of psychological claims in the Australian workers' compensation sector*[2] report a case study for Fire and Rescue NSW refers to a 21% reduction in premiums over five years from implementing a number of changes for Post-Traumatic Stress Disorder (PTSD) claims, including early intervention.
  - Provisional payments have now been introduced into a number of other Australian Workers Compensation schemes. Whilst it is difficult to untangle the impact of introducing provisional liability from other reforms introduced at the same time and there is little publicly available evaluation of the effectiveness of provisional payments, we understand anecdotally that provisional payments have generally contributed to improvements in return to work experience. At the very least the introduction has not been seen as detrimental as evidenced by little "noise" post their introduction.

- From this we have undertaken high level analysis to estimate the net impact if weekly payments for all claimants with a liability decision after 28 days reduced by 2%, 5% or 8%.

[2] https://www.safeworkaustralia.gov.au/system/files/documents/1902/taking-action-framework-2018.pdf page 37

4.3 Estimated impact

4.3.1 Impacted claims

The total impacted number of claims using the methodology and assumptions listed in Section 4.2 above is shown in the table below:

	Physical injuries			Psychological injuries			All injuries		
Accident year	Number of claims with decision lag over 28 days	Number of claims with increased cost	Proportion impacted	Number of claims with decision lag over 28 days	Number of claims with increased cost	Proportion impacted	Number of claims with decision lag over 28 days	Number of claims with increased cost	Proportion impacted
2015	2,836	188	6.63%	762	114	14.96%	3,598	302	8.39%
2016	2,523	148	5.87%	758	125	16.49%	3,281	273	8.32%
2017	2,160	126	5.83%	738	96	13.01%	2,898	222	7.66%
2018	1,968	146	7.42%	702	90	12.82%	2,670	236	8.84%
2019	2,225	162	7.28%	749	88	11.75%	2,974	250	8.41%
2020	2,101	165	7.85%	742	119	16.04%	2,843	284	9.99%
2021	2,123	212	9.99%	747	133	17.80%	2,870	345	12.02%
Total	**15,936**	**1,147**	**7.20%**	**5,198**	**765**	**14.72%**	**21,134**	**1,912**	**9.05%**
Adopted (2017 to 2019)	**6,353**	**434**	**6.83%**	**2,189**	**274**	**12.52%**	**8,542**	**708**	**8.29%**

In the data provided there were 8,542 claims reported for accident years 2017 to 2019. Over the same period, we estimate that the cost of 708 claims would have provisional payments made where previously no payments were made which is 8.29% of claims with a decision after 28 days. We have used the same accident years for the averaging period as for the medical and health expenses analysis and weekly benefit step down analysis.

25% of all claims with a decision lag of over 28 days are psychological injuries. As psychological injuries account for about 3% to 4% of all claims reported, the prevalence of pending a decision on psychological injury is much higher than for physical injuries. We estimate that 39% of claims which would have provisional payments made where previously no payments were made are psychological injury related, so a higher percentage of psychological injury claims are subsequently declined with no payments after 28 days.

In total 72,913 claims have been reported across premium rating returning entities for the accident years 2017 to 2019. The 708 claims which we estimate would have provisional payments made where previously no payments were made represents 1.0% of total claims.

4.3.2 Impact on cost of claims

The total impact on the cost of claims using the methodology and assumptions listed in Section 4.2 above is shown in the table below:

Estimated net increase due to provisional payments									
		No change in RTW		2% reduction in weeklies		5% reduction in weeklies		8% reduction in weeklies	
Accident year	Total payments to date (a)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)
2015	843,316,240	3,513,330	0.42%	2,384,855	0.28%	692,143	0.08%	-1,000,569	-0.12%
2016	833,840,451	3,174,091	0.38%	2,153,609	0.26%	622,887	0.07%	-907,836	-0.11%
2017	823,342,530	2,515,387	0.31%	1,627,602	0.20%	295,924	0.04%	-1,035,753	-0.13%
2018	832,616,325	2,679,966	0.32%	1,780,718	0.21%	431,847	0.05%	-917,025	-0.11%
2019	883,833,782	2,906,621	0.33%	1,806,254	0.20%	155,702	0.02%	-1,494,849	-0.17%
2020	825,262,242	3,178,594	0.39%	2,170,978	0.26%	659,554	0.08%	-851,870	-0.10%
2021	749,226,973	4,076,681	0.54%	3,056,474	0.41%	1,526,163	0.20%	-4,148	0.00%
Adopted (2017 to 2019)	**2,539,792,637**	**8,101,974**	**0.32%**	**5,214,574**	**0.21%**	**883,473**	**0.03%**	**-3,447,627**	**-0.14%**

(a) From the data, payments made to September 2022 for premium rating returning entities

(b) Estimated provisional payments made for claims which previously received no payments

(c) (b) / (a)

The results show that:

- If there is impact on the return to work, the estimated increase in cost is 0.32% for all injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 2% reduction in the cost of weekly benefits, the estimated increase in cost is 0.21% for all injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 5% reduction in the cost of weekly benefits, the estimated increase in cost is 0.03% for all injuries
- If all claims which previously took longer than 28 days for a decision to be made had an 8% reduction in the cost of weekly benefits, the estimated change in cost is a decrease of 0.14% for all injuries.

There is some evidence to suggest that early and timely intervention may improve recovery and return outcomes for injured workers. Therefore, our best estimate of the cost impact of introducing provisional payments is between a **reduction of 0.14% to an increase of 0.21%** in claims cost. Therefore, the cost impact is estimated to be relatively neutral in light the evidence that other schemes have had improvement in return to work rates. We assume the impact on the premium rates would be similar as the claims management fees would increase with provisional payment required and decrease in line with improvements in return to work rates.

The results for breakdown for psychological injury claims are shown in the table below.

