Scheme Actuarial Valuation as at 30 June 2017

ReturnToWorkSA

August 2017

At ReturnToWorkSA's request we have consented 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.

Actuarial and Insurance Consultants

9 August 2017

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

Dear Ms Yuile

Scheme Actuarial Valuation as at 30 June 2017

Please find enclosed our report on our annual review of the outstanding claims for registered employers.

While we continue to see signs of stabilisation in the Short Term Claims segment of the Scheme, there is still considerable uncertainty about the ultimate cost of Serious Injury claims, particularly in relation to the number of such claims that will eventuate each year. These uncertainties will not resolve until key legal precedent is established in relation to a number of the RTW Act provisions, and it is likely to be at least another year, perhaps longer, before the real-world operation of the Act is known with more confidence.

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

Yours sincerely

Andrew McInerney | Tim Jeffrey | Geoff Atkins

Fellows of the Institute of Actuaries of Australia

Scheme Actuarial Valuation as at 30 June 2017

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 11.3 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.
ER	Incentives for early reporting of claims, introduced in 2008.
IBNER	Incurred But Not Enough Reported – an allowance for cost growth on known claims in addition to the reported cost.
IBNR	Incurred But Not Reported – claims where the accident has occurred, but ReturnToWorkSA are yet to be notified.
IS	Income Support (also known as weekly benefits) payments.
NWE	Notional Weekly Earnings.
OSC	Outstanding claims liability.
PPAC	Payments per active claim.
RTW	Return to work.
RTW Act	The Return to Work Act 2014, which governs the scheme.
Serious Injury or Serious Injury Claim	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.
WRCA	Workers Rehabilitation and Compensation Act 1986, the previous Act which governed the scheme.
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 30 June 2017.

Our previous actuarial review was as at 31 December 2016, and was documented in a report dated 17 March 2017.

2 Scope of the Review

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

The primary purpose of the annual 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 in determining the provision for outstanding claims in its annual financial statements.

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 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 note that in some areas the 'expected impacts' of the RTW Act are currently subject to adverse legal decisions – decisions which have been appealed – and this increases the uncertainty around our estimates. While we have not changed our approach to setting the central estimate as a result of these SAET decisions whilst they are being appealed, the decisions have been considered in setting the risk margin loading at this valuation.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency (up from 65% at the previous valuation, following a change in policy).

4 Scheme Environment

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

- **Legal precedent**: key sections of the RTW Act are being tested through the Scheme's dispute resolution processes, although as yet relatively few of these cases have completed the various appeal processes. Of particular importance to our assessment are the provisions about how and when a claim is determined to be a Serious Injury. It is likely to take at least another 12 months until key precedent is established.
- **Transition related activities**: targeted strategies to implement the RTW Act have been completed, and the focus is now on the RTW Act management model. As at 30 June 2017 the RTW Act's two year boundary on income support for Short Term Claims began operating for the first time.
- **South Australia's economy**: low wages growth and high unemployment rates present a challenging set of conditions, and mean claim expenses and scheme costs will need to be tightly controlled in order for there not to be pressure on premium rates.
- **Early intervention and RTW focus**: despite the relatively unfavourable economic climate, there continues to be gradual improvement in income support claim durations.
- **Dispute resolution and appeals**: after significant reductions in the count of open disputes up to June 2016, the number of open disputes has again been rising. We also understand that more claims are appealing dispute decisions, following changes in the RTW Act that mean legal costs are no longer at risk on an appeal.

5 Recent Claim Experience

The key features of the claims experience in the six months to 30 June 2017 were:

- New claim numbers, both for All Claims and the more expensive income support claims, have increased in the last 12 months, having previously been on favourable reduction trends.
- The number of new Serious Injury claims in the six months was again higher than expected, although this is not surprising given the hard boundary for income support on old Act claims which acted at June 2017; the number of psychological injury claims reaching Serious Injury, although small, was also higher than expected. As noted above, there are key legal precedents which are important for future Serious Injury claim numbers.
- Total net claim payments in the six months were $21 million (11%) lower than expected, which was primarily due to the faster than expected runoff of 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 30 June 2017 is $2,017 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 15.0% to produce a provision with a 75% probability of sufficiency (up from a 65% probability of sufficiency at December 2016), consistent with ReturnToWorkSA's reserving policy, gives an outstanding claims provision of $2,320 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	1,325		
Gross Claims Cost - Short Term Claims	562		
Claims Handling Expenses	187		
Gross Outstanding Claims Liability	2,075	311	2,386
Recoveries	-57	-9	-66
Net Outstanding Claims Liability	2,017	303	2,320

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

The provision includes an allowance for future claims handling expenses equivalent to 10% of gross claim costs (reduced from 11% previously), which is a higher proportionate loading than normal in recognition of the transition related costs which ReturnToWorkSA faces in running off existing claims.

In addition to the increase in risk margin due to ReturnToWorkSA adopting a higher probability of sufficiency, there has also been an increase in the underlying risk margin on a like-with-like basis – at the current 75% probability of sufficiency the loading has increased from 13% to 15% of the central estimate in response to the increased uncertainty around serious injury claim numbers after recent adverse SAET decisions.

Movement in Liability

Our central estimate is $10 million lower than projected at the previous valuation. We have attributed the change in central estimate into two components:

- 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 – June 2017 Central Estimate and Determination of Actuarial Release

	Central Estimate			
	Projected Jun-17 Liability[1]	AvE Payments in 6 mths to Jun-17	Actuarial Release [2]	
	$m	$m	$m	
Liability at Dec-16 Valuation	2,013			
Projected Liability at Jun-17 (from Dec-16 valuation)	2,028			
Claims Movement - Short Term Claims	-0	-23	24	83
Claims Movement - Serious Injury	-62	3	59	
Impact of Change in economic assumptions	52			
Recommended Liability at Jun-17	2,017			

[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 $83 million for the period, which is a favourable result for the Scheme. Changes to economic assumptions increase the central estimate liability by $52 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	23	-5	18	4%
Lump Sums	8	3	10	4%
Legals	7	-1	6	7%
Treatment Related [1]	3	44	47	4%
Rehabilitation	-2	14	11	18%
Other Costs [2]	1	0	1	8%
Recoveries	-5	0	-5	-8%
Total Claim Costs	33	54	88	5%
Expenses	-10	5	-5	-3%
Net Central Estimate	24	59	83	4%

[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 $83 million actuarial release are:

- For **Short Term Claims**, the $24 million actuarial release comprises:

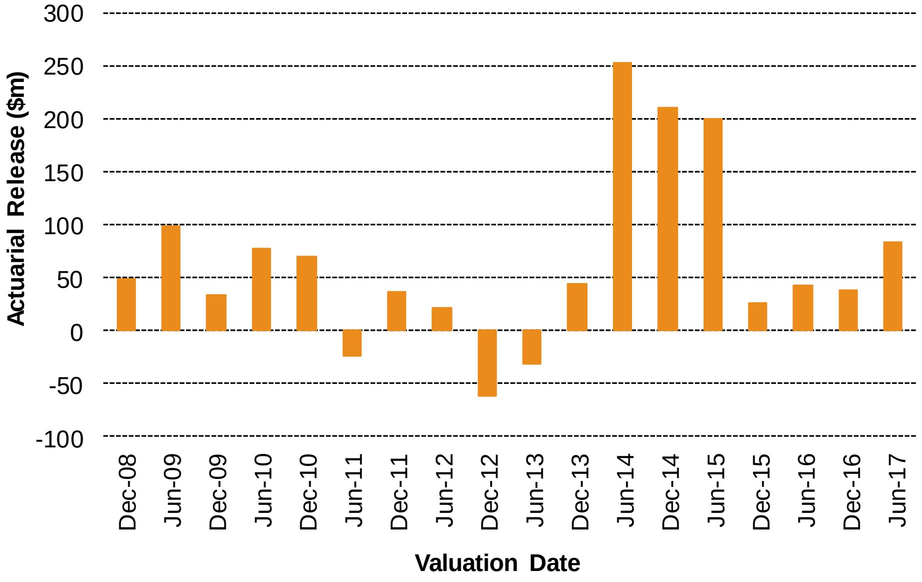
- A net release of $23 million for income support and redemptions, which is due to a combination of lower than expected payments across both RTW Act claims and transitional claims, removal of remaining redemption allowances, and reductions in the expected cost of income support for future surgeries on transition claims.
- A release of $8 million for lump sum payments, driven by favourable claim numbers experience for older period “First Paid” lump sums and Death payments.
- A release of $7 million for legal payments recognising the lower level of new disputes in the recent experience.
- A $5 million strengthening for recoveries, with lower recovery levels on Short Term Claims
- A $10 million strengthening on claims handling expenses for RTW Act claims; while ReturnToWorkSA is still targeting a long term expense rate of 0.40% of wages, given the reducing claims cost this now represents a higher percentage loading on claims costs.

- For **Serious Injury claims**, there was an overall release of $59 million, due to:
  - Net changes to Serious Injury claim numbers (including IBNR claims) increasing the liability by $8 million
  - Changes in entitlement levels and valuation basis changes releasing $70 million – this combines claims no longer receiving benefits ($19 million saving) and changes to claimant level valuation assumptions and methodology changes (saving $51 million).

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.

Figure 1 shows the actuarial release at each valuation over the last eight years. As this shows, the current result continues the positive results seen in recent years, although the significantly reduced Scheme liabilities make it much harder to achieve savings like those seen between June 2014 and June 2015.

