Scheme Actuarial Valuation as at 31 December 2015

ReturnToWorkSA

March 2016

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21 March 2016

Ms Jane Yuile
Chair
ReturnToWorkSA
400 King William Street
ADELAIDE SA 5000

Dear Ms Yuile

Scheme Actuarial Valuation as at 31 December 2015

Please find enclosed our report on our mid-year review of the outstanding claims for registered employers.

Claims experience in the six months continues to show this as a time of significant change in the scheme, as it transitions toward normal operation under the RTW Act.

We would be pleased to discuss our review and findings with your executive and Board as required.

Yours sincerely

A McInerney

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Scheme Actuarial Valuation as at 31 December 2015

Glossary

Actuarial Release	A 'like with like' measure of how claims management activity has impacted on Scheme financial performance since the previous valuation. See section 10.3 for additional information.
APR	Average Premium Rate – the premium charged by ReturnToWorkSA to registered employers, on average, as a percentage of leviable wages.
BEP	Break Even Premium– the estimated cost of running the scheme for a year, including all future payments for claims incurred in the year after allowing for investment earnings, expressed as a percentage of leviable wages.
Curam	ReturnToWorkSA's claims management system.
EML	Employers Mutual Limited (Scheme claims agent).
ER	Incentives for early reporting of claims, introduced in 2008.
GB	Gallagher Bassett (Scheme claims agent).
IS	Income Support (also known as weekly benefits) payments.
NWE	Notional Weekly Earnings.
RTW	Return to work.
RTW Act	The Return to Work Act 2014, which governs the scheme.
Serious Injury	A claim that meets the definition of a "Serious Injury" under the RTW Act.
Short Term Claim	Claims that do not meet the serious injury threshold.
Tail Project	Tail management strategy operating during 2013 and 2014 calendar years.
WCA	Work Capacity Assessment
WPI	Whole Person Impairment

Part I Executive Summary

1 Introduction

Finity Consulting Pty Limited ("Finity") has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme ("RTW Scheme") as at 31 December 2015.

Our previous actuarial review was as at 30 June 2015, and was documented in a report dated 27 August 2015.

2 Scope of the Review

The scope of the review is specified in our contract with ReturnToWorkSA.

The primary purpose of the mid-year review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA to update its financial position, and as an input in determining the average premium rate for the coming year.

The actuarial review also aims to provide analysis of the major features of the recent Scheme claims experience, and a projection baseline against which ReturnToWorkSA can manage outcomes and monitor emerging experience in the coming year.

3 Valuation Approach

Our estimate of the outstanding claims liability is a central estimate of the liabilities. This means that the valuation assumptions have been selected such that our estimates contain no deliberate bias towards either overstatement or understatement.

Our estimates of the outstanding claims liabilities, and of the Break Even Premium for 2016/17, allow for the expected impacts of the Return to Work Act 2014 ("RTW Act") which governs the scheme, and separately project future benefits for Serious Injury claims from those for Short Term Claims to reflect the differences in benefit structure between the two groups.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 65% probability of sufficiency.

4 Scheme Environment

Recent developments which affect the Scheme's operating environment and/or the liability estimate include:

- **Early intervention and RTW focus**: changes continue to be made, and expanded, to focus on initial claims acceptance and improving early claim management following the introduction of mobile case managers. These strategies have led to significant reductions in income support claim numbers over the last two years, although there has been a slight increase in new income support claims in the last six months.

- **Transition related activities**: a number of specific strategies are being undertaken to streamline the transition to the RTW Act. This includes offering redemptions to claims expected to remain on longer term benefits and to those with ongoing medical entitlements, and a focus on resolving legacy disputes.
- **Provider management**: a number of activities aimed at improving provider engagement and behaviour are being undertaken, which appear to be leading to changes in payment levels for services such as rehabilitation, physiotherapy, investigation and some medical costs.
- **Increased Lump Sum Claim Numbers**: There has been a strong increase in the number of lump sum payments made over the last 18 months, which appears to be directly attributable to the high redemption and settlement activity; our interpretation is that this is largely a bring forward of activity where payments are required to be finalised prior to any redemption or settlement.

  That said, there has also been an increase in the number of 'top up' lump sums, and this has potential consequences for Serious Injury claims (discussed further below).

To date we are not aware of any significant legal cases regarding the operation of the key provisions of the RTW Act, and at this stage it appears the RTW Act is largely operating as anticipated.

5 Recent Claim Experience

The key features of the claims experience in the six months to 31 December 2015 were:

- Significant numbers of claims have been redeemed or settled as part of the transition management activities noted above. This has led to an increase in claim payments, as periodic benefits are replaced by a capital payment. In some cases the costs of these settlements have been higher than anticipated in our previous valuation basis.
- New Income Support claim numbers continue to be low – this appears to be a direct result of ReturnToWorkSA's operational initiatives relating to (1) new claim acceptance, and (2) early intervention activities.
- The number of new Serious Injury claims in the six months was higher than expected, which appears to be linked to the increase in 'top up' lump sums.
- Total net claim payments in the six months were $44 million (17%) higher than the previous valuation projections, primarily as a result of the various transition related strategies.

6 Liability Valuation Results

Summary of Results

Our central estimate of the Scheme's outstanding claims liability for registered employers as at 31 December 2015 is $2,143 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 6.5% to produce a provision with a 65% probability of sufficiency, consistent with ReturnToWorkSA's reserving policy, gives an outstanding claims provision of $2,283 million, as shown in Table 1.

Table 1 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,287		
Gross Claims Cost - Short Term Claims	670		
Claims Handling Expenses	271		
Gross Outstanding Claims Liability	2,228	145	2,373
Recoveries	-85	-6	-90
Net Outstanding Claims Liability	2,143	139	2,283

Table 1 also demonstrates that the majority of the OSC liability relates to Serious Injuries. This balance will continue to shift toward Serious Injury liabilities over time.

The provision includes an allowance for future claims handling expenses equivalent to 14% of gross claim costs, which is a higher proportionate loading than normal in recognition of the transition related costs which ReturnToWorkSA faces in running off existing claims.

Movement in Liability

Our central estimate is $20 million lower than projected at the previous valuation. We have attributed the change in central estimate into two components to show:

- Movement in liability due to claims performance – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions.
- Impact of changes in economic assumptions – the component which is mandated by accounting standards (and therefore outside ReturnToWorkSA's control).

This split also allows calculation of the actuarial release, where we add the difference between actual and expected payments to the movement in the liability due to claims experience, to give a measure of the 'profit' impact of claims management performance relative to the previous valuation basis, as shown in Table 2 below.

Table 2 – December 2015 Central Estimate and Determination of Actuarial Release

	Central Estimate		
	Projected Jun-15 Liability[1]	AvE Payments in 6 mths to Dec 15	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-15 Valuation	2,239		
Projected Liability at Dec-15 (from Jun-15 valuation)	2,164		
Movement in liability due to claims performance	-70	44	26
Impact of Change in economic assumptions	50		
Recommended Liability at Dec-15	2,143		

[1] Net central estimate of outstanding claims liability, including CHE

[2] Includes change in OSC and Act vs Exp payments.

There is an actuarial release of $26 million for the period, which is a favourable result for the Scheme. Changes to economic assumptions increase the central estimate liability by $50 million. Each of these items is discussed briefly below.

Components of the Actuarial Release

Table 3 shows the actuarial release by entitlement group, and split between Short Term Claims and Serious Injuries.

Table 3 – Actuarial Release by Entitlement Group

Entitlement Group	Short Term Claims[3]	Serious Injury Claims[3]	Total Actuarial Release [3]	Release as %
			$m	%
Income & Related	-34	-11	-45	-9%
Lump Sums	-4	-6	-11	-6%
Legals	21	-13	7	7%
Treatment Related [1]	10	34	45	4%
Rehabilitation	5	-6	0	0%
Other Costs [2]	3	1	3	23%
Recoveries	3	24	26	43%
Total Claim Costs	3	22	25	1%
Expenses	0	1	1	0%
Net Central Estimate	3	23	26	1%

[1] Medical, hospital, physical therapy, travel, other

[2] Investigation, common law , commutation, LOEC

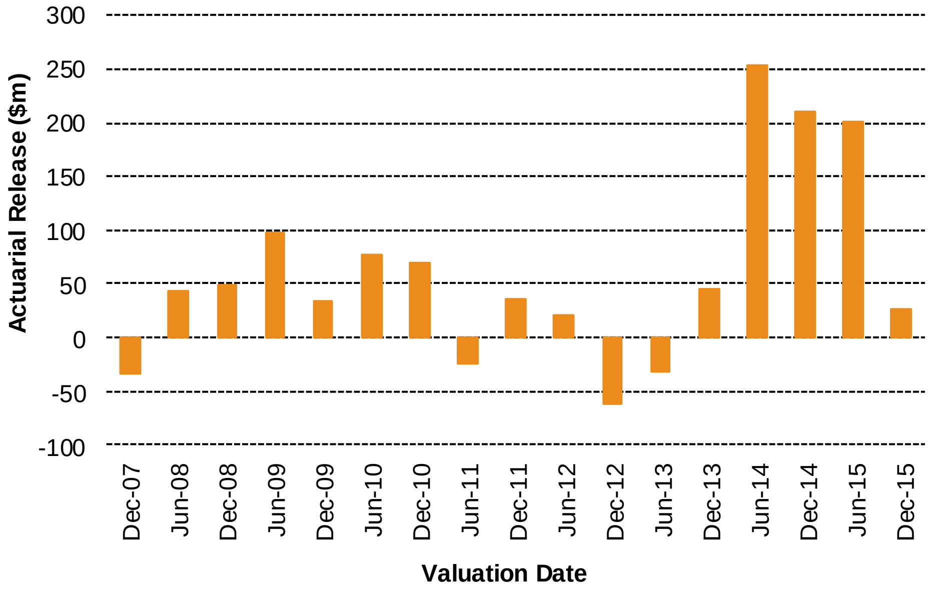
[3] Includes change in OSC and Act vs Exp payments.

The major contributors to the $26 million actuarial release are:

- For Short Term Claims there was a $3 million actuarial release, comprising:
  - A $34 million strengthening (increase) for income and Related, although $14 million is related to the increased use of medical redemptions (which creates an offsetting reduction in the Medical liability). The largest driver of the remaining cost increase is the higher than expected levels of backpay being made with dispute settlements.
  - Lump sum costs increased due to higher average claim sizes, with the high recent volume of claim numbers being interpreted as a bringing forward of payments.
  - Legal costs were reduced, part of which is a re-apportionment to serious injury claims.
  - Treatment costs reduced by $10 million, which is primarily the transfer of cost into medical redemptions. There were also large proportionate savings on provider related expenditure for Rehabilitation, Physical Therapy, Travel and Investigation.
- For Serious Injury claims there was an actuarial release of $23 million, due to:
  - Higher numbers of newly identified SI claims than expected being offset by positive outcomes from redemption activity and valuation basis changes to release $12 million.
  - Legal costs being increased by $13 million in response to the re-apportionment noted above.
  - A $24 million increase in future recoveries to reflect ReturnToWorkSA's latest recovery estimates.

Figure 1 shows the actuarial release at each valuation over the last eight years. As this shows, the current result is considerably lower than those over the last 18 months, which is not surprising given the significantly reduced scheme liabilities make it much harder now to achieve significant savings.

Figure 1 – History of Actuarial Releases



Impacts of Economic Assumption Changes

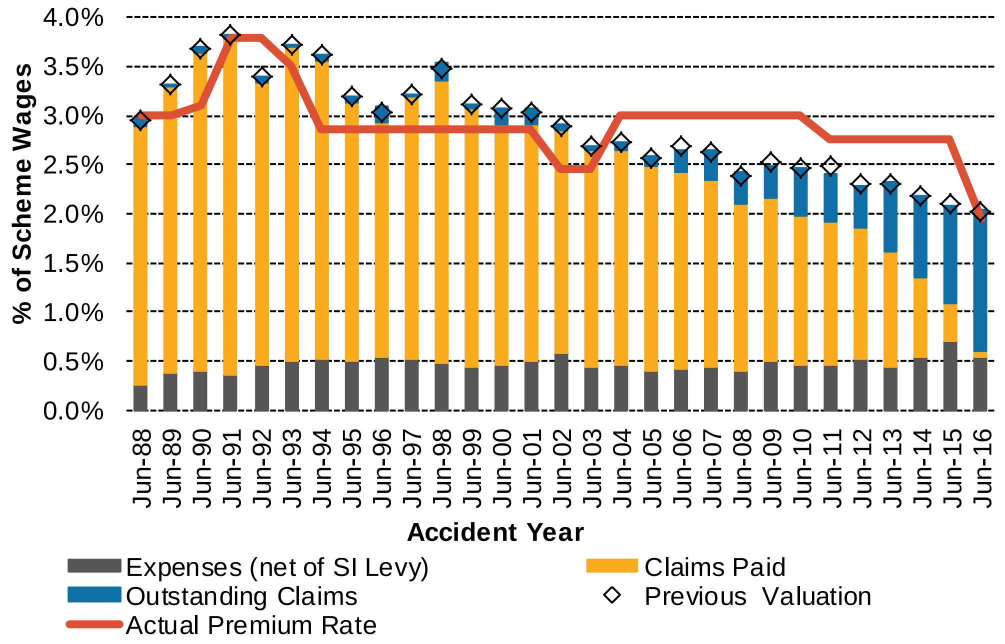
Changes to inflation and discount rate assumptions increase the central estimate by $50 million. As discussed in Section 10.1 there have been decreases in discount rates for most durations, an event which is outside ReturnToWorkSA's control, which has led to this decrease in the OSC liability.

7 Historical Scheme Costs

We have estimated the 'historical premium rate', otherwise known as the Break Even Premium rate (BEP), for each past accident year; this is the premium rate that would have been sufficient to fully cover claim costs, expenses and recoveries, assuming the Scheme achieved risk free investment returns each year and that the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (discounted to the start of that year at risk free rates) by the total Scheme leviable remuneration in that year.

Figure 2 shows a summary of the estimated BEPs, including a comparison with the estimates at our previous valuation and the Scheme's actual average premium rate charged for each year.

Figure 2 – Break Even Premium Rate and Actual Premium Rate Charged



The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages.
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2016 accident year is 2.03%. This estimate is unchanged from the June 2015 valuation.
- Overall, there has been minimal change in the hindsight estimates since the previous valuation.

We note that these calculations assume past and future investment earnings at the risk free rate. All else being equal, any above risk free earnings or additional sources of income would act to reduce the required premium rate.

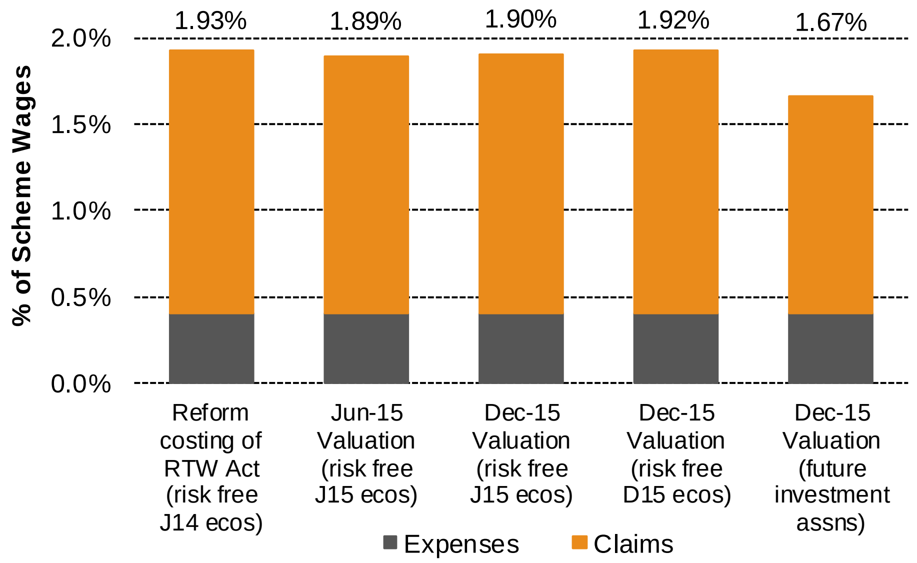
We emphasise that the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2016 still involves a degree of estimation.

8 Break Even Premium Rate for 2016/17

An important purpose of the mid-year review is to provide information on the calculation of the BEP for the coming year. While the calculations and recommendations for the 2016/17 Average Premium Rate (APR) to be charged to employers is ReturnToWorkSA's responsibility, the BEP is a key input to these considerations.

Figure 3 below shows our calculation of the BEP for 2016/17, in line with the claims assumptions used in the outstanding claims valuation and adopting different investment earnings assumptions.

Figure 3 – 2016/17 Break Even Premium Rate



The key features of Figure 3 are:

- Our reform costing work estimated the post-reform BEP would be 1.93% of leviable wages.
- The current BEP of 1.92% is similar to this estimate, as was the assessment at June 2015 (1.89%).
- If ReturnToWorkSA can earn an investment return that is consistent with the long term earnings expectations of its investment advisor then the BEP reduces to around 1.67% of wages (last column of the graph).
- An expense rate of 0.40% of remuneration has been assumed for each scenario, as advised by ReturnToWorkSA as the expected long-term expense rate that will apply under the RTW Act. We note that this is lower than the current expense rate of around 0.51% of remuneration for 2016 and that in the short term expenditure levels are likely to be materially higher than 0.40% as the Scheme continues through the transition phase of implementing the RTW Act (i.e. ReturnToWorkSA will need to consider the funding approach for any such additional costs if they are to be funded from outside of the 2016/17 premium).

As described throughout our report, there is uncertainty in relation to each element of the BEP and this uncertainty should be borne in mind when premium rates are being considered.

9 Key Uncertainties

There are considerable uncertainties in the projected future claim costs. In particular, the uncertainty surrounding the impacts of the RTW Act mean there is a higher than usual level of uncertainty in our central estimates. Section 13 details some of the uncertainties and sensitivities of our advice, in order to place our estimates in their appropriate context.

The main areas of uncertainty in our current estimates of the liabilities are:

- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the new lump for future economic loss payable to Short Term Claims, means there will be increasing pressure on WPI assessments. The Scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold and/or 'WPI creep'. Robustness of the 'once and for all' WPI assessment rules under the RTW Act are an important area of risk.

We note that there has already been some relaxing of these rules by Regulation, to allow the reintroduction of additional lump sums under some circumstances; if these rules do not operate as intended then the cost implications will be significant.

- **Serious Injury**
  - **Ultimate number of claims** – there are several areas of uncertainty in relation to Serious Injury claim numbers. These include: the ultimate number of top-ups that are yet to emerge due to legislation changes, the impact the removal of top-ups will have on ultimate claim numbers and the number of claims from the 'potential' group that ultimately meet the 30% WPI threshold.
  - **Life expectancy** – with benefits payable for life, the future life expectancy for Serious Injury claims has a significant impact on future cost projections.
  - **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. One example is the extent to which care costs which are currently not compensated by the Scheme may become compensable in future, as family-based carers age and claimants increasingly require paid attendant care and/or residential care facilities. Another example is the potential increase in costs for care related specialists and facilities, due to the Fair Work wage decision and/or as demand for these specialists outstrips supply (for example as the NDIS scales up in the next few years).
- **Return To Work** – the potential improvements to Scheme culture as a result of the new hard boundaries may encourage earlier RTW for Short Term Claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worse RTW experience leading up to the two-year boundary.
- **Compensability and claim acceptance** – there is potential for further reductions in new claim numbers following changes to compensability rules. However, it will be crucial to ensure that past closed claims cannot come back onto benefits – for example, ensuring past Work Capacity discontinuances do not start new claims or 'restart the clock' following a short return to work.
- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the Scheme, as well as the risk that settlements paid to finalise disputed claims may exceed the claims costs which would otherwise be incurred, or that claimants change their behaviour in pursuit of a settlement.
- **Management actions** – management's actions will determine the extent to which redemptions and other types of exit act to reduce the number of claims that remain on ongoing benefits.

With the RTW Act provisions having commenced only on 1 July 2015, there is little actual post-reform experience. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will reflect the developing post-reform experience, and it is possible that the experience could differ, perhaps materially, from our current expectations.

10 Reliances and Limitations

Our results and advice are subject to a number of important limitations, reliances and assumptions. This executive summary must be read in conjunction with the full report and with reference to the reliances and limitations set out in Section 14 thereof.

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 1. At ReturnToWorkSA's request, we consent to the release of our final report to the public, subject to the reliances and limitations noted in the report.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

While due care has been taken in preparation of the report Finity accepts no responsibility for any action which may be taken based on its contents.

This report, including all appendices, should be considered as a whole. Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Part II Detailed Findings

1 Introduction and Scope

1.1 Introduction

Finity Consulting Pty Limited ("Finity") has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 31 December 2015.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 30 June 2015, as documented in a report dated 27 August 2015.

1.2 Scope of the Review

The scope of the review is specified in our contract with ReturnToWorkSA.

The primary purpose of the mid-year review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA to update its financial position, and as an input in determining the average premium rate for the coming year.

The actuarial review also aims to provide analysis of the major features of the recent Scheme claims experience, and a projection baseline against which ReturnToWorkSA can manage outcomes and monitor emerging experience in the coming year.

1.3 ReturnToWorkSA and Predecessor

In this report, we use the current titles "ReturnToWorkSA" and "RTW Scheme" to include the previous authority (WorkCoverSA) and Scheme (WorkCover Scheme), where relevant.

1.4 Compliance with Standards

Professional Standard 300 issued by the Institute of Actuaries of Australia sets out the standards required of actuaries preparing estimates of the liability for outstanding claims of statutory authorities involved in general insurance activities. This valuation report has been prepared in accordance with this professional standard.

We understand that Australian Accounting Standard 1023 (AASB1023) is adopted by ReturnToWorkSA in preparing its financial statements, and we have prepared our estimate of the outstanding claims to be consistent with our understanding of the Accounting Standard's requirements.

1.5 Control Processes and Review

Our valuation and this report have been subject to Technical and Peer Review as part of Finity's standard internal control process:

- ***Technical review*** focuses on the technical work involved in the project. The technical reviewer reviews the data, models, calculations and results, and also reviews our written advice from a technical perspective.

- ***Peer review*** is the professional review of a piece of work. The peer reviewer reviews the approach, assumptions and judgements, results and advice.

1.6 Structure of this Report

Section 2	Describes the approach we have taken to the valuation, and provides a brief overview of the information provided to us.
Section 3	Sets out a summary of the operational landscape impacting on the Scheme.
Section 4	Summarises high level recent claims experience.
Sections 5 to 9	Detail our analysis of Scheme experience and valuation assumptions.
Section 10	Sets out other valuation assumptions, including the economic assumptions of inflation and discount rates, and the risk margins and claim handling expenses adopted in setting accounting provisions.
Section 11	Shows detailed tabulations of the outstanding claims valuation results.
Section 12	Summarises the information for use in the average premium rate calculation.
Section 13	Provides sensitivity analysis of the valuation to key assumptions and highlights some of the key uncertainties in our projections.
Section 14	Sets out important reliances and limitations.
Section 15	Outlines our understanding of key events and changes in the South Australian Scheme over time.

The appendices include detailed specifications of the valuation models and results.

Figures in the tables in this report have been rounded. There may be instances where the rounded information does not calculate directly to the total shown.

2 Approach and Information

2.1 Approach

2.1.1 Allowance for the Return to Work Act 2014

The Return to Work Act 2014 (“RTW Act”) made very significant changes to entitlements and to the Scheme operations, with all of the new features having commenced on or before 1 July 2015. Our estimates of the outstanding claims liabilities, and of the Break Even Premium for 2016/17, allow fully for the expected impacts of the RTW Act.

2.1.2 Modelling of Different Claim Cohorts

Under the RTW Act provisions, Serious Injury Claims have very different entitlements from other claims. We have modelled these claims separately, with the remaining claims modelled as ‘Short Term Claims’. Table 2.1 summarises where the entitlement and claim cohorts are documented in this report.

Table 2.1 – Report Structure by Claim Cohort

	Short Term Claims	Serious Injury Claims	Other Assumptions	Overall Results
Valuation Basis and Results	Sections 5 to 8	Section 9	Section 10	Section 11
Economic Impacts	Section 10 (basis) and Section 11 (results)			

To summarise:

- Our valuation projects costs separately for Serious Injury claims and Short Term Claims as follows:
  - All Serious Injury claims are valued using an individual claim based approach by payment type; these results are detailed in Section 9.
  - Short Term Claims are valued using aggregate methods, by payment type, and are documented in the individual entitlement sections (Sections 5 to 8).
- Other valuation assumptions, including claims handling expenses, risk margins and economic assumptions, are discussed in Section 10.
- Overall results, documenting the total liabilities, are quantified in Section 11.

2.1.3 Basis of the Valuation

Our estimate of outstanding claims is based on a central estimate of the liabilities. This means that the valuation assumptions have been selected such that our estimates contain no deliberate bias towards either overstatement or understatement. The estimates are shown discounted to allow for the time value of money using a risk free discount rate, consistent with accounting standards.

We have also provided information on the recommended provision for outstanding claims which increases the central estimate to a 65% probability of sufficiency.

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete Scheme history to 31 December 2015. We have not independently verified or audited the data but we have reviewed it for general reasonableness and consistency, including reconciliations to the previous actuarial review information and to information from ReturnToWorkSA's financial statements. The claims data appears to be of high quality and contains extensive detail.

As for previous valuations, our experience analysis excludes all claims related to employers who have become self-insurers (including claims before they became self-insured).

The appendices show summaries of the claims data, including further details on the items described above and data reconciliations.

2.2.2 Qualitative and Additional Information

In addition to the standard data extracts, we obtained additional information from ReturnToWorkSA, the Scheme's claims agents EML and GB, and ReturnToWorkSA's contracted legal providers Minter Ellison and Sparke Helmore. This included:

- Briefing sessions on 17 December 2015
- Information on disputes and dispute outcomes
- Information on recent and agreed but yet to be paid redemptions and dispute settlements
- Other operational information.

For the IS valuation, we have (as we did at June 2015) relied on information from a broad range of sources to build up the claims profile; not all of these sources are on CURAM nor is the information 'linked' internally. As such, there is greater than usual uncertainty in understanding the in-force claims cohort for this valuation.

3 The Scheme Environment

This section summarises changes in the Scheme's legislative and operational landscape which are considered in our valuation.

3.1 Legislation

There have been no changes to the Scheme's legislation or Regulations which impact on our valuation since the June 2015 valuation.

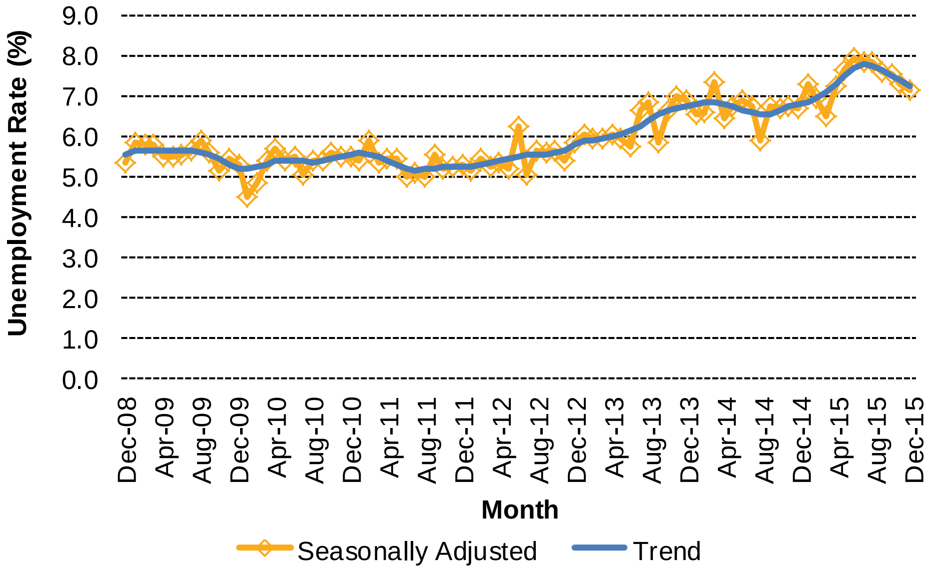
3.2 Operational and Environmental Changes

This section describes recent trends in the Scheme environment. Section 15 includes an overview of earlier operational and legislative changes which are useful in understanding the Scheme's historical experience.

3.2.1 South Australian Economic Conditions

Unemployment rates in South Australia have been reasonably high for about two years now (although there has been a slight reduction over the last 6 months), increasing from near 5% in 2012 to just over 7% currently, as shown in Figure 3.1. The unemployment rate is now higher than that seen in the GFC environment in late 2008 to mid-2009.

Figure 3.1 – South Australia Unemployment Rate



All else being equal, this may make it more difficult to achieve RTW outcomes with new employers, although to date we are not aware of any evidence to suggest this is occurring.

3.2.2 Front End Claims

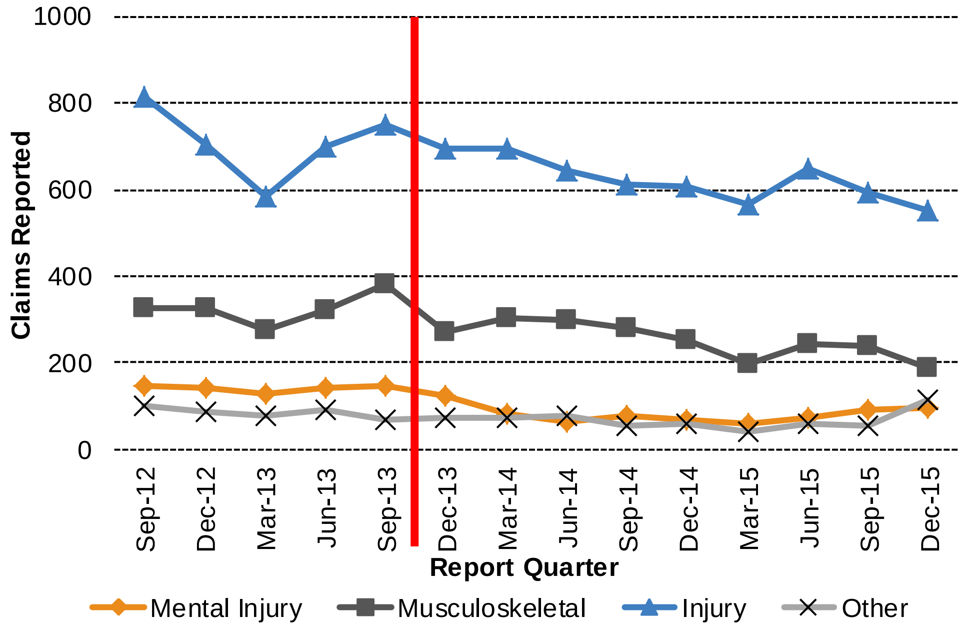
ReturnToWorkSA has continued its initiatives aimed at improving initial claim acceptance and return to work activities. The actions focus largely on early intervention and the prompt addressing of claim acceptance issues, as well as the use of 'mobile case managers' who deal proactively with any issues that impact on RTW.

The effect of the changes is that many claims that would previously have received up to 13 weeks of benefits under provisional liability rules now have their determination made within one to two weeks. As a direct consequence of these changes we have seen two main impacts:

1. An initial increase in the number of claims rejected relative to longer term levels; the level of the claim rejections has since reduced somewhat.
2. The number of claims that reach 10 days of lost time – which is the threshold to count as an 'income support claim' in the valuation – has reduced dramatically.

The overall impact has been a notable reduction in IS claim numbers; see Figure 3.2, which shows IS claim reports by quarter of report and by injury type.

Figure 3.2 – New Income Support Claim Reports by Type of Injury



IS claim reports have trended down since late 2013 for all injury types, although there has been a slight increase in the latest six months, particularly for mental injury where some of the previously rejected claims have now had IS payments (an increase in the number of claims commencing this way was anticipated in the previous valuation). The proportionate reduction is highest for mental injury claims (about a 50% drop).

3.2.3 Scheme Transition

ReturnToWorkSA is currently undertaking a small number of specific strategies which are intended to streamline the transition to RTW Act operations. These strategies are being applied for some Serious Injury claims, as well as other claims.

Dispute Settlement

In order to reduce the number of open disputes, and free up claim management resources to focus on the new RTW Scheme, ReturnToWorkSA has undertaken targeted settlement activity in relation to some disputes over the last 12 to 18 months.

The dispute settlement activity has seen significant increases in a range of payment types, including IS backpays, IS redemptions, retraining allowances and medical redemptions. In addition to settlements which have been paid out prior to December 2015, as at December there are claims with in principle agreements which are in place and are yet to be paid, and settlement offers which have been made but are not yet agreed.

We also expect further offers to be made on some existing dispute matters.

ReturnToWorkSA has emphasised that settlements will only proceed where it is in the interests of the scheme to do so.

Redemption of IS Entitlements

In late 2014 ReturnToWorkSA identified a group of almost 1,000 long duration claimants who were expected to be entitled to IS payments until the cut-off date of 30 June 2017; these claimants were all over 130 entitlement weeks, with a completed WCA decision of 'payments to continue'.

As at June 2015, ReturnToWorkSA had offered each of these claimants the opportunity to redeem future IS payments, with the redemption amount calculated as the IS benefit that would have been paid to 30 June 2017. The redemption therefore represented a bringing forward of payments that would have been received in future, and the overall financial impact on the Scheme is minor.

In late 2015 these projects were expanded to include additional claims who had not yet reached 130 weeks of payment, although the general principles of who could be offered a redemption and at what quantum remained similar. Redemption payments on these claims are expected to continue over the next six months or so.

Redemption of Medical Entitlements

In addition to the redemption of income support claims, some claims on medical only benefits are also being redeemed if acceptable terms can be agreed. While the value of these redemptions tends to be much lower than for those on income support benefits, given this group consists of around 8,000 claims there is still a noticeable level of medical redemption activity above normal levels.