Estimated net increase due to provisional payments - psychological injury									
		No change in RTW		2% reduction in weeklies		5% reduction in weeklies		8% reduction in weeklies	
Accident year	Total payments to date (a)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)
2015	843,316,240	1,415,226	0.17%	1,201,346	0.14%	880,525	0.10%	559,704	0.07%
2016	833,840,451	1,469,973	0.18%	1,286,446	0.15%	1,011,155	0.12%	735,864	0.09%
2017	823,342,530	1,093,312	0.13%	876,892	0.11%	552,262	0.07%	227,632	0.03%
2018	832,616,325	1,061,572	0.13%	850,499	0.10%	533,890	0.06%	217,280	0.03%
2019	883,833,782	970,676	0.11%	714,002	0.08%	328,991	0.04%	-56,020	-0.01%
2020	825,262,242	1,380,688	0.17%	1,118,003	0.14%	723,976	0.09%	329,949	0.04%
2021	749,226,973	1,745,769	0.23%	1,523,337	0.20%	1,189,688	0.16%	856,039	0.11%
Adopted (2017 to 2019)	**2,539,792,637**	**3,125,560**	**0.12%**	**2,441,393**	**0.10%**	**1,415,143**	**0.06%**	**388,893**	**0.02%**

The results show that:

- If there is impact on the return to work, the estimated increase in total cost is 0.12% for psychological injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 2% reduction in the cost of weekly benefits, the estimated increase in total cost is 0.10% for psychological injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 5% reduction in the cost of weekly benefits, the estimated increase in total cost is 0.06% for psychological injuries
- If all claims which previously took longer than 28 days for a decision to be made had an 8% reduction in the cost of weekly benefits, the estimated increase in total cost is of 0.02% for psychological injuries.

Due to the high proportion of psychological claims which are ultimately declined after they are pended, there is no estimated cost reduction in any of the scenarios for early intervention.

The results for breakdown for physical injury claims are shown in the table below.

Estimated net increase due to provisional payments - psychological injury - physical injury		No change in RTW		2% reduction in weeklies		5% reduction in weeklies		8% reduction in weeklies	
Accident year	Total payments to date (a)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)	Estimated increase (b)	% increase in paid (c)
2015	843,316,240	2,098,103	0.25%	1,183,509	0.14%	-188,382	-0.02%	-1,560,273	-0.19%
2016	833,840,451	1,704,118	0.20%	867,163	0.10%	-388,268	-0.05%	-1,643,699	-0.20%
2017	823,342,530	1,422,075	0.17%	750,710	0.09%	-256,338	-0.03%	-1,263,385	-0.15%
2018	832,616,325	1,618,394	0.19%	930,219	0.11%	-102,043	-0.01%	-1,134,306	-0.14%
2019	883,833,782	1,935,945	0.22%	1,092,252	0.12%	-173,289	-0.02%	-1,438,829	-0.16%
2020	825,262,242	1,797,906	0.22%	1,052,975	0.13%	-64,422	-0.01%	-1,181,819	-0.14%
2021	749,226,973	2,330,912	0.31%	1,533,137	0.20%	336,475	0.04%	-860,187	-0.11%
Adopted (2017 to 2019)	**2,539,792,637**	**4,976,414**	**0.20%**	**2,773,181**	**0.11%**	**-531,669**	**-0.02%**	**-3,836,520**	**-0.15%**

The results show that:

- If there is impact on the return to work, the estimated increase in total cost is 0.20% for physical injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 2% reduction in the cost of weekly benefits, the estimated increase in total cost is 0.11% for physical injuries
- If all claims which previously took longer than 28 days for a decision to be made had a 5% reduction in the cost of weekly benefits, the estimated change in total cost is a decrease of 0.02% for physical injuries
- If all claims which previously took longer than 28 days for a decision to be made had an 8% reduction in the cost of weekly benefits, the estimated change in cost is a decrease of 0.15% for physical injuries.

4.4 Uncertainty

There is significant uncertainty regarding the ultimate impact of introducing provisional payments. We understand from WorkCover WA that the purpose of introducing these payments is to drive behavioural change to incentivise quicker decision making and the introduction of provisional payments it is not intended to increase benefits. However, we there is no change to behaviour there will be a cost increase. The extent to which it changes behaviour and reduces the time to make a decision about whether a claim is accepted or declined is uncertain. There are lots of different drivers influencing a delayed decision some of which may be able to be shortened but other aspects which can not be adjusted.

If more claims are declined in the short term to prevent provisional payments being made but this decision is disputed this could lead to increasing legal costs.

For claims which are either accepted in a shorter period of time or commence receiving provisional payments there is some evidence to suggest that early and timely intervention may improve recovery and return outcomes for injured workers. We have been able to find only limited public information about the extent of savings that could be achieved through early intervention. We have applied the same reduction for physical and psychological injuries but the impact of early intervention on physical and psychological injuries could be different as the Safe Work Australia data showed greater return to work improvement for reduced time delay between incident and claim lodgement. This may result in the net impact being a cost reduction, however it is very uncertain how much cost savings will be.

5 Changes to definition of worker

5.1 Legislation change

The 2022 Bill only covers contractors to the extent they are doing work that is not work in the course of or incidental to a trade or business regularly carried out by an individual in their own name. This will reduce the number of workers who are covered for workers compensation compared to the current Act.

We understand that WorkCover WA is unable to identify from their data contractors that are covered under the current Act who won't be covered under the 2022 Bill and also cannot identify any claims that are related to workers who will no longer be covered.

5.2 Data provided

WorkCover WA's claims data includes a field for type of worker which is self-declared by the claimant. Through discussions with WorkCover WA, we are aware there are potential inaccuracies in the type of worker the claimant has selected.

The below table details the proportion of claims that have self-identified as contractors or sub-contractors by accident year and by ANZSIC division.