Figure 1 – History of Actuarial Releases



Impacts of Economic Assumption Changes

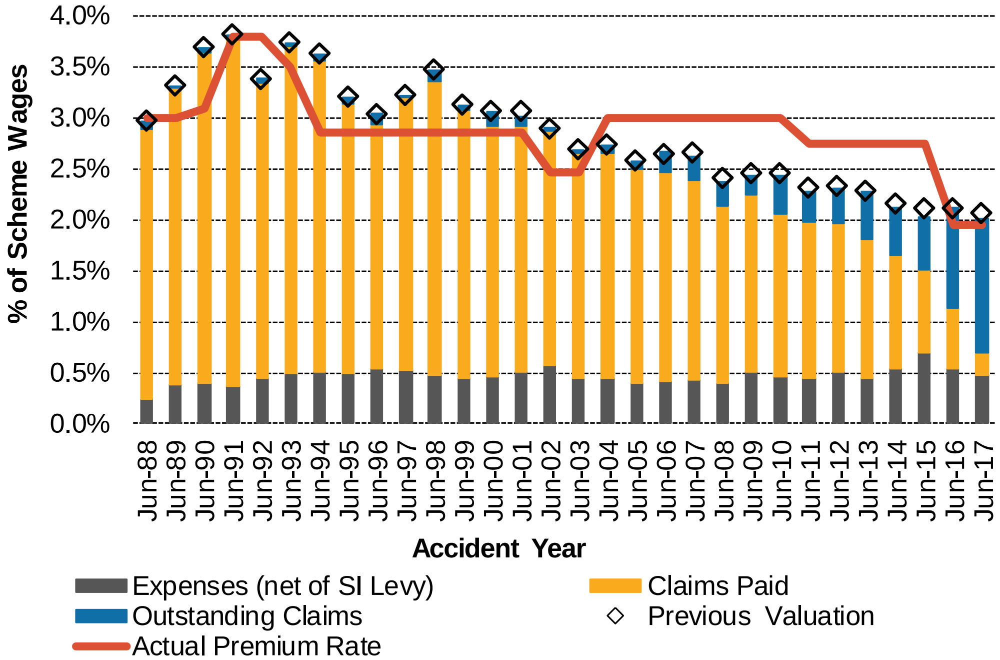
Changes to inflation and discount rate assumptions increased the central estimate by $52 million. As discussed in Section 10.1 there have been decreases in discount rates at all durations, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

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 amount 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. We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

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 Break Even Premium Rate in this Figure is calculated using the risk free rate, so that a like with like comparison can be made over the history of the scheme. For clarity, this is not the same as the scheme's pricing basis as the scheme targets a higher than risk free rate of return when premiums are set.

The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2010 to just under 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 2017 accident year is 2.02%, down from 2.05% at the December 2016 valuation. Based on previous economic assumptions, the BEP for the 2017 accident year would have decreased to 2.00% (i.e. a 0.05% decrease) at the current valuation, but unfavourable economic conditions have increased the BEP by 0.02%.
- Scheme expenses were relatively high from 2014 to 2016, and particularly high in 2015, as a result of additional transition related expenses. 2017 Scheme expenses are lower than accident years 2014 to 2016 and ReturnToWorkSA expects that these will continue to reduce over the next few years as transition related activities are completed.

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 (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 2017 still involves a degree of estimation.

8 Key Uncertainties

There is considerable uncertainty in the projected future claim costs, in particular around how and when claims are determined to be Serious Injuries. Section 12 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:

- **Legal precedent risk** – risks here include the possibility of decisions which are unfavourable to the Scheme or the cultures and behaviours of its participants. In particular, recent decisions have gone against ReturnToWorkSA's interpretation of the WPI assessment rules and if maintained would lead to increases in the liability; these decisions are currently under appeal. On current timing, this risk is likely to remain for at least another one to two years.
- **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 is 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 numbers of claims** – there are several areas of uncertainty in relation to claim numbers, including: 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 and Mobile Case Managers 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 was expected to be potential for further reductions in new claim numbers following changes to compensability rules, however current precedent suggests this is not going to eventuate. Regardless, it will be crucial to ensure that past closed claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances or claims who have been discontinued at the two year boundary 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.
- **Labour market pressures** – the combination of higher than desired unemployment and low wages growth presents a challenging environment, and could place additional pressures on achieving RTW outcomes and holding the BEP at current levels.

With the RTW Act provisions having commenced only on 1 July 2015, there is only two years of actual post-reform experience, and key areas of the Act are still to be tested in the Courts. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience could differ, perhaps materially, from our current expectations.

9 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 13 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 30 June 2017.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 31 December 2016, as documented in a report dated 17 March 2017.

1.2 Scope of the Review

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

The primary purpose of the annual 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 in determining the provision for outstanding claims in its annual financial statements.

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 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 (refer to Appendix L).

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.

1.4 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.

1.5 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	Provides sensitivity analysis of the valuation to key assumptions and highlights some of the key uncertainties in our projections.
Section 13	Sets out important reliances and limitations.
Section 14	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.

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

2 Approach and Information

2.1 Approach

The Return to Work Act 2014 (“RTW Act”) made 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 allow fully for the expected impacts of the RTW Act, and for the emerging experience to date.

Under the RTW Act, 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: Serious Injury claims are valued using an individual claim based approach by payment type, and Short Term Claims are valued using aggregate methods, by payment type.

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)			

2.1.1 Basis of the Valuation

Our estimate of outstanding claims 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. 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 75% probability of sufficiency, in accordance with ReturnToWorkSA’s reserving policy.

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 30 June 2017. 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).

Appendix B shows summaries of the claims data, including 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 Employers Mutual and Gallagher Bassett, and ReturnToWorkSA's contracted legal providers Minter Ellison and Sparke Helmore. This included briefing sessions on 6 July 2017 and operational information.

3 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 December 2016 valuation.

3.1.1 Legal Precedent under the RTW Act

Key sections of the RTW Act are being tested through the Scheme's dispute resolution processes, although as yet relatively few of these cases have completed the various appeal processes.

Of particular importance to our assessment of the outstanding claims liability are the provisions about how and when a claim is determined to be a Serious Injury. Our central estimate assumes that the Serious Injury threshold test will apply as per ReturnToWorkSA's application of it to date, but note that this is different to a number of recent adverse SAET decisions which are subject to appeal (by ReturnToWorkSA). While we have not changed our approach to setting the central estimate on the basis of these SAET decisions whilst they are being appealed, the decisions have been considered in setting the risk margin loading at this valuation. To be clear, the subsequent increase in risk margins is not in any way intended to represent a cap on the impact of adverse legal precedent.

It is likely that in the next 12 months there will be more decisions that give clarity as to the application of the various RTW Act legislative provisions, although for some areas of the Act it may take longer for precedent to emerge.

3.2 Scheme Transition

3.2.1 Applications under Transitional Regulations

Under the scheme's transitional Regulations, claimants were able to apply for (1) additional Whole Person Impairment (WPI) assessments and (2) approval for future surgeries beyond the normal boundaries, up until 30 June 2016 (although to be clear, the surgery and/or WPI did not need to be completed prior to this time, just the application for it to occur).

In relation to both of these transitional regulations, a high proportion of the applications have led to disputes and so there is still uncertainty about how many claims will access benefits under each regulation.

Our valuation allowances for these additional benefits will be reviewed, and if necessary revised, as this additional information becomes available over time.

3.2.2 Management of Transitional Claims

Over the period mid-2015 to late 2016, ReturnToWorkSA undertook a number of specific strategies which were intended to streamline the transition to RTW Act operations; these are now largely complete.

At 30 June 2016 the first of the RTW Act scheme's hard boundaries came in to operation, ceasing benefits for some 'medical only' claims. At 30 June 2017 the first group of claims has reached the RTW

Act's income support two year boundary, with treatment benefits for these claims generally running for up to 12 months more.

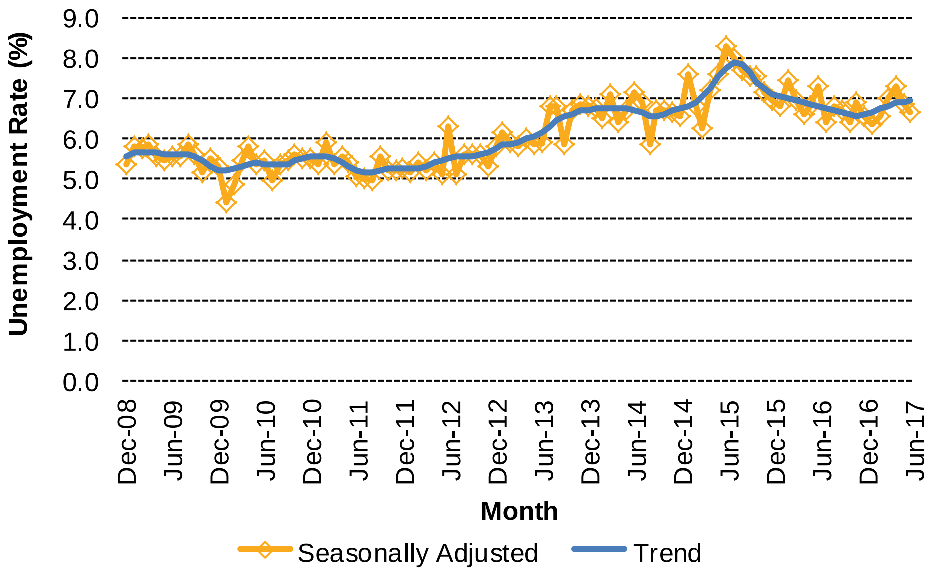
3.3 Operational and Environmental Changes

This section describes recent trends in the Scheme environment. Section 14 provides an overview of earlier operational and legislative changes which are useful in understanding the Scheme's historical experience.

3.3.1 South Australian Economic Conditions

Unemployment rates in South Australia have been reasonably high for about two and a half years after peaking in the first half of the 2016 financial year. The unemployment rate increased from near 5.5% in 2012 to around 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



The final stage of the Holden plant shutdown is also scheduled to occur in the next six months. 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.

3.3.2 Faster Claim Reporting and Payment Activity

Changes to claim reporting mean that many claims are now reported over the phone, which has cut a number of days from the average claim reporting timeframe (previously the initial phone contact led to a claim form being sent out, which the employer then completed before sending back).