3.2.4 Improved Provider Management

ReturnToWorkSA has continued to implement a number of initiatives with the aim of improving outcomes from services provided by third parties and/or reducing over-servicing from such providers, including:

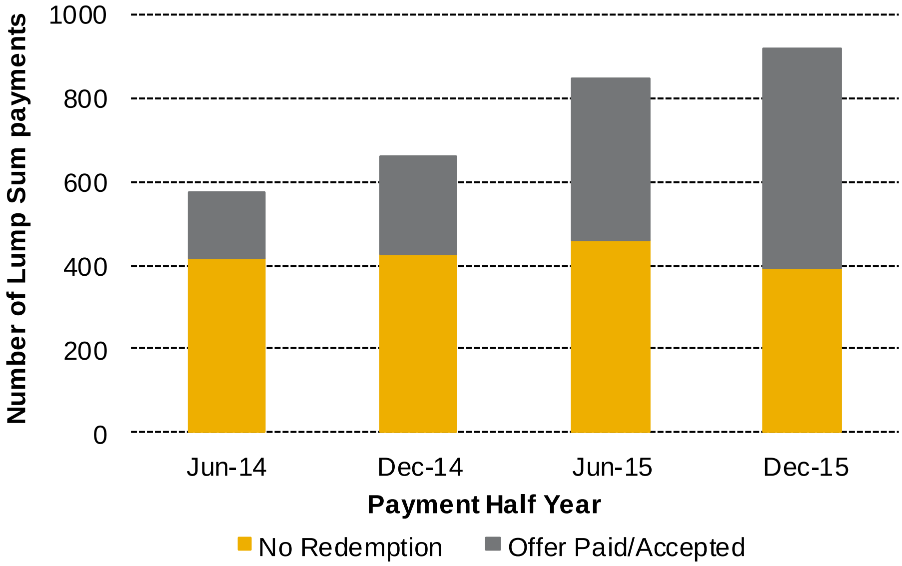
- Provider performance monitoring, with new referrals to be targeted toward the best performers.
- Peer-to-peer monitoring program of physiotherapy and psychologist providers.
- Outlier identification and follow up programs, both on direct provider costs and on the RTW outcomes for injured workers.

This increased focus has also led to changes in claims agent referral behaviour, with reduced referral volumes in the last 12 months and a focus on services that target outcomes rather than 'ongoing support'.

3.2.5 Lump Sums

Over the previous 18 months, and the last six months in particular, there has been an increase in the number of lump sum payments made. We can see that this increase in payment numbers is directly attributable to the high redemption and settlement activity, where any lump sum payments are required to be finalised prior to any redemption or settlement. Figure 3.3 below shows the split between First Paid lump sum payments with and without redemption.

Figure 3.3 – First Paid Lump Sums by type



The level of payments for claims without redemption activity has been relatively stable over the last two years, with payments related to claims receiving redemptions driving the overall increase in First Paid lump sums.

We have largely interpreted this as a bringing forward of payments, rather than an increase in the ultimate number of claims with a lump sum payment.

There has also been an increase in the number of Top Up lump sums paid, and this was higher than allowed for in our previous valuation basis. We believe this is due to workers responding to the restrictions placed on Top Ups and have again largely interpreted this as a bringing forward of payments, rather than an increase in the ultimate number of payments. That said, the higher number of top ups also has implications for Serious Injury claim numbers, where we have seen an increase in newly identified claims as a result of old claims seeking to increase their WPI assessments. Given the high cost of Serious Injury benefits, this has large financial implications.

4 Recent Claims Experience

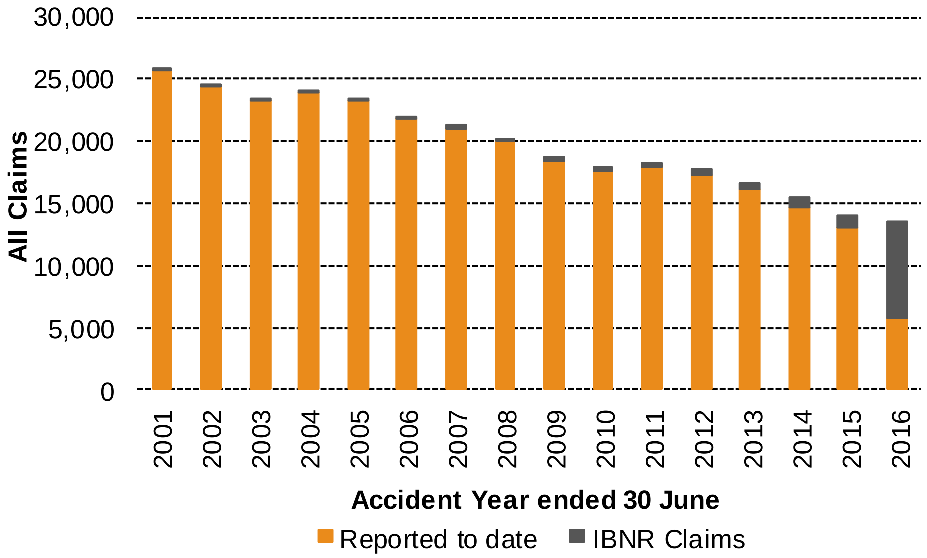
This section provides a high level analysis of Scheme experience, including the numbers of new claims and overall payment trends.

4.1 Claim Incidence

4.1.1 All Claims

Figure 4.1 shows the estimated numbers of claims incurred in each accident year (excluding reports which are determined as ‘incidents’). The graph separates the actual numbers reported to date and our projection of claims incurred but not yet reported (IBNR).

Figure 4.1 – Ultimate Number of Claims (All Claims)



The main feature of the experience is a general downwards trend, which began in the 1990s. After an increase in claim numbers in 2011, there have been reductions in each year since. Our current estimate of 14,090 claims for the 2014/15 accident year is 10% lower than the projected number for 2013/14. Our current estimate for the 2015/16 year (at this very early stage) is 13,510 claims, 4% lower than the 2014/15 year.

4.1.2 Income Support Claims

Income Support (IS) claims are those who receive more than 10 days of lost time benefits. In addition to the early RTW focus which aims to stop claims getting to 10 days of lost time, the current operational policy which focuses on tighter claim acceptance, which began in late 2013, has also reduced the number of IS claims for all accident years since 2013/14.

Figure 4.2 shows our projected ultimate numbers of IS claims (those with more than 10 days’ lost time), split into those who have already received an IS payment and those who are expected to receive their first IS payment in future (IBNR).

Figure 4.2 – Ultimate IS Claim Numbers

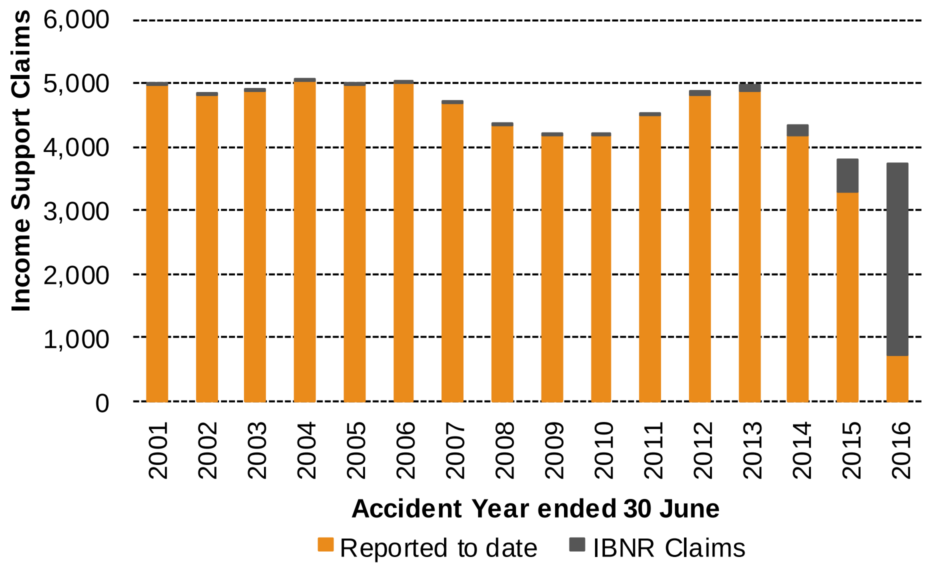


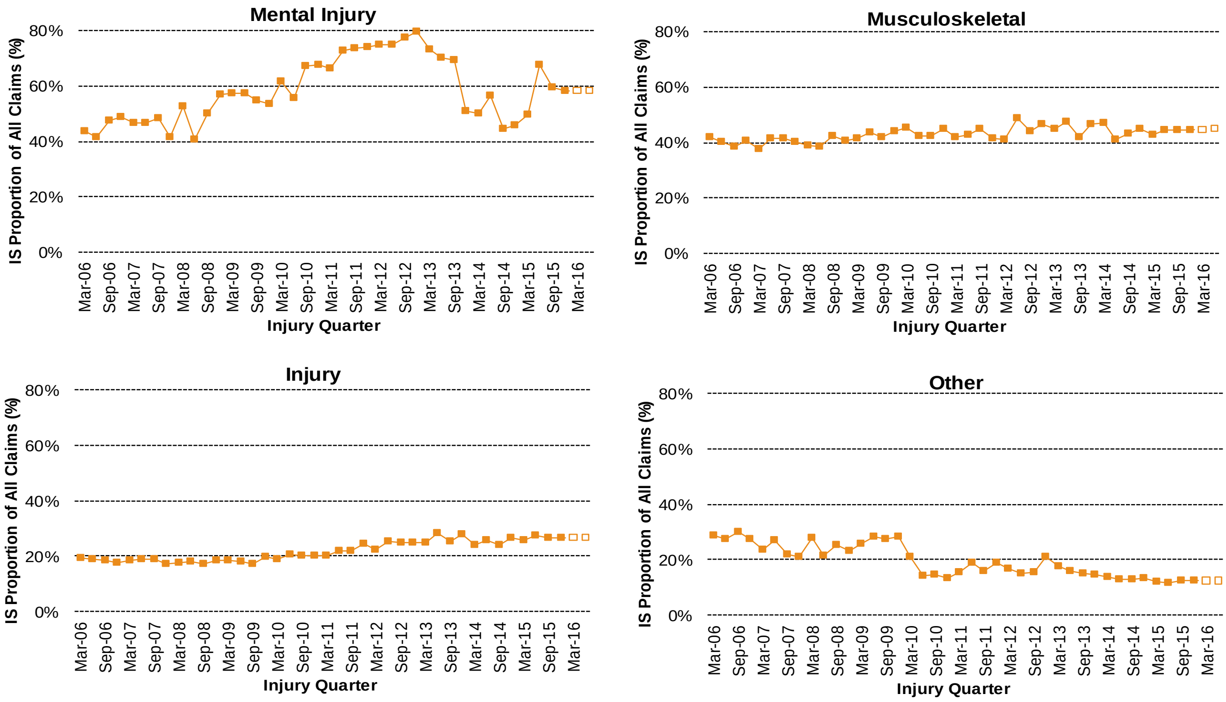
Figure 4.2 shows:

- Prior to 2007 IS claim numbers were reasonably stable, with around 5,000 claims per annum
- IS claim numbers dropped by 17% between 2005/06 and 2009/10, and then rose over the next three years to again reach 5,000 claims per annum
- Our current projection shows IS claim numbers are expected to reduce materially in 2013/14 (a 13% reduction) and again in 2014/15 (a 13% reduction). Our projection of 3,800 IS claims for the 2014/2015 year and 3,744 for the 2015/16 year are the lowest since the scheme commenced, and largely unchanged from the projection at the previous valuation.

As shown in the graph, considerable development of claim numbers is still expected for the latest accident year, and there is therefore significant uncertainty around the ultimate outcomes in this year.

In order to better understand the reduction in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.3 below shows the proportion of claims that go on to receive 10 days of lost time (and thus are classified as an IS claim). The biggest change is the reduction in mental injury claims, which has dropped by around 40%, with smaller reductions for ‘Other’ claims while musculoskeletal and injury claims have been relatively stable since 2013. This has important implications for long term IS claim costs as mental injury and other injury types tend to have longer average durations than the ‘typical’ IS claim; which implies that IS claim costs should reduce by at least as much as the reduction in numbers.

Figure 4.3 – IS Claims as a Proportion of All Claims by Type of Injury

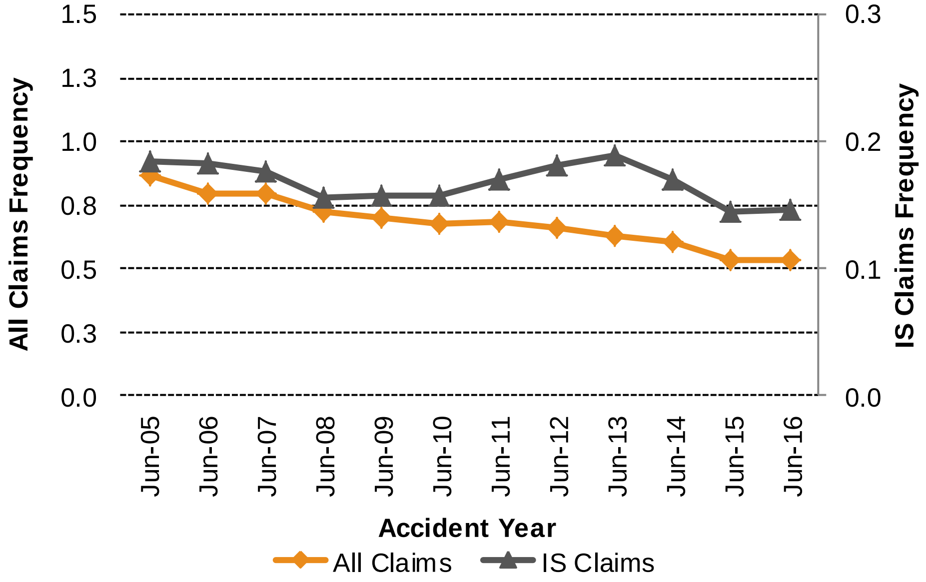


We also observe that the increase in the proportion of mental injury claims receiving IS in the last 6-12 months is not due to an increase in the number of IS claims, but rather a dramatic reduction in the reported number of mental injury claims in the last year. Our estimate of mental injury claims has increased by 5% to 10% for the 2014/15 and 2015/16 accident years due to the experience in the last six months. The absolute number of mental injury IS claims is still expected to be the lowest in almost 15 years.

4.1.3 Claims Frequency – All Claims and IS Claims

Figure 4.4 compares the trends in (1) total claim frequency ('all claims' numbers from 4.1.1) and (2) IS claim frequency (IS numbers from 4.1.2); the frequencies are expressed relative to covered scheme wages (in current values). The two series are shown on different scales so the trends can be directly compared.

Figure 4.4 – Claim Frequency (Claims per $m wages)

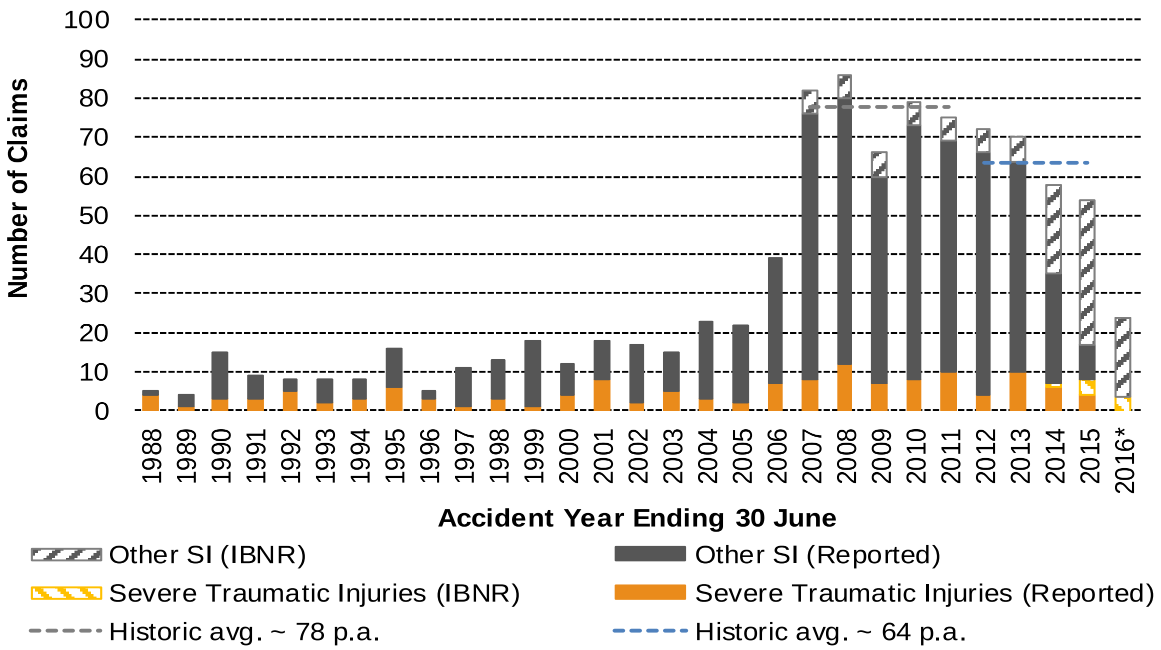


The IS claim frequency was on a similar trend to the all claims frequency until 2008, before diverging between 2008 and 2013. Following the improvement in IS claim numbers in the last three years the estimated frequencies for accidents in 2013/14 and 2014/15 are again moving in line for IS claims and all claims (indeed the gap between the two lines has closed somewhat). The 2015/16 accident year is expected to be in line with the 2014/15 accident year, although actual experience is very early at this stage.

4.2 Serious Injury Claims

Figure 4.5 shows our estimated numbers of Serious Injury claims by accident year.

Figure 4.5 – Serious Injury Claim Numbers by Accident Year



* 6 months to Dec-15 only

The key features we note from this are:

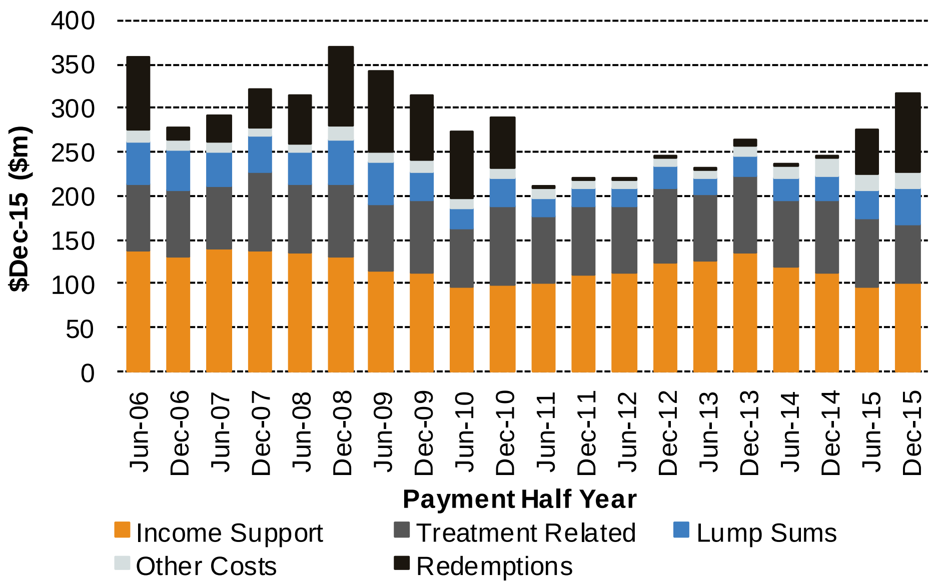
- The number of Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- In the period 2007 to 2011 there average nearly 80 Serious Injury claims per year. However, this includes 10 - 20 'top-up' claims (i.e. deteriorations or aggravations) per year which are no longer expected under the RTW Act due to the requirement for 'once and for all' WPI assessments.
- From 2012 to 2015 the number of Serious Injury claims is lower, at around 65 claims per year, as to date there has been limited 'topping up' of WPI scores on these claims; these periods also include a material level of IBNR claims, and so the ultimate number of claims is less certain.
- For later years we expect there will still be development in claim numbers. Assuming the new WPI assessment provisions work as intended, we expect there to be around 50 Serious Injury claims per year (of which 9 are expected to be Severe Traumatic Injuries), and have allowed for 131 IBNR claims in the 2006/07 to 2015/16 accident years based on this ultimate view.

The Regulation changes introduced in June 2015 mean that claimants with multiple injuries may apply for subsequent WPI assessments up until 30 June 2016. As there is still the opportunity for more top-up claims to emerge as part of this process this is an area of significant uncertainty and higher top up claims could materially increase the liability.

4.3 Overall Payment Experience

Figure 4.6 shows gross claim payments (i.e. before recoveries) in half yearly periods over the last ten years, inflated to current values.

Figure 4.6 – Gross Claim Payments ($Dec15)



Gross payments of $316 million were 15% higher in real terms (i.e. after adjusting for inflation to current values) than the previous six months. This reflects some mixed experience by payment type:

- There continues to be strong redemption activity, given this is mostly associated with STCs, this is essentially a bringing forward of payments that would have occurred in the next 18 months and so does not indicate a deterioration of experience.

- IS payments have steadily reduced since 2013 reflecting the success of the Tail Project, increases in on-time WCA, reductions in new IS claim numbers and, over the last 12 months, the commutation of IS payments via redemptions.
- Treatment costs have been fairly stable since 2008, with early evidence of savings coming through in the last six months.
- Lump sum payments have reduced since 2009, after the transition to the new assessment basis, although the last six months' payments were the highest since this change took place.

After allowing for recoveries of $10 million in the last six months, net claim payments of $304 million were $44 million (17%) higher than projected at the previous valuation. Table 4.1 shows the breakdown.

Table 4.1 – Payments: Actual vs Expected vs Prior Period

Entitlement	Six Months to Dec-15				Split by Category	
Group	Actual	Expected	Act - Exp	Act/Exp	Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	99.4	80.4	19.0	124%	16.3	2.6
Redemptions	88.9	72.5	16.4	123%	7.8	8.5
Lump sums	40.7	29.8	10.8	136%	9.8	1.1
Worker legal	10.3	8.9	1.4	115%	0.5	0.9
Corporation legal	6.0	7.0	-1.0	86%	-0.7	-0.3
Medical	31.3	33.5	-2.2	93%	-1.8	-0.4
Hospital	7.2	6.7	0.5	107%	0.6	-0.1
Travel	3.1	3.6	-0.5	86%	-0.8	0.3
Rehabilitation	5.3	7.6	-2.3	70%	-2.0	-0.3
Physical therapy	4.9	5.4	-0.6	89%	-0.5	-0.1
Investigation	1.0	2.1	-1.1	49%	-0.9	-0.2
Other	15.4	9.6	5.8	161%	5.9	-0.1
Common law	0.0	0.1	-0.1	0%	-0.1	0.0
LOEC	0.1	0.1	0.0	110%	0.0	0.0
Commutation	0.0	0.2	-0.2	18%	-0.2	0.0
Gross Payments	313.7	267.8	45.9	117%	33.9	12.0
Recoveries	-10.2	-8.2	-2.0	124%	-1.4	-0.5
Net Payments	303.6	259.6	44.0	117%	32.5	11.5

The key features of the last six months' payment experience are:

- The largest difference related to IS payments which were $19 million (24%) higher than expected, reflecting significant back pay payments related to redemption activity and the retrospective federal minimum wage adjustments required under the RTW Act.
- Redemptions, Other and Lump Sum costs were collectively $33 million higher than expected, mostly driven by high levels of settlement and redemption activity over the last six months.
- Treatment costs were $5 million (9%) lower than expected. The lower costs are a combination of the recent redemption activity shifting costs into the redemption bucket (for redemption of medical entitlements) and management strategy to reduce over-servicing in some areas.
- Recoveries were $2 million (24%) higher than expected.
- Payments on STCs can largely be explained by the commentary above. For SICs, most of the higher than expected payments relate to greater redemptions than expected and payments on newly identified SICs (which were high in the six months).

Our valuation basis for STC is discussed in the following sections: IS and related expenditure in Section 5; Lump sums in Section 6; treatment related expenditure in Section 7 and all other entitlements in Section 8. Section 9 discusses our valuation of Serious Injury claims.

5 Income Support and Redemptions – Short Term Claims

This section describes our valuation of Income Support (IS) payments, as well as redemption of IS and Medical entitlements, for Short Term Claims only.

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments, and Redemptions of both IS and Medical payments, since the June 2015 valuation.

Table 5.1 – Valuation Results: IS and Redemption

Jun-15 Valuation	$m	$m	$m
Estimated Liab at Jun-15	325.0		
Projected Liab at Dec-15	236.9		
Dec-15 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	9.8	24.2	(34.0)
Estimated Liab at Dec-15 (Jun-15 eco assumptions)	**246.7**		
Impact of change in eco assumptions	0.3		
Estimated Liab at Dec-15 (Dec-15 eco assumptions)	**247.0**		

At December 2015 there is an actuarial strengthening (negative release) of $34.0 million, reflecting the claims experience since June 2015 and our valuation response. It comprises:

- $19.7 million relating to IS payments, including redemption of IS payments
- $14.3 million in respect of redemption of Medicals, which largely represents a transfer of cost from the medical benefits discussed in Section 7.3

The impact of economic assumptions is minor, and is discussed in Section 11.3.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the **combined IS and Redemption** payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection. The payments here include:

- Ongoing IS payments
- IS redemptions of three types:
  - Redemption of IS entitlements to 30 June 2017 – “two-year redemptions”, paid to claimants who have been assessed as entitled to IS until the hard boundary. This represents bringing forward of payments.
  - IS redemptions paid to claimants who have been in dispute; redemptions continue to be used as a tool to settle ongoing IS disputes and to extinguish future IS liability (see Section 3.2.4)
  - Medical redemption payments.
- IS backpay amounts. Backpay has historically represented a modest proportion of the total IS payments. During the 18 months, significant backpay amounts have been paid as part of the dispute settlement process; see below.

Table 5.2 – Actual vs Expected Payments: IS and RED

Accident Period	Payments in Six Months to Dec 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
By Accident Period				
To 30 Jun 05	4.8	5.2	(0.3)	93%
2005/06 - 2012/13	92.5	86.6	6.0	107%
2013/14 - 2014/15	60.3	41.7	18.6	145%
2015/16	6.0	6.1	(0.1)	98%
Total	163.6	139.4	24.2	117%
By Payment Type				
IS payments	90.5	74.2	16.3	
IS redemptions	69.2	64.1	5.2	
Medical redemptions	3.9	1.2	2.7	
Total	163.6	139.4	24.2	117%

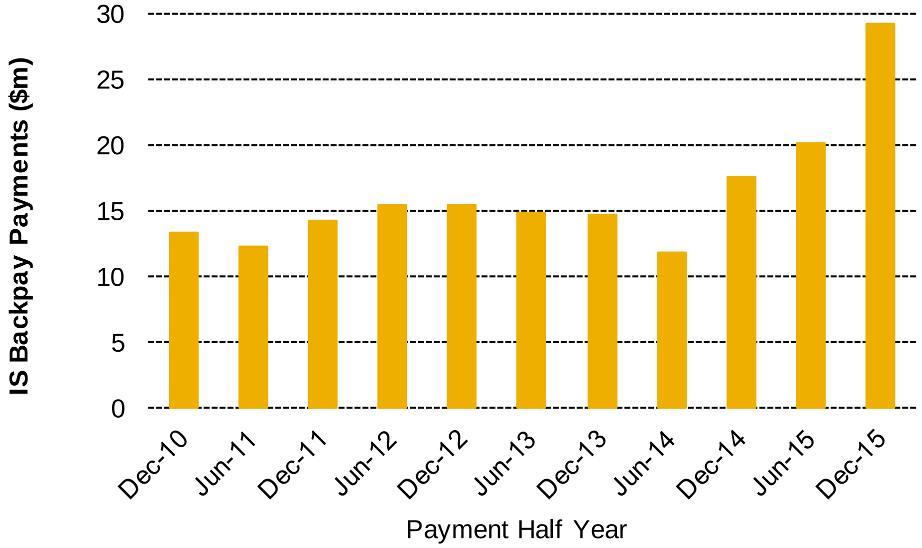
Our comments on this experience are:

- **By accident period**: combined IS and Redemption payments were above expectations for accident years 2005/06 to 2014/15 – with payments for 2013/14 and 2014/15 in particular being well above (by 45%). Total payments were slightly below expectations for pre 1 July 2006 claims, and for 2015/16 accidents (RTW Act claims).
- **By payment type**: Two-thirds of the difference in payments related to IS payments (mostly backpay, which is discussed below).

Backpay Amounts

The IS payments experience in the six months included heavy levels of backpay, and particularly backpay related to dispute settlements. This is demonstrated in Figure 5.1

Figure 5.1 – History of IS Backpay Payments

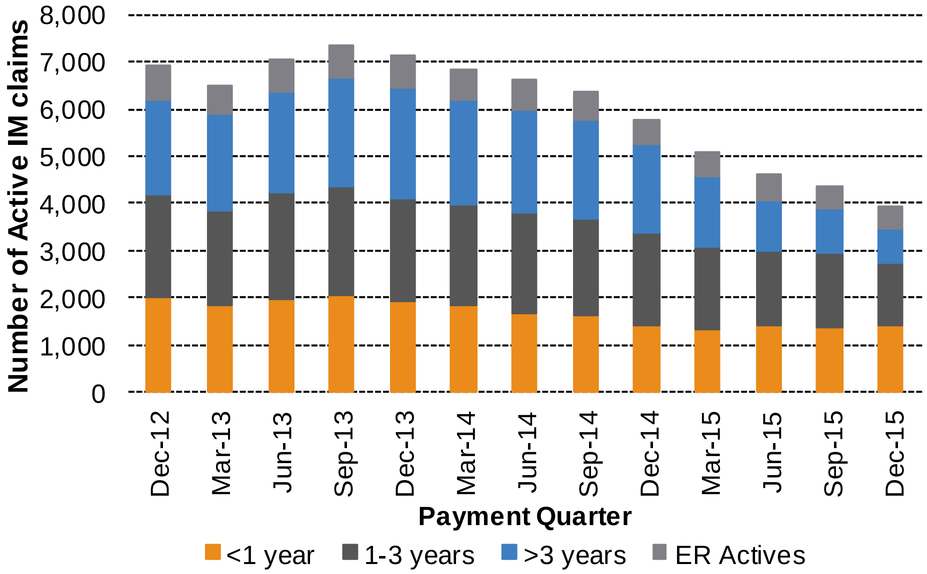


Backpay payments rose above 'normal' levels ($15 million or less per six months) in the year to June 2015. They were much higher again in the six months to December 2015, at nearly $30 million – twice the normal level, and our June 2015 valuation basis did not anticipate the level of backpay which has been observed in dispute settlement payments in the last six months.

5.2.2 Active Claims and Exits

Figure 5.2 shows the numbers of (quarterly) active IS claims, by duration, over the last three years.

Figure 5.2 – Numbers of Active IS Claims



Active claim numbers have continued to fall as a result of ReturnToWorkSA's operational claim strategies; total IS actives fell by 6% in the September 2015 quarter and by 10% in the December quarter (a total of 15% in the six months). There have been significant falls for claims with duration over three years (down 32% since June), and claims between one and three years' duration (down 17%); this correlates with durations where redemption settlements are being utilised.

In Table 5.3 we compare the numbers of active IS claims at December 2015, WCA exits and exits by redemption in the last six months with our June 2015 valuation projection[1].

Table 5.3 – AvE Active Claims and Exits

	Active Claims				Work Capacity Exits			Redemptions		
Accident Period	Proj from Jun-15 Val	Actual Actives	Act *less* Proj	Diff as % Actual	Proj Jun-15 Val	Actual Exits	Additional Exits	Proj Jun-15 Val	Actual Reds	Additional Reds
Jun-06	34	27	-7	-21%	0	2	2	18	17	-1
Jun-07	56	54	-2	-3%	0	9	9	49	48	-1
Jun-08	65	48	-17	-26%	0	21	21	67	67	0
Jun-09	77	66	-11	-14%	0	31	31	68	74	6
Jun-10	95	81	-14	-15%	4	18	14	84	82	-2
Jun-11	143	120	-23	-16%	8	15	7	90	110	20
Jun-12	203	140	-63	-31%	18	48	30	127	132	5
Jun-13	497	331	-166	-33%	78	114	36	150	239	90
Jun-14	764	653	-111	-14%				33	167	134
Jun-15	1,183	1,169	-14	-1%				10	61	51
Dec-15	708	677	-31	-4%				0	0	0
Total	3,823	3,366	-457	-12%	108	258	150	697	997	300

Overall, active claim numbers at December 2015 were 12% below expectations. Active claims were lower than expected for all accident periods, and more than 15% lower for most accident periods.

[1] For the most recent accidents, active claim numbers were expected to grow rather than reduce in the six months.

There were more than twice as many WCA exits in the six months as projected, although this is now no longer a feature of the scheme under the RTW Act. Redemption numbers were 43% above expectations, reflecting the focus on settling disputes and paying out IS entitlements in advance (where appropriate).

We assess that the current numbers of active claims do not necessarily represent a reliable base for projecting future IS-related payments; with the current claim strategies and with many claims in dispute, significant payments have been made – and are expected to be made – to claimants who are not currently in receipt of regular IS payments, and/or be paid in different ways to the past. Our approach is discussed further in Section 5.3

5.2.3 Dispute Settlements

Table 5.4 shows the numbers of dispute settlements during the six months to December 2015, including settlement of claims which were not receiving IS payments at June 2015.

Table 5.4 – Dispute Settlements in Six Months to Dec-15

Accident Period	Dispute Settlements: FTRAIN [1]	Dispute Settlements: Redemption
To 30 Jun 05	2	11
2005/06 - 2012/13	18	338
2013/14 - 2014/15	7	49
Total	27	398

[1] Some claims were settled with Red + FTRAIN pmts; these are claims with only FTRAIN.

In addition to large numbers of exits via redemption and WCA, as discussed above, 27 claims which had been in dispute were settled via an FTRAIN payment (no redemption); 60% of these claims received IS as part of their settlement.

As at December 2015, a further 251 claims have either agreed to a two-year redemption, or agreed to settle via FTRAIN or redemption; see Table 5.5. Once again, some of these claims are not active at December 2015. The average agreed IS payment for each group is shown in the last row of the table.