ANZSIC Division	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Average
Accommodation and food services	0.2%	0.6%	0.4%	0.5%	0.2%	0.2%	0.1%	0.7%	0.2%	0.3%
Administrative and support services	2.4%	2.6%	2.3%	2.2%	2.3%	2.7%	2.6%	2.0%	3.1%	2.5%
Agriculture, forestry and fishing	2.0%	1.7%	1.5%	1.5%	1.4%	0.6%	0.8%	0.6%	1.1%	1.3%
Arts and recreation services	0.6%	0.4%	0.5%	0.6%	0.6%	0.2%	0.1%	0.2%	0.6%	0.4%
Construction	3.2%	3.9%	3.7%	2.2%	2.3%	3.0%	3.4%	2.7%	3.2%	3.1%
Education and training	0.2%	0.4%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%
Electricity, gas, water and waste services	0.3%	0.4%	0.2%	0.5%	0.0%	0.8%	0.3%	0.3%	1.0%	0.4%
Financial and insurance services	0.0%	0.8%	1.9%	0.9%	1.0%	2.4%	3.8%	1.3%	1.8%	1.3%
Health care and social assistance	0.2%	0.4%	0.1%	0.2%	0.3%	0.2%	0.2%	0.2%	0.4%	0.2%
Information media and telecommunications	1.7%	1.7%	2.2%	0.0%	1.1%	2.7%	1.6%	5.3%	1.7%	1.8%
Manufacturing	0.8%	1.5%	1.0%	0.7%	0.5%	0.9%	1.2%	0.8%	0.9%	0.9%
Mining	0.6%	0.4%	0.7%	0.4%	0.7%	0.8%	1.0%	1.3%	1.2%	0.8%
Other services	0.3%	0.6%	0.9%	1.5%	0.8%	0.6%	0.4%	0.5%	1.5%	0.8%
Professional, scientific and technical services	1.7%	1.8%	1.8%	0.9%	0.8%	1.5%	1.4%	1.7%	0.8%	1.4%
Public administration and safety	0.2%	0.1%	0.2%	0.2%	0.3%	0.0%	0.2%	0.3%	0.7%	0.2%
Rental, hiring and real estate services	0.5%	1.5%	1.6%	0.4%	0.4%	0.4%	1.9%	0.5%	1.8%	1.0%
Retail trade	0.3%	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%	0.3%	0.2%	0.2%
Transport, postal and warehousing	0.5%	0.8%	1.4%	0.7%	0.5%	0.8%	0.7%	0.4%	0.7%	0.8%
Unknown Industry	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.8%	3.4%	1.9%	1.9%
Wholesale trade	0.0%	0.3%	0.3%	1.3%	0.1%	0.2%	0.0%	0.7%	0.6%	0.4%
Total	0.9%	1.2%	1.1%	0.8%	0.7%	0.8%	0.9%	0.9%	1.1%	0.9%

Over the nine year period from the 2014 to the 2022 accident year, only 0.9% of claims have been self-reported as contractors or sub-contractors.

The highest proportion of workers with claims who are contractors are in Construction (3.1%) while only 0.2% of workers in Retail trade, Public administration and safety and Education have reported being contractors or sub-contractors.

We reviewed the ABS catalogue 6333 Characteristics of Employment in Australia as at August 2021. This shows workers split into employees, independent contractors and other business operators by division. The data showed similar divisions having a higher proportion of independent contractors, but independent contractors were a much higher proportion of the total. As a significant proportion of independent contractors are not eligible for workers compensation in WA, we did not use the ABS data.

5.3 Commentary on potential impact

Given such a small proportion of claims have come from cohorts which identify as contractors or sub-contractors the definition of workers change is unlikely to have a material impact on the recommended premium rates.

We undertook some high level analysis to estimate potential impacts due to a reduction in the wage roll and premium as less workers are covered under the workers compensation system. We have assumed that the contractors have a similar average claim size as other claims in their division.

Our analysis showed that if a majority (more than 60%) of contractors and sub-contractors were no longer covered under the 2022 Bill and total expenses could not be reduced in proportion to the reduction in contractors, the impact may be an increase in the recommended premium rates of 0.002% (1.822% to 1.824%).

If, however total expenses could be reduced in proportion to the reduction in contractors there would be an insignificant impact on the recommended premium rates (less than 0.001%).

We do not expect the change to the definition of worker to have a material impact on the recommended premium rates. This is based on the assumption that expenses would partially reduce given the lower wages and number of policies and claims, combined with the expectation that it will not be a significant (more than 60%) proportion of contractors who will no longer be covered.

5.4 Uncertainty

The impact on the recommended premium rate of the changes to the definition of worker are uncertain. This is because the current Act can be difficult to interpret who is defined as a worker in the WA workers compensation scheme. We understand that for some workers it is only after they have lodged a claim that it can be determined whether they are eligible to claim workers compensation or not. This means that historical wages upon which premium rates are based may be mis-estimated and either include workers who are not eligible to claim workers compensation or don't include all workers who are eligible to claim workers compensation. There is also a risk that the claim numbers increase as workers who did not realise, they were previously eligible now identify that they are eligible to lodge a claim. There is no data available to estimate this.

If historically wages have been over reported (i.e. include ineligible workers) this could lead to an increase in premium rates as wages are reduced but claims are not reduced to the same extent. If historically wages have been under reported (i.e. do not include all eligible workers) this could lead to a decrease in premium rates as wages are increased but claims do not increase to the same extent. If the claim numbers increase as workers who didn't realise they were previously eligible lodge claims but wages for these workers were already reported this could increase the premium rates.

If the average claim size for contractors who will no longer be eligible to claim under the 2022 Bill is significantly different to other workers this may also change the premium rates. However, given the small percentage of contractors claims currently in the scheme and only a portion of these will be ineligible under the 2022 Bill this is likely to be immaterial.

6 Changes to settlement provisions

6.1 Legislation change

In the current Act claims can be settled with a lump sum payment either as a statutory redemption of weekly benefits or with a common law payment. There are criteria that need to be met to access statutory redemptions and common law payments. We also understand that some insurers had concerns about whether a redemption finalised a claim or whether it could be reopened. These criteria restrictions and concerns about a claim being reopened have been circumvented for many claims through the use of section 92f of the Act. While section 92f is within the common law section of the Act, many claims that access these settlements do not meet the criteria of having 15% whole person impairment.