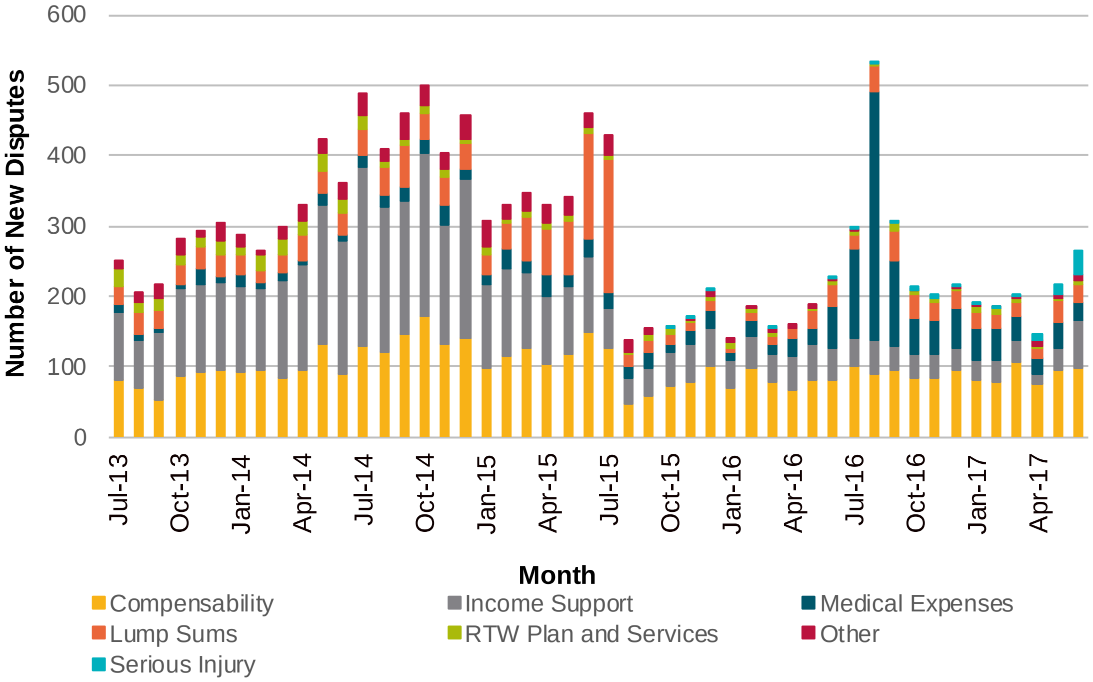
Additionally, the RTW Act imposes a three month time limit on employers requesting wage reimbursements where they have made income support payments to injured workers. While the majority of these requests have always been made within three months, a material share took longer than this, often much longer.

Both of these changes mean information is available earlier in the life of a claim. They also introduce changes to the claim reporting and payment patterns which have been considered in our valuation work.

3.3.3 Dispute Numbers

Dispute numbers were high during 2013, 2014, and the first part of 2015, due to greater numbers of claim rejections and work capacity decisions (under the Old Act, these provisions no longer exist under the RTW Act). Dispute numbers fell dramatically post 1 July 2015 under the RTW Act. Medical Expenses disputes spiked after June 2016, which was due to a significant number of disputes around future surgery applications, as shown in Figure 3.2 below.

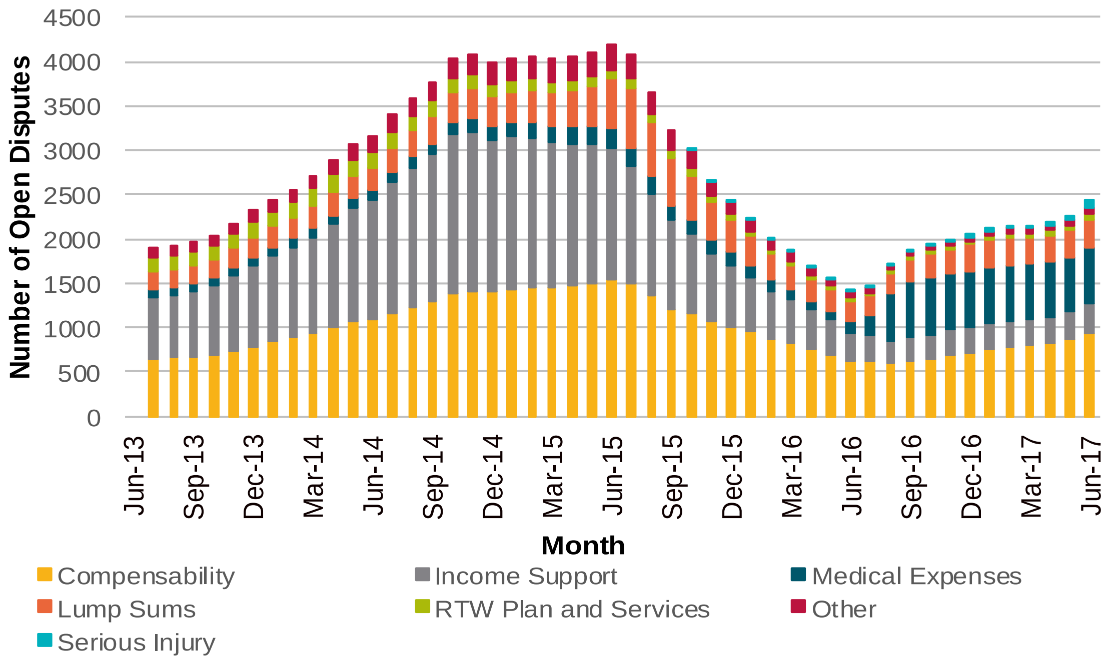
Figure 3.2 – Disputes by Type



Since October 2016, disputes have averaged just over 200 disputes per month, which is similar to the 'Old Act' experience prior to 2013. As such, it appears that current dispute numbers are more or less in line with earlier historical levels.

Figure 3.3 shows the number of open disputes over time. This shows the considerable reductions achieved between June 2015 and June 2016 under the various transition projects, following which dispute numbers have again begun to increase. In particular, the number of disputes relating to Medical Expenses has increased significantly since June 2016 as a result of the Transitional Regulation applications for future surgery as noted above. Disputes in relation to the Serious Injury threshold have also increased in the lead up to June 2017.

Figure 3.3 – Open Dispute Count



We also understand that more claims are appealing dispute decisions in recent times, following changes in the RTW Act that mean legal costs are no longer at risk on an appeal. If it continues, this will lead to increased legal costs and it potentially also incentivises less focus on RTW as dispute durations increase.

4 Recent Claims Experience

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

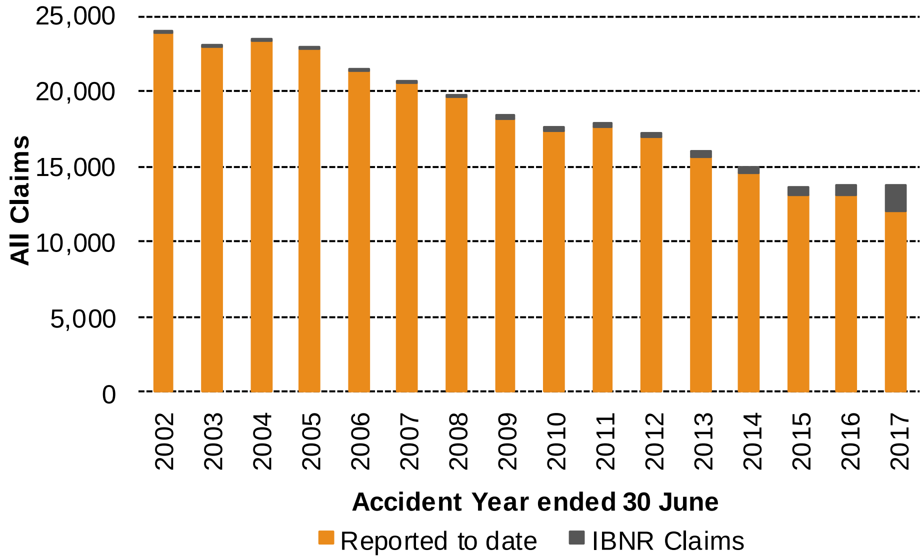
4.1 Claim Incidence

4.1.1 All Claims

Figure 4.1 shows the estimated numbers of claims incurred in recent accident years (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).

Self insured status claims have always been excluded from our analysis as their cost does not reside with the Scheme. Movements by employers to self insurance over the last six months were larger than normal and have resulted in an between 1-2% (compared to the previous valuation) of historical claims from 1999 onwards being excluded from our analysis at the current valuation, which reduces the remaining liability on most older accident periods. Changes to our projections for more recent accident years are attributable to a combination of these movements and the latest claims experience.

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. Other than an increase in claim numbers in 2011, there have been reductions every year up to 2015, before numbers levelled out in the last two years. Our current estimate of 13,771 claims for the 2016 accident year is 1% higher than the projected number for 2015. Our current estimate for the 2017 accident year is at a similar level (0.3% decrease from 2016).

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 change in operational policy to focus on tighter claim acceptance, which began in late 2013, also reduced the number of IS claims between 2013 and 2015.