Table 5.5 – Agreed Future Exits as at December 2015

		Dispute Settlements			Total Reds
IS Status at Jun-15	2 Yr Reds	FTRAIN	Red	Total	+ Settlem'ts
To 30 Jun 05	0	1	6	7	7
2005/06 - 2012/13	10	17	102	119	129
2013/14 - 2014/15	1	17	97	114	115
Total	**11**	**35**	**205**	**240**	**251**
Average IS Amt ($000)	102	23	57	52	54

The two-year redemptions (average $102,000) represent a bringing forward of IS payments, and are therefore relatively large in quantum. There are 35 agreed dispute settlements via FTRAIN (average IS $23,000) and 205 agreed settlements by redemption ($57,000 on average).

5.3 December 2015 Valuation – IS Payments

This section summarises the approach and basis we have taken for IS payments and IS redemptions.

5.3.1 Pre-June 2005 Claims

Claims with accident dates before 1 July 2005 were mostly managed under the pre-2008 legislative basis, with heavy use of redemptions.

Table 5.6 shows the movements between the numbers of claims valued at June 2015 and at December 2015, as well as the estimated liability as at December 2015. The liability figures shown here include ongoing IS payments to June 2017 or earlier retirement, with no allowance for future WCA, RTW or other non-mortality discontinuance other than agreed dispute settlements and 2 year redemptions.

Table 5.6 – Valuation of Pre-June 2005 Claims

Status at Dec-15	Jun-15 Val	Serious Injury	2 Year Reds Paid+Prop	Total Net Exits	Dec-15 Val	OSC Dec-15[1]
						$m
Claims valued at Jun-15	115	5	7	19	84	3.8
Reopened in six months	27	1	4	2	20	0.94
Claims valued Dec-15					104	4.77
IBNR allowance [2]						1.4
Total OSC Dec-15						6.20

[1] Excludes allowance for post-surgery IS paymnets and dependant pmts; uses Dec-15 ecos

[2] Rolled forward from Jun-15 allowance.

Of the 115 claims valued at June 2015, five are now valued as Serious Injury claims (Section 9), seven have exited via a two-year redemption and 19 (17%) have exited by other means. In addition, 27 claims which were not valued at June 2015 have reopened, and 20 of these are valued at December 2015.

In total we have valued 104 claims at December 2015, at an average value of $46,000 (the June 2015 average was $55,000).

5.3.2 Accident Years 2005/06 to 2014/15

Claims Management

The claims management strategies which have applied to these claim cohorts in the past are summarised in Table 5.7.

Table 5.7 – Claim Cohorts and Strategies

Accident Years	WCA Impact	Other Strategies
2005/06 to 2010/11	Subject to WCA reviews, with assessments mostly at durations beyond 130 weeks.	Tail Project in 2013 and 2014.
2011/12 and 2012/13	'On time' assessment – subject to WCA reviews as claims reached 130 weeks. 2012/13 claims did not experience the full WCA impact, due to WCA activity ceasing as of 30 June 2015.	Dispute settlement strategy - since early 2015.
2013/14 and 2014/15	No WCA activity for these periods.	Dispute settlement strategy – for accidents to 31 Dec 14.

The different strategies mean the characteristics of each group are different, and this is reflected in our valuation basis.

Basis – Claim Numbers

For these accident years, we projected exits from the current portfolio of IS claims as follows:

- **Redemptions and settlements agreed** at December 2015 – we assumed all of these claims would exit in the next six months, in accordance with the terms of the agreements.
- **Redemptions and settlements proposed** at December 2015 – we assumed all of these claims would exit in the next six months.
- We assumed **outcomes on current disputes** will be:
  - Where there is a legal assessment of:
    - *<50% chance of ReturnToWorkSA winning*: we assumed these claims would receive a redemption payment as settlement
    - *>50% chance of ReturnToWorkSA winning*: we assumed 75% of these claims would exit without a settlement and 25% would exit with a settlement
  - Where there is no legal assessment, we assumed:
    - 75% of disputes have a <50% chance of RTWSA winning (with resolution as above)
    - 25% of disputes have a >50% chance of RTWSA winning (with resolution as above)
- Importantly, we allowed for some **IS exits by other means** (‘no-cost’ exits), such as RTW; for more recent accident periods, we expect that claims will exit IS at rates similar to those observed in the Scheme’s recent history. In setting our exit rate assumptions we have adjusted past experience to remove the impact of WCA which is no longer in use under the RTW Act.

Overall, we projected 336 settlement redemptions in addition to those already agreed. The projected exits by type, and the resulting numbers of claims projected to receive IS up to the hard boundary at June 2017, are set out in Table 5.8.

Table 5.8 – Claims Valued and Projected Outcomes

		Projected outcomes				
Accident Year	No. IS claims valued	Lump sum settlements	2 Year Reds	'No-cost' exits	2017 Actives	% No-cost exits
2006	33	5	8	2	18	5%
2007	70	19	6	3	42	5%
2008	63	17	5	2	39	3%
2009	99	28	14	3	54	3%
2010	111	26	13	4	68	3%
2011	153	32	22	5	94	4%
2012	184	55	17	7	105	4%
2013	406	99	59	38	210	9%
2014	718	125	71	127	395	18%
2015	1,231	136	30	528	537	43%
Total	3,067	541	245	720	1,561	

We emphasise that our basis implies that 43% of current IS claims for 2014/15 will exit without any lump sum payment (e.g. by RTW), and there are smaller numbers of such exits projected for older accident years. This demonstrates the importance of achieving 'normal' exits going forward, even while other claim management approaches are being undertaken – if these no-cost exits cannot be achieved, the Scheme's ultimate liability is likely to increase beyond our current estimates.

Basis – Dispute Settlement Amounts

Where a settlement amount is attached to a claim at December 2015 (agreed or proposed), we assumed this amount would be paid. For other projected settlements by redemption, we assumed an average settlement amount of $60,000, which is consistent with recent Scheme history.

5.3.3 Accident Year 2015/16

The six months of post-1 July 2015 accidents represent the first post-RTW Act cohort. These claims have significantly different entitlements, and our basis for these claims reflects this. The early experience of these claims in relation to IS and Redemption payments is close to June 2015 expectations (noting that the June 2015 basis was derived from our extensive reform costing work):

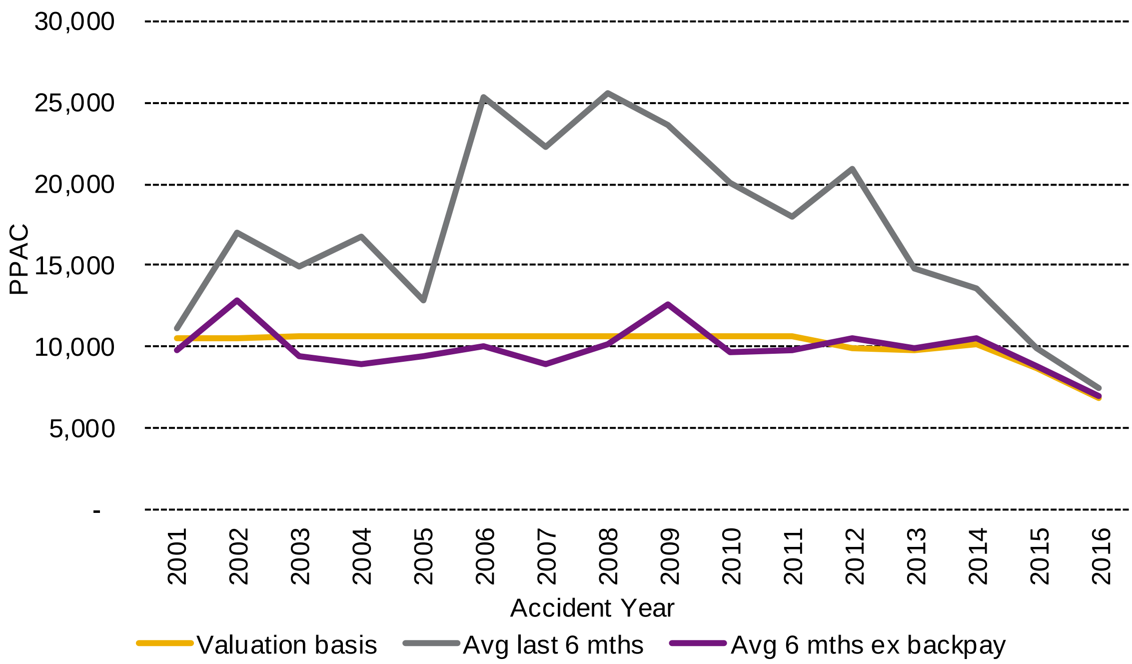
- IS payments in the six months were 98% of expectations
- Active IS claims at December 2015 are 96% of projected actives.

We assess that, given this experience, there are not sufficient grounds to move from our previous estimate of the (ultimate) IS cost for these claims. We have therefore retained our June 2015 estimate of ultimate costs.

5.3.4 Payments per Active Claim

Our projection of future IS payments at December 2015 has used the same Payments per Active Claim (PPAC) assumptions as our June 2015 valuation. Figure 5.3 demonstrates that, after normalising for the backpay element and high level of redemptions the observed PPACs were consistent with our June 2015 basis.

Figure 5.3 – PPAC in Six Months to Dec-15



We note that backpay is a 'normal' component of IS claim payments, but is usually significant only for claims at early durations.

5.3.5 Other IS Elements

Our estimates of dependant benefit payments, and post-surgery IS claim payments beyond the two-year hard boundary, are unchanged from June 2015.

5.4 Medical Redemptions

The redemption of Medical entitlements is modelled separately and aggregated back into the Redemptions group for reporting (in line with ReturnToWorkSA's financial groups). There has continued to be high utilisation of medical redemptions in the last six months, as part of the current claims management approach.

A medical redemption can be paid to a claimant alongside an IS redemption ("IS-medical"), or without ("Medical-only"). Our June 2015 valuation allowed for higher numbers of IS-medical redemptions, with the Medical redemption payments projected to run-off in line with IS redemptions. At this valuation, we have included an additional allowance for Medical-only redemptions; these are expected to happen over a longer period than IS-medical redemptions, and higher numbers of Medical-only redemptions are anticipated. Table 5.9 summarises our assumptions.

Table 5.9 – Medical Redemption Assumptions

Type of Redemption		Payment Half-Year Jun-16	Dec-16	Jun-17	Dec-17
IS-medical	Number	500	370	250	150
	Size ($)	4,900	4,000	3,000	2,000
Medical-only	Number	600	730	850	950
	Size	4,900	4,000	3,000	2,000

As claims approach the 12-month boundary on medical benefits, the average medical redemption amount is expected to reduce, and our adopted average sizes reflect this.

The allowance for additional medical redemptions increases the valuation liability by about $12 million (see below). This is essentially offset by a reduction in the Medical liability estimate (see Section 7.3), with only a minor net impact on the overall Scheme liability.

5.5 Valuation Results and Actuarial Release

Table 5.10 sets out the components of the actuarial strengthening (negative release) for IS payments and Redemptions.

Table 5.10 – Components of Actuarial Release: IS and Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(24.2)
Difference from projected liability		
Clams no longer valued	3.4	
IS + IS Redemption basis	(1.6)	
Medical Redemption basis	(11.6)	
		(9.8)
Total		(34.0)

The actuarial strengthening of $34.0 million is made up of $24.2 million in additional payments in the six months, and a $9.8 million increase on the projected liability from June 2015, which is composed of:

- A reduction of $3.4 million due to movements to self insurance and the Serious Injury portfolio (claims no longer valued)
- An increase of $1.6 million due to changes in the IS and IS Redemptions basis
- An increase of $11.6 million due to changes in the Medical Redemption basis, which as noted is largely offset in the valuation of Medical payments.

Table 5.11 sets out these movements by accident period.

Table 5.11 – Actuarial Release for IS and Redemptions

	Difference from Projected Liability						
Accident Period	WEX and SI Exits	IS + IS Reds Basis	Medical Reds Basis	Total	AvE Pmts in 6 mths	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	1.3	0.0	1.3	(0.3)	(1.0)	-9%
2005/06 - 2012/13	(2.7)	0.0	6.3	3.7	6.0	(9.6)	-11%
2013/14 - 2014/15	(0.7)	0.1	5.3	4.7	18.6	(23.3)	-24%
2015/16	0.0	0.2	(0.0)	0.1	(0.1)	(0.0)	0%
Total	(3.4)	1.6	11.6	9.8	24.2	(34.0)	-14%

Almost 70% of the strengthening sits in accident years 2013/14 and 2014/15, where much of the current dispute settlement activity is targeted.

6 Lump Sums – Short Term Claims

This section describes our valuation of lump sum payments for Short Term Claims. A lump sum is payable to a worker who suffers a compensable disability that results in at least 5% whole person permanent impairment (WPI). Separate Lump Sums compensate claimants for non-economic loss and future economic loss, although compensation for future economic loss is only available to claims with injuries after 1 July 2015.

Introduction

We value lump sums in five segments:

- “Death” and funeral claims.
- “Deafness” claims.
- “First Paid” lump sums – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Deafness claims).
- “Top Up” lump sums – where a claimant receives an additional payment in a half-year after they received their first lump sum payment (excluding Death and Deafness claims). These are only allowable for claimants with injury dates prior to 1 July 2015.
- “Economic Loss” lump sums – Short Term Claims may receive an additional payment for loss of future earning capacity. This is a new benefit under the RTW Act and is available to new injuries from 1 July 2015.

The appendices specify the complete definitions for the lump sum valuation.

6.1 Summary of Results

Table 6.1 summarises the movements in our liability estimates for lump sum payments since the June 2015 valuation.

Table 6.1 – Valuation Results: Lump Sums

Jun15 Valuation	$m	$m	$m
Estimated Liab at Jun-15	136.2		
Projected Liab at Dec-15	155.7		
Dec-15 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	(5.4)	9.8	(4.4)
Estimated Liab at Dec-15 (Jun-15 eco assumptions)	**150.3**		
Impact of change in eco assumptions	0.7		
Estimated Liab at Dec-15 (Dec-15 eco assumptions)	**151.1**		

The December 2015 liability shows an actuarial strengthening of $4.4 million since June 2015, reflecting a decrease of $5.4 million in the liability, and $9.8 million of higher claims payments. The remainder of this section deals with this impact while the impact of the change in economic assumptions is discussed in Section 11.3.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident Period	Payments in Six Months to Dec 15 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.6	1.0	0.5	152%
2005/06 - 2008/09	3.7	1.5	2.2	248%
2009/10 - 2011/12	10.4	5.4	5.0	193%
2012/13 and later [1]	15.8	13.8	2.0	114%
Total	31.5	21.8	9.8	145%

[1] Accidents to Dec15

Payments were significantly higher than expected in the six months to 31 December 2015. This was mainly driven by:

- First Paid lump sum payments arising from accident periods with high redemption and settlement activity
- Higher numbers of Top Up lump sum payments than we had allowed for.

We have interpreted the drivers above as largely being a bringing forward of payments that previously would have taken longer to occur. The higher level of top up lump sums has important implications for Serious Injury claim numbers, as discussed in Section 9

6.3 Valuation Basis

Valuation Basis for First Paid Lump Sums

As noted in Section 3.2.5, lump sum claim numbers have been high in the last two years, which we have attributed to the recent settlement and redemption activities.

Our valuation basis adopts a combination of chain ladder approach for more mature accident periods and frequency approach for more recent accident periods where there is less experience.

In light of the recent experience, we have adopted a frequency approach for accidents after June 2010 (previously June 2012) as this approach better allows for changes in the payment speed compared with the chain ladder approach. We have maintained the previously selected ultimate numbers of First Paid lump sums. For more mature accident periods, a chain ladder approach is used where there are fewer IBNR claims remaining.

Figure 6.1 shows the ultimate number of First Paid lump sums, split into paid and IBNR claims. This also demonstrates the scale of the reduction in lump sum claim numbers following the June 2008 reforms when a 5% WPI threshold was introduced.

Figure 6.1 – Ultimate Number of First Paid Lump Sums

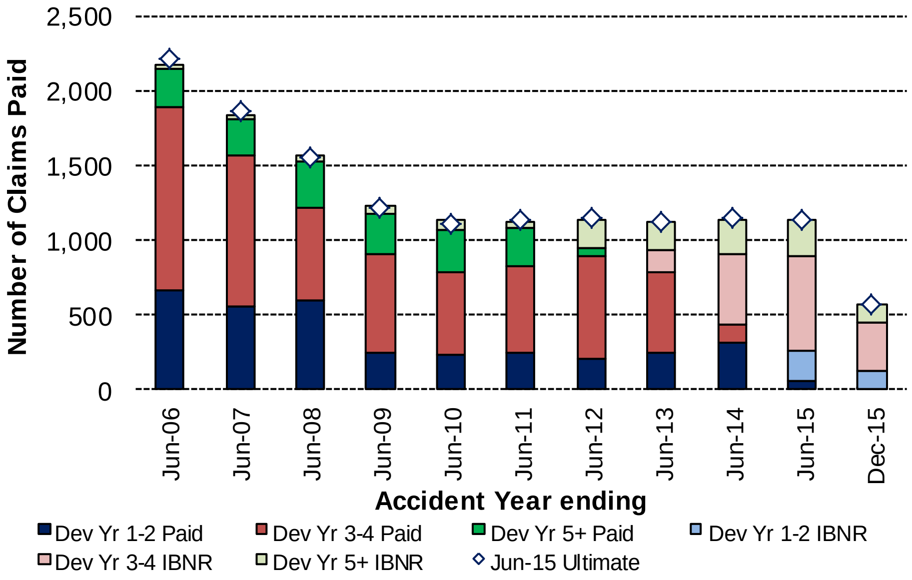


Table 6.3 shows the average size of First Paid lump sums over the last two years split by redemption activity. As this shows, the overall average size has increased by around $2,300 or 10%.

Table 6.3 – First Paid Lump Sums Average Size

	Payment Half-Year ($Dec15)			
	Jun-14	Dec-14	Jun-15	Dec-15
Redemption	25,642	25,031	25,336	27,794
No Redemption	22,672	22,793	21,844	24,154
Total	23,812	24,012	23,703	26,093

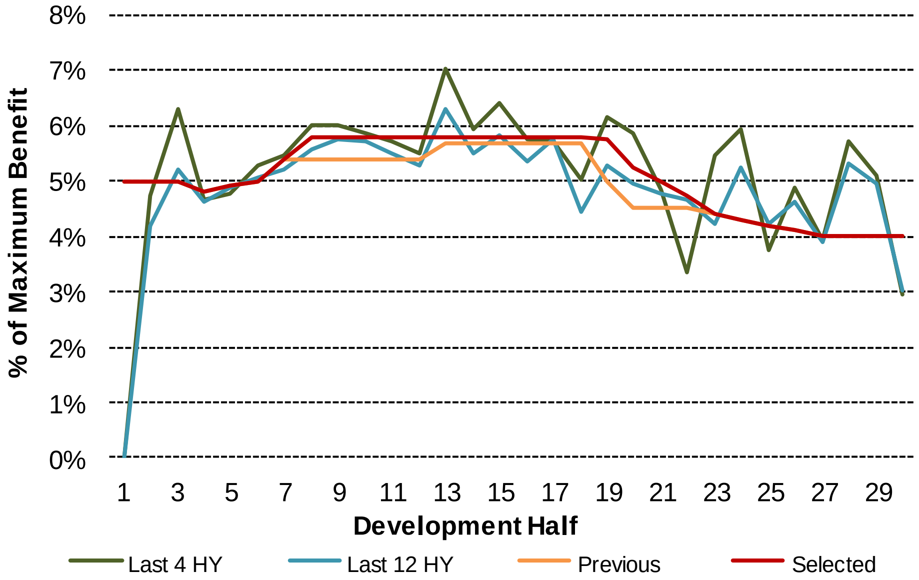
There are two separate drivers of the higher observed First Paid lump sum average size over the last six months:

- Claims with redemption activity are on average around 15% higher than claims without. With the increased redemption activity, more redemption related lump sums paid in the last six months drives up the overall claim size. The high level of redemption and settlement activity is expected to be temporary as it relates to a finite pool of claims from older accident periods.
- Average sizes in general have increased by around 10% in the last six months. We expect some of this increase is due to early payment of larger claims (which previously took longer to settle) following the introduction of capped IS benefits for short term claims.

Our selected size assumptions have been marginally increased to partially reflect the higher observed sizes in the recent experience.

Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

Figure 6.2 – First Paid Lump Sums by Development Half-Year (as a percentage of the maximum benefit)



At an overall level, the average First Paid lump sum is expected to be 5.2% of the prescribed maximum benefit, or around $24,000.

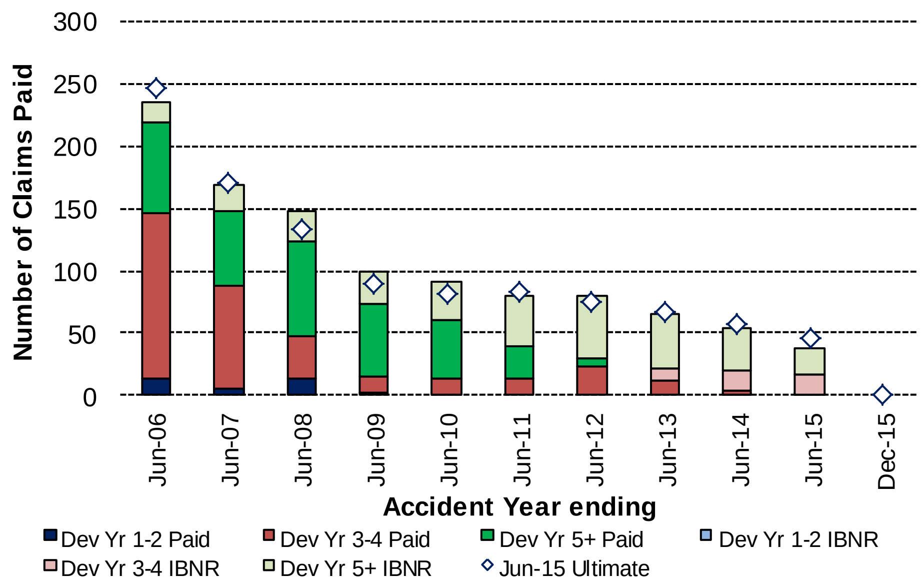
Valuation Basis for Top Up Lump Sums

The number of Top Up lump sums is projected as a percentage of the ultimate number of First Paid lump sums. Top Up lump sum payments were initially removed under the RTW Act changes, but following a Regulation change in June 2015, they were added back in a restricted form, with a requirement that any applications for a Top Up lump sum had to be made by 30 June 2016 (although the assessments can still take place at a later date).

As discussed in Section 3.2.5 Top Up lump sums were high in the last six months.

Figure 6.3 shows the projected ultimate numbers of Top Up lump sums, split into paid and IBNR claims. The totals reduce for more recent accident years, as there is only a limited opportunity for these claims to have made applications for subsequent assessments prior to 30 June 2016 in line with the Regulations.

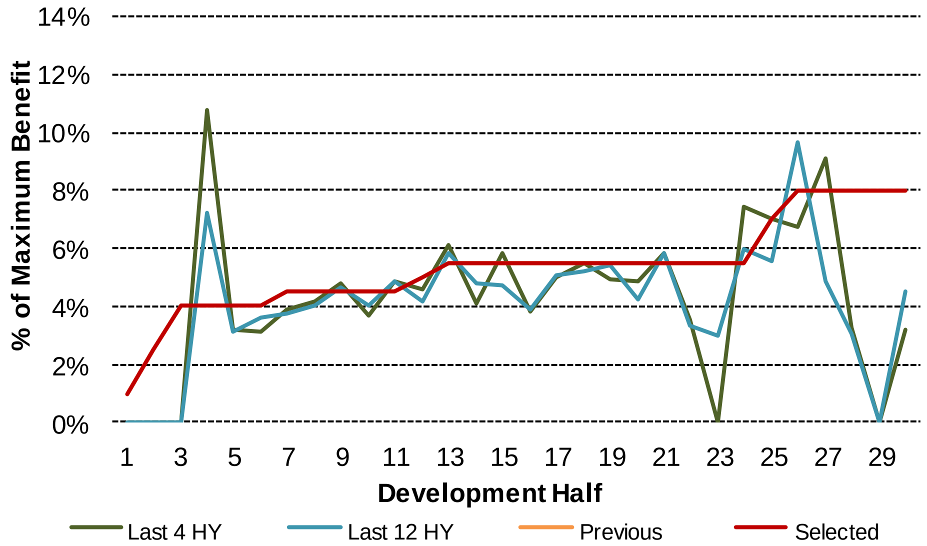
Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims



As this shows, ultimate numbers have increased in the 2008 to 2010 injury year.

Figure 6.4 shows the average size of Top Up lump sum payments as a percentage of the maximum benefit available.

Figure 6.4 – Top Up Lump Sum Size by Development Half-Year (as a percentage of the maximum benefit)

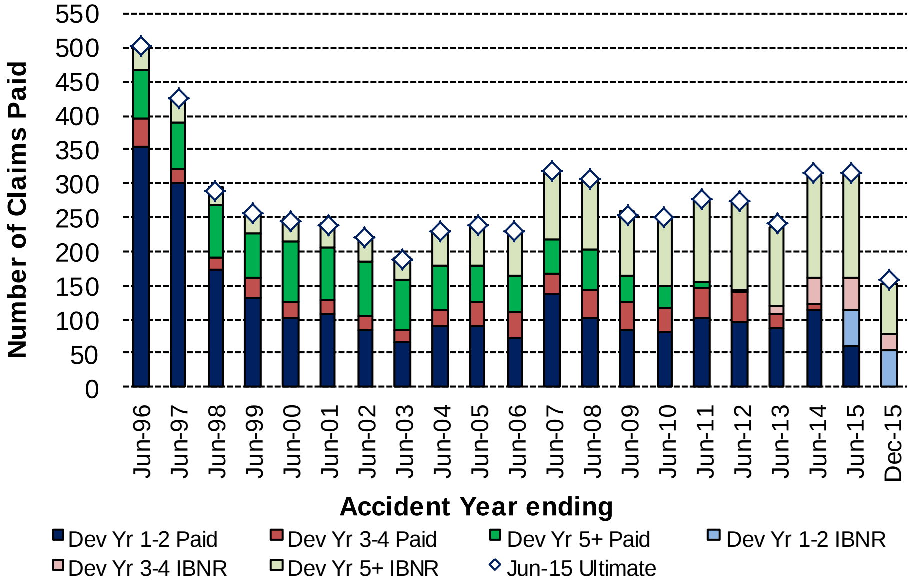


The selected average size is unchanged from our previous valuation and is broadly consistent with the long-term experience.

Valuation Basis for Deafness Lump Sums

When estimating the number of future Deafness lump sums, there is no differentiation between First Paid and Top Ups. Figure 6.5 shows the projected numbers of Deafness lump sums by accident year. The tail of Deafness IBNR claims is considerably longer than for First Paid lump sums, with claims still occurring many years after the injury (as is for common Deafness claims).

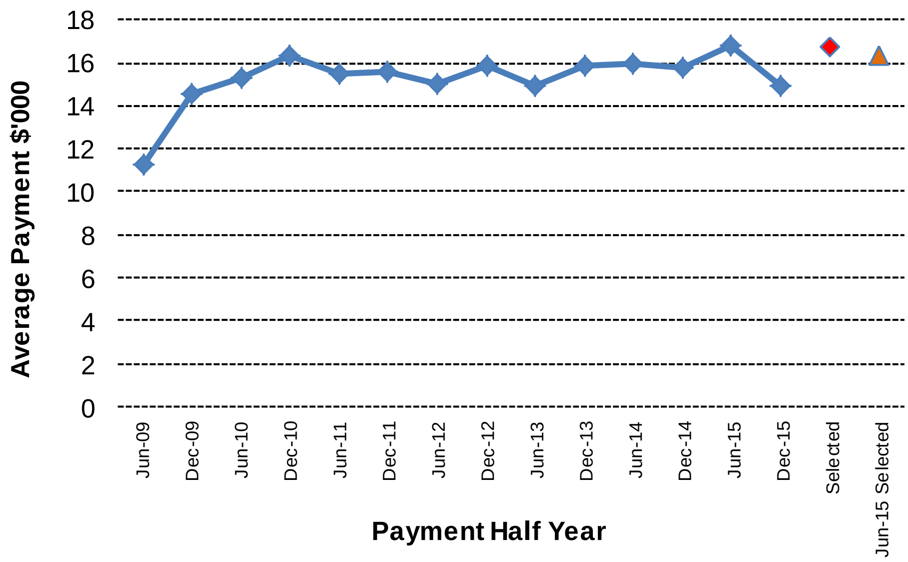
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Experience in the previous six months shows Deafness lump sum payments are at a similar level to previous periods. We have adopted the same claim reporting pattern as our previous valuation.

Figure 6.6 shows the overall average benefit paid for a Deafness lump sum claim. The selected average Deafness benefit is consistent with the recent experience at around $17,000.

Figure 6.6 – Average Lump Sum Deafness Payment



Valuation Basis for Death Lump Sums

Our projection of Death (and funeral) lump sums is based on recent experience.

In addition to the underlying projection, we have allowed for one-off ex-gratia dependent benefit payments to occur in line with the RTW Act changes – we had previously assumed these would occur over a two year time period, but there has not been any activity so far. We have subsequently reduced the IBNR allowance by one half-year to recognise that not all potentially entitled dependents will claim this benefit.

Figure 6.7 shows the numbers of Death lump sums by accident year.

Figure 6.7 – Ultimate Number of Death Lump Sums

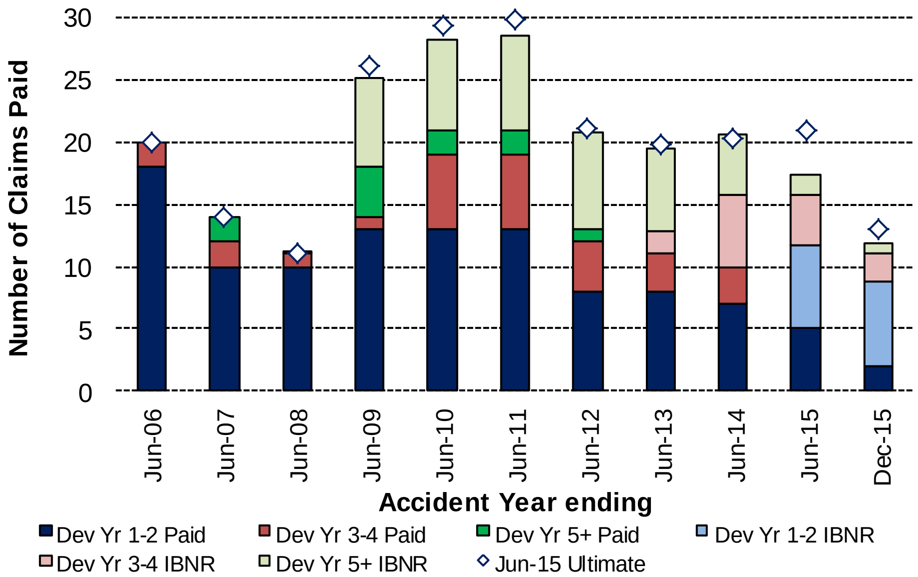
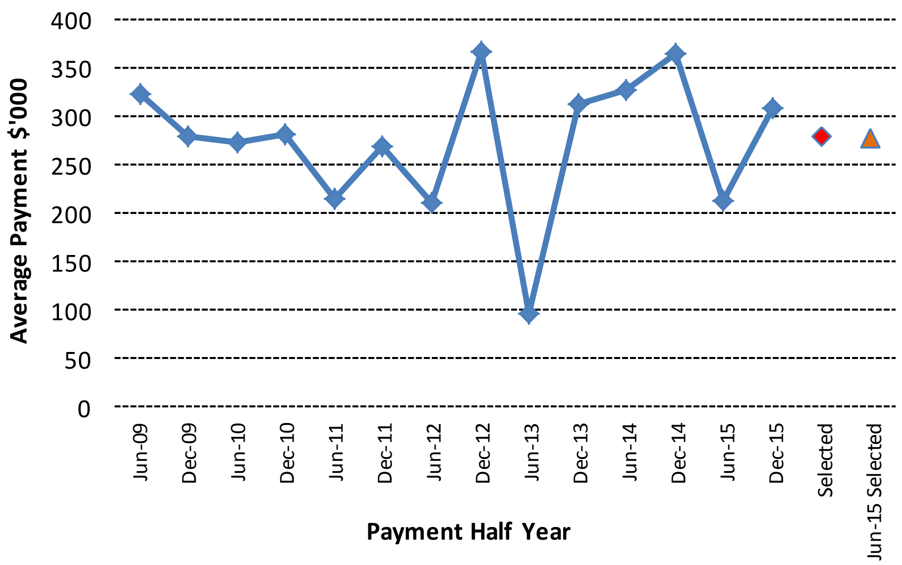


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to December 2015 is in line with recent experience. We have adopted a size consistent with the long term average given the volatility of the experience.

Valuation Basis for Economic Loss Lump Sums

Economic Loss Lump Sums are paid to a worker for loss of future earning capacity. This is a new benefit under the RTW Act and is available to injuries from 1 July 2015. No payments have been made to date and we expect to see the first payments for this lump sum type in the next six months. Our current valuation basis assumes all relevant workers entitled to a First Paid lump sum will also claim an Economic Loss lump sum. We have adopted a size consistent with the average WPI of First Paid lump sums and the average time off work per worker. We will continue to monitor the experience as claims are paid and revise our assumptions as necessary.

6.4 Valuation Results and Actuarial Release

Table 6.4 sets out the actuarial release resulting from our valuation of lump sum payments. The first column represents our projection from the June 2015 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	12.3	10.4	(2.0)	0.5	1.4	12%
2005/06 - 2008/09	10.7	10.3	(0.4)	2.2	(1.8)	-17%
2009/10 - 2011/12	21.6	19.5	(2.0)	5.0	(3.0)	-14%
2012/13 and later [1]	111.1	110.1	(1.0)	2.0	(1.0)	-1%
Total	155.7	150.3	(5.4)	9.8	(4.4)	-3%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $5.4 million decrease in projected liability partially offsets by actual payments being $9.8 million more than expected, resulting in an actuarial strengthening (increase) of $4.4 million.

Table 6.5 breaks down the actuarial release by source.