The 2022 Bill has removed the constraints on eligibility to statutory settlements (settlement agreement). There is no longer a requirement to have received six months of weekly benefits before a settlement agreement is registered. The 2022 Bill requires the Director to review any settlement agreements and has the ability to refuse to register a settlement and refer the matter to the Registrar if they have concerns with the settlement.

6.2 Uncertainty

WorkCover WA have advised us that changes to the settlement provisions are not expected to have any direct cost impacts but potentially could lead to behavioural change.

The current Act has some constraints on statutory settlement, but these can be avoided by the current section 92f pathway. The 2022 Bill closes off the common law pathway for settling statutory claims but has removed barriers to the settlement of statutory claims. It is assumed statutory claims which were previously settled via section 92f will be settled with a settlement agreement. However, there is the potential that the total number of settlements could increase as there are no constraints on eligibility to register a settlement agreement. It is very uncertain whether an increase in settlements will increase or decrease claim costs. It depends upon how the lump sum compares to paying claims to completion without a settlement.

Due to this difficulty, we have not included an estimated cost of this change.

Given there is a high percentage of lump sum payments for the WA scheme currently, it is envisaged that the new settlement pathways will continue to be heavily utilised. Between 20% to 25% of claims finalised each quarter receive a lump sum payment from WorkCover WA's scheme exits report.

Some potential upside opportunities include:

- Shorter settlement times for some claims as there are no time constraints on when a settlement can occur so this could commence sooner than previously. This could be better for some injured workers mental health as it enables injured workers to potentially separate from their employer and the workers compensation scheme quicker. This could be beneficial to workers who have experienced barriers in achieving return to work at their original workplace, this could be especially true for claims where there is a psychological injury aspect. This also has the potential to reduce costs.
- As the 2022 Bill settlement agreements have limits on the maximum amount payable the costs may potentially be lower as there is no maximum amount on section 92(f) settlements. It restricts common law settlements to only claims who are eligible to receive common law with whole person impairment of greater than 15%.
- Potentially lower legal fees as many claims which receive a lump sum settlement will be receiving a statutory settlement under the 2022 Bill where they received a section 92(f) settlement under the current Act.

Some potential downside risks include:

- More settlements could be pursued earlier in the claim so the focus for insurers and employers and therefore the scheme could shift away from assisting injured workers find meaningful return to work opportunities to settling claims in the quickest time. In other schemes the increased emphasis on prioritising lump sum settlements at the expense of a reduced focus on achieving return to work has led to overall cost escalations with significant deterioration in return to work rates.
- There is the potential for settlements to increase in size over time. This was experienced in WA in the late 1990's after the second gateway was introduced. However, the total increase in settlement agreements is capped at the general maximum amount which will limit the increase.

There could be other upside opportunities and downside risks not included in our lists above.

7 Default Insurance Fund and increases in Act of Terrorism limit

7.1 Legislation change

The 2022 Bill establishes a Default Insurance Fund (DI Fund). This fund will be used to pay the claims of injured workers whose employers were uninsured, claims of injured workers where the insurer or self-insurer is insolvent and Act of Terrorism claims.

7.2 Uninsured employers, insolvent insurer and self-insurers

The creation of the DI Fund is a largely administrative change. The majority of the claims that will be paid through the DI Fund are currently paid by the General Account or Supplementation Fund and funded through levies on those Funds. The DI Fund has a slightly expanded scope than the General Account and Supplementation Fund as it also covers insolvency of self-insurers.

The creation of the DI Fund is not expected to change the costs related to uninsured employers or insolvent insurers and is essentially an administrative change.

Currently if a self-insurer become insolvent any claims are paid by the financial guarantee and any claim costs above this amount are not provided for. The 2022 Bill requires self-insurers to have a self-insurer security so only any additional claims costs above this will need to be covered by the levies to the DI Fund. There are margins of 50% above the central estimate in calculating the bank guarantee and some self-insurers have higher margins in the bank guarantee given their calculated requirement is below the $2 million threshold. Therefore, given these margins and that self-insurer insolvencies are rare (there has been no self-insurer insolvencies in the past 20 years) including self-insurer insolvencies is unlikely to have a material impact on the contributions collected for the DI Fund.

The funding for the DI Fund will be a levy on insurers and self-insurers, which will be ultimately passed onto employers to pay. This is the same approach as the levy for the General Account, though different to the Supplementation Fund which is a levy on employers so is a separate line item on renewal notices. From a premium rating perspective, the impact is the same as both levies are taken into account when the premium rates are estimated. The timing does differ slightly though as the Supplementation Fund levy (when active) is collected and paid as policies are renewed. As not all policies are renewed on the same date, the premiums collected from employers that contribute towards the insurer's payment of the General Account levy currently and DI Fund levy in the 2022 Bill will be collected at a different time to when these levies are paid.

Ultimately, it will depend upon the funding approach and capital management of the DI Fund as to the cost impact of this change to the operation of the scheme. The funding approach and capital management plan will depend upon the risk appetite of the Board and will need to be developed upon the commencement of the DI Fund.

The table below shows some potential fund strategies for each component of the DI Fund and impact on premium rates.

Fund approach	Impact
Uninsured employers	
Estimated incurred cost for the next accident or lodgement year	Similar to current approach Would need to consider how to factor in adjustments for differences in actual compared to expected for prior accident or lodgement years Likely to be smoother contributions than based on payments over the financial year
Estimated payments over the next financial year	Where a large payment is incurred in a year the levy required could vary significantly. Would make levy size less predictable. Less likely to over or under estimate the levy required to be collected than estimating the incurred cost.
Insolvent insurers / self-insurers	
Retrospective funding of the liabilities	Same as the current approach so no impact on premium rates until an event occurs. If / when an event occurs, levy could be collected over multiple years to spread the cost out and reduce the annual impact on insurers / self-insurers.
Build up capital to partially fund liabilities up front	If a levy was raised to build up capital to partially fund costs up front this would be an increase in the premium rates. The impact on the premium rates would depend upon the value of the costs that are funded up front and the period of time over which this is built up. The potential costs that could be considered to be funded up front include estimated payments in the first few months before a levy could be raised or the interest cost of funding these payments through a Treasury or bank loan. An alternative approach could be to use the existing assets in the Supplementation Fund to partially fund costs up front.
Build up capital to fully fund liabilities up front	If a levy was raised to build up capital to fully fund costs up front this would be an increase in the premium rates. The impact on the premium rates would depend upon the value of the estimated liabilities that are funded up front and the period of time over which this is built up.