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

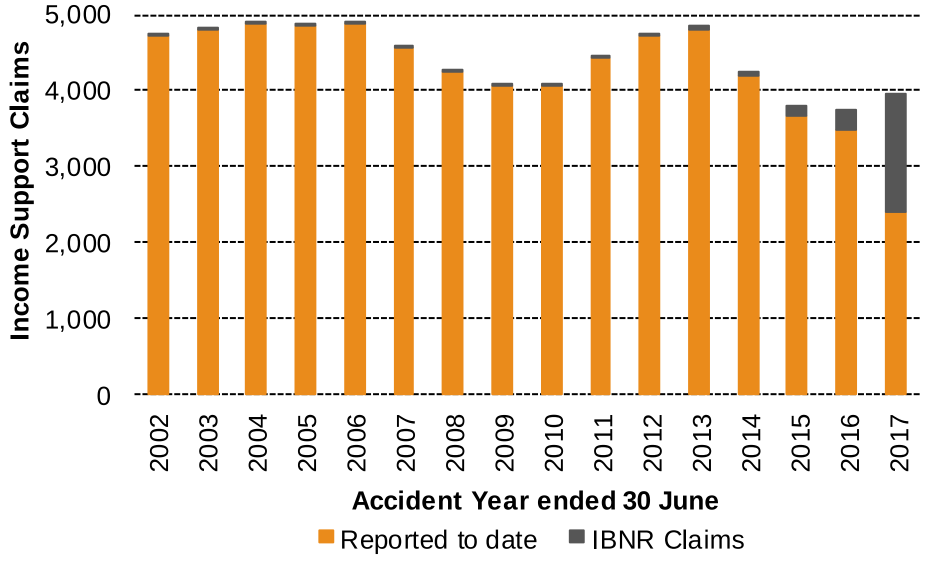


Figure 4.2 shows:

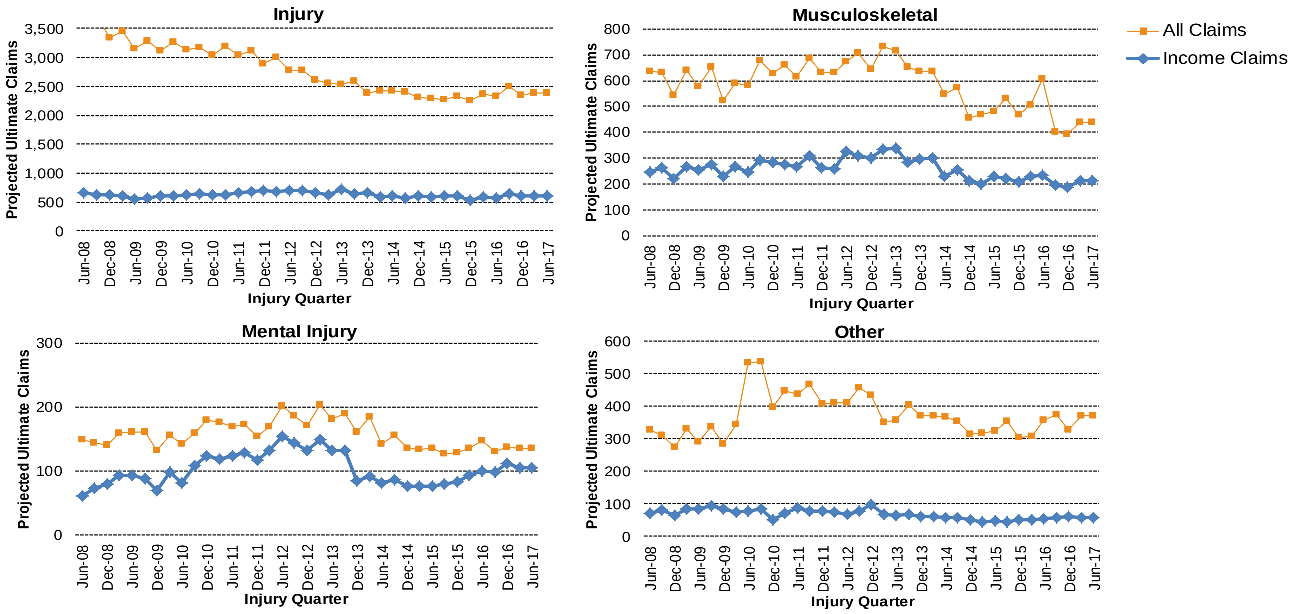
- Prior to 2007 IS claim numbers were reasonably stable, with almost 5,000 claims per annum
- IS claim numbers dropped by 16% between 2006 and 2010, and then rose over the next three years to again reach nearly 5,000 claims per annum in 2013
- Our current projection shows IS claim numbers are expected to reduce materially in 2014 (a 12% reduction) and again in 2015 (an 11% reduction). Our projection of IS claims for the 2015 (3,786), 2016 (3,744) and 2017 (3,939) accident years are all below 4,000, which is the lowest since the scheme commenced.
  - Of note is the 2016 year, where the projection has been reduced by 6% at the current valuation in light of very favourable experience in the last six months; it is now at a similar level to 2015 (1% lower).
- As a result of the above reduction for 2016, our projection for 2017 is now 5% higher than 2016. The current projection for 2017 is similar to (1% lower) the projections 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 changes in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.3 below shows the number of claims that go on to receive 10 days of lost time (and thus are classified as an IS claim), as well as the number of all claims with that type of injury.

The biggest changes were the decrease in mental injury and musculoskeletal claims receiving IS from 2013 to 2014. This mix has important implications for long term IS claim costs as mental injury claims tend to have longer average durations than the 'typical' IS claim.

Figure 4.3 – All Claims and IS Claims by Type of Injury

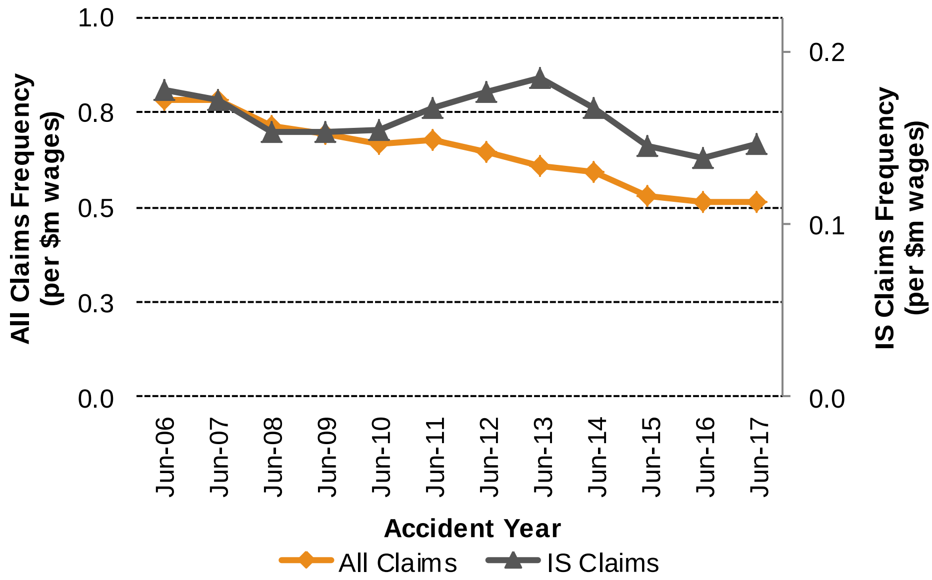


The higher number of IS claims for 2017 is due to increases in mental injury and (physical) injury claims in the latest year.

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)

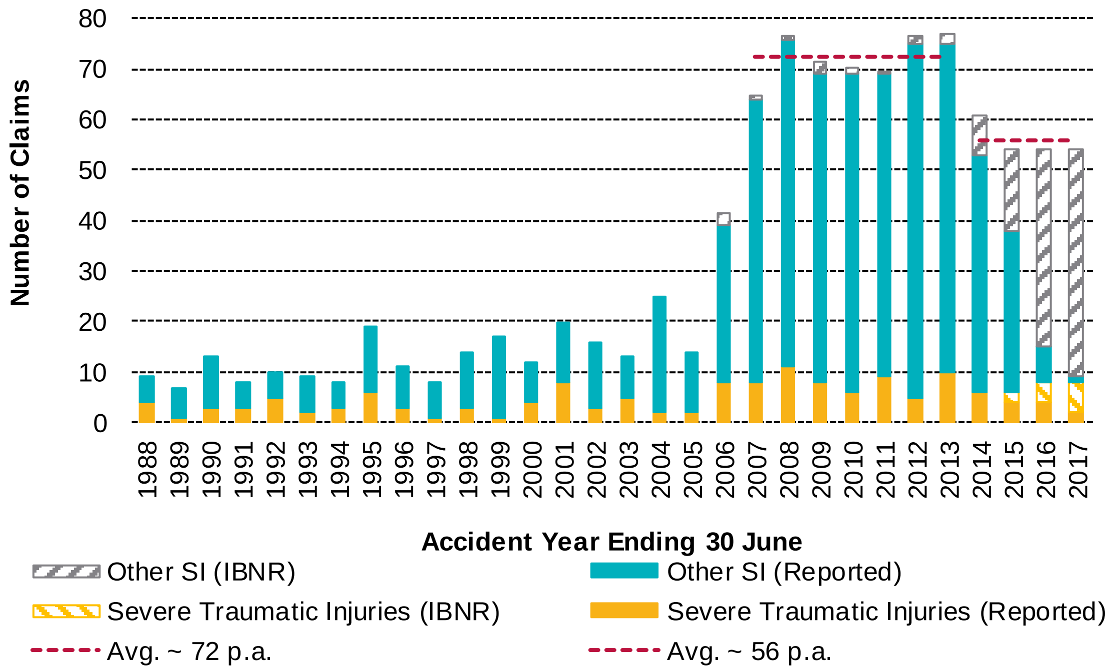


The IS claim frequency was on a similar trend to the all claims frequency between 2006 and 2009, before diverging between 2010 and 2013. The improvement in IS claim numbers between 2013 and 2015 led the estimated frequencies of IS claims and all claims to move more in line over this period. The IS claim frequency has increased slightly in 2016/17 while for all claims it has stabilised over the last two years.

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



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 from 2007 to 2013 the average is just over 70 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.
  - Around 10% of the claims that make up this cohort are still in the ‘potential’ Serious Injury category (i.e. they have not yet had an assessment to confirm that they meet the Serious Injury threshold), and it is possible that some of these claims will not ultimately meet the Serious Injury threshold. That said, there are still many other claims yet to have assessments that could ultimately lead to higher claims numbers than our IBNR allowances.
- From 2014 to 2016 the number of Serious Injury claims is lower, at around 56 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, as assessments have typically not occurred until a number of years after the injury occurred, and so the ultimate number of claims is still uncertain.

If the new WPI assessment provisions work as intended, we expect there to be around 50 Serious Injury claims per year under the RTW Act (of which 9 are expected to be Severe Traumatic Injuries), and have allowed for 132 IBNR claims in the 2005/06 to 2016/17 accident years based on this ultimate view.

As discussed in Section 3.2.1, the Transition Regulations mean that claimants with multiple injuries could apply for subsequent WPI assessments up until 30 June 2016. Despite the deadline for applications ending a year ago, the final WPI score for many of these claims has not been finalised.