Table 6.5 – Components of Actuarial Release: Lump Sums

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(9.8)
Changes to Valuation Basis		
First Paid IBNR numbers	5.1	
First Paid claim size	(2.2)	
Top Up numbers	1.0	
Death IBNR numbers	1.5	
Subtotal		5.4
Total		(4.4)

Changes to the valuation basis to recognise the speeding up of lump sum payments reduce future IBNR claim numbers for both First Paid and Top Up lump sums, offsetting the higher than expected payments and reducing the outstanding claims liability by $6.1 million. Increases in the average size of First Paid lump sums to reflect the recent experience increases the liability by $2.2 million while reductions in ex-gratia death benefits reduce the liability by $1.5 million.

7 Treatment and Related Costs – Short Term Claims

Workers who suffer a compensable disability are entitled to be compensated for a range of medical and other treatment related costs. For the valuation we split these entitlements into the following groups: Medical, Physical Therapy, Hospital, Rehabilitation (Vocational Rehabilitation), Travel and 'Other'. Medical payments are the most significant of these entitlements.

7.1 Summary of Results

Table 7.1 summarises the movements in our liability estimates for treatment and related cost payments since the June 2015 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Jun15 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-15	137.7	16.1	9.5	20.1	11.8	15.9	211.2
Projected Liab at Dec-15	129.6	15.7	8.4	18.8	10.4	11.3	194.2
Dec-15 Valuation							
Impact of experience/OSC - Movement in liab	(13.4)	0.5	(1.6)	(3.3)	(1.1)	1.9	(17.0)
Estimated Liab at Dec-15 (Jun-15 eco assumptions)	**116.2**	**16.2**	**6.8**	**15.5**	**9.3**	**13.1**	**177.2**
Impact of change in eco assumptions	0.9	0.1	(0.0)	(0.0)	(0.0)	(0.0)	0.9
Estimated Liab at Dec-15 (Dec-15 eco assumptions)	**117.1**	**16.2**	**6.8**	**15.5**	**9.3**	**13.1**	**178.1**
AvE Payments - six months to Dec-15	(1.8)	0.6	(0.8)	(2.0)	(0.5)	5.9	1.4
Actuarial Release at Dec-15	15.2	(1.1)	2.4	5.3	1.6	(7.7)	15.6

The main movements from our June 2015 projection of the December 2015 liability are:

- A decrease of $17.0 million in the liability, reflecting the claims experience since June 2015 and our valuation response (noting that $14 million of this reduction represents a transfer to the medical redemption bucket which is reported in Section 5). This produces an actuarial release of $15.6 million when combined with actual payments in the period being $1.4 million higher than expected.
- Movements in economic assumptions, increasing the treatment related liabilities by $0.9 million.

The remainder of this section deals with the impacts described above. The impact of the change in economic assumptions is discussed in Section 11.3.

7.2 Valuation Approach

Under the RTW Act most treatment and related costs cease 12 months after income support ends. The two exceptions to this are payments for medical aids and appliances and payments related to approved surgeries. Our modelling approach captures these features using:

- Long term active claim model (LTPPAC) – this is used for the valuation of medical liabilities (excluding Aids and Appliances) for claims that are also receiving Income Support (IS) payments; historically the number of claims on IS payments has been a strong driver of long term medical costs and so we have maintained this feature of the modelling while legacy claims move through the two year runoff.
- Long term model (LTPPCI) – this is a quarterly model used for the valuation of all other treatment related liabilities.

- For Medical (excluding Aids and Appliances): this is a quarterly model used for the valuation of claims that are not receiving IS payments.
- For other treatment related costs: this is used to value the total future cost of that entitlement, without differentiating between claims receiving income support.
- In most cases, we have shown two sets of valuation assumptions, namely:
    - "RTW Act claims" – claims occurring after the RTW Act provisions commenced on 1 July 2015, that is where the new rules apply from day one of the claim: for these claims, it will typically take around four to five years before payments reduce to zero, due to a combination of (1) claimants who do not commence their incapacity until sometime after their injury, and (2) payment delays.
    - "Transitional claims" – those that occurred prior to 30 June 2015: for these claims, the duration boundaries will commence on 1 July 2015 and so payments will generally cease by 30 June 2018 (i.e. the valuation assumptions shown will apply out to June 2018 before dropping to nil).

Detailed descriptions of the projection models and details of all projection assumptions are included in the appendices.

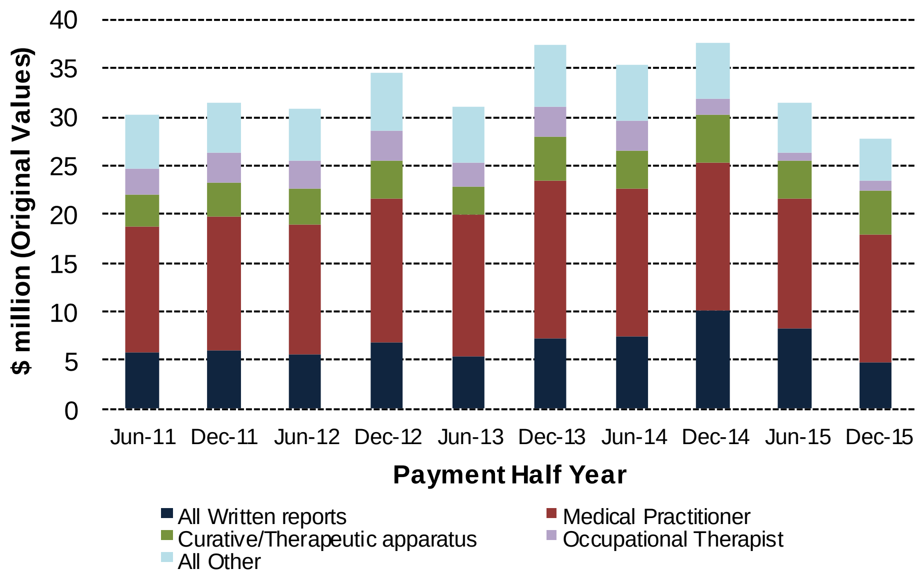
7.3 Medical

Medical payments includes payments for treating doctors, written medical reports, therapeutic devices, pharmaceuticals, psychologists, and dentists, including medico-legal costs.

Payments vs Expectations

Table 7.1 below shows medical payments by six month period, split by the type of service.

Figure 7.1 – Medical Half-Yearly Payments



Medical payments have reduced in the last six months driven by high redemption and settlement activity as noted in Section 5.4. The previously high levels of written report activity have also contributed to the reduction in payments as these often related to WCA activity which is no longer applicable under the RTW Act..

Table 7.2 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

Accident Period	Payments in Six Months to Dec 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	2.1	2.3	(0.2)	89%
2005/06 - 2008/09	2.6	2.3	0.2	109%
2009/10 - 2011/12	3.7	4.1	(0.4)	90%
2012/13 and later [1]	19.5	20.8	(1.4)	93%
Total	27.8	29.6	(1.8)	94%

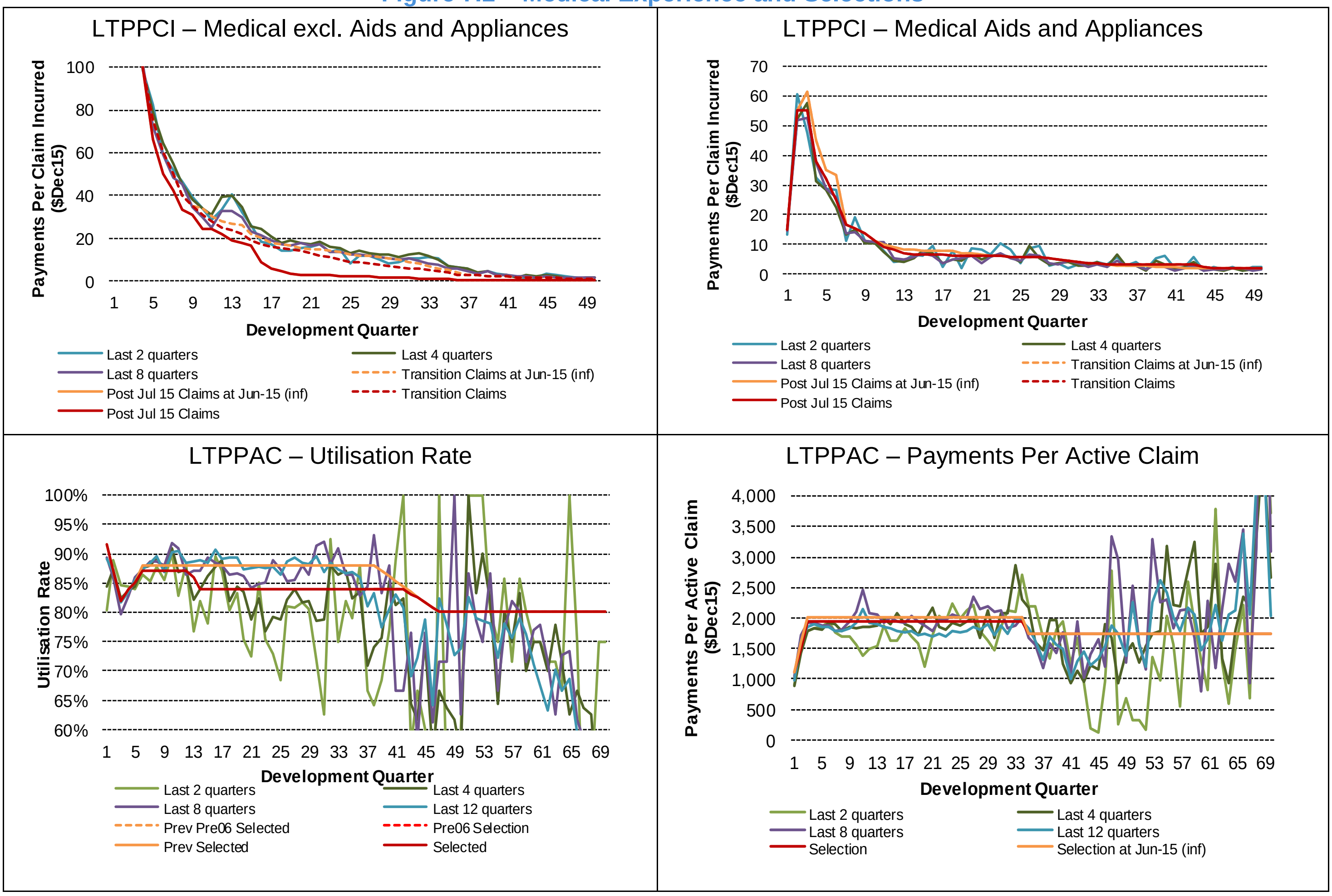
[1] Accidents to Dec15

Overall, payments were $1.8 million (6%) lower than expected. The lower than expected payments were driven by more recent accident periods.

Valuation Basis

Figure 7.2 below shows the recent experience and selected basis for medical payments.

Figure 7.2 – Medical Experience and Selections



Our comments on the experience and selected assumptions are:

- LTPPCI (excl. aids and appliances):
  - The short-term experience is consistent with our previous valuation basis. We have made an explicit downward adjustment to the transitional claims at this valuation to reflect the recent high redemption and settlement activity for these claims. Redemptions are expected to reduce the number of workers receiving ongoing medical benefits (noting that the capitalised value paid as a redemption is separately quantified in Section 5).
  - From 1 July 2015 the capping of benefits under the RTW Act commences, and our selected PPCIs reduce significantly by 4.5 years duration.
- LTPPAC: this model represents a large part of the medical liability.
  - Utilisation has reduced significantly in the last six months as a result of high number of redemptions of IM-medical claims (see Section 5.4). We have reduced the adopted utilisation assumption accordingly.
  - Payments per active claim have decreased slightly across early durations. We have reduced our selected PPAC up to development quarter 34 at this valuation in response to the underlying experience.
- Medical aids and appliances payments have been relatively in line with expectations over the last six months. The recent high redemption activity is also expected to impact these payments as the overall pool of claims receiving medical benefits will reduce. We have reduced our adopted PPCI at this valuation to reflect this.

Medical Fee Increases

The medical fee rate paid to General Practitioners (GP) is set to increase by around 15% above inflation over 3 years starting from 1 July 2015. The purpose of the increase is to align fee rates with AMA rates in order to improve the engagement of medical practitioners. These GP fees currently account for around 10-15% of all Medical payments which implies the overall medical costs are set to increase by around 1% p.a. above inflation over the next three years. This is within the superimposed inflation allowances already adopted in the valuation, and as a result we have not made an additional adjustment for the medical fee increase.

Valuation Results and Actuarial Release

Table 7.3 sets out the actuarial release resulting from our valuation of medical payments. The first column represents our projection from the June 2015 valuation.

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	21.3	21.1	(0.2)	(0.2)	0.4	2%
2005/06 - 2008/09	15.7	14.9	(0.8)	0.2	0.6	4%
2009/10 - 2011/12	23.6	20.1	(3.5)	(0.4)	3.9	16%
2012/13 and later [1]	69.1	60.2	(8.9)	(1.4)	10.3	15%
Total	129.6	116.2	(13.4)	(1.8)	15.2	12%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $13.4 million decrease in the projected liability combined with actual payments being $1.8 million less than expected results in an actuarial release of $15.2 million. As previously noted, around $14 million of this saving is directly offset by an increase in the medical redemption liability.

Table 7.4 breaks down the actuarial release by source.

Table 7.4 – Components of Actuarial Release: Medical

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.8
Changes to Valuation Basis		
IS active proj	8.9	
Ultimate claims	0.2	
Long term assumptions	4.3	
Subtotal		13.4
Total		15.2

The reduction in IS active claim numbers reduces the Medical liability by $8.9 million. Decreases in the medical valuation basis as a result of the high redemption activity further reduce the liability by $4.3 million.

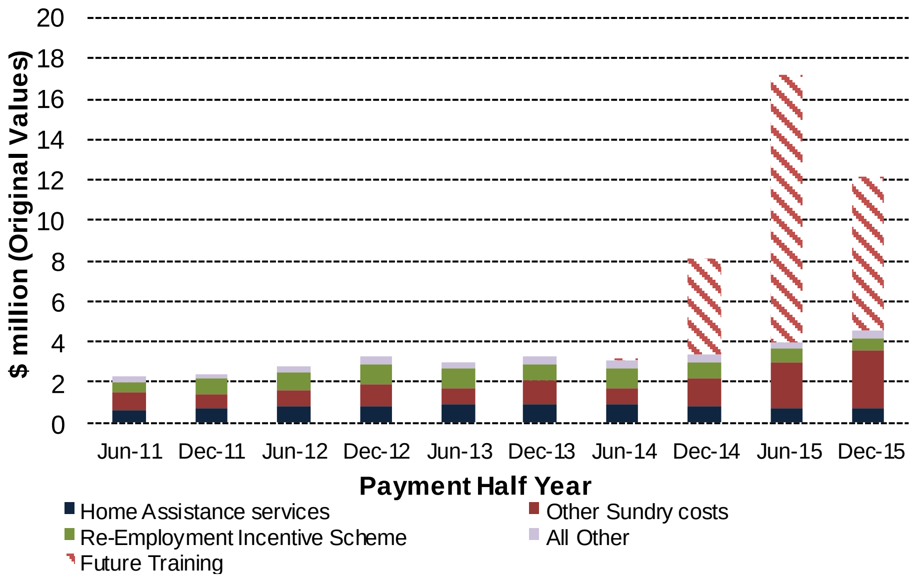
7.4 Other

The Other payment type includes payments on home assistance and modifications, Re-Employment Incentive Scheme (RISE), future retraining costs and other sundry costs.

Payments vs Expectations

Figure 7.3 below shows 'other' payments by six month period.

Figure 7.3 – Other Half-Yearly Payments



Other payments continued to be high in the last six months, driven by 'future training and education' benefits paid to workers as part of the recent dispute settlement activity. More payments were made than we had anticipated in our previous valuation basis.

After excluding the future training and education payments, ‘other’ payments are still higher than previous half-years due to increases in Other Sundry Costs, which relate to professional financial advice fees and are a part of overall dispute settlement costs.

Table 7.5 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

Accident	Payments in Six Months to Dec 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.5	0.1	0.4	508%
2005/06 - 2008/09	1.8	0.9	0.9	195%
2009/10 - 2011/12	3.7	2.4	1.4	158%
2012/13 and later [1]	6.1	2.9	3.2	211%
Total	12.2	6.3	5.9	193%

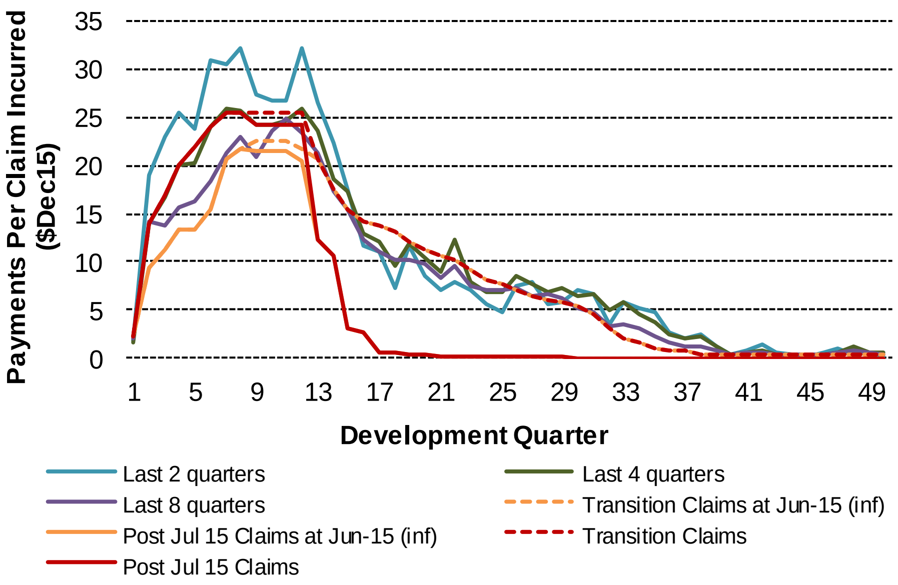
[1] Accidents to Dec15

Overall, payments were $5.9 million (93%) greater than expected. This was driven by accidents post June 2005 where redemption and settlement activity was highest.

Valuation Basis

Figure 7.4 below shows the recent experience and selected basis for ‘other’ payments; this excludes ‘future training and education’ payments which have been modelled separately given their distorting impact on the recent experience.

Figure 7.4 – PPCI Experience and Selections: Other



The adopted PPCIs at this valuation have been increased at the front end (up to development quarter 12) to partially reflect the recent experience, as we only expect the high level of costs associated with the recent dispute settlement activity to be temporary.

The allowance made for ‘future training and development’ at this valuation is lower than allowed for at the previous valuation, as the number of disputes remaining to be settled has reduced significantly.

Valuation Results and Actuarial Release

Table 7.6 sets out the actuarial release resulting from our valuation of 'other' payments. The first column represents our projection from the June 2015 valuation.

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.2	0.0	0.4	(0.4)	-172%
2005/06 - 2008/09	0.6	0.6	0.0	0.9	(0.9)	-152%
2009/10 - 2011/12	2.8	3.0	0.2	1.4	(1.6)	-57%
2012/13 and later [1]	7.6	9.2	1.6	3.2	(4.8)	-63%
Total	11.3	13.1	1.9	5.9	(7.7)	-69%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $1.9 million decrease in the projected liability combined with actual payments being $5.9 million more than expected results in an actuarial increase (strengthening) of $7.7 million.

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(5.9)
Changes to Valuation Basis		
Ultimate claims	0.0	
Long term assumptions	(1.9)	
Subtotal		(1.9)
Total		(7.7)

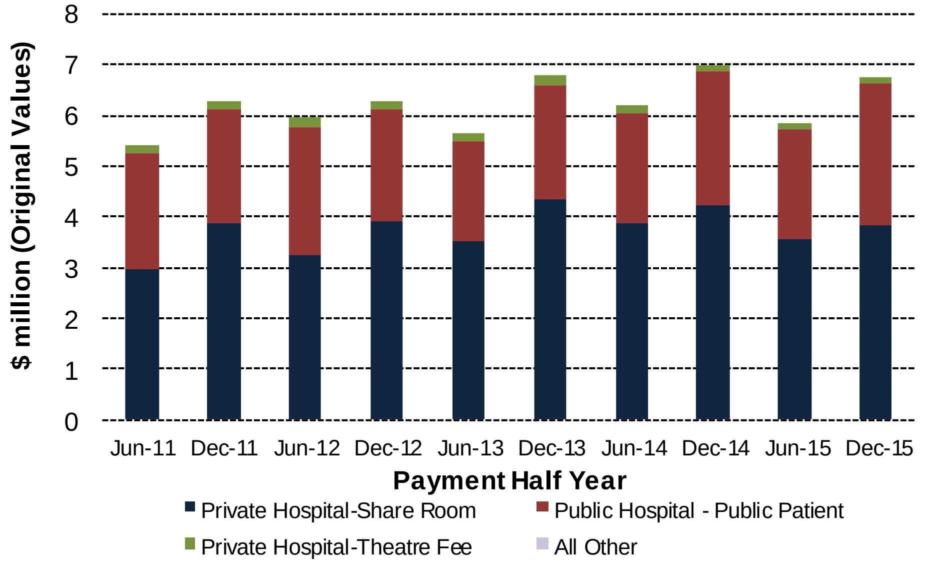
7.5 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs Expectations

Figure 7.5 below shows hospital payments in each six month period.

Figure 7.5 – Hospital Half-Yearly Payments



Changes in purchasing arrangements and coding practices make trend analysis by components difficult. Although there is clear seasonality, average payment levels have been fairly steady over the past five years.

Table 7.8 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

Accident	Payments in Six Months to Dec 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	(0.0)	94%
2005/06 - 2008/09	0.3	0.2	0.1	122%
2009/10 - 2011/12	0.4	0.5	(0.1)	73%
2012/13 and later [1]	5.9	5.2	0.7	113%
Total	6.8	6.2	0.6	110%

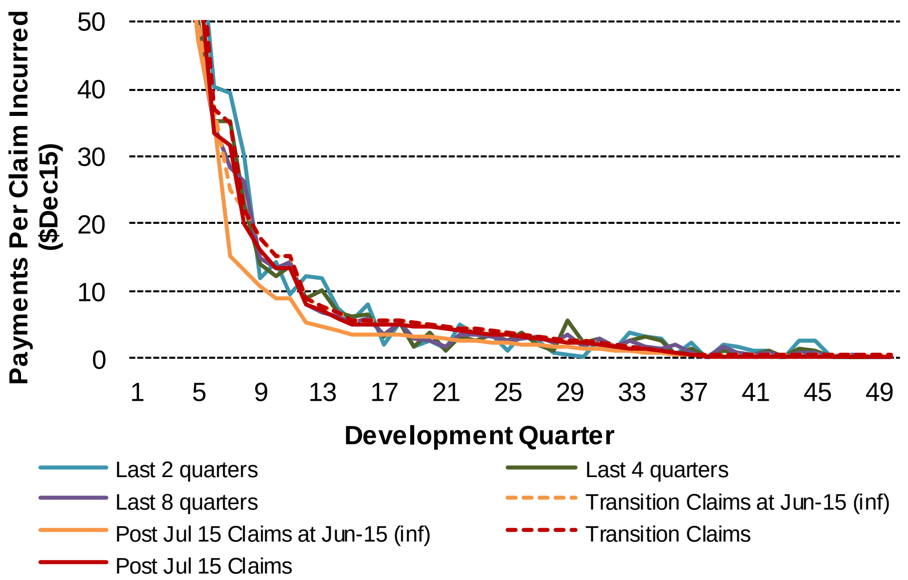
[1] Accidents to Dec15

Payments in the last six months were above expected ($0.7 million higher) driven by higher payments in more recent accident periods.

Valuation Basis

Figure 7.6 below shows the recent experience and selected basis for hospital payments.

Figure 7.6 – Hospital Experience and Selections



The adopted PPCIs have been increased for earlier durations at this valuation to reflect the emerging experience. Payments in the tail, the majority of which are made up of surgery related costs that are not subject to the boundary cap on benefits, remain unchanged from our previous basis.

Valuation Results and Actuarial Release

Table 7.9 sets out the actuarial release resulting from our valuation of hospital payments. The first column represents our projection from the June 2015 valuation.

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.4	1.4	(0.0)	(0.0)	0.0	1%
2005/06 - 2008/09	1.2	1.1	(0.0)	0.1	(0.0)	-4%
2009/10 - 2011/12	2.6	2.6	(0.0)	(0.1)	0.2	6%
2012/13 and later [1]	10.6	11.1	0.5	0.7	(1.2)	-11%
Total	15.7	16.2	0.5	0.6	(1.1)	-7%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $0.5 million increase in the projected liability combines with actual payments being $0.6 million more than expected resulting in an actuarial increase of $1.1 million.

Table 7.10 breaks down the actuarial release by source, which shows the movements in the Hospital basis are minor.

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.6)
Changes to Valuation Basis		
Ultimate claims	(0.0)	
Long term assumptions	(0.4)	
Subtotal		(0.5)
Total		(1.1)

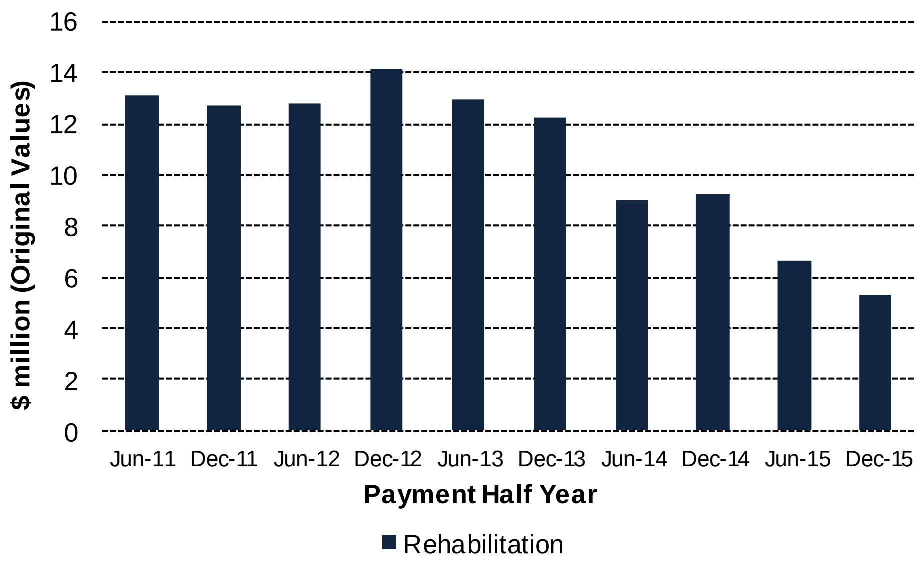
7.6 Rehabilitation

The rehabilitation payment type includes payments made to approved vocational rehabilitation providers and job search agencies.

Payments vs Expectations

Figure 7.7 below shows rehabilitation payments by six month period.

Figure 7.7 – Rehabilitation Half-Yearly Payments



Payment levels continue to be favourable and have reduced further in the last six months reflecting the impact of recent ReturnToWorkSA initiatives.

Table 7.11 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

Accident Period	Payments in Six Months to Dec 15 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	1039%
2005/06 - 2008/09	0.1	0.2	(0.1)	30%
2009/10 - 2011/12	0.3	0.7	(0.5)	34%
2012/13 and later [1]	4.9	6.3	(1.4)	78%
Total	5.3	7.3	(2.0)	72%

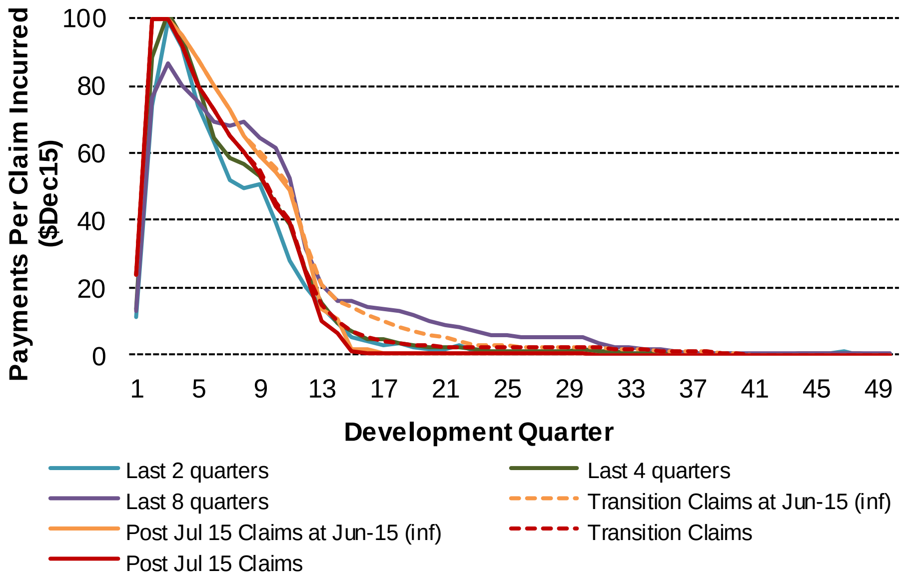
[1] Accidents to Dec15

Overall, payments were $2.0 million (28%) lower than expected driven by all accident periods shown.

Valuation Basis

Figure 7.8 below shows the recent experience and selected basis for rehabilitation payments.

Figure 7.8 – Rehabilitation Experience and Selections



The adopted PPCIs for rehabilitation have been reduced to reflect the favourable experience.

Valuation Results and Actuarial Release

Table 7.12 sets out the actuarial release resulting from our valuation of rehabilitation payments. The first column represents our projection from the June 2015 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	0.0	(0.0)	-307%
2005/06 - 2008/09	0.4	0.4	(0.0)	(0.1)	0.2	41%
2009/10 - 2011/12	1.3	0.8	(0.5)	(0.5)	1.0	78%
2012/13 and later [1]	17.2	14.4	(2.8)	(1.4)	4.2	24%
Total	18.8	15.5	(3.3)	(2.0)	5.3	28%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $3.3 million decrease in the projected liability combined with actual payments being $2.0 million less than expected results in an actuarial release of $5.3 million. The release falls mainly in the accident periods after 2005.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of Actuarial Release: Rehabilitation

Release (strengthening) due to		
	$m	$m
AvE payments in six months		2.0
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	3.4	
Subtotal		3.3
Total		5.3

The release is driven by changes in long term assumptions, which reduce the rehabilitation liability by $3.4 million.

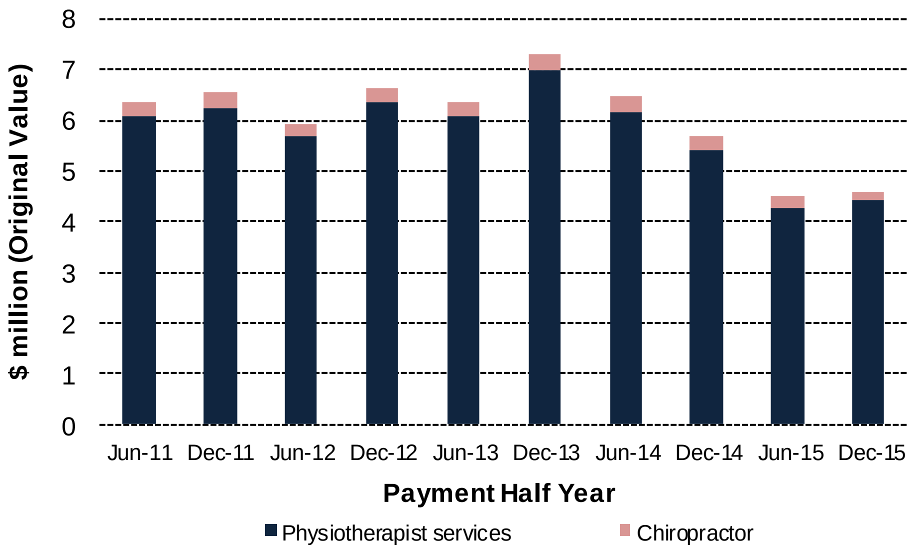
7.7 Physical Therapy

Physical therapy payments include payments made to physiotherapists and chiropractors.

Payments vs Expectations

Figure 7.9 below shows physical therapy payments by six month period over the last five years.

Figure 7.9 – Physical Therapy Half-Yearly Payments



Reductions in Physical therapy payments have levelled off in the last six months following reductions over the last two years. The reductions follow recent ReturnToWorkSA initiatives targeting over-servicing.

Table 7.14 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident Period	Payments in Six Months to Dec 15 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.2	(0.0)	78%
2005/06 - 2008/09	0.3	0.3	(0.1)	84%
2009/10 - 2011/12	0.4	0.6	(0.2)	62%
2012/13 and later [1]	3.8	4.0	(0.2)	96%
Total	4.6	5.1	(0.5)	90%

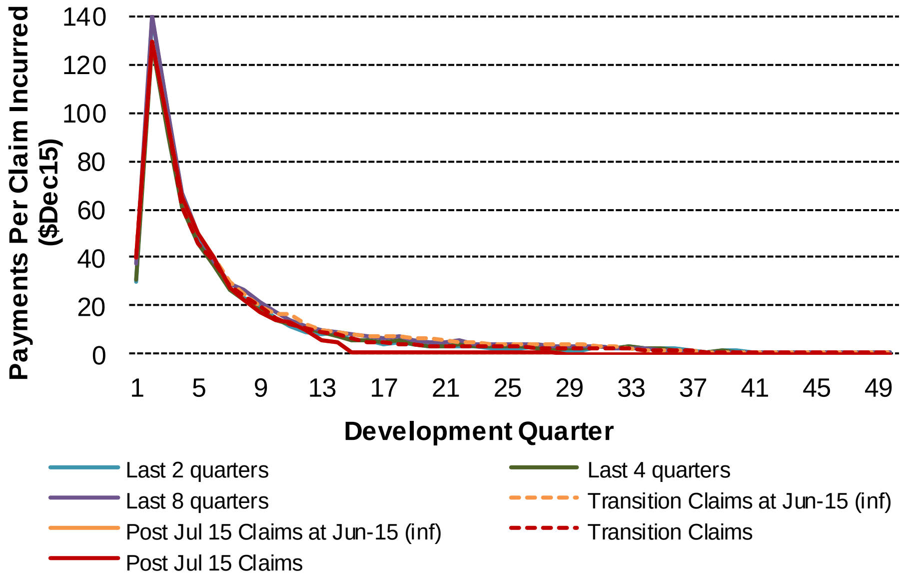
[1] Accidents to Dec15

Overall, payments were $0.5 million (10%) lower than expected driven by all accident periods shown.