Fund approach	Impact
	This may be partially offset by using the existing assets in the Supplementation Fund to partially fund costs up front.

The funding arrangements in the initial years may differ to future years depending on the target capital threshold set and any consideration given to the existing assets in the Supplementation Fund as seed capital and a mechanism for funding uninsured employers liabilities.

7.2.1 Extension of Act of Terrorism limit

Amounts paid to satisfy terrorism event claims are to be paid from the Default Insurance Fund via a levy on licensed insurers and self-insurers (this approach being preferable to a levy paid directly by employers). It is to be expected that insurers will want to fully pass the cost of a levy on to employers via higher premium rates.

The 2022 Bill does not specify the limit of the value of claims for a Terrorism event, this will be included in the regulations. We understand that the intention is to increase the limit from $25m to $100 million, though we have also been asked to review the impact of a limit of $50 million.

Initial capital implications

There is the potential for capital implications for insurers as APRA capital requirements include an insurance concentration risk charge which is based on a 1 in 200 year event for other accumulations. However, it is likely that most, if not all, insurers have an insurance concentration risk charge which is higher than the funding for an Act of Terrorism. This could be due to either other larger workers compensation events or the insurer's insurance concentration risk charge is based on another class of business due to a higher maximum event retention.

In calculating the contingency margin for the recommended premium rates, we allow for an insurance concentration risk charge of $100 million. Therefore, increasing the Act of Terrorism limit to $100 million will not increase the insurance concentration risk charge in the contingency margin. This value was set based on previous information provided by insurers about the estimated size of a 1 in 200 year event and adjusted for the whole scheme.

Impact on premium rates

The funding implications will depend upon the funding approach and capital management of the DI. This will depend upon the risk appetite of the Board and will need to be developed upon the commencement of the DI Fund. We recommend that the Board consult with the insurance industry when developing the funding approach and capital management plan. Cashflow management is also an important consideration to ensure funds are available in a timely manner to pay claims arising from an event.

Terrorist event	
Retrospective funding of the liabilities	If / when an event occurs, a levy could be collected over multiple years to spread the cost out and reduce the annual impact on insurers / self-insurers.
Build up capital to partially fund liabilities up front	This would reduce the need to fund an event retrospectively. Seed capital would assist in allowing claims to commence being paid promptly. The impact on the premium rates would depend upon the

Terrorist event	
	value of the costs that are funded up front and the period of time over which this is built up, as well as the residual liability which would remain to be funded retrospectively. The potential costs that could be considered to be funded up front include estimated payments in the first few months before a levy could be raised or the interest cost of funding these payments through a Treasury or bank loan. An alternative approach could be to use the existing assets in the Supplementation Fund to partially fund costs up front.
Build up capital to fully fund liabilities up front	A levy could be charged to build up capital to prospectively fully fund the total maximum capped cost of a terrorist event. This would be an increase in the premium rates via the charging of a prospective levy. It would take a number of years to fully raise this quantum of capital to ensure that premium rate increases were not perceived as onerous. This may be partially offset by using the existing assets in the Supplementation Fund to partially fund costs up front. Consideration would need to be given to the optics of holding this amount of capital which could be otherwise productively used by employers.
Purchase reinsurance	Charge an annual levy used to purchase reinsurance. After the 2001 World Trade Centre terrorist event it became difficult to purchase reinsurance covering terrorist events. Insurers have indicated that terrorist event reinsurance is now potentially available.

The table below shows the impact on the 2022/23 recommended premium rates if the costs are funded retrospectively and collected over different periods. We have assumed a claim handling expense (CHE) of 10.5% based on the current CHE rate for the Supplementation Fund claims. This table also shows the impact of prospectively charging a levy to build up capital over a period of time.

	Time period over which the costs are collected			
Terrorism limit	**1 year**	**2 years**	**3 years**	**5 years**
Cost required to be collected per year (including CHE)				
$25 million (current limit)	27.6	13.8	9.2	5.5
$50 million	55.3	27.6	18.4	11.1
$100 million	110.5	55.3	36.8	22.1
Increase as a % of wages				
$25 million (current limit)	0.031%	0.015%	0.010%	0.006%
$50 million	0.061%	0.031%	0.020%	0.012%
$100 million	0.123%	0.061%	0.041%	0.025%
Increase in premium rates				
$25 million (current limit)	1.7%	0.8%	0.6%	0.3%
$50 million	3.4%	1.7%	1.1%	0.7%
$100 million	6.7%	3.4%	2.2%	1.3%

The largest impact is a 6.7% increase in premium rates i.e. the 2022/23 premium rate would increase from 1.822% to 1.945% if a $100 million limit is applied and collected all at once, compared to a 1.7% increase in premium rates based on the current $25 million limit.

The levy would be shared between insurers and self-insurers based on their proportion of the premium pool. The insurer with the largest share of the premium pool has about 25% of the insurer premium pool, after accounting for self-insurers having approximately 9% of wages this reduces to 22.5%. Therefore, the largest insurer, based on the premium pool would need to fund $24.9 million if a $100 million limit (plus $10.5 million in expenses) is applied and collected all at once which is $18.7 million more than currently.

There may be accounting, capital and cashflow implications of each of these funding arrangements on insurers. In particular, if insurers were expected to pay claims related to a terrorist event before the DI fund had sufficient capital and liquid assets available this would create a negative cashflow (and hence temporary capital drain) for insurers. Understanding these implications will need to be understood and addressed as part of the Board's process for agreeing a funding and capital management approach.