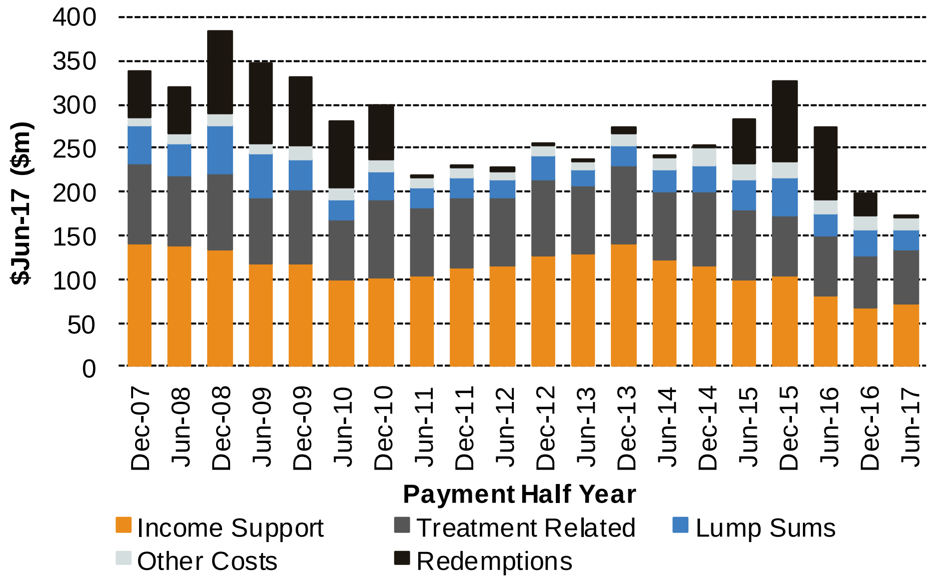
As discussed in Section 3.1 there are also a number of adverse legal decisions that are subject to appeal which could lead to more claims getting higher WPI scores that would increase the Serious Injury claim numbers.

Given the high value of Serious Injury benefits, higher than expected Serious Injury 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 ($Jun17)



Gross payments of $172 million were 13% lower 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:

- IS payments have steadily reduced since 2013 reflecting the success of the various transition projects and reductions in new IS claim numbers. IS payments in 2017 have been similar to those at the end of 2016.
- Treatment related costs have been relatively stable in the last two years.
- Lump sum payments have been relatively low in the last 18 months, although we expect lump sums will soon increase under the RTW Act provisions.
- Redemption activity has essentially disappeared under the RTW Act.

After allowing for recoveries of $5 million in the last six months, net claim payments of $167 million were $21 million (11%) lower than projected at the previous valuation. Table 4.1 shows the breakdown.

Table 4.1 – Payments: Actual vs Expected

Entitlement Group	Six Months to Jun-17 Actual	Expected	Act - Exp	Act/Exp	Split by Category Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	72.4	78.2	-5.8	93%	-7.3	1.5
Redemptions	0.5	4.3	-3.8	12%	-4.2	0.4
Lump sums	23.7	31.3	-7.6	76%	-7.2	-0.4
Worker legal	5.5	6.9	-1.3	81%	-1.6	0.2
Corporation legal	8.1	8.0	0.1	102%	0.2	-0.1
Medical	30.5	32.3	-1.7	95%	-1.6	-0.1
Hospital	6.8	8.7	-1.8	79%	-1.5	-0.3
Travel	3.2	2.8	0.4	116%	-0.1	0.5
Rehabilitation	7.9	6.6	1.3	120%	1.5	-0.2
Physical therapy	4.3	4.9	-0.6	88%	-0.6	0.0
Investigation	1.0	1.2	-0.2	82%	-0.2	-0.1
Other	7.3	7.2	0.1	101%	-0.4	0.5
Common law	0.0	0.1	-0.1	0%	-0.1	0.0
LOEC	0.1	0.2	0.0	82%	0.0	0.0
Commutation	0.1	0.2	-0.2	33%	-0.2	0.0
Gross Payments	171.5	192.7	-21.2	89%	-23.3	2.1
Recoveries	-4.9	-5.5	0.6	88%	0.1	0.5
Net Payments	166.7	187.2	-20.6	89%	-23.1	2.6

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

- IS payments were $6 million (7%) lower than expected, due to fewer than expected active claims, together with a small reduction in the average amount of IS paid to each claim.
- STC lump sum payments were materially lower than expected in the last six months; driven by lower death and economic loss lump sums.
- Redemptions were $3.8 million (88%) lower than expected overall, and these no longer seem to be a feature of the Scheme.
- Treatment costs were collectively close to expected (4% lower).
- Recoveries were $0.6 million (12%) lower than expected.
- Payments on STCs largely explained the $21 million aggregate difference described above, with actual payments being $23 million lower than expected payments. For Serious Injuries, most of the higher than expected payments relate to higher IS payments; with offsetting differences across other benefit types.

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 – Short Term Claims

This section describes our valuation of Income Support (IS) payments for Short Term Claims only.

This section also discusses redemptions; IS redemption activity has now ceased, and no future IS redemptions are anticipated although there is still a very small medical-only redemption liability. Medical redemptions are not included in the summary tables in Sections 5.1 to 5.3, but are discussed in Section 5.4. The results in Section 5.5 include IS payments and medical-only redemptions.

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments since the December 2016 valuation.

Table 5.1 – Valuation Results: Income Support

Dec-16 Valuation	$m	$m	$m
Estimated Liab at Dec-16	150.1		
Projected Liab at Jun-17	134.2		
Jun-17 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	(6.9)	(7.3)	14.2
Estimated Liab at Jun-17 (Dec-16 eco assumptions)	**127.3**		
Impact of change in eco assumptions	0.4		
Estimated Liab at Jun-17 (Jun-17 eco assumptions)	**127.7**		

At June 2017 there is an actuarial release of $14.2 million, reflecting the claims experience since December 2016 and our valuation response. The actuarial release comprises a release of $6.9 million in the liability estimate and lower than expected claim payments in the six months of $7.3 million.
The impact of economic assumptions is a strengthening (increase) of $0.4 million; the impact of the economic assumptions is discussed in Section 11.3.2.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the IS payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 5.2 – Actual vs Expected Payments: IS

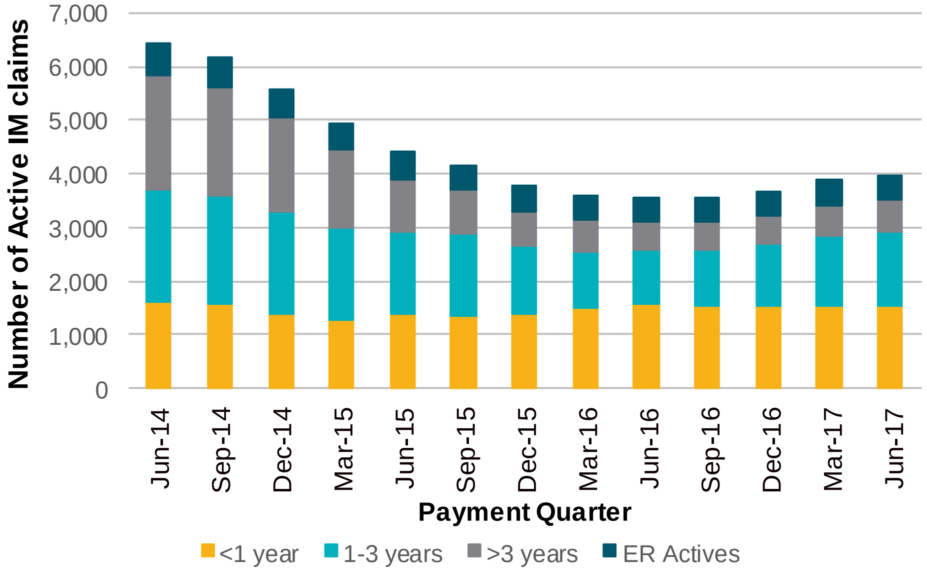
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.9	2.1	(1.2)	42%
2005/06 - 2012/13	7.5	9.3	(1.7)	81%
2013/14 - 2014/15	13.4	13.8	(0.4)	97%
2015/16 - 2016/17	41.6	45.5	(3.9)	91%
Total	63.5	70.8	(7.3)	90%

IS payments were lower than expected across all accident periods, particularly for periods up to 2012/13.

5.2.2 Active Claims and Exits

Figure 5.1 shows the numbers of (quarterly) active IS claims, by duration, over the last three years.

Figure 5.1 – Numbers of Active IS Claims



Active claim numbers have fallen by nearly 50% since late 2013, as a result of ReturnToWorkSA's claim management strategies. Total actives grew by 7% in the March 2017 quarter and 2% in June 2017. Medium duration actives (1-3 years) were low during calendar year 2016 as many transitional claims exited the scheme via redemption. With IS redemptions no longer being used, the numbers of 1-3 year actives are trending upwards towards a post-transition 'steady state'.

In Table 5.3 we compare the numbers of active IS claims at June 2017 with our December 2016 valuation projection.[1]

Table 5.3 – AvE Active Claims and Exits

		Active Claims		
Accident Period	Proj from Dec-16 Val	Actual Actives	Act *less* Proj	Diff as % Proj
Prior	78	50	-28	-36%
Jun-06	18	13	-5	-27%
Jun-07	35	28	-7	-20%
Jun-08	30	29	-1	-5%
Jun-09	42	40	-2	-6%
Jun-10	43	40	-3	-8%
Jun-11	62	59	-3	-5%
Jun-12	60	57	-3	-5%
Jun-13	120	117	-3	-3%
Jun-14	186	174	-12	-7%
Jun-15	481	446	-35	-7%
Jun-16	933	941	8	1%
Jun-17	1,589	1,516	-73	-5%
Total	3,678	3,510	-168	-5%

Overall, active claim numbers at June 2017 were 5% below expectations; they were lower than expected for all accident years except 2015/16.

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

5.3 IS Payments

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

5.3.1 Accident Years to 2014/15

Basis – Claim Numbers and Payments

30 June 2017 is the hard boundary for IS payments for almost all claims in the transitional claims cohort – accident years 2014/15 and earlier. For this cohort, we have allowed for future IS payments of two types:

- A small number of claims from the 2014/15 accident year have not yet reached the two-year boundary and will have ongoing IS entitlement over the next six months
- Some IS payments, relating to incapacity at the very end of June 2017, which are expected to be paid in the September 2017 quarter (about 900 claims are involved).