Valuation Basis

Figure 7.10 below shows the recent experience and selected basis for physical therapy payments.

Figure 7.10 – Physical Therapy Experience and Selections



We have continued to reduce the adopted PPCIs for physical therapy at this valuation in recognition of RTWSA's ongoing initiatives and the favourable emerging experience.

Valuation Results and Actuarial Release

Table 7.15 sets out the actuarial release resulting from our valuation of physical therapy payments. The first column represents our projection from the June 2015 valuation.

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.5	0.5	(0.0)	(0.0)	0.0	9%
2005/06 - 2008/09	0.6	0.5	(0.1)	(0.1)	0.1	17%
2009/10 - 2011/12	1.5	0.9	(0.6)	(0.2)	0.8	54%
2012/13 and later [1]	7.8	7.4	(0.5)	(0.2)	0.6	8%
Total	10.4	9.3	(1.1)	(0.5)	1.6	15%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $1.1 million decrease in the projected liability combined with actual payments being $0.5 million lower than expected results in an actuarial release of $1.6 million. The actuarial release falls in more recent accident periods where the bulk of the liability lies.

Table 7.16 breaks down the actuarial release by source.

Table 7.16 – Components of Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.5
Changes to Valuation Basis		
Ultimate claims	(0.0)	
Long term assumptions	1.1	
Subtotal		1.1
Total		1.6

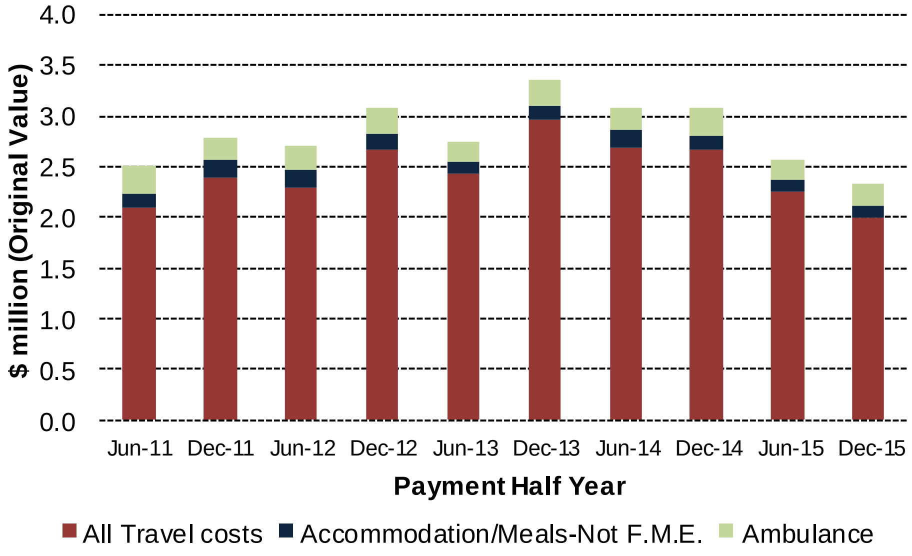
7.8 Travel

Travel payments include payments made for claimant related travel and accommodation.

Payments vs Expectations

Figure 7.11 below shows travel payments by six month period over the last five years.

Figure 7.11 – Travel Half-Yearly Payments



Travel payments have reduced over the last six months and is now at the lowest level it's been since June 2010.

Table 7.17 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

Accident Period	Payments in Six Months to Dec 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.1)	51%
2005/06 - 2008/09	0.2	0.2	(0.1)	70%
2009/10 - 2011/12	0.3	0.7	(0.4)	40%
2012/13 and later [1]	1.8	2.0	(0.2)	89%
Total	2.3	3.1	(0.8)	75%

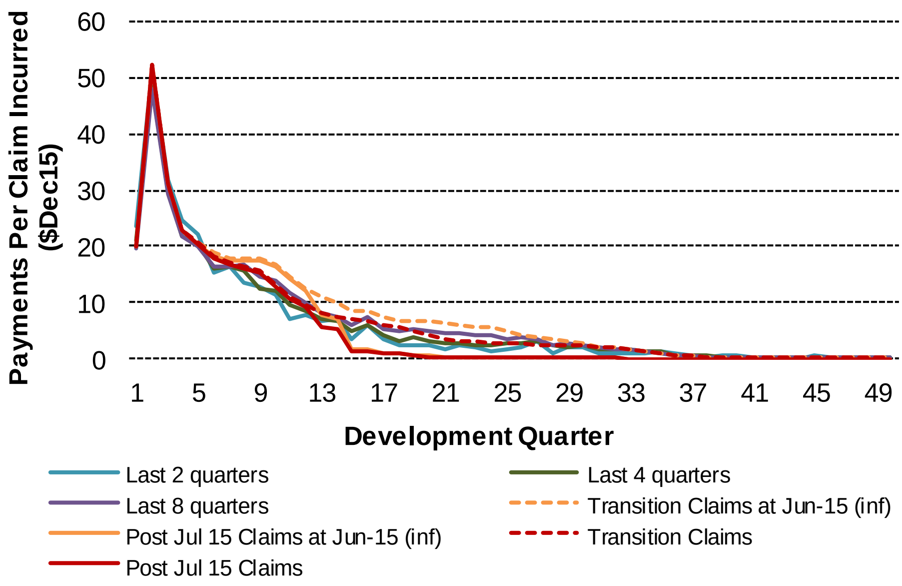
[1] Accidents to Dec15

Payments in the last six months were $0.8 million (25%) lower than expected driven by all accident periods shown.

Valuation Basis

Figure 7.12 below shows the recent experience and selected basis for travel payments.

Figure 7.12 – Travel Experience and Selections



We have reduced the adopted PPCIs for travel for both transition and claims after 1 July 2015 to reflect the lower emerging experience.

Valuation Results and Actuarial Release

Table 7.18 sets out the actuarial release resulting from our valuation of travel payments. The first column represents our projection from the June 2015 valuation.

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.3	0.3	(0.0)	(0.1)	0.1	19%
2005/06 - 2008/09	0.4	0.4	(0.0)	(0.1)	0.1	25%
2009/10 - 2011/12	1.7	1.1	(0.6)	(0.4)	1.1	63%
2012/13 and later [1]	6.0	5.1	(0.9)	(0.2)	1.1	19%
Total	8.4	6.8	(1.6)	(0.8)	2.4	28%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $1.6 million decrease in the projected liability combined with actual payments being $0.8 million lower than expected results in an actuarial release of $2.4 million. The release falls in more recent accident periods, and represents a material reduction in the travel liability for short term claims.

8 Other Entitlements – Short Term Claims

This section presents results for the remaining entitlements. These include legal and investigation costs, recoveries, common law, LOEC, and commutations.

8.1 Summary of Results

Table 8.1 summarises the movements in our liability estimates for the remaining entitlement groups since the June 2015 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Jun15 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-15	65.4	42.0	6.5	2.1	1.4	2.1	(42.9)	76.7
Projected Liab at Dec-15	62.9	41.1	5.8	2.2	1.3	2.1	(41.2)	74.3
Dec-15 Valuation								
Impact of experience/OSC - Movement in liab	(11.5)	(9.0)	(1.6)	0.0	0.2	0.0	(1.1)	(22.9)
Estimated Liab at Dec-15 (Jun-15 eco assumptions)	**51.5**	**32.1**	**4.3**	**2.2**	**1.6**	**2.1**	**(42.3)**	**51.4**
Impact of change in eco assumptions	0.2	0.1	0.0	0.0	0.0	0.0	(0.1)	0.2
Estimated Liab at Dec-15 (Dec-15 eco assumptions)	**51.6**	**32.2**	**4.3**	**2.2**	**1.6**	**2.1**	**(42.5)**	**51.6**
AvE Payments - six months to Jun-15	0.5	(0.7)	(0.9)	(0.1)	0.0	(0.2)	(1.4)	(2.8)
Actuarial Release at Jun-15	11.0	9.7	2.4	0.1	(0.2)	0.2	2.6	25.7

The movements from our June 2015 projection of the December 2015 liability are:

1. A decrease of $22.9 million in the liability, reflecting the claims experience since June 2015 and our valuation response. Combining this with payments being $2.8 million lower than expected produces and actuarial release of $25.7 million.
2. The change in economic assumptions at the current valuation – principally the decrease in the discount rate – increases the estimated liability by $0.2 million.

8.2 Worker Legal

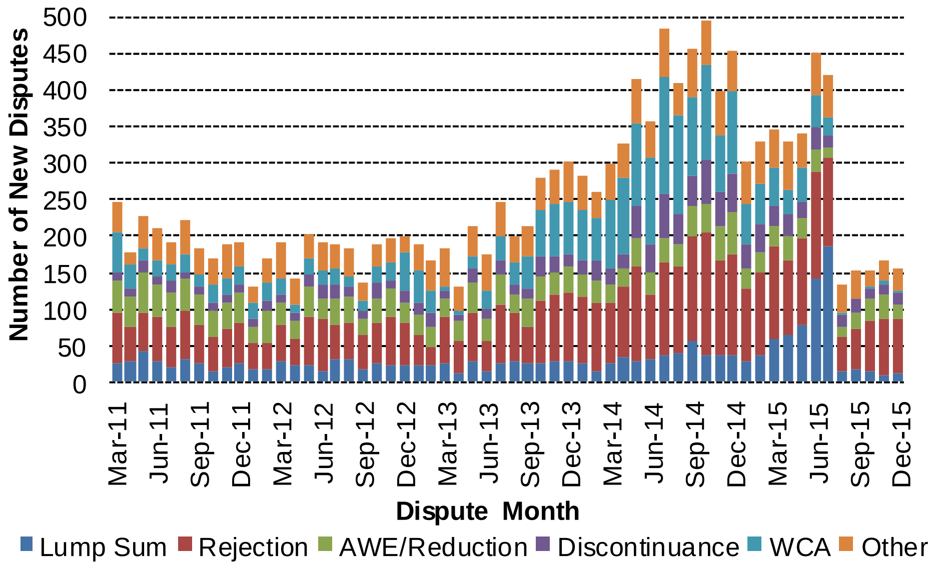
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the Worker Legal results, with Section 8.3 discussing ReturnToWorkSA's legal results.

8.2.1 Dispute Numbers

Disputes are the main driver of expenditure for both worker and corporation legal fees. Worker legal accounts are generally only submitted upon completion of the dispute and therefore any changes in dispute numbers will usually involve a delay before they are translated into changes in worker legal costs. Corporation legal fees on the other hand are paid at commencement of the dispute and will usually reflect changes in underlying dispute numbers without delay.

Following increased numbers of claim rejections and WCA decisions, the number of disputes rose from around 150 per month historically to over 400 per month in July 2015. Dispute numbers have since dropped off significantly to around 150 per month in the last five months, as demonstrated in Figure 8.1.

Figure 8.1 – Disputes by Type

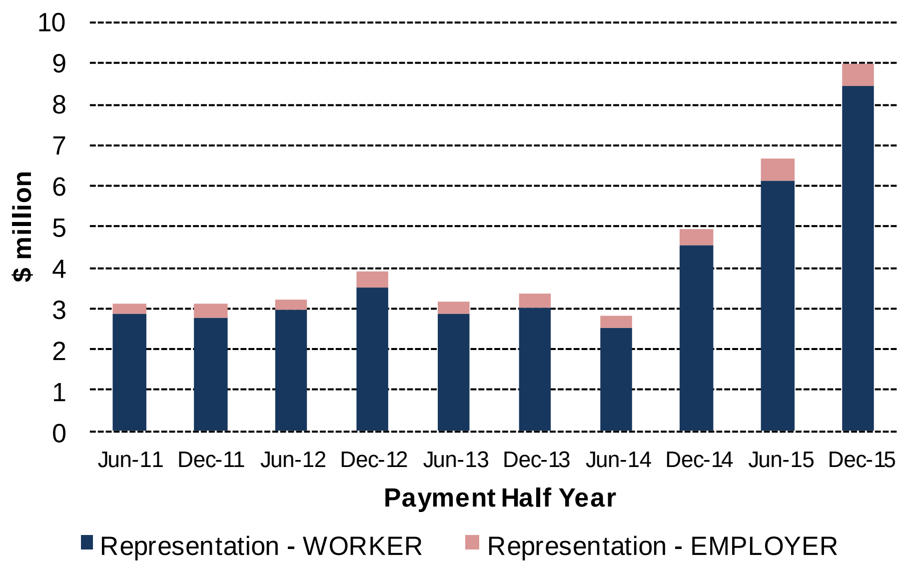


The reduction in disputes is a result of reduced activity around rejections and lump sums and also the removal of WCA which no longer exists under the RTW Act. As previously noted, the high levels of dispute up to July 2015 were driven by the increased number of decisions being made by ReturnToWorkSA, that is, they were the response to a deliberate strategy which has now ceased.

8.2.2 Experience

Figure 8.2 below shows worker legal payments in each six month period since June 2011.

Figure 8.2 – Worker Legal Half Yearly Payments



The increasing payments over the last six months reflect the delay between lodgement of disputes and payment of worker legal fees where the high levels of dispute activity over the last two years are still flowing through to worker legal payments; this delay can be seen by comparing the dispute numbers in Figure 8.1, which increased from around July 2013, to Figure 8.2 above which did not increase until December 2014.

Table 8.2 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

Accident	Payments in Six Months to Dec 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.5	0.6	(0.1)	77%
2005/06 - 2008/09	2.0	2.3	(0.3)	89%
2009/10 - 2011/12	3.1	3.2	(0.1)	98%
2012/13 and later [1]	3.4	2.5	0.9	137%
Total	9.0	8.5	0.5	105%

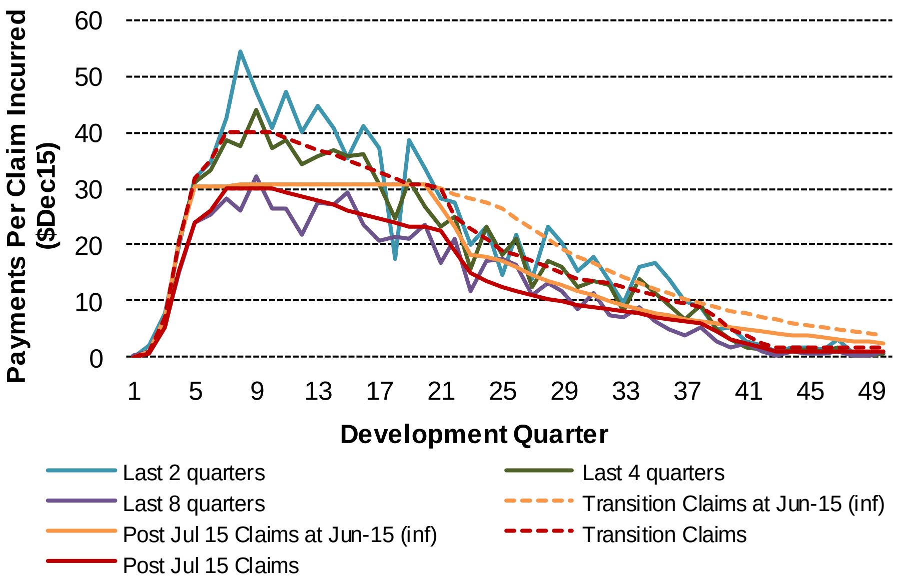
[1] Accidents to Dec15

Overall, payments were only $0.5 million (5%) higher than expected over the last six months, as our basis had anticipated the cost increase.

8.2.3 Valuation Basis

A PPCI model is used to value Worker Legal fees. Figure 8.3 below shows the recent experience and selected basis for worker legal payments.

Figure 8.3 – Worker Legal Experience and Selections



The adopted PPCIs for transition claims are above the long term experience, in recognition of the expected additional payments as a result of the higher number of open and recent disputes in the system. At the current valuation, the selected PPCI has been reshaped to reflect the emerging experience with increases at early durations and reductions in the tail.

For claims after 1 July 2015 we expect there will be a shorter payment pattern as the new boundaries come into effect. The selected PPCI has been reduced at this valuation to reflect this.

Our previous valuation basis included some allowance for worker legal costs in the tail from Serious Injury Claims as a result of modelling limitations at the time. At this valuation, we have more accurately modelled these costs and have transferred them into the Serious Injury Claim bucket.

8.2.4 Valuation Results and Actuarial Release

Table 8.3 sets out the actuarial release resulting from our valuation of worker legal payments. The first column represents our projection from the June 2015 valuation.

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.3	1.0	(0.3)	(0.1)	0.4	34%
2005/06 - 2008/09	8.4	5.4	(3.0)	(0.3)	3.3	39%
2009/10 - 2011/12	17.9	14.0	(3.9)	(0.1)	4.0	22%
2012/13 and later [1]	35.3	31.1	(4.2)	0.9	3.3	9%
Total	62.9	51.5	(11.5)	0.5	11.0	17%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $11.5 million decrease in the projected liability offset by actual payments being $0.5 million more than expected results in an actuarial release of $11.0 million. The release falls in accident periods prior to 30 June 2015.

Table 8.4 breaks down the actuarial release by source.

Table 8.4 – Components of Actuarial Release: Worker Legal

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.5)
Changes to Valuation Basis		
Ultimate claims	0.1	
Long term assumptions	11.3	
Subtotal		11.5
Total		11.0

Favourable claim number experience reduces the liability by $0.1 million while long term assumption changes reduce the liability by a further $11.3 million.

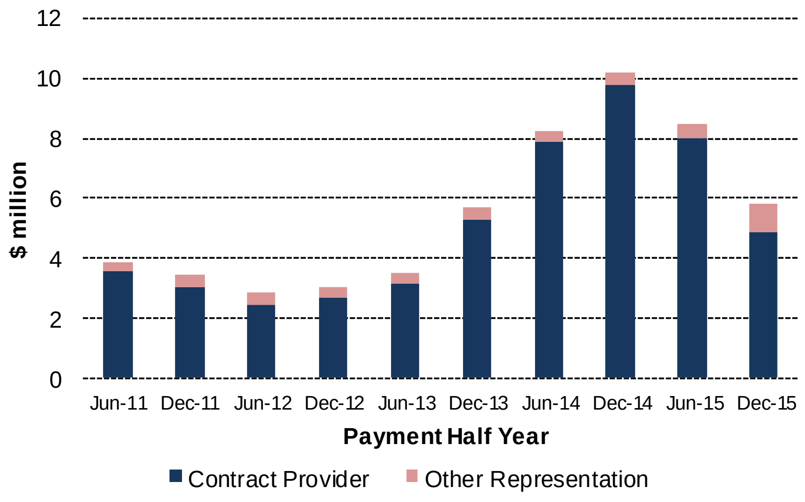
8.3 Corporation Legal

Corporation Legal refers to the legal fees paid to ReturnToWorkSA's contracted legal advisers. Since 1 January 2013 there are two legal service providers, Minter Ellison and Sparke Helmore, who are paid fees based on the number of matters handled and the complexity of these matters. A performance fee is also payable at the end of each year based on the achievement of certain performance outcomes.

8.3.1 Experience

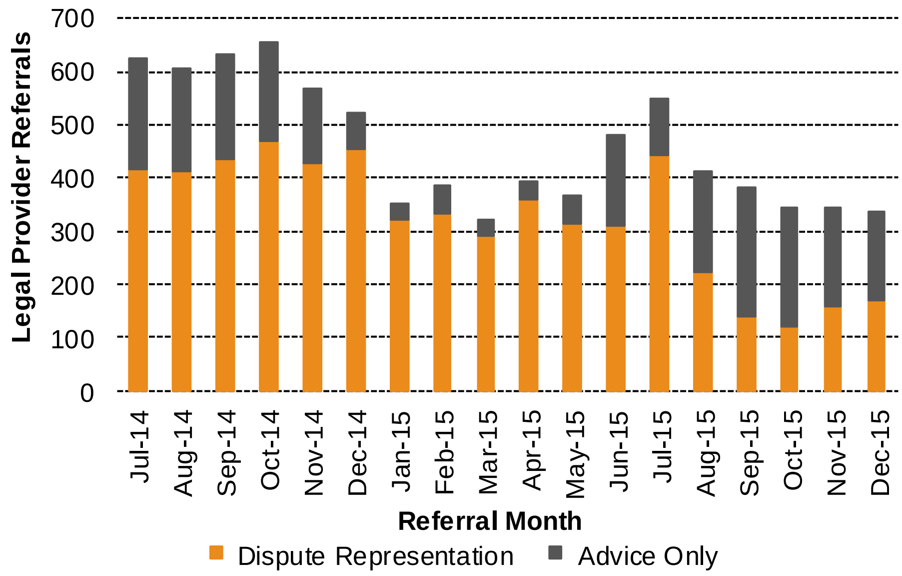
Figure 8.4 below shows corporation legal payments in each six month period since June 2011.

Figure 8.4 – Corporation Legal Half Yearly Payments



Corporation legal fees have continued to reduce in the last six months. As Corporation Legal payments are paid on notification of a dispute, the lower number of disputes in the last six months translates directly to lower Corporation Legal costs. Figure 8.5 below shows the number of referrals by type since July 2014.

Figure 8.5 – Referrals to ReturnToWorkSA Legal Providers



The proportion of 'advice only matters' has increased significantly in the last six months, while 'dispute representations', which are higher in cost, have decreased resulting in an overall reduction in costs. The overall level of referrals have remained at a similar level to the previous six months.

Table 8.5 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 8.5 – Actual vs Expected Payments: Worker Legal

	Payments in Six Months to Dec 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
Total	5.8	6.5	(0.7)	90%

Overall, actual payments were $0.7 million (10%) less than expected. A breakdown by accident period is not possible given the data constraints around contract legal payments.

8.3.2 Valuation Basis

Under the current provider contract, remuneration is paid in accordance with the number of matters referred. To project the future costs of Corporation Legal we have:

- Estimated the number of matters that will be referred each year for the duration of the contract
- Multiplied this by the relevant fees per referral (as specified in the contract terms) to estimate the total annual cost for the duration of the contract
- Allowed for payment of additional performance fees as specified in the terms of the contract.

Beyond the contract, payments for Corporation Legal are projected to increase in line with the Worker Legal claims cost projection, and in aggregate are around 86% of the projected payments for Worker Legal.

At this valuation, we have:

- Increased the number of “advice only” and “dispute representation” matters marginally to be in line with the recent emerging experience.
- Improved the modelling for matters beyond the contract period to better reflect the quicker payment pattern of Corporation Legal costs under the RTW Act. Previously, our model relied on the payment pattern for Worker Legal costs which have a longer duration compared to Corporation Legal costs.
- Removed the allowance in the previous basis for Serious Injury Claims in the tail as these costs have now been transferred into the Serious Injury Claims bucket.

Table 8.6 shows the actual and projected number of matters for the current contract period.

Table 8.6 – Actual and Projected Matters

	Half Year	Number of Matters: Advice Only	Dispute Representation	Supreme Court Rep'n
Actual	Jun-13	146	942	-
	Dec-13	702	1,369	-
	Jun-14	1,337	1,861	-
	Dec-14	994	2,616	-
	Jun-15	368	1,929	-
	Dec-15	1,110	1,260	-
Projected	Jun-16	700	1,300	1
	Dec-16	500	1,300	1
	Jun-17	500	1,300	1
	Dec-17	500	1,300	1

Further detail of ReturnToWorkSA's Legal model can be found in the appendices.

8.3.3 Valuation Results and Actuarial Release

Table 8.7 sets out the actuarial release resulting from our valuation of corporation legal payments. The first column represents our projection from the June 2015 valuation.

Table 8.7 – Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	0.2	(0.2)	-150%
2005/06 - 2008/09	1.0	0.0	(1.0)	1.0	0.0	1%
2009/10 - 2011/12	8.2	4.5	(3.6)	(0.5)	4.1	50%
2012/13 and later [1]	31.8	27.5	(4.3)	(1.4)	5.7	18%
Total	41.1	32.1	(9.0)	(0.7)	9.7	23%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

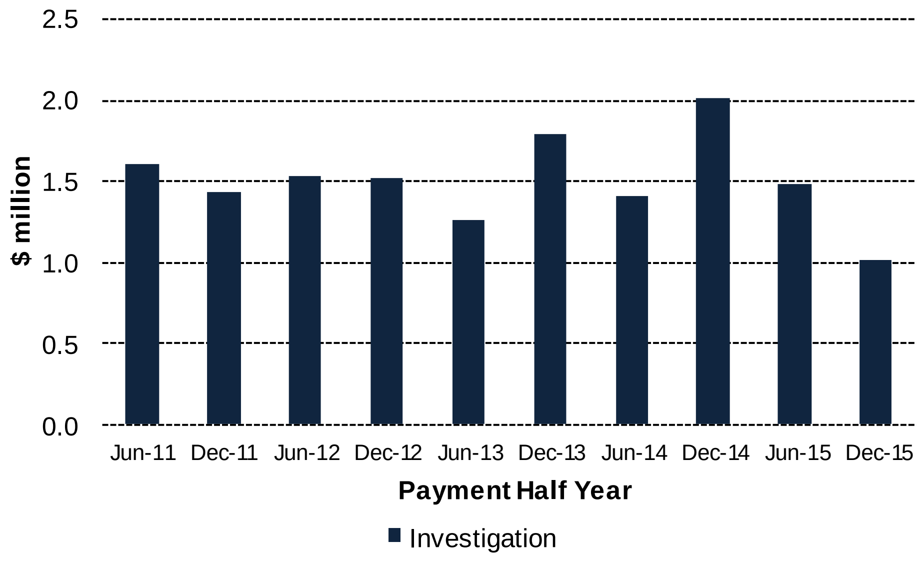
The $9.0 million decrease in the projected liability combined with actual payments being $0.7 million less than expected results in an actuarial release of $9.7 million.

8.4 Investigation

8.4.1 Experience

Figure 8.6 below shows investigation payments in each six month period since June 2011.

Figure 8.6 – Investigation Half Yearly Payments



Payments have reduced in the last six months to around $1.0 million, following on from the recent period of high WCA activity. The reduction in investigation payments is also consistent with ReturnToWorkSA utilising claims agent staff as 'Mobile Insurance Loss Adjusters' which replaces some of the work that was previously done as part of investigation costs.

Table 8.8 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

Accident	Payments in Six Months to Dec 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	3%
2005/06 - 2008/09	0.0	0.2	(0.2)	7%
2009/10 - 2011/12	0.1	0.4	(0.3)	26%
2012/13 and later [1]	0.9	1.2	(0.3)	74%
Total	1.0	1.9	(0.9)	54%

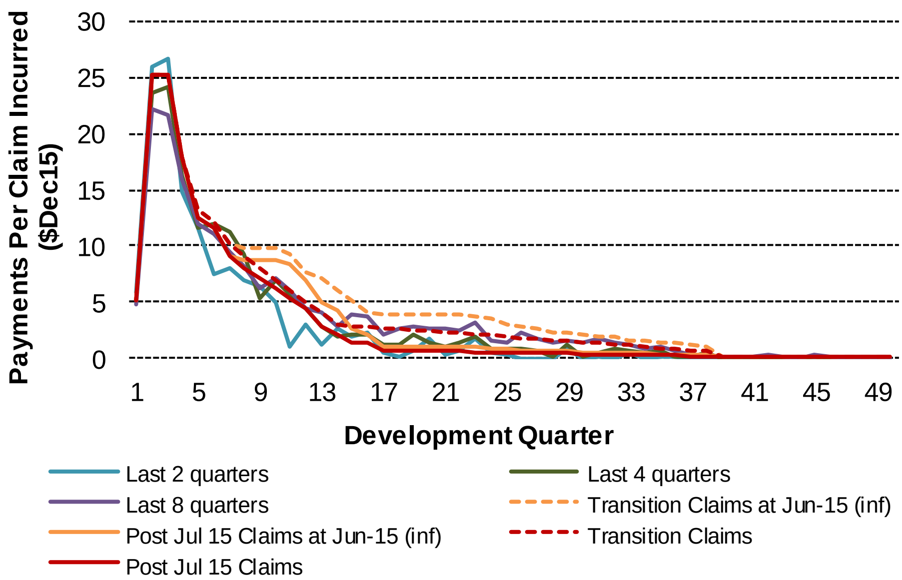
[1] Accidents to Dec15

Overall, actual payments were $0.9 million (46%) less than expected across all accident periods, and there were almost no investigation payments on longer duration claims.

8.4.2 Valuation Basis

A PPCI model is used to value investigation payments. Figure 8.7 below shows the recent experience and selected basis.

Figure 8.7 – PPCI Experience and Selections: Investigation



The adopted investigation PPCIs for all claims have been further reduced from our previous basis consistent with the emerging experience. Claims after 1 July 2015 will have a shorter payment pattern as the boundary on other entitlement groups comes into effect.

8.4.3 Valuation Results and Actuarial Release

Table 8.9 sets out the actuarial release resulting from our valuation of investigation payments. The first column represents our projection from the June 2015 valuation.

Table 8.9 – Actuarial Release for Investigation

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation¹	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	0.0	(0.0)	0.0	37%
2005/06 - 2008/09	0.4	0.3	(0.1)	(0.2)	0.3	80%
2009/10 - 2011/12	1.3	0.8	(0.5)	(0.3)	0.8	60%
2012/13 and later [1]	4.0	3.0	(1.0)	(0.3)	1.3	32%
Total	5.8	4.3	(1.6)	(0.9)	2.4	42%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The $1.6 million decrease in the projected liability combined with actual payments being $0.9 million less than expected results in an actuarial release of $2.4 million, or 42% of the previous liability estimate. The release falls in accident periods after 2005 where the bulk of the investigation liability lies.

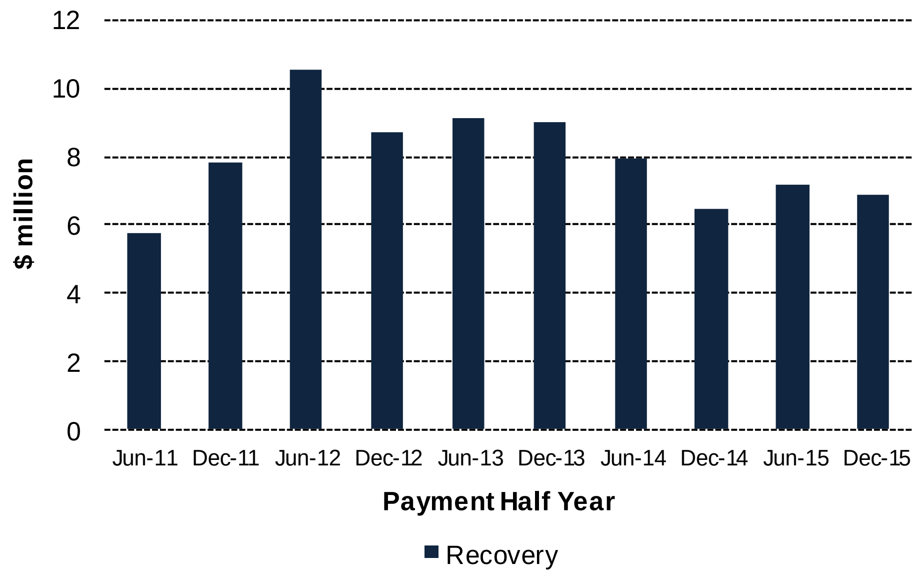
8.5 Recoveries

Recoveries can be made by ReturnToWorkSA from overpayments to workers, from the Motor Accidents Commission (MAC) for CTP claims, or from third parties for recoveries relating to negligence claims. Third parties for negligence claims will often be companies engaged in labour hire and owners or head contractors on construction sites, as ReturnToWorkSA cannot recover money from an employer for negligence.

8.5.1 Experience

Figure 8.8 below shows recovery payments in each six month period since June 2011.

Figure 8.8 – Recovery Half Yearly Payments



Recovery payments in the last six months were in line with the average of the previous year, which is slightly below the level between 2012 and 2014.

Table 8.10 compares the payments in the six months to 31 December 2015 with the expected payments from our June 2015 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

Accident Period	Payments in Six Months to Dec 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.0)	0.0	(0.0)	n/a
2005/06 - 2008/09	(1.4)	(1.5)	0.1	96%
2009/10 - 2011/12	(4.5)	(3.1)	(1.4)	145%
2012/13 and later [1]	(0.9)	(0.9)	(0.0)	105%
Total	(6.9)	(5.5)	(1.4)	126%

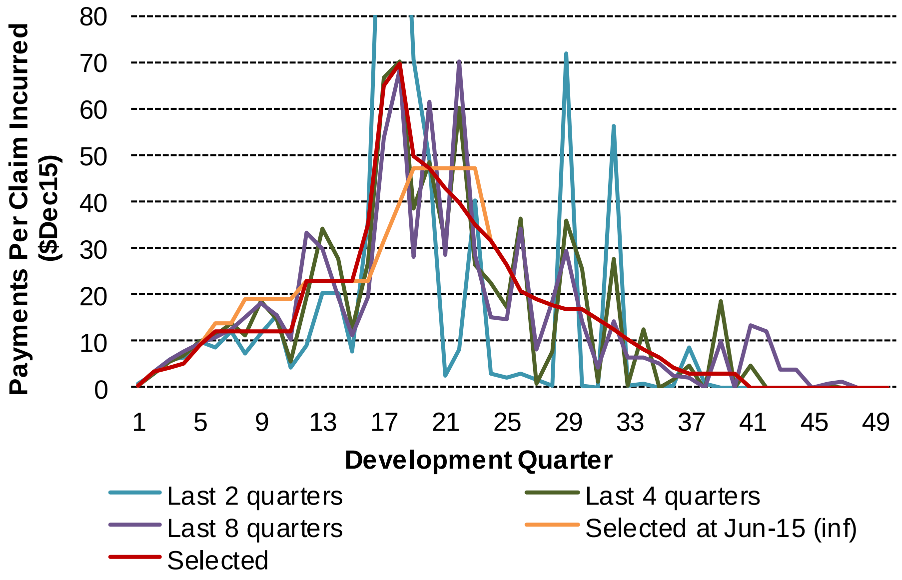
[1] Accidents to Dec15

Overall, actual recovery payments were $1.4 million greater than expected.