Retrospectively collecting the levy over short time periods has the potential to impact insurers cashflows and liquid assets they have available, depending upon the time set between the DI Fund issuing the levy invoice and requesting payment and the insurers' ability to pass on costs to employers through the policy renewal process. This can be mitigated by retrospectively funding over a longer period of time. The DI Fund may also experience cashflow challenges in paying claims in a timely manner where funding occurs retrospectively.

8 Data

8.1 Data provided

The data used for the analysis contained within this report was provided in October 2022 by WorkCover WA.

The main data set used for the weekly benefit and medical and health expenses cap costing was a list of all claims reported for the 2015 to 2022 accident years.

The data contained 218,906 claims, 197,149 of these claims related to premium rating entities, with the remaining claims from self-insurers (excluding RiskCover).

Key data fields provided for each claim were:

- Claim number
- Accident year
- Finalisation date
- Days lost
- Pre-injury weekly earnings
- Total payments and case estimates
- Payments by payment type (17 different payment types)
- Last medical or hospital payment date
- Last weekly payment date.

The other data sets provided by WorkCover WA were:

- Medical payment transactions for each claim for the 2018 to 2020 accident years. This data set was used to understand the amount of medical payments which may be made as provisional payments.
- Data as per the main data set for any claim which had an initial decision period greater than 28 days, including the length of time before the initial decision was made
- Number of claims by type of worker (employee, contractor, sub-contractor etc) by ANZSIC division by accident year.

The data was provided in excel format and was sufficient for the purpose of this costing.

8.2 Data limitations

The data had the following limitations:

- It does not identify which claims relate to Award and non-Award workers and the step-downs that have actually occurred.
- No information for lump sum settlements about the breakdown by benefit type.

The analysis could have been improved if we were about to obtain case studies of the claimants in the four cohorts used in the medical and health services cap analysis and further medical payments they would apply for if there were no caps.

8.3 Data summary

The below table contains a summary of the claims data provided by WorkCover WA for premium rating entities:

Claim data summary	Accident year> 2015	2016	2017	2018	2019	2020	2021	2022
Claims								
Reported	29,142	27,332	24,917	24,301	23,695	22,562	23,364	21,836
Finalised	29,087	27,262	24,747	24,020	23,025	21,150	19,498	12,501
Actives	55	70	170	281	670	1,412	3,866	9,335
Payment types								
Weekly	325,325,868	334,315,544	324,407,514	331,237,303	361,298,584	366,234,585	366,769,221	200,206,807
Fatal_weekly	380,466	270,166	253,988	527,216	759,073	953,337	1,576,340	81,043
Lump_sum_fatal	2,821,649	1,797,612	781,181	3,819,910	8,430,514	8,031,043	5,218,042	1,136,101
Fatal_other	567,061	186,262	164,844	127,833	240,010	132,322	172,207	58,499
Medical_and_Hospital	73,859,172	72,394,452	74,397,720	75,693,159	80,246,409	78,910,868	77,457,546	46,532,666
Other_treatment_or_appliance	6,121,251	5,908,569	6,350,173	5,952,433	6,787,721	6,040,322	5,468,179	3,650,144
Workplace_rehabilitation	28,800,894	30,377,799	32,159,689	34,721,346	34,131,289	34,694,672	34,135,826	17,360,371
Allied_health	32,312,267	33,627,617	35,160,652	36,783,192	38,211,806	39,273,434	41,407,859	24,864,634
Lump_sum_election_registered	44,641,969	37,132,721	42,081,380	34,182,486	27,653,981	6,757,092	267,392	-
Lump_sum_permanent_impairment	39,360,523	36,050,925	34,172,479	31,812,268	29,972,314	25,357,992	13,931,906	1,887,543
Lump_sum_no_election_registered	153,265,853	151,715,271	146,331,176	148,929,366	161,952,717	137,603,856	98,489,021	20,293,395
Worker_legal_expense	22,847,103	22,776,462	22,786,715	23,669,988	25,202,626	20,658,303	12,346,627	2,509,714
Insurer_legal_expense	26,372,568	22,932,629	21,564,789	23,035,046	24,337,392	20,525,754	13,727,444	4,038,174
Investigation_expense	34,742,989	32,531,363	31,510,628	31,360,733	32,900,295	29,728,349	25,259,212	10,519,657
Miscellaneous	6,767,254	7,084,996	6,413,731	6,258,261	6,166,017	5,976,230	5,610,101	3,043,406
Medical_non_scheduled	25,836,821	24,234,164	24,504,720	23,878,572	23,966,136	23,948,410	25,124,158	16,694,290
Total	**824,023,706**	**813,336,550**	**803,041,380**	**811,989,112**	**862,256,882**	**804,826,568**	**726,961,081**	**352,876,444**

The total payments by payment type do not reconcile exactly to the total payments made field in the data, we are of the opinion that this would not materially impact the findings in this report.

For the more developed accident years (2015 to 2019) the weekly payments account for between 39% to 42% or total payments and lump sums without an election registered account for between 18% to 19% of total payments.

We were unable to get any data on the percentage of lump sum settlements that relates to each payment type. Therefore, we estimated the payment type portion based on the payments made on direct services to claimants and excluding the lump sums and fatality benefits.

We estimated the weekly benefit portion of the lump sum no election registered payments as 63%. This is in line with the average of the 2016 to 2019 accident years of weekly benefits divided by (weekly + medical and hospital + other treatment and appliance + workplace rehabilitation + allied health + worker legal expense + miscellaneous + medical non-scheduled).

We estimated the medical and health services benefit portion of the lump sum no election registered payments as 26%. This is in line with the average of the 2016 to 2019 accident years of (medical and hospital + other treatment and appliance + allied health + medical non-scheduled) divided by (weekly + medical and hospital + other treatment and appliance + workplace rehabilitation + allied health + worker legal expense + miscellaneous + medical non-scheduled).

Appendices

Appendix A Medical and health services cap

A 1 Scenario assumptions and results

The following sections detail the increase in medical costs assumed for each of the four identified cohorts in Section 2.2. The assumptions for each scenario shown in A1.1 are the same as shown section 2.3. We have varied the percentage increase and altered the relativities for different cohorts for the different scenarios. A1.2 to A1.5 in tables show the results for each scenario. This is shown by accident year and by cohort for the 2017 to 2019 accident years combined.