Table 5.4 sets out the details of our projection of future IS payments for transitional claims. No further IS payments are expected for these claims after the March 2018 quarter (except post-surgery payments, which are discussed in Section 5.3.3).

Table 5.4 – Transitional Claims: Valuation Allowance

Accident	Active IS Claims			Projected Payments by Qtr		
Year	Sep-17	Dec-17	Mar-18	Sep-17	Dec-17	Mar-18
				$m	$m	$m
2005 & Prior	42			0.0		
2006	12			0.0		
2007	25			0.1		
2008	26			0.1		
2009	36			0.1		
2010	36			0.1		
2011	53			0.1		
2012	51			0.1		
2013	105			0.3		
2014	153			0.4		
2015	393	28	12	3.1	0.3	0.1
Total	929	28	12	4.4	0.3	0.1

5.3.2 Accident Years 2015/16 and 2016/17

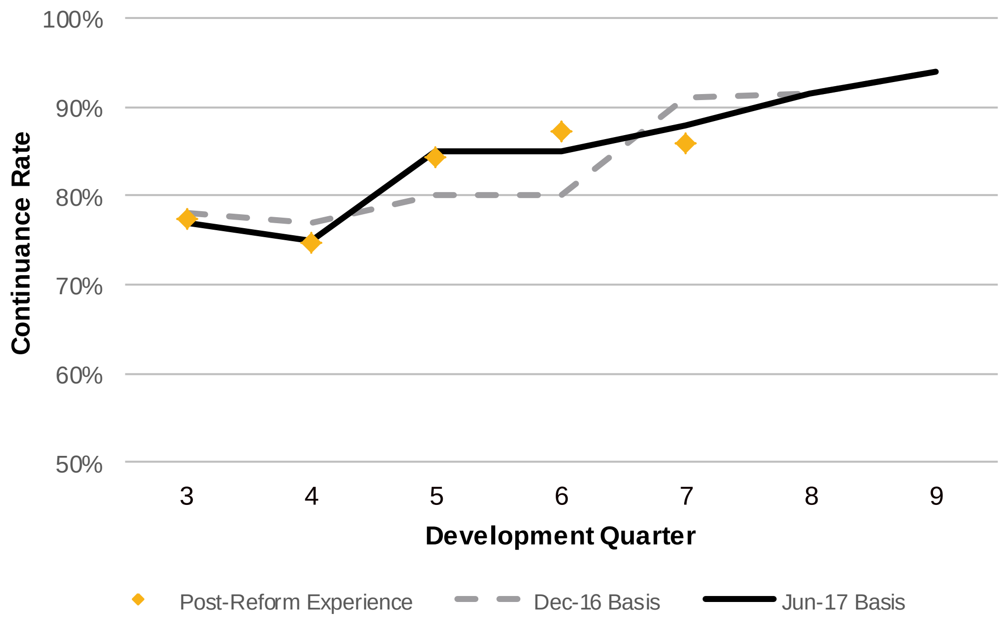
Claims from post-1 July 2015 accidents are subject to the RTW Act. These claims have significantly different entitlements, and our basis reflects this.

Our valuation basis for these claims began with our initial scheme costings, and is being adapted at each valuation as further experience emerges. At this valuation we have re-assessed the adopted continuance rates and PPACs, recognising the post-Act experience to date.

Projection of Active Claims

Figure 5.3 below shows the recent continuance experience relating to post-reform claims, and our adopted bases at the previous and current valuations.

Figure 5.2 – Continuance Rates

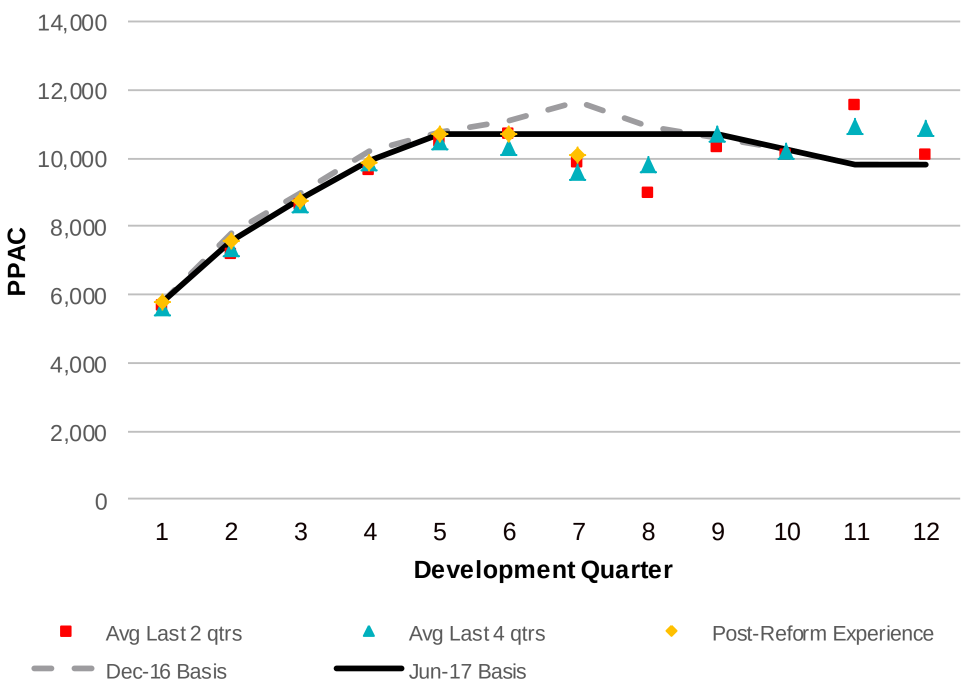


The overall impact of the changes to continuance rates is a strengthening of our basis. Higher (apparently) 'active' claims at early durations is likely to be related to the speeding up of employer reimbursement requests, and so should be considered along with the PPAC changes below.

Payments per Active Claim

Figure 5.3 below shows the recent PPAC experience relating to post-reform claims, and our adopted bases at the previous and current valuations.

Figure 5.3 – Payments per Active Claim



The most recent PPAC experience is emerging lower than our December 2016 basis, and we have reduced our adopted PPACs for the first nine development quarters; this results in a release from our basis.

5.3.3 Other IS Components

Dependant Benefits

Changes at the current valuation were:

- We increased our adopted payment levels for dependant benefits, giving more weight to the experience of the past two years
- This was offset by a reduction in the adopted ultimate numbers of dependant IS claims.

Overall there was a small decrease in the outstanding claims liability.

Post-Surgery IS Payments

We reviewed our projection of post-surgery IS payments which will be made beyond the two-year hard boundary. Our estimates reduced, in recognition of lower than previously allowed numbers of applications for future surgery made by transitional claims.

5.4 Medical-Only Redemptions

Table 5.5 compares the medical redemption payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 5.5 - Actual vs Expected Payments: Medical Redemptions

Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2012/13	0.0	2.2	(2.2)	0%
2013/14 - 2014/15	0.0	2.0	(2.0)	0%
2015/16 - 2016/17	0.0	0.0	0.0	n/a
Total	0.0	4.3	(4.2)	1%

An allowance of around $9 million for medical redemption payments (expected to be paid until December 2017) was included in the estimated liability at the previous valuation, of which around $4.3 million in payments was projected in the six months to June 2017; however, only $31,000 was paid over this period in respect of three claims.

Consequently, we have significantly reduced our projected number of medical redemptions (now extending to June 2018) at the current valuation. Additionally, we have reduced our superimposed inflation allowance for medical redemptions to nil given the trailing off of these payments. The combined effect of the payments experience and our basis change is an $8.8 million actuarial release from the estimate at our previous valuation. Table 5.6 sets out the movement by accident year.

Table 5.6 – Actuarial Release: Medical Redemptions

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	0%
2005/06 - 2012/13	2.5	0.1	(2.4)	(2.2)	4.6	185%
2013/14 - 2014/15	2.3	0.1	(2.1)	(2.0)	4.2	182%
2015/16 - 2016/17	0.0	0.0	0.0	0.0	0.0	0%
Total	4.8	0.2	(4.6)	(4.2)	8.8	183%

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

5.5 Valuation Results and Actuarial Release

Table 5.7 sets out the components of the actuarial release for IS payments and medical redemptions.

Table 5.7 – Components of Actuarial Release: IS and Medical Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		
Income Support	7.3	
Medical Redemptions	4.2	
		11.6
Difference from projected liability		
Clams no longer valued	0.9	
IS Payments Basis	1.6	
Post-Surgery IS	4.4	
Medical Redemptions	4.6	
		11.4
Total		23.0

The actuarial release of $23 million is made up of payments in the six months being $11.6 million better than expected, and a $11.4 million decrease in the projected liability from December 2016 that is made up of the following reductions:

- $0.9 million due to claims no longer valued; this represents movements to self-insurance and the Serious Injury portfolio
- $1.6 million due to the IS experience and basis changes, including the reduction in projected dependant payments
- $4.4 million due to future surgery decreases. This is incorporating lower future surgery claims for transitional claims. This allowance has previously been made in the medical (surgery) basis and is now reflected in the income support benefit.
- $4.6 million due to medical redemption decreases as described in Section 5.4.

The tables below summarise these movements by accident period.

Table 5.8 – Actuarial Release for IS

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	4.2	3.3	(0.9)	(1.2)	2.1	51%
2005/06 - 2012/13	13.3	10.9	(2.3)	(1.7)	4.1	31%
2013/14 - 2014/15	10.9	9.1	(1.8)	(0.4)	2.2	20%
2015/16 - 2016/17	105.9	104.0	(1.8)	(3.9)	5.8	5%
Total	134.2	127.3	(6.9)	(7.3)	14.2	11%

Table 5.9 – Actuarial Release for Medical Redemptions

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	0%
2005/06 - 2012/13	2.5	0.1	(2.4)	(2.2)	4.6	185%
2013/14 - 2014/15	2.3	0.1	(2.1)	(2.0)	4.2	182%
2015/16 - 2016/17	0.0	0.0	0.0	0.0	0.0	0%
Total	4.8	0.2	(4.6)	(4.2)	8.8	183%

Table 5.10 – Actuarial Release for IS and Medical Redemptions

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	4.2	3.3	(0.9)	(1.2)	2.1	50%
2005/06 - 2012/13	15.8	11.0	(4.7)	(3.9)	8.7	55%
2013/14 - 2014/15	13.2	9.2	(4.0)	(2.4)	6.4	49%
2015/16 - 2016/17	105.9	104.0	(1.8)	(3.9)	5.8	5%
Total	139.0	127.6	(11.4)	(11.5)	23.0	17%

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); this is for non-economic loss only.
- “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 who have lodged an application prior to 30 June 2016.
- “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.