8.5.2 Valuation Basis

A PPCI model is used for recovery payments. Figure 8.9 below shows the recent experience and selected basis.

Figure 8.9 – PPCI Experience and Selections: Recoveries



We have reshaped the adopted recovery PPCIs at this valuation resulting in an overall increase in the adopted basis.

8.5.3 Valuation Results and Actuarial Release

Table 8.11 sets out the actuarial release resulting from our valuation of recovery payments. The first column represents our projection from the June 2015 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Dec 15 from Jun 15 Valuation[1]	Dec 15 Estimate on Jun 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	(0.0)	0.0	0%
2005/06 - 2008/09	(2.9)	(2.8)	0.0	0.1	(0.1)	2%
2009/10 - 2011/12	(14.7)	(14.6)	0.1	(1.4)	1.3	-9%
2012/13 and later [1]	(23.7)	(24.9)	(1.3)	(0.0)	1.3	-6%
Total	(41.2)	(42.3)	(1.1)	(1.4)	2.6	-6%

[1] Accidents to Dec15

[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The increase in recoveries asset of $1.1 million combined with actual recoveries being $1.4 million above expectations results in an overall actuarial release of $2.6 million. (i.e. an increase in expected recoveries)

8.6 LOEC, Commutations, and Common Law

LOEC, Commutations, and Common Law are small entitlements with little outstanding claims liability.

8.6.1 LOEC

LOEC claims are valued together with Short Term Claims and as at the current valuation, there are only six active claims. The basis is unchanged from our previous valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependent benefits. There were a small number of commutation payments ($0.04 million) during the last six months. These payments follow a similar level of payments made in the previous six month and are well below our expectations ($0.5 million).

The basis is unchanged from our previous valuation.

8.6.3 Common Law

There were no common law payments in the last six months. The common law entitlement for short term claims relates to a small number of infrequent but relatively large claims, and needs to be considered over long time horizons. Having taken this into consideration we have left the valuation basis unchanged.

NB. Common law entitlements for some Serious Injury claims are considered in Section 9.

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9 Serious Injury Claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 31 December 2015, and the movement in our liability estimates since the June 2015 valuation. Note: these liability estimates use our June 2015 economic assumptions, with the impact of changes in economic assumptions discussed later in Section 11.3.

Table 9.1 – Serious Injury claims Valuation Results (excluding CHE)

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabi litation	Physical Therapy	Investi gation	Legal - Non-Contract	Legal Contract	Lump sums	Redemp-tions	Recov-eries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Jun15 Valuation														
Estimated Liab at Jun-15	236	414	326	61	50	42	33	2	3	4	38	7	-20	1,195
Projected Liab at Dec-15	246	430	341	65	52	44	35	1	3	3	34	0	-19	1,235
Dec15 Valuation														
Impact of experience/basis change	-3	-11	-17	2	-11	6	4	0	5	8	5	3	-23	-34
Estimated Liab at Dec15 (Jun15 ecos)	**243**	**419**	**324**	**67**	**41**	**50**	**38**	**1**	**8**	**11**	**39**	**3**	**-42**	**1,201**
Impact of change in ecos	6	17	13	3	2	2	2	0	0	0	0	0	0	44
Estimated Liab at Dec15 (Dec15 ecos)	**248**	**436**	**336**	**70**	**43**	**52**	**40**	**1**	**8**	**11**	**39**	**3**	**-42**	**1,245**
AvE Payments - six months to Dec15	3	0	0	0	0	0	0	0	1	0	1	9	-1	11
Actuarial Release at Dec15	0	12	17	-1	11	-6	-4	1	-6	-8	-6	-11	24	22

The outstanding claims cost for Serious Injury claims is $1,245 million at 31 December 2015. The four main movements from our June 2015 projection of the December 2015 liability are:

- Net newly identified Serious Injury claims increasing the liability by $66m
- This is largely offset by a $60 million decrease due to the use of redemptions to commute benefits at less than the lifetime amount and some entitlement changes
- Changes in IBNR numbers for Severe Traumatic Injury claims reducing the liability by $34m
- The change in economic assumptions at the current valuation – principally the decrease in the discount rate – which increases the estimated liability by $44 million. The impact of the change in economic assumptions is discussed in Section 11.3.

The remainder of this section deals with the first three points above.

9.2 Background

"Serious Injury" claims are those with WPI of 30% or more, who are eligible to receive Income Support to retirement and other benefits for life under the RTW Act.

As Serious Injury claims were not identified before the RTW Act commenced, there is uncertainty as to the precise number and characteristics the now Serious Injury cohort. Our Serious Injury cohort includes:

- Known Serious Injury claims, comprising:
  - Claims managed internally by ReturnToWorkSA, which generally are more like Severe Traumatic Injuries (i.e. they require significant levels of care and support, or else have other special needs)
  - Other Serious Injuries with a WPI assessment of 30% of more, but not currently internally managed by ReturnToWorkSA

- Other (potential) Serious Injury claims – these are claims who have not yet had a WPI assessment of 30% or more, but who may do so at some point in future
  - We have been provided a list of some such claims by ReturnToWorkSA, which is based on claims profiling and medical review which identified claims with potential to be considered Serious Injury based on the nature of their injury and other characteristics.
  - There are also additional IBNR claims that will be identified in future in this group.

While there is reasonable knowledge around the costs and characteristics of the known Serious Injury claims, significant uncertainty remains on the potential group. Over time, the Serious Injury claim list will evolve to reflect actual assessments under the RTW Act and so this uncertainty should reduce over the next two to three years.

9.3 Valuation Approach

As Serious Injury claims are essentially entitled to lifetime benefits, it is important to consider the characteristics of individual claims when projecting future costs. Our valuation approach therefore projects future claim costs individually for each claim by payment type.

Due to significant differences in the level of incapacity and associated treatment and care costs, we have separately modelled 'Severe Traumatic Injury' claims and 'Other Serious Injury' claims, and our assumptions have been set as described in the appendices and summarised in the following table.

Table 9.2– Approach to Setting Valuation Assumptions for Serious Injury claims[1]

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a.. Mortality loadings for claims with high care needs (reducing life expectancy by 19 years) and for moderate care needs (reducing life expectancy by 8 years).	Mortality improvement of 1.5% p.a..
Income Support	To retirement age on all operationally active claims. Based on historical experience and estimates provided by RTWSA.	To retirement age on all operationally active claims. Based on historical experience.
Treatment Related Costs and Other[2]	Paid for life. Based on historical experience and estimates provided by RTWSA. Allowed for IBNER on Other and Medical costs above identified costs.	Paid for life. Based on historical experience.
Lump sums[3]	Paid to claimants who have not already had a lump sum, based on assessed WPI, or an assumed average WPI if no assessment has been undertaken as yet.	
Legal and Investigation	Legal costs are modelled as a percentage of IS costs, net of payments to date. An average ultimate investigation cost is made per claim, net of payments to date.	
Recoveries	Projected on claims identified by RTWSA as having recovery potential.	Applied an ultimate recovery proportion net of recoveries to date.
Common Law	Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.	

	Severe Traumatic Injuries	Other Serious Injury
Future cost escalation	WCI: IS AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 3% p.a. on Treatment and Other	WCI: IS AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment and Other
IBNR Assumptions	IBNR claims in the latest three accident years only. Claim size based on historical experience on current claims.	IBNR claims in the latest ten accident years, reflecting the impact of Regulation changes (allowing 'top-ups' for secondary injuries) and potential Serious Injury claims with assessments of over 30% which are not yet included in the Serious Injury list. Claim size based on historical experience on current known and potential claims.

[1] Projected costs are those paid after the claim has been identified as Serious Injury.

[2] Treatment related costs relate to Medical (including Aids and Appliances), Hospital, Rehab, Physio and Travel. Other costs have been split into "Care" and "Other" for the purposes of the valuation. Care relates to services such as attendant, respite and/or nursing care. The remaining payments in 'Other' mainly relate to home and vehicle modifications and domestic services.

[3] Impairment lump sum only. Serious Injury claims are not entitled to the Future Economic Loss lump sum.

One of the key determinants of very long term costs will be how much, if any, of the costs associated with ageing are compensated out of the compensation scheme. For example, whether ReturnToWorkSA will fund the full costs of living in a nursing home for an elderly claimant, or just the additional care costs associated with the original injury is at this stage unclear but will become increasingly important as the Severe Traumatic Injury claimants age. Our basis does not attempt to capture the full costs for age related care and support.

9.4 Claim Numbers

Table 9.3 shows the number of Serious Injury claims included in our valuation.

Table 9.3 – Serious Injury Claim Numbers

	Dec15 Valuation			Jun15 Valuation		
	Severe Traumatic	Other SI	Total	Severe Traumatic	Other SI	Total
Known Serious Injuries	143	298	441	150	240	390
plus Potential Serious Injury claims[1]	0	368	368	0	327	327
Total Identified Serious Injuries	143	666	809	150	567	717
less Claims not on ongoing benefit[2]	33	215	248	32	119	151
plus Future Serious Injury (IBNR)	9	122	131	10	99	109
Serious Injury Claims Valued	119	573	692	128	547	675

[1] Claims expected to have WPI of at least 30%

[2] Deceased, rejected, redeemed (paid or upcoming), or relating to an existing claim

Our Serious Injury projection incorporates 809 claims identified by ReturnToWorkSA (noting 248 of these are excluded from our valuation as are deceased, rejected, or redeemed). In addition, we allow for a further 131 IBNR claims as at 31 December 2015.

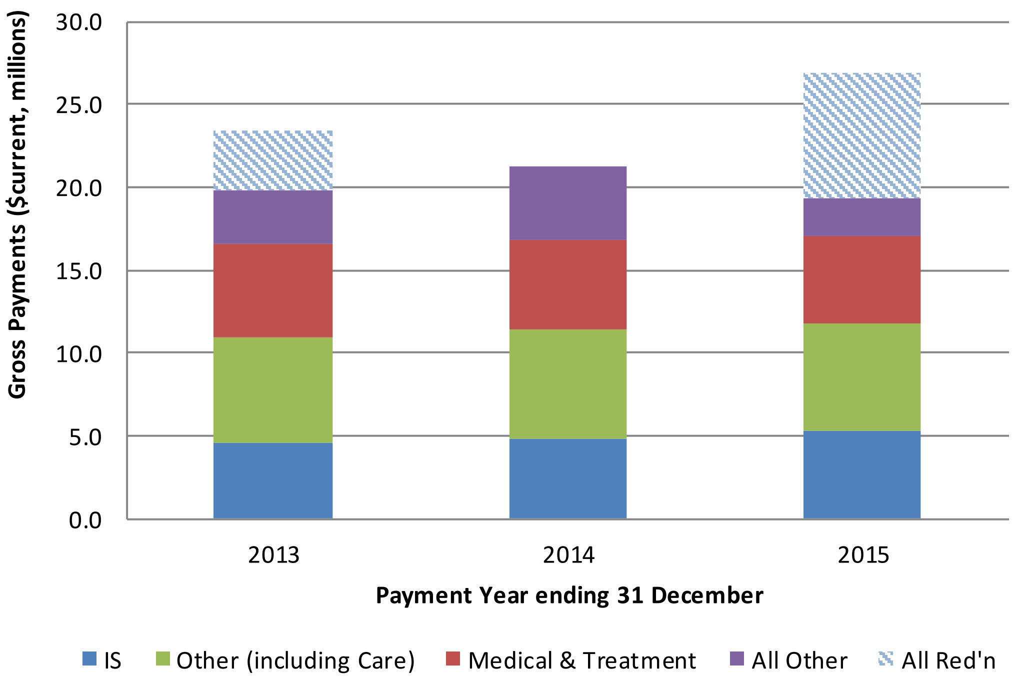
Section 4.2 included additional information on the number of Serious Injury claims.

9.5 Valuation of Severe Traumatic Injury claims

9.5.1 Payments by Type

Figure 9.1 shows claim payments over the past three years for Severe Traumatic Injury claims.

Figure 9.1 – Severe Traumatic Injury Claim Payments ($Dec-15)



Around $72 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of almost $16 million over this same period and excluding recoveries and redemptions, this equates to an average of around $15 million per annum in net claim payments to (inflated to 31 December 2015 values), comprising around:

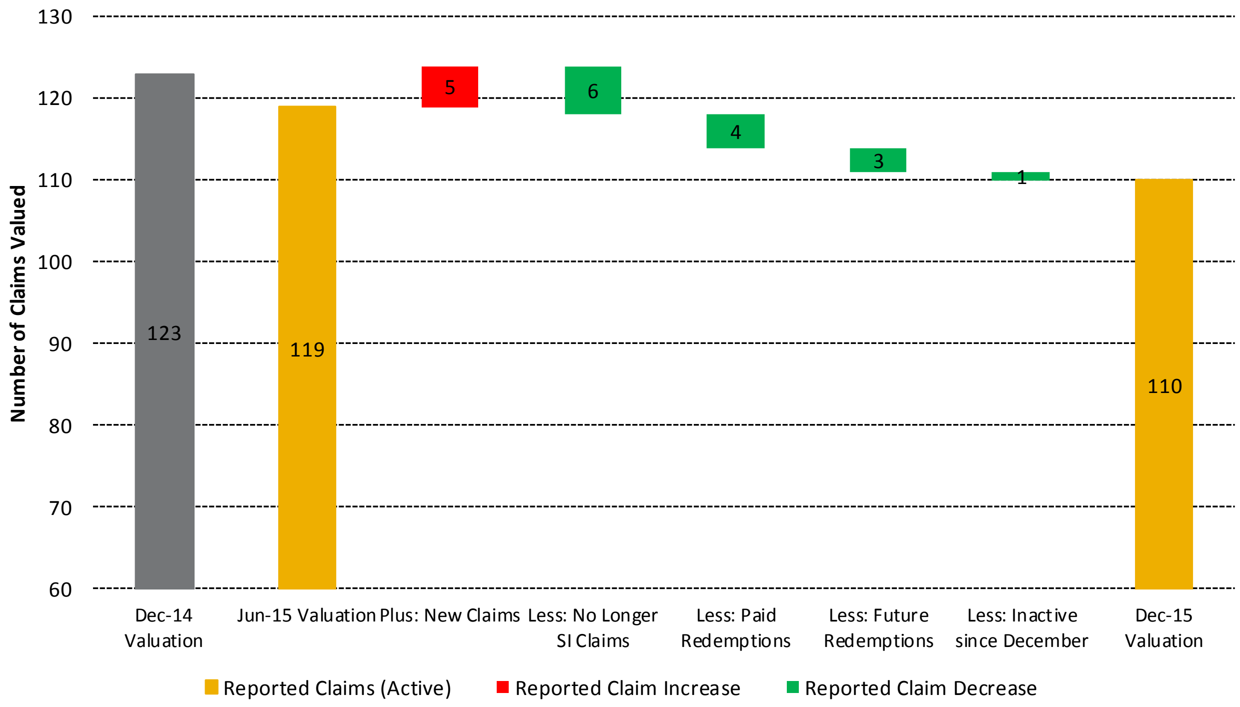
- $7 million per annum in care and other costs
- $6 million per annum in medical, treatment and related benefits
- $5 million per annum in Income Support
- $3 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.2 million per annum)
- $5 million per annum in recoveries.

As Figure 9.1 shows, there have also been a number of redemption payments on this group, which relate to negotiations commenced prior to introduction of the RTW Act.

9.5.2 Claimant Profile

Figure 9.2 shows the number of Severe Traumatic Injury claims at the current and previous valuations, along with the reasons for movement in the number of claims being valued.

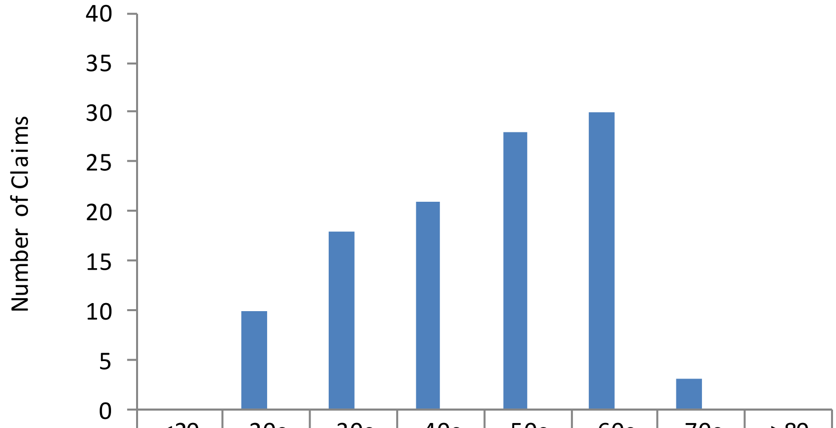
Figure 9.2 – Movement in Severe Traumatic Injury Claim Numbers



There are 110 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at December 2015, compared to 119 at the previous valuation. The largest movement is due to claims that have been confirmed as not having 30% WPI – these claims had a value of almost $20 million at the previous valuation. It is also worth noting that of the additional five new Severe Traumatic Injury claims, four of these were already being valued for lifetime benefits in the Other Serious Injury claims cohort at June 2015.

Figure 9.3 shows the age and life expectancy of the current Severe Traumatic Injuries.

Figure 9.3 – Average Age and Life Expectancy for Severe Traumatic Injury claims



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	10	18	21	28	30	3	0
Loaded Life Expectancy	0	59	41	37	23	18	11	0

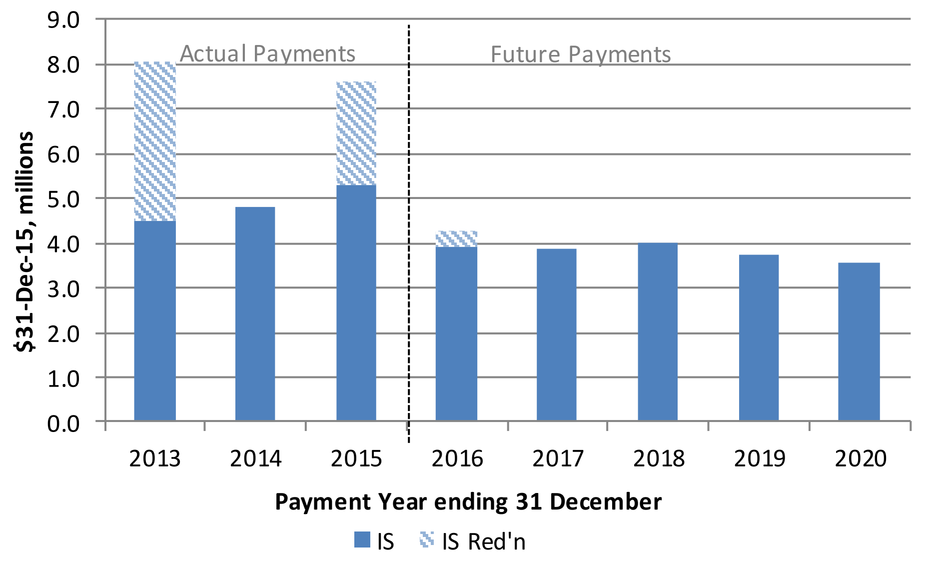
Severe Traumatic Injury claimants are currently around 50 years old on average, with an expected future life expectancy of around 30 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was 39 years.

Only around half the current Severe Traumatic Injuries have a WPI assessment, averaging just over 50%, although this is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. Somewhat surprisingly, 12 of these claims have been assessed as being less than 30% impaired. The average impairment level excluding these low assessments is around 65%, which is consistent with the high care needs for this group.

9.5.3 Income Support

Figure 9.4 shows historic and projected Income Support payments for Severe Traumatic Injury claims (including IBNR claims, but only on existing accident years).

Figure 9.4 – IS Payments – Severe Traumatic Injury claims ($Dec-15)

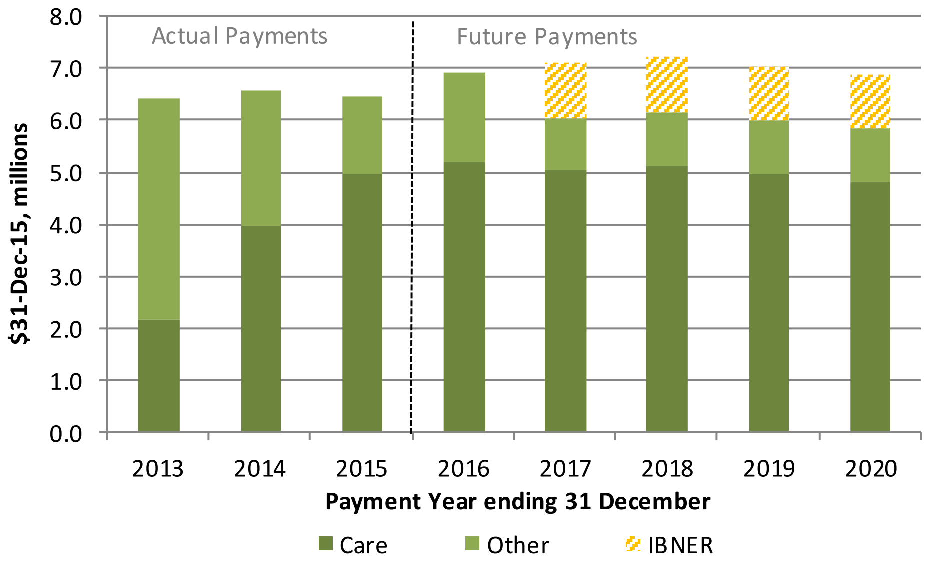


We estimate around $4.0 million will be paid in Income Support to Severe Traumatic Injury claims in 2016 and a small amount to be paid in Income Support redemptions. There is a reduction from the recent payment levels due mainly to the impact of recent redemption activity (which has commuted future recurrent benefits). Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 18 years of the 2015 payments.

9.5.4 Care and Other Costs

Figure 9.5 shows historic and projected care and other payments for Severe Traumatic Injury claims (including IBNR claims).

Figure 9.5 – Other (incl. Care) Payments – Severe Traumatic Injury claims ($Dec-15)

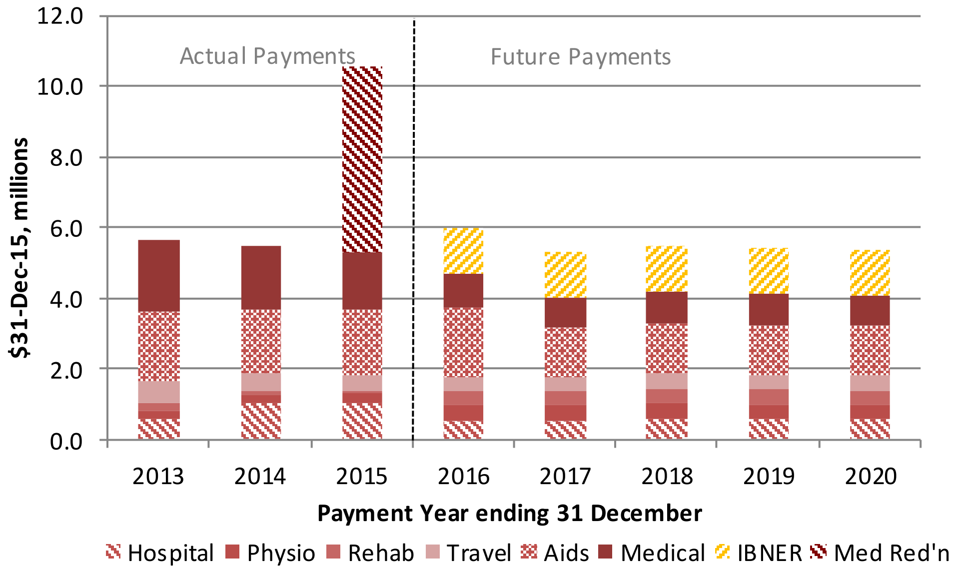


We expect just under $7.0 million of other and care payments in 2016, representing a slight increase on the 2015 year. Payments then increase in the short term due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture annualised other benefits (primarily modifications). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 26 years of the 2015 payments.

9.5.5 Treatment and Related Costs

Figure 9.6 shows historic and projected treatment and related costs for Severe Traumatic Injury claims (including IBNR claims).

Figure 9.6 – Treatment and Related Payments – Severe Traumatic Injury claims ($Dec-15)

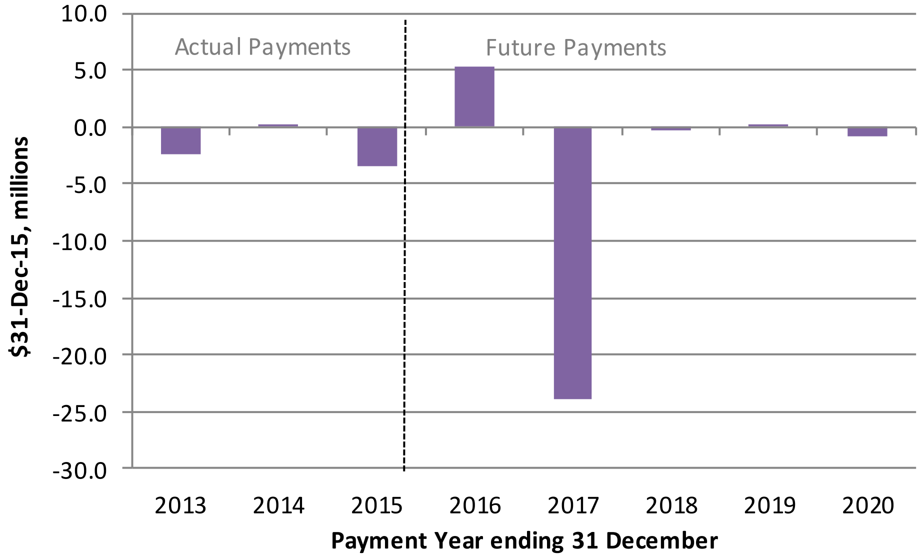


We expect future treatment and related payments of $6.0 million in 2016. The regular cost is slightly higher for 2016 to account for anticipated one-off aids and appliances costs and reduces to historical levels from 2017 onwards. The outstanding claims projection equivalent to 38 years of the 2015 payments.

9.5.6 All Other Payments

The following graph shows historic and projected other benefits for Severe Traumatic Injury claims – this includes one-off payments such as permanent impairment lump sums and recoveries, and smaller payments such as legal and investigation costs.

Figure 9.7 – All Other Payments (net) – Severe Traumatic Injury claims ($Dec-15)



In the three years to 31 December 2015, a net amount of -$5.7 million of other benefits was received for Severe Traumatic Injury claims. Our future projections include:

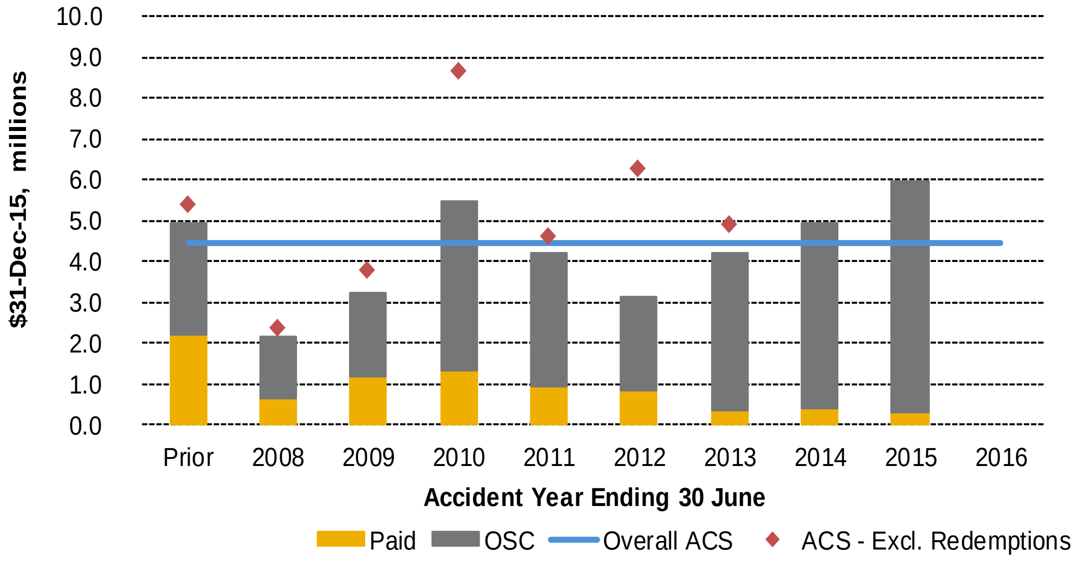
- Lump sum benefits of $10.9 million paid to current Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $4.3 million
- Recoveries of $33.2 million, for those claims where ReturnToWorkSA has identified recovery potential. The majority ($25m) comes from four claims where ReturnToWorkSA have explicitly estimated recovery amounts. The ultimate recovery rate on all Severe Traumatic Injury claims is 5%.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of expected 2016 expenditure.

9.5.7 Overall Results and Implications

Figure 9.8 shows the net ultimate average claim size across current Severe Traumatic Injury claims. As this shows, there is still a large share of the cost that is due to projected future payments, and so there is greater uncertainty about ultimate costs than in other areas of the valuation.

Figure 9.8 – Average Claim Size – Reported Severe Traumatic Injury Claims ($Dec-15)



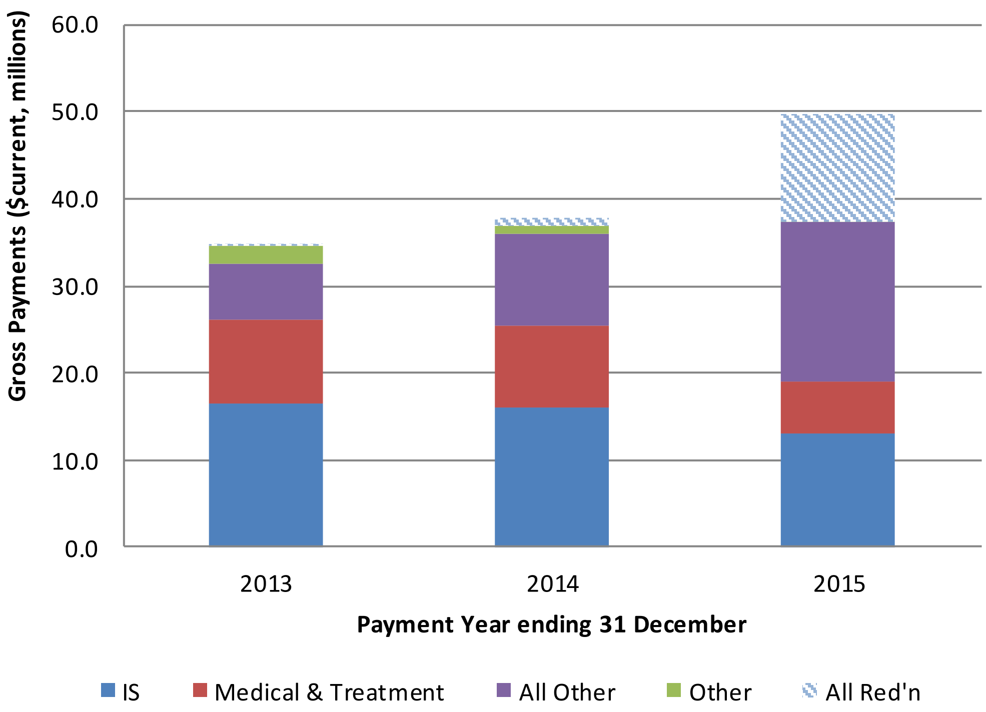
The average claim size across current Severe Traumatic Injury claims is around $4.3 million in current dollar values. This is essentially unchanged since the previous valuation. We observe that the average cost for ongoing claims is slightly higher than this amount, which is not surprising.

9.6 Valuation of Other Serious Injury claims

9.6.1 Payments by Type

Figure 9.9 shows claim payments over the past three years for the Other Serious Injury claims (i.e. excluding the Severe Traumatic Injuries).

Figure 9.9 – Other Serious Injury Claim Payments ($Dec-15)



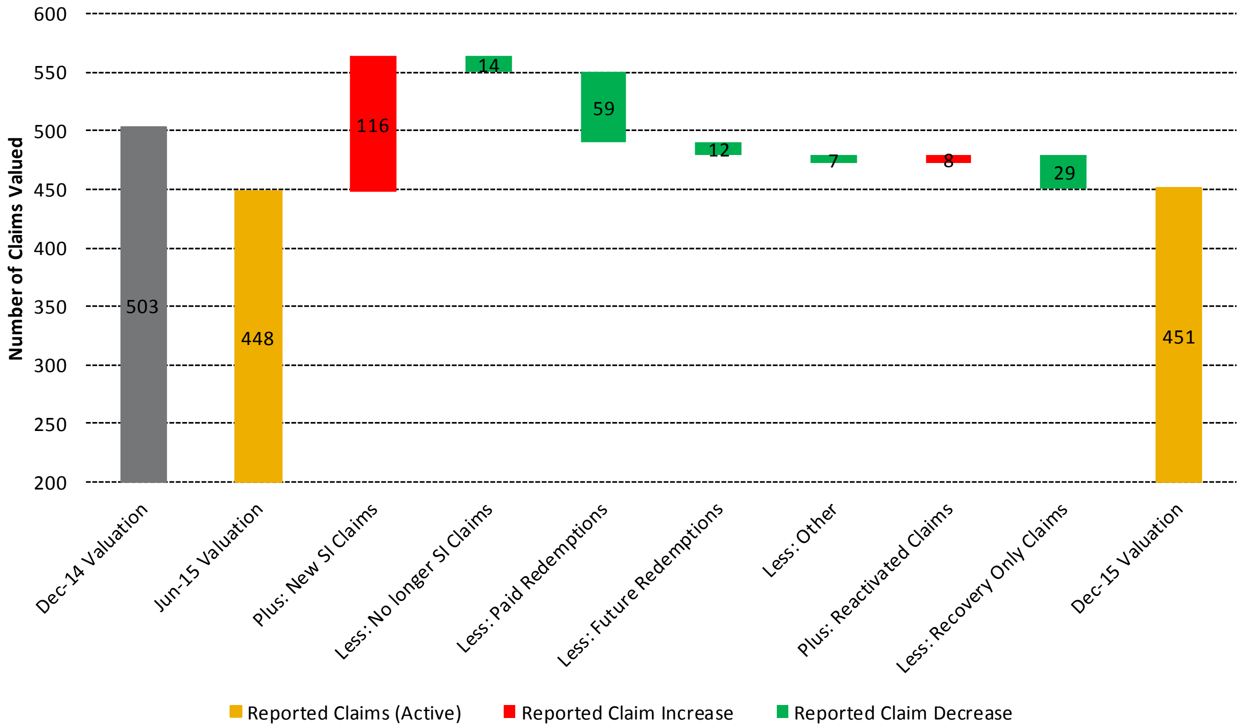
Around $122 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $4 million over this same period and removing redemptions, this equates to an average of around $35 million per annum in net claim payments (inflated to 31 December 2015 values), comprising:

- $15 million per annum in Income Support
- $9 million per annum in medical, treatment and related benefits
- $10 million per annum in lump sums
- Only small amounts of other benefits ($0.4 million).