A 1.1 Scenario assumptions

	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension
Value that mean % and standard deviation % is applied to	$73,197	$73,197	$81,755	$109,905
Scenario 1				
Mean %	10%	10%	85%	85%
Standard Deviation %	2.50%	2.50%	5.00%	5.00%
Average increase ($)	7,320	7,320	69,492	93,419
Scenario 2				
Mean %	15%	15%	85%	85%
Standard Deviation %	3.75%	3.75%	5.00%	5.00%
Average increase ($)	10,980	10,980	69,492	93,419
Scenario 3				
Mean %	20%	20%	85%	85%
Standard Deviation %	5.00%	5.00%	5.00%	5.00%
Average increase ($)	14,639	14,639	69,492	93,419
Scenario 4				
Mean %	10%	10%	85%	43%
Standard Deviation %	2.50%	2.50%	5.00%	5.00%
Average increase ($)	7,320	7,320	69,492	46,710

A 1.2 Scenario 1

Medical and health expenses cap increase - Scenario 1		Expected increase (b)					
Accident year	Total payments to date (a)	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	843,316,240	6,967,202	4,425,500	6,397,775	6,970,548	7,534,000	9,392,976
2016	833,840,451	6,223,463	3,860,600	5,693,650	6,226,571	6,749,800	8,479,431
2017	823,342,530	6,774,089	4,001,300	6,151,400	6,777,729	7,390,600	9,423,141
2018	832,616,325	7,486,721	4,701,400	6,862,475	7,490,388	8,107,400	10,145,696
2019	883,833,782	7,794,149	4,764,400	7,114,475	7,798,132	8,468,600	10,687,496
2020	825,262,242	6,738,274	4,123,300	6,151,625	6,741,708	7,320,600	9,235,165
2021	749,226,973	3,905,424	2,348,800	3,556,025	3,907,468	4,251,800	5,392,165
2022	370,938,442	737,695	364,100	653,475	738,183	820,400	1,095,155
Adopted (2017 to 2019)	**2,539,792,637**	**22,054,960**	**13,467,100**	**20,128,350**	**22,066,248**	**23,966,600**	**30,256,334**

Medical and health expenses cap increase - Scenario 1	% increase in paid (c)					
Accident year	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	0.83%	0.52%	0.76%	0.83%	0.89%	1.11%
2016	0.75%	0.46%	0.68%	0.75%	0.81%	1.02%
2017	0.82%	0.49%	0.75%	0.82%	0.90%	1.14%
2018	0.90%	0.56%	0.82%	0.90%	0.97%	1.22%
2019	0.88%	0.54%	0.80%	0.88%	0.96%	1.21%
2020	0.82%	0.50%	0.75%	0.82%	0.89%	1.12%
2021	0.52%	0.31%	0.47%	0.52%	0.57%	0.72%
2022	0.20%	0.10%	0.18%	0.20%	0.22%	0.30%
Adopted (2017 to 2019)	**0.87%**	**0.53%**	**0.79%**	**0.87%**	**0.94%**	**1.19%**

Medical and health expenses cap increase - Scenario 1 for 2017 to 2019 accident years by cohort	% increase in paid				
Cohort	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total
Best estimate	0.05%	0.24%	0.07%	0.51%	0.87%
Min	0.01%	0.05%	0.06%	0.41%	0.53%
25% percentile	0.04%	0.19%	0.07%	0.49%	0.79%
Mean	0.05%	0.24%	0.07%	0.51%	0.87%
75% percentile	0.06%	0.28%	0.07%	0.53%	0.94%
Max	0.10%	0.41%	0.08%	0.60%	1.19%

A 1.3 Scenario 2

Medical and health expenses cap increase - Scenario 2		Expected increase (b)					
Accident year	Total payments to date (a)	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	843,316,240	7,988,305	4,648,700	7,262,675	7,992,818	8,761,600	11,206,476
2016	833,840,451	7,211,627	4,076,600	6,530,650	7,215,864	7,937,800	10,234,431
2017	823,342,530	8,014,784	4,272,500	7,202,300	8,019,842	8,882,200	11,626,641
2018	832,616,325	8,628,599	4,951,000	7,829,675	8,633,571	9,480,200	12,173,696
2019	883,833,782	9,089,742	5,047,600	8,211,875	9,095,206	10,026,200	12,988,496
2020	825,262,242	7,854,533	4,367,300	7,097,125	7,859,243	8,662,600	11,217,665
2021	749,226,973	4,586,159	2,497,600	4,132,625	4,588,981	5,070,200	6,601,165
2022	370,938,442	931,668	406,500	817,775	932,377	1,053,600	1,439,655
Adopted (2017 to 2019)	**2,539,792,637**	**25,733,124**	**14,271,100**	**23,243,850**	**25,748,619**	**28,388,600**	**36,788,834**

Medical and health expenses cap increase - Scenario 2	% increase in paid (c)					
Accident year	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	0.95%	0.55%	0.86%	0.95%	1.04%	1.33%
2016	0.86%	0.49%	0.78%	0.87%	0.95%	1.23%
2017	0.97%	0.52%	0.87%	0.97%	1.08%	1.41%
2018	1.04%	0.59%	0.94%	1.04%	1.14%	1.46%
2019	1.03%	0.57%	0.93%	1.03%	1.13%	1.47%
2020	0.95%	0.53%	0.86%	0.95%	1.05%	1.36%
2021	0.61%	0.33%	0.55%	0.61%	0.68%	0.88%
2022	0.25%	0.11%	0.22%	0.25%	0.28%	0.39%
Adopted (2017 to 2019)	**1.01%**	**0.56%**	**0.92%**	**1.01%**	**1.12%**	**1.45%**