Appendix A specifies 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 December 2016 valuation.

Table 6.1 – Valuation Results: Lump Sums

Dec16 Valuation	$m	$m	$m
Estimated Liab at Dec-16	192.3		
Projected Liab at Jun-17	207.6		
Jun-17 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	(0.3)	(7.2)	7.5
Estimated Liab at Jun-17 (Dec-16 eco assumptions)	**207.3**		
Impact of change in eco assumptions	1.0		
Estimated Liab at Jun-17 (Jun-17 eco assumptions)	**208.3**		

The June 2017 liability shows an actuarial release of $7.5 million since December 2016, reflecting a decrease of $0.3 million in the liability, and $7.2 million of lower claims payments. The remainder of this section deals with this impact while the impact of the change in economic assumptions is discussed in Section 11.3.2.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.0	0.8	0.3	135%
2005/06 - 2012/13	4.1	5.8	(1.8)	70%
2013/14 - 2014/15	8.9	9.4	(0.5)	95%
2015/16 - 2016/17	4.9	10.1	(5.2)	48%
Total	18.9	26.1	(7.2)	72%

Payments were 28% lower than expected in the six months to 30 June 2017. This was driven by:

- Lower number of First Paid lump sum payments than expected for RTW Act accidents
- Significantly lower numbers of Top Up lump sum payments than expected across all accident periods
- Economic Loss lump sum payments well below expected.

Lump sum payments will be higher under the RTW Act, although to date these increases have not emerged as yet (but we do still expect that the increases will emerge). We understand that some of the delay relates to the wrapping up of WPI assessments on transition claims, which has used up much of the available medical capacity for these assessments (i.e. in some areas of specialty there are delays in being able to have WPI assessments completed).

6.3 Valuation Basis

Valuation Basis for First Paid Lump Sums

Our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency based approach for more recent accident periods where there is less experience. Table 6.3 below compares the actual and expected number of First Paid lump sums paid in the six months to June 2017.

Table 6.3 – Actual vs Expected Payments: First Paid Lump Sums

Accident	Number of Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
To 30 Jun 05	37	8	29	473%
2005/06 - 2012/13	143	125	18	114%
2013/14 - 2014/15	328	322	6	102%
2015/16 - 2016/17	56	124	-68	45%
Total	564	579	-15	97%

Payments for accident years up to 2012/13 were higher than expected particularly for accidents older than 10 years. We have interpreted this experience as a speeding up of payments, due in part to the recent transition claims settlement activity as discussed in Section 3.2.2. In response, we have reduced our future chain ladder factors for accidents up to June 2013.

For periods after June 2013 we continue to adopt a frequency based approach. The selected ultimate numbers for these periods remain unchanged at this valuation following reductions at our previous valuation. For RTW Act accidents, we have reshaped our payment pattern at this valuation by:

- Slowing payments down in the first development year reflecting the emerging experience
- Shortening the payment pattern beyond three years as we anticipate lump sum payments under the RTW Act will be paid out considerably faster compared to claims under WRCA.

Figure 6.1 shows the ultimate number of First Paid lump sums, split into paid and IBNR claims. This also demonstrates 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

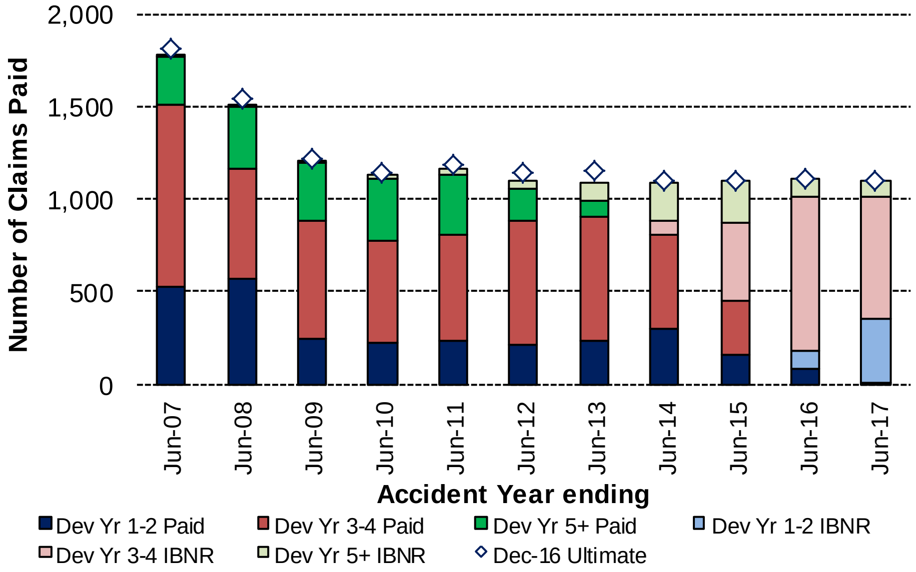
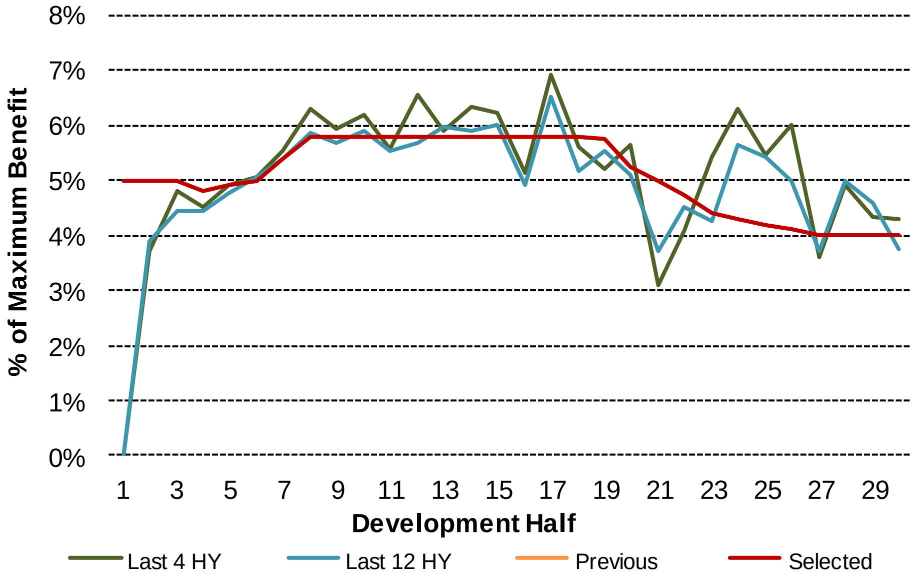


Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

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



Our selected size assumptions are unchanged from our previous valuation basis and are in line with the recent experience. At an overall level, the average First Paid lump sum is expected to be 5.2% of the prescribed maximum benefit, or around $24,500.

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 December 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).

Top Up lump sums payments were significantly lower than expected in the last six months across all accident periods. Under the RTW Act, applications for Top Up lump sums needed to be submitted by 30 June 2016. Of the 375 applications received by 30 June 2016:

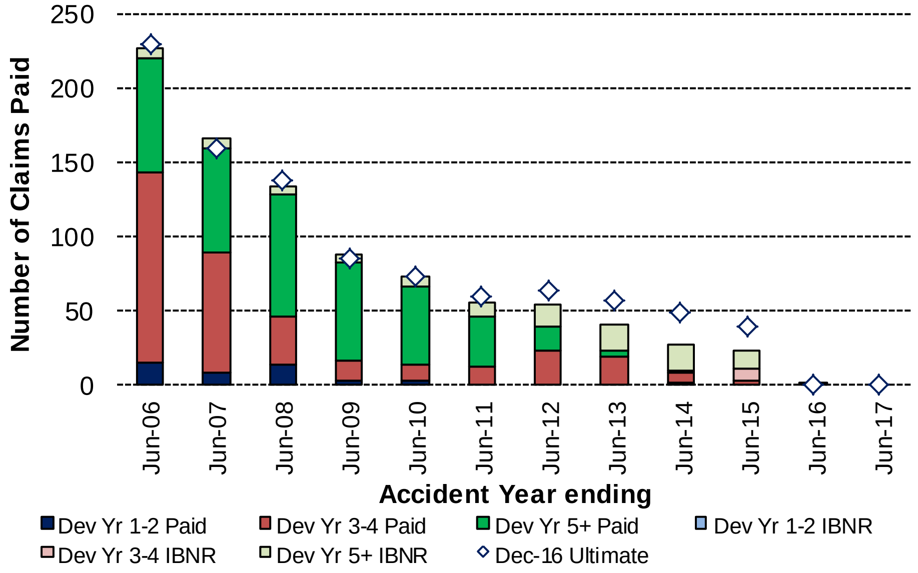
- Around 110 have been approved in full or part
- A further 126 have been rejected
- 54 are currently pending decisions, with the remaining applications either withdrawn or cancelled.

At the current valuation, we have reduced our Top Up lump sums allowance to around 175 payments, down from 260 in our previous basis. Our selected basis reflects the reduced number of outstanding applications but also allows for some extra claims to emerge from adverse legal precedents and disputed applications.

As information is still limited on Top Up applications, at this stage there is still a relatively high level of uncertainty around the success rate of the current applications and the lump sum payments. That said, the dollars are not large.

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.