9.6.2 Claimant Profile

Figure 9.2 shows the number of Other Injury claims at the current and previous valuations.

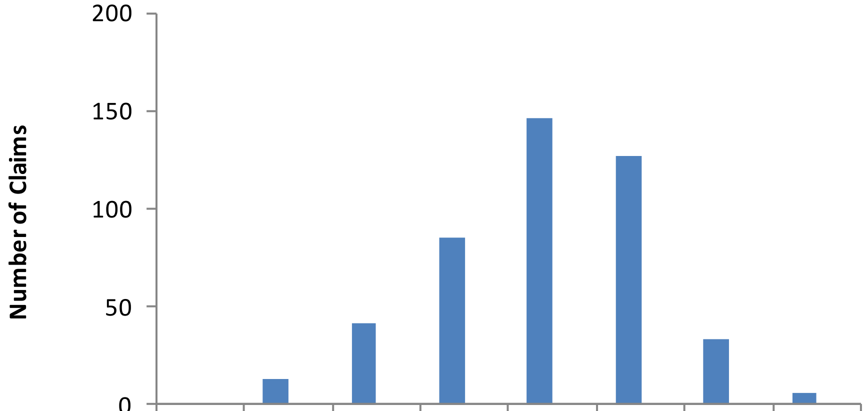
Figure 9.10 – Movement in Other Serious Injury Claim Numbers



There are 451 active (i.e. with expected ongoing benefits) Other Serious Injury claims at December 2015, compared to 448 at the previous valuation. The number of new claims was higher than expected, which was partially offset by the number of redemptions.

Figure 9.11 shows the current age and life expectancy of the known and potential Other Serious Injury claims.

Figure 9.11 – Average Age and Life Expectancy for Other Serious Injury claims



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	13	41	85	146	127	33	6
Standard Life Expectancy	0	62	52	41	31	22	14	8

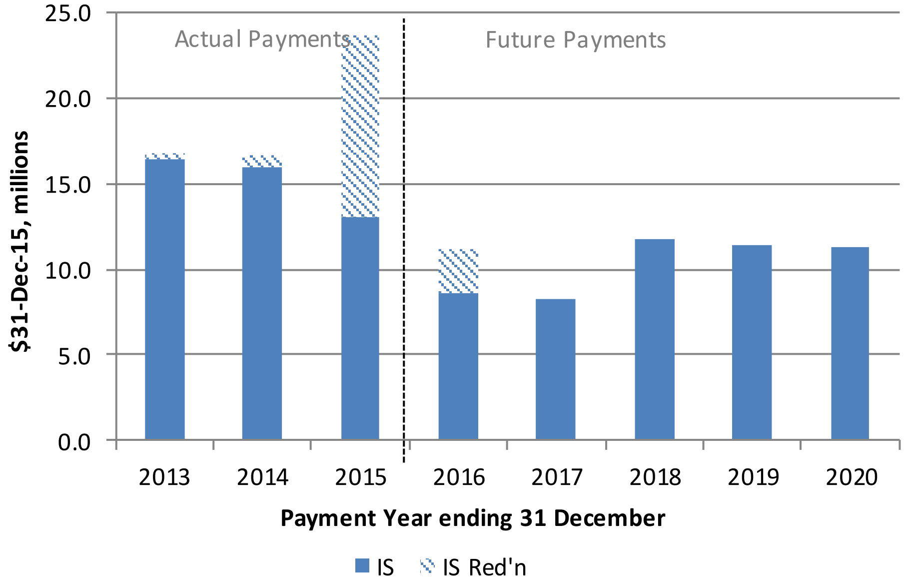
The Other Serious Injury claims are currently around 55 years old, with an expected future life expectancy of just over 30 years (after allowing for mortality, including mortality improvements). We note the average age at injury was around 45 years.

Around 65% of the current Other Serious Injuries have a WPI assessment, averaging just over 30%. However a number of these claims have WPI assessments of less than 30% (noting that the current list includes some of those *potentially* reaching 30% WPI in future). The average impairment level excluding these low assessments is around 38%.

9.6.3 Income Support

Figure 9.12 shows historic and projected Income Support payments for Other Serious Injury claims (including IBNR claims).

Figure 9.12 – IS Payments – Other Serious Injury claims ($Dec-15)

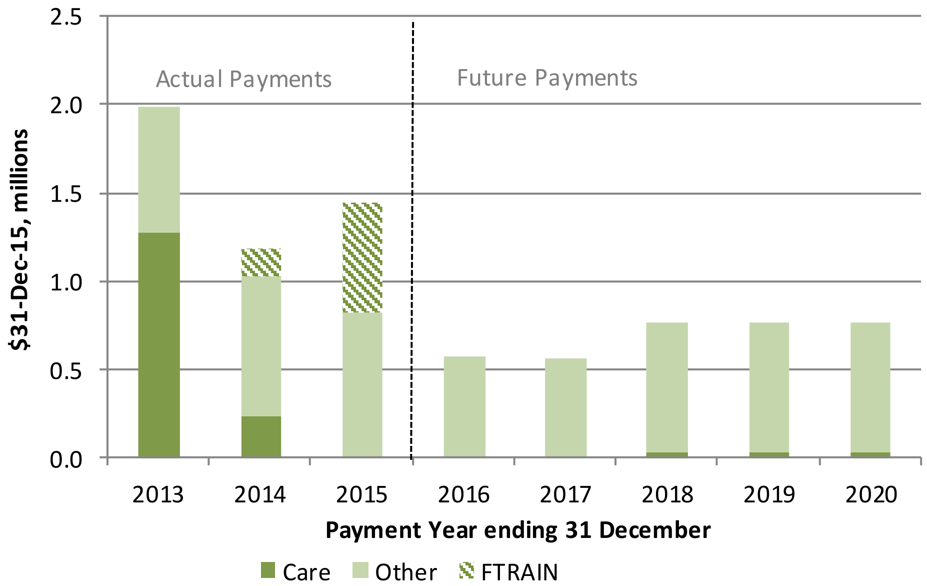


We estimate around $8.7 million will be paid in Income Support and a further $2.5 million in Income Support redemptions will be paid to Other Serious Injury claims in 2016. This is lower than recent levels as a result of the high recent redemption activity. Future payments will generally reduce over time in line with expected mortality and retirement, although there is a stepwise change between 2017 and 2018 as additional IBNR claims are all assumed to move into the serious injury group at two years duration.

9.6.4 Care and Other Costs

Figure 9.13 shows historic and projected care and other payments for Other Serious Injury claims (including IBNR claims).

Figure 9.13 – Other (incl. Care) Payments – Other Serious Injury claims ($Dec-15)



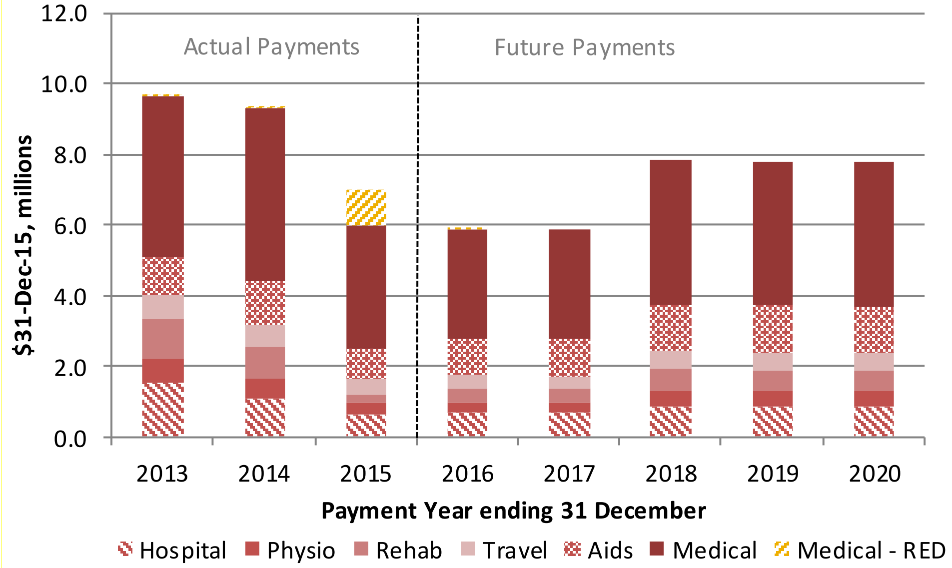
Other Serious Injury claims receive very little in care costs; almost all the care paid in the last three years related to a claimant who is now deceased or FTRAIN payments relating to dispute settlements.

We expect around $0.6 million in other payments in 2016, in line with the average across the last three years (excluding the deceased claimant and FTRAIN payments). Payments thereafter increase due to IBNR claims (in 2018) offset by reductions in line with mortality.

9.6.5 Treatment and Related Costs

Figure 9.14 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims).

Figure 9.14 – Treatment and Related Payments – Other Serious Injury claims ($Dec-15)

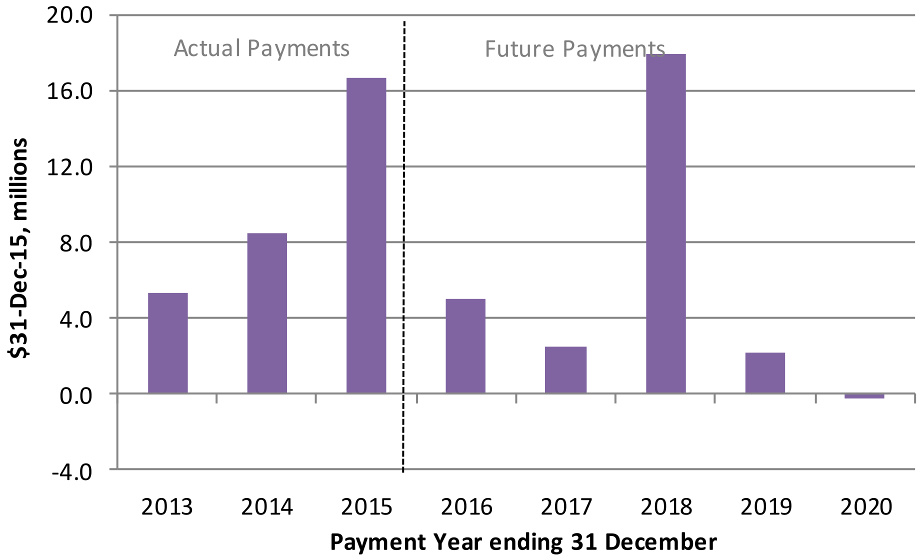


We expect treatment and related payments of $6.0 million in 2016 in line with 2015. Payments thereafter increase due to IBNR (in 2018) claims offset by reductions in line with mortality.

9.6.6 All Other Payments

Figure 9.15 shows historic and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 9.15 – All Other Payments – Other Serious Injury claims ($Dec-15)



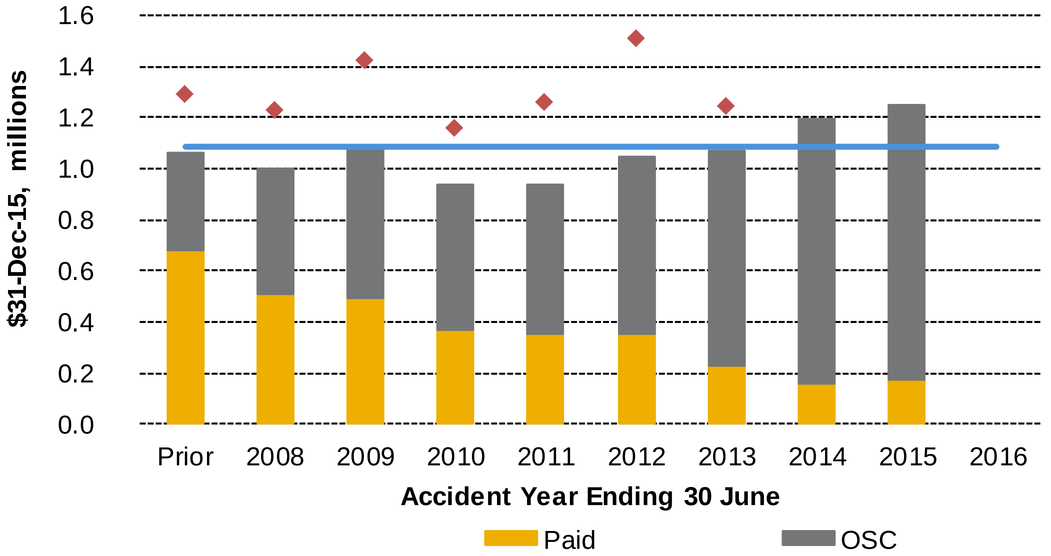
Our future projections include:

- Lump sum benefits of $28.4 million paid to current Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $15.7 million
- Recoveries of $9.2 million.

9.6.7 Overall Results and Implications

Figure 9.16 shows the net ultimate average claim size (inflated to 31 December 2015 values) across current Other Serious Injury claims.

Figure 9.16 – Average Claim Size (Reported Claims) – Other Serious Injury claims



The overall average size for current Other Serious Injury claims is around $1.1 million, however excluding claims that have been redeemed (a practice which is not expected to continue) the average size is $1.3m and appears consistent across accident years. We have therefore adopted an average claim size of $1.3 million for IBNR Other Serious Injury claims (unchanged since the previous valuation), as these will be managed entirely under the RTW Act rules.

9.7 Valuation Results and Actuarial Release

Table 9.4 shows the actuarial release by accident period for Serious Injury claims.

Table 9.4 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Dec-15 from Jun-15 Valuation	Dec-15 Estimate on Jun-15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Dec-15	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	241.8	293.0	51.2	2.9	-54.1	-22%
2005/06 - 2008/09	275.9	250.3	-25.6	1.0	24.6	9%
2009/10 - 2011/12	299.8	269.3	-30.5	5.2	25.3	8%
2012/13 and later[1]	417.4	388.5	-28.9	2.4	26.5	6%
Total	1,235.0	1,201.1	-33.8	11.5	22.3	2%

[1]Accidents to Dec 15

[2]Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

There is a material strengthening for pre-June 2005 claims which is the result of newly identified claims (where none were expected). Releases on more recent periods can generally be attributed to the impact of redemptions more than offsetting the higher than expected new claim numbers.

Table 9.5 shows the drivers of the actuarial release for Serious Injury claims. As this shows the movements are driven by: (1) changes in the claims identified as Serious Injury (a net $66 million increase), which is likely to continue over the next one to two years as assessments are completed, (2) the closure of a large number of Serious Injury claims following recent redemption activity (a $60 million reduction) and (3) changes in IBNR numbers (a $34 million reduction).

Table 9.5 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(11)
Difference from projected liability		
Changes to Valuation Basis		
Extra SI claims	(105)	
Claims no longer SI	39	
Redemption/entitlement changes	60	
IBNR changes	34	
Other basis changes	6	
Subtotal		34
Total		22

10 Economic and Other Assumptions

10.1 Discount Rate

10.1.1 Approach

Accounting standard AASB 1023 states that the discount rates used in measuring the present value of expected future claim payments shall be: "risk free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligations". It also says that:

"the discount rates are not intended to reflect risks inherent in the liability cash flows", and

"typically, government bond rates may be appropriate discount rates for the purpose of this Standard, or they may be an appropriate starting point in determining such discount rates".

We derive forward interest rates applying to each future duration by:

- Taking the quoted market yields on Australian Government coupon bonds for the durations they are available, as at the date of the valuation – this information is sourced from the Reserve Bank website. These market yields are used to determine the zero coupon yields.
- Using these zero coupon yields to determine forward rates
- At longer durations we extrapolate the forward yield curve between current market rates and our expected long term forward rate. The assumed long term forward rate and extrapolation take account of:
  - The duration that government bonds are available to, and the volumes of longer term bonds traded
  - Long term risk free rates of return
  - General economic factors
  - Current monetary policy (e.g. CPI currently in the range of 2% to 3%), combined with expectations of long term real yields
- Beyond the end of our extrapolation, the yield is maintained at the long term forward rate.

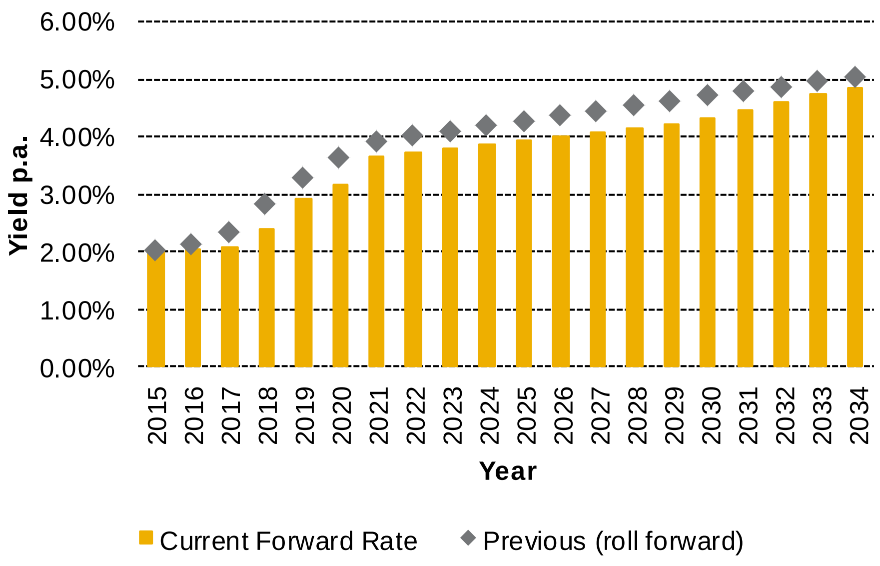
The resulting forward rates are applied to the projected cashflows for each future period. When discounting using forward rates, the relevant rates must be 'chained' together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

Government bond yields at December 2015 are lower than at June 2015 for durations between 2 and 20 years. Beyond this point we have assumed a long-term rate of 5.25% consistent with our previous valuation.

Figure 10.1 shows the current forward rates, and compares these to the corresponding forward rates implied by the previous valuation (i.e. rolled forward to the current valuation date). This shows that the discount rates have decreased for all durations with the equivalent single discount rate decreasing from 4.1% p.a. at 30 June 2015 to 3.7% p.a. at 31 December 2015.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



Details of the discount rates by year are included in the appendices.

10.2 Inflation

In setting our inflation assumptions we consider:

- Forecasts of CPI and wage inflation
- RBA monetary policy
- Market-based information on inflation, with the aim of obtaining inflation expectations which are consistent with the discount rate expectations (as the discount rates are market based), for example using Treasury Indexed Bonds (TIBs). TIBs are essentially Government bonds where the original capital invested, and subsequent coupon payments, are indexed for CPI inflation. The difference between yields on TIBs and on nominal government bonds gives an implied breakeven rate of CPI inflation.

In summary, our assumptions at the current valuation are:

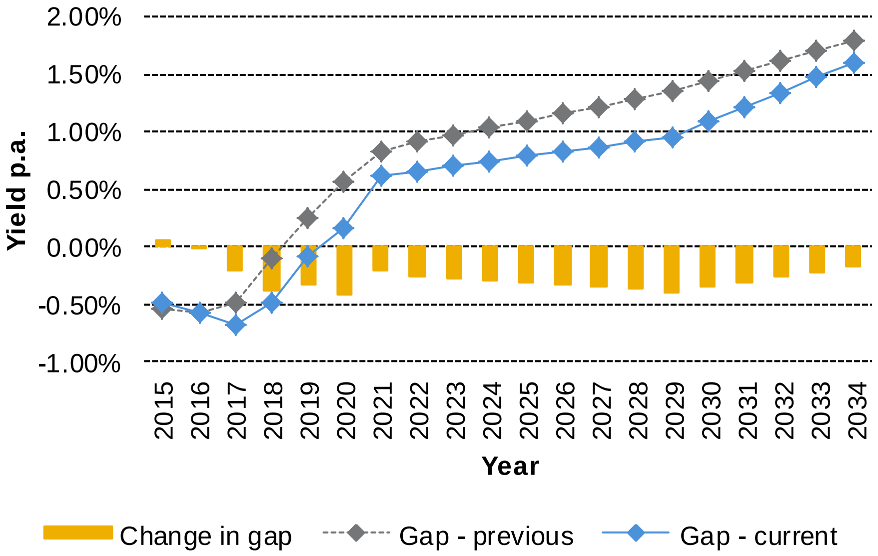
- Wage Price Inflation has been assumed to be 2.5% p.a. for the coming year, increasing to 3.0% after five years. This is a reflection of both current forecasts and the current low interest rate environment.
- Wage Price Inflation assumptions gradually increase from this level to 3.25% over the next 18 years, where a gap of 2% p.a. is maintained between Wage Price Inflation and forward discount rates. This gap is consistent with the June 2015 valuation.
- Average Weekly Earnings (AWE) is set as 0.25% above Wage Price Inflation at all durations.

CPI inflation has been set at 2.5% p.a. for all future durations. This is generally consistent with both short term forecasts and the mid-point of Reserve Bank's targeted range of 2-3% p.a.

Overall, our resulting projected wage inflation is lower than at the previous valuation.

The combined impact of the above movements in adopted inflation and discount rates is a decrease in the 'gap' between inflation and discount rates, as shown in Figure 10.2.

Figure 10.2 – Gap between Adopted AWE and Discount Rates



The impact of this change is to increase the scheme liability, which is quantified in Section 11.3.

The rates of inflation are applied to entitlement types as follows:

- IS entitlements and related expenditure for Short Term Claims have no inflation applied for the current cohort of claims, consistent with the RTW Act. AWE is initially applied for future injuries.
- IS entitlements and related expenditure for Serious Injury claims are inflated using the projected Wage Price Inflation rate until retirement.
- The maximum Lump Sum entitlement is indexed annually by the adopted CPI rate (the maximum entitlement applies to all accidents occurring in a year).
- All other entitlements are inflated at the adopted AWE rate, with allowance for superimposed inflation where warranted.

We have made assumptions about superimposed inflation for some payment types, and on the timing of the application of inflation. These assumptions are detailed in the appendices.

10.3 Expenses

In setting provisions for outstanding claims, it is necessary under accounting and actuarial standards to include an allowance for the future costs of claim administration that are not allocated to individual claims.

With the passage of the RTW Act there will be a period of high expenses before the scheme returns to anything like a stable state. The approach we have taken is as follows:

(i) For Serious Injury claims we express claim handling expenses as a percentage of outstanding claims – the allowance is 8.5%, unchanged from the previous valuation.

(ii) For Short Term Claims, in conjunction with ReturnToWorkSA we previously estimated the expenses of running off those claims until the end of 2017/18 when the transition will be largely complete. These assumptions are unchanged at the current time and will be reviewed after ReturnToWorkSA's upcoming budgets are completed.

(iii) For future Short Term Claims under the RTW Act, we use ReturnToWorkSA's expected long term expenses of 0.4% of wages, consistent with the costing of the new scheme, where claims handling expenses equate to around 10% of gross claim payments.

(iv) For Break Even Premiums under the RTW Act, we also use ReturnToWorkSA's expected long term expenses of 0.4% of wages, consistent with the costing of the new scheme.

The expense allowances will need to be updated periodically during the transition period to reflect changes in the claims mix and expected future costs. Given the significant changes being undertaken by ReturnToWorkSA to implement the RTW Act, and the resulting changes in claimant profile over the next two years, it is expected that the expense loading will move more than would normally be the case over the next few valuations.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

At 31 December 2003, ReturnToWorkSA adopted a policy of establishing an outstanding claims provision with an intended 65% probability of sufficiency. This policy was re-affirmed in August 2009.

In our previous valuation, we undertook a partial review of the key components of the framework and made adjustments to our assumptions accordingly. We have reviewed the key assumptions at this valuation and in absence of any new information in the last six months believe that they still remain appropriate.

Our current estimated CVs for each entitlement group, along with the total diversified and undiversified CV, are set out in Table 10.1 below.

Table 10.1 – Coefficient of Variation

	Total CV	
Risk Margin Group	Dec-15	Jun-15
Serious Injury	26.5%	26.5%
Short Term Claims		
IS + Redemption	14.5%	14.5%
Lump Sums	23.0%	23.0%
Legal + Investigation	25.8%	25.8%
Medical and Other Treatment	17.0%	17.0%
Recoveries	22.4%	22.4%
Total (Undiversified)	23.9%	23.0%
Total (Diversified)	**19.9%**	**18.1%**
Diversification	16.6%	21.4%

Based on a coefficient of variation of 19.9% and our modelled distribution (which is a blend between a normal and lognormal distribution), we recommend the following risk margins:

- For a 65% probability of sufficiency – a risk margin of 6.5% (unchanged from previous).

- For a 75% probability of sufficiency – a risk margin of 12.0% (increased from 11.5%).

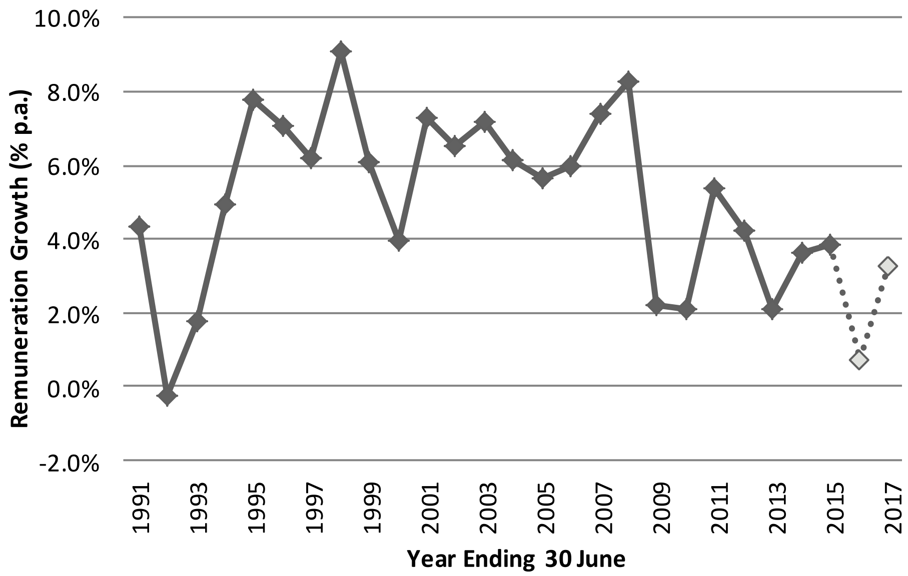
10.6 Non-Exempt Remuneration

When making our assessment of the cost of future claims, we consider the underlying remuneration pool as a measure of the exposure from which claims will arise.

The movement in the remuneration pool over time is the net result of a number of influences: (1) growth in average weekly earnings, (2) 'natural' growth in the number of employees and (3) movements of firms out of/into the Scheme due to exiting/becoming self-insured status.

The remuneration projection for current and future years is undertaken by ReturnToWorkSA and the implied annual growth in the total non-exempt remuneration by year is shown below in Figure 10.3

Figure 10.3 – Non-Exempt Leviable Remuneration: Annual Growth



We have adopted ReturnToWorkSA's remuneration projection of $25.5 billion for 2015/16, noting that it is still subject to estimation as premium returns are yet to be completed for the current year. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
  - The global financial crisis – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
  - A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.
- Despite remuneration growth briefly heading up to more 'normal' historical levels in 2011 and 2012, wage growth has since headed down towards levels seen during the GFC.
- ReturnToWorkSA is currently projecting 2016 remuneration growth to be at the lowest level in 25 years (since the national recession in the early 1990's). We understand this result is an

expectation of low wage inflation (see Section 10.2) and increased unemployment (see Section 3.2.1), along with increasing ‘under employment’ or reduced hours of work.

11 Valuation Results

This section of the report summarises the valuation results, namely:

- The central estimate of outstanding claims as at 31 December 2015
- Our recommended balance sheet provision under AASB1023
- Movement in the central estimate compared to what was projected at the previous valuation
- Estimated historical scheme costs
- Projected future cashflows for the current outstanding claims
- Projected outstanding claims as at 30 June 2016 and 31 December 2016
- Reconciliation of results with 30 June 2015 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 31 December 2015 is set out in Table 11.1. This liability relates to all claims which occurred on or before 31 December 2015 and includes the impact of updated economic assumptions.

Table 11.1 – Outstanding Claims by Entitlement Type

Entitlement	Estimate of Outstanding Liability			% of Net
Group	Short Term Claims	Serious Injuries	Total	Cent Est
	$m	$m	$m	
Income	181	248	429	20%
Redemptions	66	3	69	3%
Lump sums	151	39	190	9%
Worker legal	52	8	59	3%
Corporation legal	32	11	43	2%
Medical	117	436	553	26%
Hospital	16	70	86	4%
Travel	7	43	50	2%
Rehabilitation	15	52	68	3%
Physical Therapy	9	40	49	2%
Investigation	4	1	5	0%
Other (including Care)	13	336	349	16%
Common law	2	0	2	0%
LOEC	2	0	2	0%
Commutation	2	0	2	0%
Gross Liability	670	1,287	1,958	91%
Recoveries	-42	-42	-85	-4%
Expenses	161	109	271	13%
Net Central Estimate	789	1,354	2,143	

The outstanding claims liability before recoveries and expenses is estimated to be $1,958 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,143 million.

Table 11.2 details the outstanding claims result by accident year.

Table 11.2 – Outstanding Claims by Accident Year

Accident Year	Estimate of Outstanding Liability: Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m	
Pre Jun-05 Years	49	303	352	16%
Jun-06	9	49	58	3%
Jun-07	13	86	99	5%
Jun-08	16	81	97	5%
Jun-09	21	63	85	4%
Jun-10	26	103	129	6%
Jun-11	34	110	144	7%
Jun-12	46	75	121	6%
Jun-13	71	127	198	9%
Jun-14	110	116	226	11%
Jun-15	150	119	269	13%
Jun-16	125	54	179	8%
Gross Liability	670	1,287	1,958	91%
Recoveries	-42	-42	-85	-4%
Expenses	161	109	271	13%
Net Central Estimate	789	1,354	2,143	100%

Table 11.3 shows the overall liability split between Serious Injuries and Short Term Claims, both before and after discounting. As this shows, there is a significant level of discounting in relation to the Serious Injury claims liability due to its long payment pattern.

Table 11.3 – Impact of Discounting

	Serious Injuries	Short Term Claims	Total
	$m	$m	$m
Inflated	3,927	835	4,762
Inflated and Discounted	1,354	789	2,143
Ratio	34%	95%	45%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 65% probability of sufficiency, $2,283 million.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,287		
Gross Claims Cost - Short Term Claims	670		
Claims Handling Expenses	271		
Gross Outstanding Claims Liability	2,228	145	2,373
Recoveries	-85	-6	-90
Net Outstanding Claims Liability	2,143	139	2,283

For information, if a 75% probability of sufficiency were to be adopted then the provision would increase to $2,401 million, an increase of $118 million.

11.3 Movement in Liability

Our central estimate is $20 million lower than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 - Movement from Previous Valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at Jun-15	2,007	-63	295	2,239
Plus liability for claims incurred in the period	197	-5	19	211
Less Expected Payments to Dec-15	268	-8	49	308
Plus Interest (unwinding of discount)	20	-1	3	22
Liability Projected from Previous Valuation	1,957	-60	268	2,164
Current Valuation	1,958	-85	271	2,143
Difference	1	-24	3	-20

We have attributed the change in central estimate into the following components:

- Movement in liability due to claims experience – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions
- Impact of changes in economic assumptions – the component which is mandated by accounting standards (and therefore outside ReturnToWorkSA's control).

This split also allows calculation of the actuarial release, where we add the difference between actual and expected payments to the movement in the liability due to claims experience, to give a measure of the 'profit' impact of claims management performance relative to the previous valuation basis.

Table 11.6 – Movement in Central Estimate and Determination of Actuarial Release

	Projected Jun-15 Liability[1]	AvE Payments in 6 mths to Dec 15	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-15 Valuation	2,239		
Projected Liability at Dec-15 (from Jun-15 valuation)	2,164		
Movement in liability due to claims performance	-70	44	26
Impact of Change in economic assumptions	50		
Recommended Liability at Dec-15	2,143		

[1] Net central estimate of outstanding claims liability, including CHE

[2] Includes change in OSC and Act vs Exp payments.

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at December 2015

The actuarial release over the period is a release (favourable result) of $26 million. Table 11.7 shows the actuarial release (strengthening) by entitlement type.