Medical and health expenses cap increase - Scenario 2 for 2017 to 2019 accident years by cohort			% increase in paid		
Cohort	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total
Best estimate	0.08%	0.35%	0.07%	0.51%	1.01%
Min	0.02%	0.07%	0.06%	0.41%	0.56%
25% percentile	0.07%	0.29%	0.07%	0.49%	0.92%
Mean	0.08%	0.35%	0.07%	0.51%	1.01%
75% percentile	0.10%	0.42%	0.07%	0.53%	1.12%
Max	0.14%	0.62%	0.08%	0.60%	1.45%

A 1.4 Scenario 3

Medical and health expenses cap increase - Scenario 3							
			Expected increase (b)				
Accident year	Total payments to date (a)	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	843,316,240	9,009,407	4,871,900	8,099,675	9,015,255	9,961,300	13,019,976
2016	833,840,451	8,199,790	4,292,600	7,340,650	8,205,320	9,098,800	11,989,431
2017	823,342,530	9,255,478	4,543,700	8,219,300	9,262,158	10,339,900	13,830,141
2018	832,616,325	9,770,477	5,200,600	8,765,675	9,776,942	10,821,800	14,201,696
2019	883,833,782	10,385,334	5,330,800	9,273,875	10,392,492	11,548,400	15,289,496
2020	825,262,242	8,970,792	4,611,300	8,012,125	8,976,962	9,974,100	13,200,165
2021	749,226,973	5,266,894	2,646,400	4,690,625	5,270,606	5,870,000	7,810,165
2022	370,938,442	1,125,641	448,900	976,775	1,126,604	1,281,500	1,784,155
Adopted (2017 to 2019)	**2,539,792,637**	**29,411,288**	**15,075,100**	**26,258,850**	**29,431,592**	**32,710,100**	**43,321,334**

Medical and health expenses cap increase - Scenario 3						
	% increase in paid (c)					
Accident year	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	1.07%	0.58%	0.96%	1.07%	1.18%	1.54%
2016	0.98%	0.51%	0.88%	0.98%	1.09%	1.44%
2017	1.12%	0.55%	1.00%	1.12%	1.26%	1.68%
2018	1.17%	0.62%	1.05%	1.17%	1.30%	1.71%
2019	1.18%	0.60%	1.05%	1.18%	1.31%	1.73%
2020	1.09%	0.56%	0.97%	1.09%	1.21%	1.60%
2021	0.70%	0.35%	0.63%	0.70%	0.78%	1.04%
2022	0.30%	0.12%	0.26%	0.30%	0.35%	0.48%
Adopted (2017 to 2019)	**1.16%**	**0.59%**	**1.03%**	**1.16%**	**1.29%**	**1.71%**

Medical and health expenses cap increase - Scenario 3 for 2017 to 2019 accident years by cohort					
	% increase in paid				
Cohort	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total
Best estimate	0.11%	0.47%	0.07%	0.51%	1.16%
Min	0.02%	0.10%	0.06%	0.41%	0.59%
25% percentile	0.09%	0.39%	0.07%	0.49%	1.03%
Mean	0.11%	0.47%	0.07%	0.51%	1.16%
75% percentile	0.13%	0.56%	0.07%	0.53%	1.29%
Max	0.19%	0.83%	0.08%	0.60%	1.71%

A 1.5 Scenario 4

Medical and health expenses cap increase - Scenario 4		Expected increase (b)					
Accident year	Total payments to date (a)	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	843,316,240	4,678,433	2,137,200	4,109,475	4,681,817	5,245,700	7,124,276
2016	833,840,451	4,308,371	1,945,900	3,778,950	4,311,510	4,835,100	6,581,131
2017	823,342,530	4,905,706	2,133,300	4,283,400	4,909,377	5,522,600	7,571,141
2018	832,616,325	5,197,952	2,413,100	4,574,175	5,201,656	5,819,100	7,876,996
2019	883,833,782	5,505,380	2,476,100	4,826,175	5,509,401	6,180,300	8,418,796
2020	825,262,242	4,589,634	1,975,100	4,003,425	4,593,103	5,172,400	7,105,365
2021	749,226,973	2,737,685	1,181,300	2,388,525	2,739,748	3,084,300	4,234,665
2022	370,938,442	597,566	224,000	513,375	598,056	680,300	956,255
Adopted (2017 to 2019)	**2,539,792,637**	**15,609,038**	**7,022,500**	**13,683,750**	**15,620,434**	**17,522,000**	**23,866,934**

Medical and health expenses cap increase - Scenario 4	% increase in paid (c)					
Accident year	Best estimate	Min	25% percentile	Mean	75% percentile	Max
2015	0.55%	0.25%	0.49%	0.56%	0.62%	0.84%
2016	0.52%	0.23%	0.45%	0.52%	0.58%	0.79%
2017	0.60%	0.26%	0.52%	0.60%	0.67%	0.92%
2018	0.62%	0.29%	0.55%	0.62%	0.70%	0.95%
2019	0.62%	0.28%	0.55%	0.62%	0.70%	0.95%
2020	0.56%	0.24%	0.49%	0.56%	0.63%	0.86%
2021	0.37%	0.16%	0.32%	0.37%	0.41%	0.57%
2022	0.16%	0.06%	0.14%	0.16%	0.18%	0.26%
Adopted (2017 to 2019)	**0.61%**	**0.28%**	**0.54%**	**0.62%**	**0.69%**	**0.94%**

Medical and health expenses cap increase - Scenario 4 for 2017 to 2019 accident years by cohort	% increase in paid				
Cohort	Cohort 1: Claims between 95% and 100% of the cap	Cohort 2: Claims on the first extension, but less than $47,500 is used	Cohort 3: Claims on the first extension, but more than $47,500 is used	Cohort 4: Claims on the second extension	Total
Best estimate	0.05%	0.24%	0.07%	0.25%	0.61%
Min	0.01%	0.05%	0.06%	0.16%	0.28%
25% percentile	0.04%	0.19%	0.07%	0.23%	0.54%
Mean	0.05%	0.24%	0.07%	0.25%	0.62%
75% percentile	0.06%	0.28%	0.07%	0.28%	0.69%
Max	0.10%	0.41%	0.08%	0.35%	0.94%

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