Table 11.7 – Actuarial Release by Entitlement Type

Entitlement Group	Short Term Claims[1]	Serious Injury Claims[1]	Total Actuarial Release [1]	Release %
	$m	$m	$m	%
Income	34.7	0.3	35.0	
Redemptions	-68.7	-11.4	-80.1	
Combined	*-34.0*	*-11.2*	*-45.1*	*-9.4%*
Lump Sums	-4.4	-6.4	-10.8	-5.7%
Worker legal	11.0	-5.6	5.4	8.1%
Corporation legal	9.7	-7.6	2.1	4.7%
Investigation	2.4	0.5	2.9	40.3%
Medical	15.2	11.7	26.8	4.8%
Other	-7.7	17.2	9.5	2.7%
Hospital	-1.1	-1.4	-2.5	-3.1%
Travel	2.4	10.8	13.2	21.7%
Physical therapy	1.6	-3.7	-2.1	-4.7%
Rehabilitation	5.3	-5.5	-0.2	-0.4%
Common Law	0.1	0.0	0.1	6.0%
LOEC	-0.2	0.0	-0.2	-16.3%
Commutation	0.2	0.0	0.2	7.6%
Gross Liability	0.4	-1.3	-0.9	0.0%
Recoveries	2.6	23.7	26.2	-43.4%
Expenses	0.1	0.9	1.0	0.4%
Net Central Estimate	3.1	23.2	26.3	1.2%

[1] Includes change in OSC and Act vs Exp payments, excludes economic impacts

The major factors contributing to the $26 million actuarial release at the current valuation are:

- There are significant movements between Income Support, Redemption and Medical liabilities due to current claims management activity. These changes should largely be viewed collectively, as the changing the payment structure can impact on the assessment of a benefit type in isolation.
- For Short Term Claims, the $3 million actuarial release comprised:
  - A net strengthening of $34 million for income support and redemption, although around $14 million of this is related to the increased use of medical redemptions which creates an offsetting reduction in the medical liability. The largest driver of the remaining additional cost is the higher than expected levels of backpay being made with dispute settlements.
  - Lump sum costs increased due to higher average claim sizes, with the high recent volume largely being interpreted as a bringing forward of payments.
  - Legal costs (both worker and corporation) have large reductions, although part of this apparent saving is a change in the modelling approach to recognise legal costs relating to serious injury claims (so there is an offsetting increase in the serious injury legal liability).
  - Medical costs reduced by $15 million, which is primarily the transfer of cost into medical redemptions.
  - Other costs increased by nearly $8 million, which is again due to higher than expected dispute settlement costs.
  - There were generally large proportionate savings on provider related expenditure, with Rehabilitation, Physical Therapy, Travel and Investigation costs all reducing materially.
- For Serious Injury claims, there was an overall release of $23 million, due to:

- Higher numbers of newly identified SI claims than expected being offset by positive outcomes from redemption activity and valuation basis changes to release $12 million.
- Legal costs being increased by $13 million in response to a modelling change to improve the allocation of these costs (previously they were primarily recorded as a Short Term Claim cost).
- A $24 million increase in future recoveries to reflect ReturnToWorkSA's latest recovery estimates.

Our projections for the remaining entitlement types were also reviewed and updated, although none of the movements are significant in relation to the overall Scheme liability.

11.3.2 Impact of Economic Assumption Changes

Changes to inflation and discount rate assumptions increased the central estimate by $50 million.

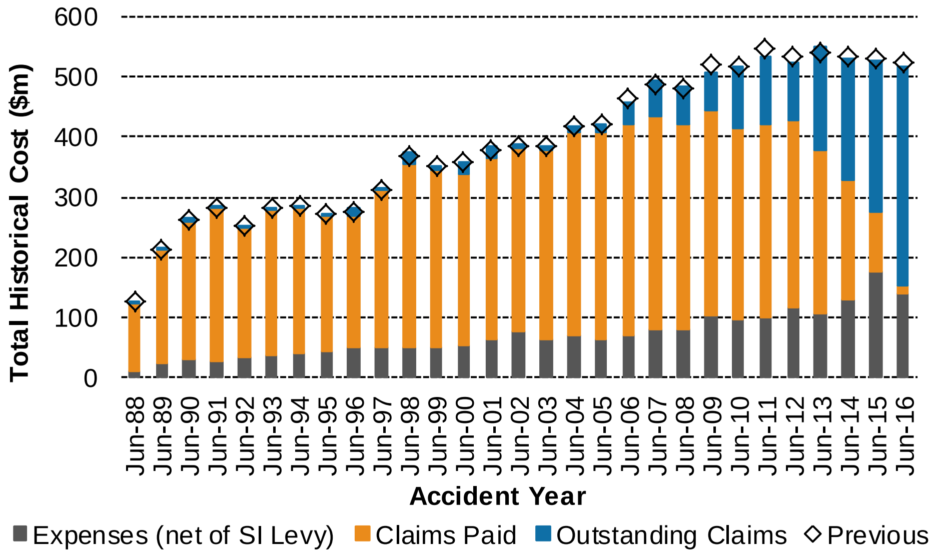
As discussed in Section 10.1 there have been decreases in discount rates for most durations, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

11.4 Historical Scheme Costs

As part of our valuation we have estimated the 'historical cost' for each past accident year. This represents our estimate of total projected costs for the accident year, including expenses, and is discounted to the start of the accident year. Historical claims handling, operating expense and self-insurer levy figures are taken from ReturnToWorkSA's published annual accounts and the latest information from ReturnToWorkSA for 2016.

Figure 11.1 summarises the currently estimated historical costs for each year since the Scheme began. As this shows, commencement of the RTW Act has acted to reduce the cost for recent accident years into the $500 million to $550 million range, breaking the strong upward trend seen in the lead up to 2010. Scheme expenses were particularly high in 2015 as a result of additional transition related expenses. In general the hindsight cost estimates are close to the previous valuation estimates.

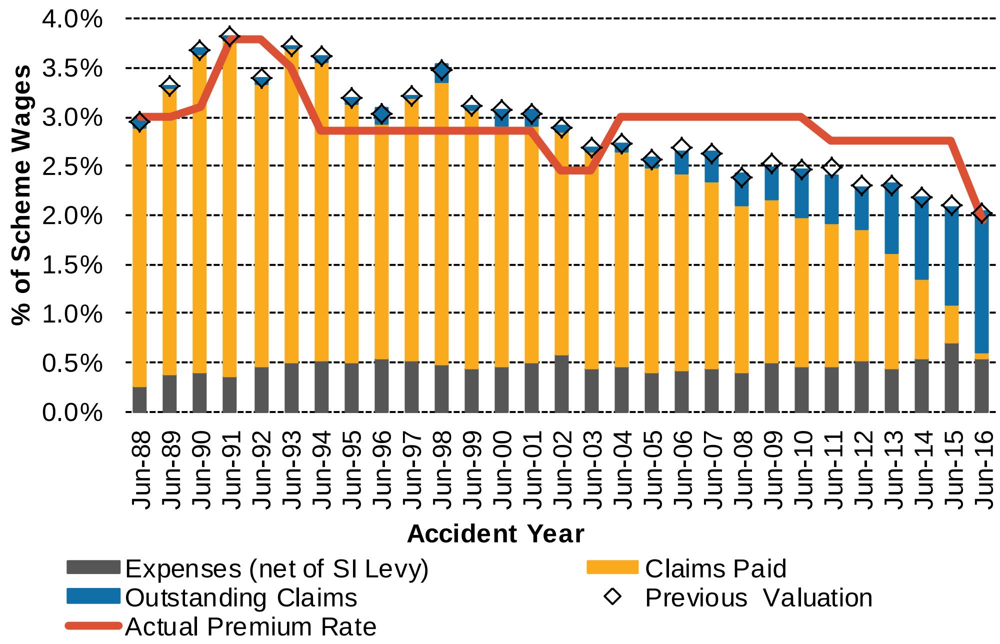
Figure 11.1 – Historical Cost Discounted to Accident Year



Using these costs we have estimated the 'historical premium rate', or the Break Even Premium (BEP) rate, for each past accident year; this is the premium rate that would have been sufficient to fully cover claim costs, including expenses and recoveries, assuming the scheme achieved risk free returns each year and the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (as per Figure 11.1) by the total Scheme leviable remuneration in that year (as discussed in Section 10.6).

Figure 11.2 summarises the estimated annual BEP since the Scheme began, including a comparison with the estimates at our previous valuation and the Scheme's actual average premium rate charged for each year.

Figure 11.2 – Break Even Premium Rate and Actual Premium Rate Charged



The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2016 accident year is 2.03%. This estimate is unchanged from the June 2015 valuation.
- Overall, there has been minimal change in the hindsight estimates since the previous valuation.

We note that these calculations assume past and future investment earnings at the risk free rate and adopt the annual cost of expenses in the year. All else being equal, any above risk free earnings or additional sources of income would act to reduce the required premium rate.

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2016 still involves a degree of estimation.

11.5 Future Cashflows

Table 11.8 presents projected cashflows for the coming four half-years, by entitlement type. These cashflows include allowance for future claims incurred as described in Section 11.6, but make no allowance for expenses.

Table 11.8 – Projected Cashflows

Entitlement Group	Projected Cashflows for Period			
	Dec-15 to Jun-16	Jun-16 to Dec-16	Dec-16 to Jun-17	Jun-17 to Dec-17
	$m	$m	$m	$m
Income Support & Redemption	125.6	78.9	85.3	66.6
Medical	30.5	31.8	32.5	31.7
Lump sums	28.6	24.4	26.9	31.5
Rehabilitation	6.5	6.6	6.5	6.1
Physical Therapy	5.0	5.0	5.0	4.2
Hospital	7.4	7.6	7.4	7.1
Worker legal	8.4	8.2	7.9	5.9
Other	8.9	7.3	7.9	6.2
Corporation legal	6.3	5.6	6.2	5.7
Travel	3.1	3.1	3.1	2.3
Investigation	1.7	1.7	1.6	1.2
Commutation	0.2	0.2	0.2	0.2
LOEC	0.2	0.0	0.2	0.1
Common law	0.1	0.1	0.1	0.1
Recoveries	-6.1	-5.7	-5.9	-32.9
Net Claims Cost - Total	226.4	174.9	184.7	136.0
Serious Injuries (net)	27.7	18.3	18.4	-7.9
Short Term Claims (net)	198.7	156.6	166.3	143.9

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 30 June 2016 and 31 December 2016. We note the payments shown here are based on that in Table 11.8, but also include an allowance for claims handling expenses for consistency with our liability estimate.

Table 11.9 – Projected Outstanding Claims[1] at 30 June 2016 and 31 December 2016

	Half year ending	
	Jun-16	Dec-16
	$m	$m
Central Estimate at Period Start	2,143	2,103
Plus Additional Liability Incurred in Period	215	220
Less Expected Payments in Period	-278	-217
Plus Interest (unwind of discount)	22	23
Projected Central Estimate at Period End	2,103	2,128

[1] We have not shown the projected provision at this time, given it is not clear what risk margin will be adopted in future.

We project the central estimate for the net outstanding claims liability at 30 June 2016 to be $2,103 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 January 2016 to 30 June 2016.

The projected *decrease* to 30 June 2016 in the liabilities relates to the fact that the additional liability incurred on new accidents is less than the expected payments on existing Short Term Claims.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 30 June 2015 valuation we projected an additional claim cost liability of $192 million would be incurred from claims arising in the July to December 2015 half-year. Our current projection for the ultimate value of this liability is $187 million, a reduction of 2.7%. This decrease is mainly due to lower claims numbers on Severe Traumatic Injury claims.

Table 11.10 – Comparison of June 2015 projections to Current Valuation

For period 01 Jul 2015 to 31 Dec 2015		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Jun-15 Valuation	192	
Incurred (current valuation)	187	-2.7%
Incurred New Claims (all claims, excl Incidents):		
Projected in Jun-15 Valuation	6,879	
Incurred (current estimate)	7,145	3.9%
Incurred New IS Claims (excl ER):		
Projected in Jun-15 Valuation	1,892	
Incurred (current estimate)	1,931	2.0%

12 Break Even Premium Rate for 2016/17

An important purpose of our review is to provide information on the calculation of the Break Even Premium Rate (BEP) for the coming year. While the calculations and recommendations for the 2016/17 Average Premium Rate (APR) to be charged to employers are ReturnToWorkSA's responsibility, the BEP is a key input to these considerations.

The estimated BEP incorporates projections of remuneration, claims costs, expenses and future investment returns as follows:

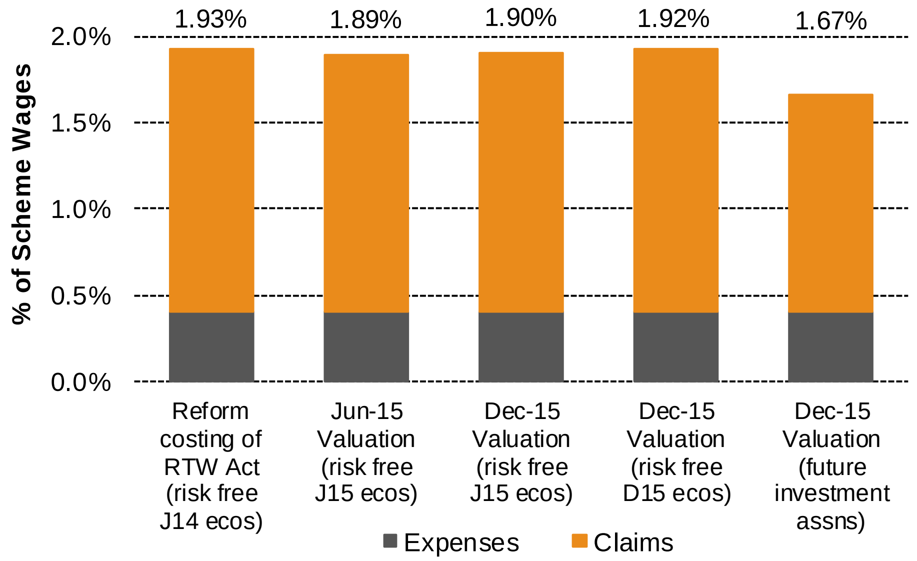
- **Remuneration** – ReturnToWorkSA estimate leviable remuneration in 2016/17 of $26.3 billion, up 3% relative to projected remuneration in 2015/16 as discussed above in Section 10.6.
- **Claim costs** – to project the cost of future accidents we make explicit projections of payments by entitlement type for accidents occurring over the next year (as per the valuation assumptions, with appropriate allowances for inflation and changes in workforce size). The undiscounted cashflows that underlie the claims cost projection are contained in the appendices.
- **Expenses** – we have adopted a post-reform expense rate of 0.40% of remuneration, as advised by ReturnToWorkSA as the expected long-term expense rate that will apply under the RTW Act. We note that:
  - This is lower than the current expense rate of around 0.51% of remuneration for 2016, as Scheme expenses are expected to reduce once the reforms are fully transitioned and claim numbers and durations reduce.
  - The long-term expense rate reflects the expected stable post-reform expense rate, *after* transition and other setup costs have been completed – while some of these costs have already been recognised in the outstanding claims valuation's claims handling expense loading, although additional costs are still likely to be incurred in the next year or two. At a minimum, cash expenditure levels are likely to be materially higher than 0.40% as the Scheme implements the new legislation.

  Determining the level of expenses to assume in the 2016/17 BEP is an important consideration for the Board.
- **Future investment returns** – it is appropriate to allow for future investment returns (i.e. discounting) in calculating the required premium pool for the policy year. Historically a risk free rate has been used to discount the BEP, even though ReturnToWorkSA's average investment return has been consistently higher than this; this approach was adopted by ReturnToWorkSA given the previous significant unfunded liability on its balance sheet (i.e. there was no point assuming investment returns on assets that did not exist). Given the change in ReturnToWorkSA's financial position with commencement of the RTW Act it may be appropriate to re-consider this approach, and we have therefore provided the BEP on a number of investment return bases:
  - Assuming "risk free discount rates", as at both the previous (30 June 2015) and current (31 December 2015) valuations
  - Assuming investment returns meet the targets provided to ReturnToWorkSA by its investment advisor (which equates to around 3% per annum above risk free).

The Board's allowance for expected earnings will need to consider the overall investment strategy of the scheme, the history of achievement with this strategy, and potentially whether any short term considerations may warrant a departure from longer term expectations.

The following graph shows the estimated 2016/17 BEP under each of the above scenarios, and also compares this to our costing of the RTW Act as part of the reform process.

Figure 12.1 – 2016/17 Break Even Premium Rate



The key features of Figure 12.1 are:

- Our reform costing work estimated the post-reform BEP would be 1.93% of leviable wages.
- The current BEP of 1.92% is similar to this estimate, as was the assessment at June 2015.
- If ReturnToWorkSA can earn an investment return that is consistent with the long term earnings expectations of its investment advisor then the BEP reduces to around 1.67% of wages (last column of the graph).

As described above, and elsewhere in our report, there is uncertainty in relation to each element of the BEP and this uncertainty should be borne in mind when premium rates are being considered.

13 Uncertainty and Sensitivity Analysis

13.1 Risk and Uncertainty

Outstanding Claims

In this section we discuss the major areas of uncertainty involved in estimating the balance sheet outstanding claims provision (OSC, including allowance for expenses and risk margins, with provision at 65% probability of sufficiency). At the present time there are heightened uncertainties and risks, both potentially favourable and unfavourable, with passage of and transition to the RTW Act.

To assist in understanding the uncertainty, we have designed a range of scenarios which illustrate potential scheme outcomes. For each scenario we have made an approximate estimate of its impact on the OSC provision.

We have considered the uncertainty in four broad categories:

- Economic – employment, inflation, investment markets
- Legal – disputes, tribunal decisions, transition to SAET, appeal court decisions
- Behavioural – the way scheme participants such as injured workers, employers and service providers behave in future (sometimes referred to as 'scheme culture')
- Scheme management – what ReturnToWorkSA does, including how it manages its agents and how they perform.

There is overlap and interaction between these categories. ReturnToWorkSA has essentially no control over economic influences, full control over Scheme management and strong influence (but not control) over legal and behavioural risks.

We note that sensitivity analysis is indicative only of a range of possible liability outcomes. The sensitivities shown below do not represent upper or lower bounds to the Scheme's outstanding claims liabilities.

Premiums Charged

Uncertainty relating to claim cost outcomes also applies to our estimates of the costs for 2016/17 claims which for the basis of our Break Even Premium calculations. This means that any desirability for a 'buffer' (margin) in the premiums actually charged by the Scheme should consider this uncertainty.

This section includes some high level uncertainties around the Break Even Premium rate estimates.

13.2 Economic Scenarios

In brief, the scenarios we have considered are a stronger economy and a weaker economy:

Table 13.1 – Economic Scenarios

	Stronger	Weaker
Unemployment	Down to 4%	Up to 9%
Wage inflation	5% pa	3% pa
Investment earnings	8% pa	3% pa
Real 'Gap'[1]	3%	0%

[1] Difference between inflation and discount rate

In undertaking sensitivity analysis it is straightforward to model inflation and investment earnings. In relation to unemployment, there is no clear way to estimate the impact on the cost of claims, and we refer to the RTW scenarios in the 'behavioural risks' section. Broadly, the claims impact will be in the same direction as other economic impacts, but the magnitude of the impact is probably smaller than that of inflation and investment changes.

Table 13.2 – Economic Sensitivities

	OSC Impact		BEP impact	
	$m	%	$m	%
31 Dec 15 OSC estimate (Including risk margin at 65% POS)	2,283		1.92%	
Strong Economic Scenario (3% gap between inflation and discount rate)	-550	-24%	-0.30%	-16%
Weak Economic Conditions (0% gap)	+218	+10%	+0.11%	+6%
Economic assumptions return to pre-2008 levels over the next 5 years	-204	-9%	-0.08%	-4%

Economic conditions are currently unfavourable for scheme performance. If conditions do improve the implications for both funding and premiums are favourable.

13.3 Legal Risk Scenarios

As discussed in section 8.2, there have been high numbers of disputes in the Scheme in recent times. The table below indicates the sensitivity of results to two scenarios around dispute rates and dispute outcomes. It is likely that if the legal environment is either better or worse than we have implicitly assumed, then several experience changes are likely to happen together.

Table 13.3 – Legal Sensitivities

	OSC Impact		BEP impact	
	$m	%	$m	%
31 Dec 15 OSC estimate (Including risk margin at 65% POS)	2,283		1.92%	
Increasing disputes (new types of disputes getting a settlement)	+26	+1%	+0.06%	+3%
Income Support disputes: all currently open disputes are closed with a settlement	+17	+1%	n/a	n/a

Specific sensitivities on current legal issues are relatively minor, although it is likely that provisions in the RTW Act will soon begin to be challenged. If several adverse outcomes occur together (legal culture) then the impact could be more than $100 million. There is improvement potential that would measure in the tens of millions of dollars if favourable resolution trends continue and the number of disputes drops as a result.

13.4 Behavioural Scenarios

The implementation of the RTW Act brings significant change to the scheme, and changes in the scheme's culture are expected to emerge. It is possible that the early changes in the scheme's experience might not be sustained if patterns of behaviour revert towards those of past years. On the other hand, it is possible that the scheme experience might outperform current projections, because of the extent of the changes in expectations and behaviour of scheme participants.

In order to illustrate the type of changes that might occur we have looked at the sensitivity of the OSC to:

- A reduction of 5% in claim numbers for new accidents (continuation of favourable trends)
- Favourable impacts on return to work rates of mobile case managers (front-end RTW)

- A reduction in non-redemption exit rates due to the current major use of redemptions to resolve claims
- Increased access to surgery-related benefits via the 2015 Regulation changes – this has impacts on IS and Medical costs.

Table 13.4 – Behavioural Sensitivities

	OSC Impact		BEP impact	
	$m	%	$m	%
31 Dec 15 OSC estimate (Including risk margin at 65% POS)	2,283		1.92%	
Compensability & Claim Acceptance				
Reduction in new claims for accident year 2017 (down a further 5%)			-0.05%	-3%
RTW				
Higher RTW rates for accident years 2015/16 over next two years; improved RTW due to mobile case management leads to 30% less claims open 6 months post injury.	-12	-1%	-0.08%	-4%
Deterioration in RTW performance; redemptions reduce exits.	+10	+0%	n/a	n/a
Treatment Utilisation				
Surgery costs emerge more than expected, approximately double the current allowance	+27	+1%	+0.03%	+2%

Significant changes to the valuation basis at December 2015 have been made to reflect improving claim experience. As such, claim number and acceptance changes shown above only have a small additional impact on the BEP.

The changes to RTW that have been tested produce relatively small changes and probably understate the potential impacts.

The treatment utilisation scenario tested here relates only to Short Term Claims – Serious injury is considered below.

Overall, the combined impact of the behavioural scenarios is one of the most significant uncertainties and they are strongly correlated with each other.

13.5 Serious Injury Scenarios

With significantly higher benefits available to Serious Injury claims, the numbers of claimants becoming eligible for these benefits will have significant financial consequences for the Scheme. In addition, with an increasing proportion of future claims liabilities relating to Serious Injury claims, changes in life expectancy and escalation of costs for Serious Injury claims costs will also have significant financial impacts.

Table 13.5 – Serious Injury Sensitivities

	OSC Impact		BEP impact	
	$m	%	$m	%
31 Dec 15 OSC estimate (Including risk margin at 65% POS)	2,283		1.92%	
Removal of top-up WPI asssessments has no impact on ultimate SI claim numbers	+96	+4%	+0.14%	+7%
10% extra IBNR claims	+20	+1%	+0.02%	+1%
Uncertainty around mortality - impact of a 6 year increase in the life expectancy of the Catastrophic Injury claims (bringing them back in line with a standard population life expectancy).	+329	+14%	-	-
Superimposed inflation is 1% p.a. higher than assumed for medical and care, whether due to higher utilisation of services such as care and treatment, or from increasingly expensive treatments, above average award wage increases for carers, increased pressure as current unpaid family carers age, etc.	+264	+12%		

Because of the very long tail of serious injury claims and the consequent leverage in the scheme's financial results, the scenarios illustrate some very large changes in the OSC.

We emphasise that there is significant uncertainty around ultimate claim numbers from the following sources:

- If the removal of the ability to have subsequent WPI assessments changes behaviour such that claimants either wait longer to have their WPI assessment (i.e. the injury has fully stabilised) or that claimants attempt to include more aspects of injury in their initial assessment than they otherwise would. If this leads to the top-up restrictions having no impact on ultimate claim numbers then there would be around a $100 million strengthening on the OSC provision and the BEP would increase by 0.14% to 2.06% of wages.
- Claims that occurred prior to commencement of the RTW Act still have until 30 June 2016 to apply for a top-up WPI assessment. While an allowance has been made to allow for this, the ultimate number of claims that arise from this process could be materially different from expectations. We have illustrated this as IBNR numbers coming through 10% higher than expected and this would result in a $20 million increase to the OSC provision, although the actual number could plausibly be much higher than this.
- Given the large number of claims that are still yet to be confirmed as having a WPI of 30% or over, the number of claims for a new accident year could be materially higher than estimated. If the number of SI claims assumed when calculating the BEP was 10% higher the BEP would increase by 0.02% to 1.94% of wages

13.6 Scheme Expenses

We have investigated the impact of scheme expenses remaining at current levels in the longer term; the expenses are currently higher than 'normal' due to scheme transition.

	OSC Impact		BEP impact	
	$m	%	$m	%
31 Dec 15 OSC estimate (Including risk margin at 65% POS)	2,283		1.92%	
Scheme expenses stay at historical long term average (0.5%)	n/a	n/a	+0.10%	+5%

As discussed in Section 12 the BEP for 2016/17 pricing is based on an assumed long term expense rate of 0.4% of wages. This is below the long term scheme running costs of around 0.5% of wages, and so if this level was maintained then the premium rate would need to be increased accordingly.

13.7 Key Uncertainties

A number of current factors mean there is more uncertainty than usual in our central estimate – primarily the uncertainty surrounding the impact of the changes introduced by the RTW Act.

The main areas of uncertainty in our estimates are:

- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the new lump for future economic loss payable to Short Term Claims, means there will be increasing pressure on WPI assessments. The Scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold and/or 'WPI creep'. Robustness of the 'once and for all' WPI assessment rules under the RTW Act are an important area of risk.

  We note that there has already been some relaxing of these rules by Regulation, to allow the reintroduction of additional lump sums under some circumstances; if these rules do not operate as intended then the cost implications will be significant.

- **Serious Injury**
  - **Life expectancy** – with benefits payable for life, the future life expectancy for Serious Injury claims has a significant impact on future cost projections.
  - **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. One example is the extent to which care costs which are currently not compensated by the Scheme may become compensable in future, as family-based carers age and claimants increasingly require paid attendant care and/or residential care facilities. Another example is the potential increase in costs for care related specialists and facilities, due to the Fair Work wage decision and/or as demand for these specialists outstrips supply (for example as the NDIS scales up in the next few years).
  - **Ultimate number of claims** – there are several areas of uncertainty in relation to claim numbers. These include: the ultimate number of top-ups that are yet to emerge due to legislation changes, the impact the removal of top-ups will have on ultimate claim numbers and the number of claims from the 'potential' group that ultimately meet the 30% WPI threshold.
- **Return To Work** – the potential improvements to Scheme culture as a result of the new hard boundaries may encourage earlier RTW for Short Term Claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worse RTW experience leading up to the two-year boundary.
- **Compensability and claim acceptance** – there is potential for further reductions in new claim numbers following changes to compensability rules. However, it will be crucial to ensure that past closed claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances do not start new claims or 'restart the clock' following a short return to work.
- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the Scheme, as well as the risk that settlements paid to finalise disputed claims may exceed the claims costs which would otherwise be incurred.
- **Management actions** – management's actions will determine the extent to which redemptions and other types of exit act to reduce the number of claims that remain on ongoing benefits.

With the RTW Act provisions having commenced only on 1 July 2015, there is little actual post-reform experience. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will reflect the developing post-reform experience, and it is possible that the experience could differ, perhaps materially, from our current expectations.

14 Reliances and Limitations

Our results and advice are subject to a number of limitations, reliances and assumptions. The main ones are outlined below.

14.1 Reliance on Data and Other Information

We have relied on the accuracy and completeness of the data and other information (qualitative, quantitative, written and verbal) provided to us by ReturnToWorkSA for the purpose of this report. We have not independently verified or audited the data, but we have reviewed the information for general reasonableness and consistency. The reader of this report is relying on ReturnToWorkSA and not Finity for the accuracy and reliability of the data. If any of the data or other information provided is inaccurate or incomplete, our advice may need to be revised and the report amended accordingly.

14.2 Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims; it is not possible to value or project long tail claims with certainty. Our payment projections for Serious Injury claims, in particular, include payments which are expected to occur many decades into the future.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the Scheme. Sources of uncertainty include difficulties caused by limitations of historical information, as well as the fact that outcomes remain dependent on future events, including legislative, social and economic forces, and behaviour by Scheme stakeholders such as Corporation management, claimants and claims agents.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available, subject to our comments above. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown in this report.

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the RTW Act. The RTW Act made very significant changes to the Scheme and its key features only came into effect from 1 July 2015.

Our report is based on a continuation of the current environment with allowance for known changes where we have been able to quantify or estimate the effects. It is quite possible that one or more changes to the environment could produce a financial outcome materially different from our estimates.

14.3 Latent Claims

We have made no allowance for catastrophic aggregation of claims from latent sources (such as claims relating to asbestos) other than as reflected in the data and information we have received. Latent claim sources are those where the date of origin of a claim is many years before the claim is reported.

14.4 Reinsurance

We understand that there is no reinsurance program in place in relation to any of the liabilities we have valued.

14.5 Limitations on Use

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 1. At ReturnToWorkSA's request, we consent to the release of this report to the public, subject to the reliances and limitations noted in the report.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

While due care has been taken in preparation of the report Finity accepts no responsibility for any action which may be taken based on its contents.

Finity has performed the work assigned and has prepared this report in conformity with its intended utilisation by a person technically competent in the areas addressed and for the stated purpose only. Judgements about the conclusions drawn in this report should be made only after considering the report in its entirety, as the conclusions reached by a review of a section or sections on an isolated basis may be incorrect.

This report, including all appendices, should be considered as a whole. Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Any reference to Finity in reference to this analysis in any report, accounts or any other published document or any other verbal report is not authorised without our prior written consent.

15 Scheme History

This section summarises the key events and changes in the Scheme over the years.

1987-88

- WorkCover Claims and Levy Agency established in April 1987, to act as agent for the collection of levies and processing and handling of claims.
- The Workers Compensation and Rehabilitation Act 1986 came into effect, establishing the WorkCover Scheme on 30 September 1987.
- WorkCoverSA took over responsibility for claims and levy processing from the WorkCover Claims and Levy Agency on 4 April 1989.

1990-91

Bonus/Penalty Scheme (BPS) introduced for employer levies. Succession of claims history from business to business introduced to protect BPS and for equity reasons from 1 July 1990.

1991-92

Re-employment Incentive Scheme for Employers (RISE) established in September 1991.

1992-93

- Removal of common law (section 54) and stress claims restrictions (section 30a) from 3 December 1992.
- New provisions for loss of earning capacity (LOEC) where the worker was incapacitated for more than two years, with WorkCoverSA (or self-insured employer) given the ability to assess a worker's loss of future earnings as a capital loss and pay compensation as a periodic lump sum in lieu of weekly payments.

1994-95

- From 1 July 1994, WorkCoverSA resumed responsibility for the administration of the Occupational Health Safety and Welfare Act 1986, and WorkCoverSA merged with Occupational Health and Safety Commission.
- Legislative changes:
  - Exclusion of most journey/recess claims, effective 1 July 1994.
  - Employers' liability to pay the worker the first week increased to two weeks, effective 25 May 1995.
  - Redemption introduced – weekly payments or medical expenses can be redeemed by a capital lump sum, by agreement. Replaced commutations, effective 25 May 1995.
  - Section 35(2) introduced: where a worker is not in suitable employment after two years of incapacity, an assessment can be made of what the worker could earn irrespective of state of labour market and benefits reduced accordingly, effective 25 May 1995.

1995-96

- Management of claims out-sourced to nine claims agents, effective 1 August 1995.
- Discontinuance of weekly payments restored to age 65 or earlier if there is a specific retirement age for a particular type of employment. It also permitted up to six months' weekly payments for some workers injured within six months of retirement age.

1998-99

Contract 1998 – reduced to five claims agents.

1999-00

Establishment of scheme to allow certain registered employers to manage their own workers compensation claims, effective 13 April 2000.

2002-03

Report of the Stanley Review of Workers Compensation and OHS&W arrangements in South Australia released in February 2003. Key recommendations included the creation of a single body, the SafeWork SA Authority, to oversee OHS&W arrangements and a variety of workers compensation issues focused on improving return to work outcomes, benefits, dispute resolution and Scheme management.

2004-05

- A single legal services provider was appointed.
- Sporting professionals are excluded from the application of the WR&C Act.

2005-06

Employers Mutual Limited appointed as sole claims agent, providing some claims management services from 1 April 2006, with sole responsibility from 1 July 2006.

2007-08

Changes to the Workers Rehabilitation and Compensation Act passed by the South Australian Parliament on 17 June 2008. The key aim was to place greater focus on earlier rehabilitation and return to work outcomes.

2008-09

Key components of the 2008 legislative changes commenced: earlier step-downs for IS claims; a Work Capacity Assessment to determine entitlement to ongoing IS compensation beyond 130 weeks; changes to non economic loss payments; changes to the dispute resolution framework (including the introduction of Medical Panels); system of provisional liability.

2009-10

- ‘Window’ for continuation of redemptions under previous legislation closed from 1 July 2010, and Board policy confirmed expectation of strong restrictions on the future use of redemptions.
- Replacement of legacy IT system IDEAS with new Curam system in April 2010.

- Change to process for reimbursement of weekly payments to employers.
- Initial projects commenced under the $15 million Return to Work Fund established to support initiatives that contribute to improved return to work of injured workers.

2010-11

- Bonus/Penalty Scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

- New employer payments scheme commenced 1 July 2012, introducing compulsory experience rating for medium and large employers, and an optional 'retro paid loss' arrangement for large employers.
- Second claims agent, Gallagher Bassett, commenced 1 January 2013.
- Second legal service provider, Sparke Helmore, commenced 1 January 2013.

2014-15

The **Return To Work Act 2014** was passed in late 2014, representing major changes to the Scheme and claimant entitlements. The key provisions took effect from 1 July 2015.

The main features of the reforms, for claims occurring from 1 July 2015, were:

- A tighter link between employment and injury before compensation is available
- Ongoing benefits and a reduced emphasis on RTW for Seriously Injured workers. Seriously injured workers may also access to common law benefits for economic loss
- The introduction of clear and objective boundaries on claim duration for 'non-serious injuries' (two years for weekly benefits and 12 months thereafter for medical costs)
- A new lump sum payment for loss of future earning capacity for non-serious injuries with WPI of 5% or more.

Further detail of the changes, including the transitional arrangements for pre 1 July 2015 claims, was set out in our June 2015 valuation report.

A number of **Regulations** published in June 2015 impacted on the operation of the RTW Act. The Regulation changes relate to pre 1 July 2015 injuries and allow:

- 'Top-up' payments for non-economic loss in certain (limited) circumstances, with approval to seek further compensation required before 1 July 2016.
- Coverage of future surgeries and up to 13 weeks of IS benefits for existing non-Serious Injuries, even if the surgery falls outside the standard time based boundaries.