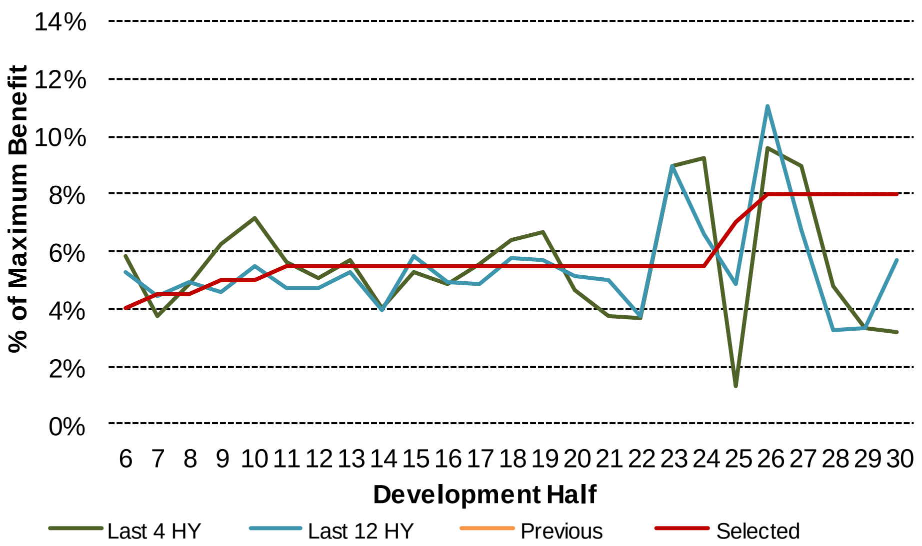
Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims



The ultimate numbers have reduced across all accident years after 2010 where a large proportion of the payments are still outstanding.

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)

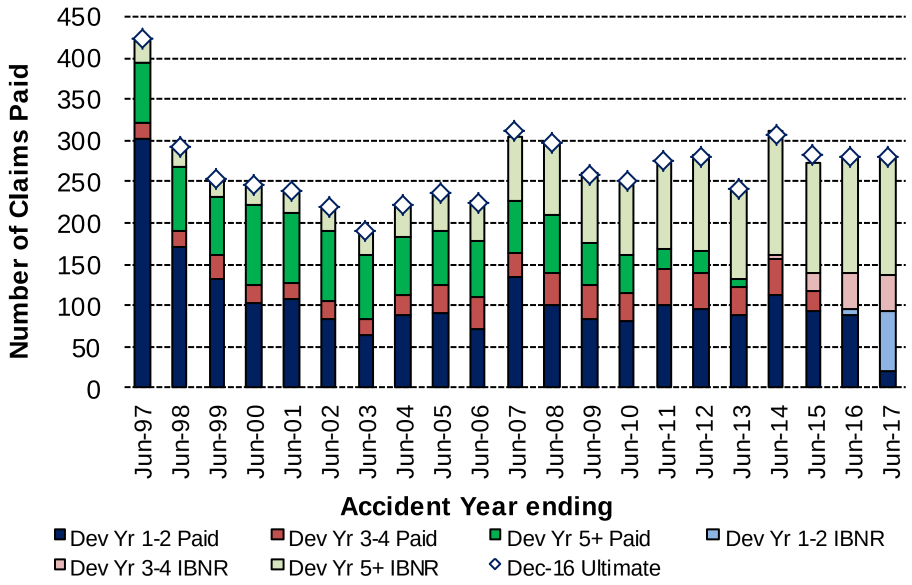


Our selected average size is unchanged from our previous valuation and consistent with the long term experience.

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).

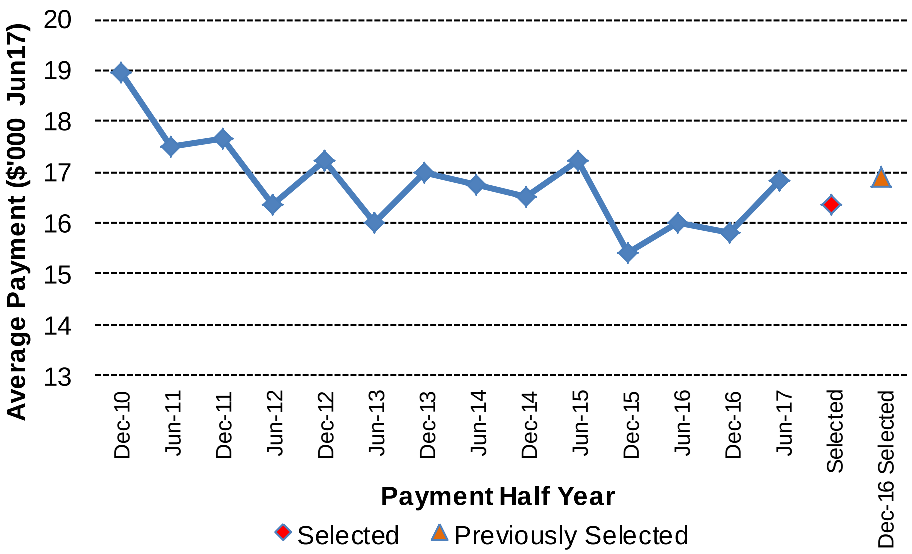
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Deafness lump sum payments over the last six months were in line with expected. We have maintained a frequency approach for accident periods after June 2015 to allow for changes in payment speeds, consistent with the "lumpy" nature of deafness lump sum payments. Our selected ultimates for these periods are unchanged compared to the previous valuation basis. Periods prior to June 2015 adopt a chain ladder approach with 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 has been reduced at this valuation and is similar to the experience over the last two years at around $16,500.

Figure 6.6 – Average Lump Sum Deafness Payment



Valuation Basis for Death Lump Sums

Experience for Death (and funeral) lump sums were favourable over the last six months with the number and amount of payments being 35% and 64% lower than expected respectively. Death lump sums experience tends to be volatile and at this valuation, we have maintained our underlying projection basis consistent with the longer term experience.

In addition to the underlying projection, our basis has allowed for one-off ex-gratia dependent benefit payments to occur in line with changes introduced with the RTW Act; these ex-gratia payments were available only to a small number of past part-death benefit recipients, but to date there has been very little activity and so we continue to reduce 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

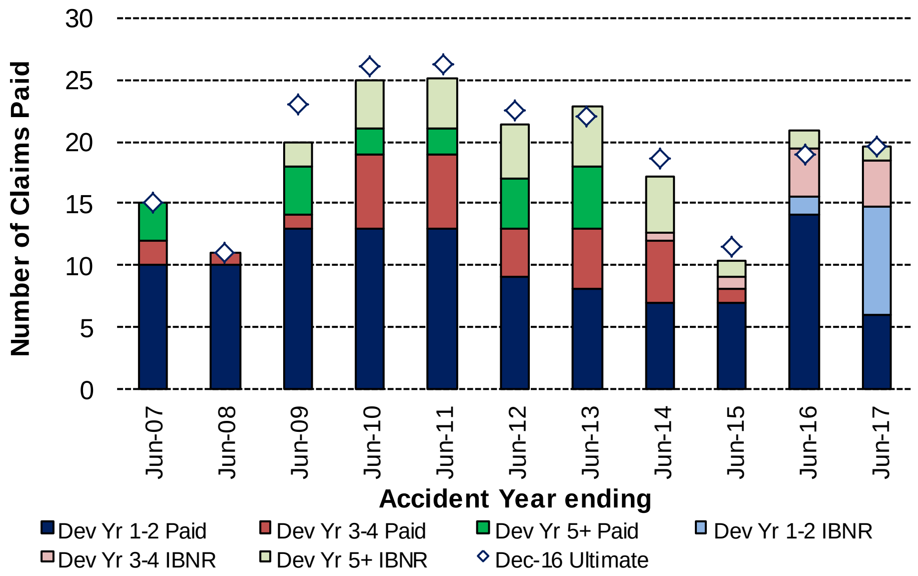
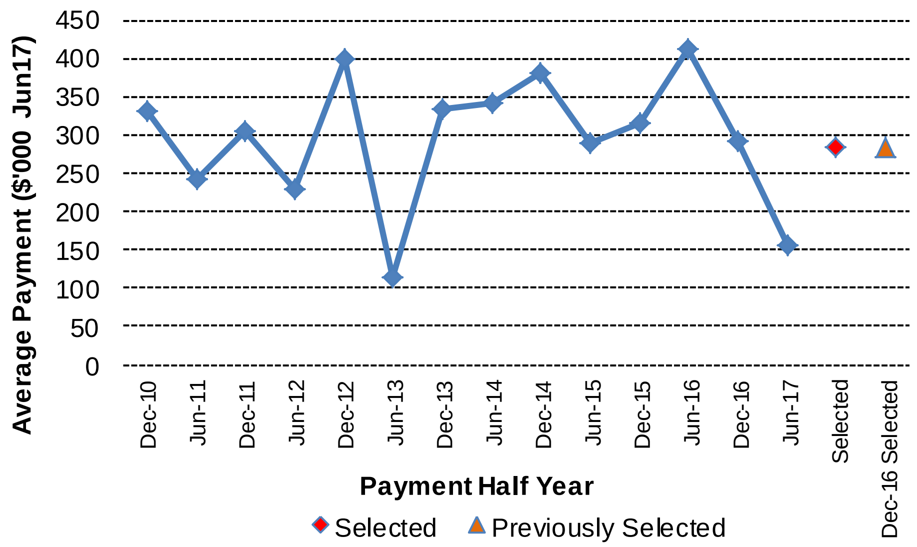


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to June 2017 is significantly lower than the recent experience driven by a high proportion of funeral only payments. Our adopted size is unchanged and consistent with the long term average.

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. Payments have started to emerge over the last six months, albeit at a much slower rate than anticipated. Our previous basis assumed payments of Economic Loss lump sums would coincide with First Paid lump sums. However, missing information required for the calculation of lump sum amounts has resulted in payment delays. At this valuation, we have adopted a frequency approach to allow for the slowdown in payments while still aligning the ultimate number of Economic Loss lump sum payments with First Paid lump sums.

The average size for Economic Loss lump sums in the six months to June 2017 is consistent with our previous expectations. We have reshaped the profile of payments at this valuation to allow for less variation in sizes across payment durations, given the shorter expected tail on lump sums now. 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 December 2016 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	7.3	6.6	(0.7)	0.3	0.4	6%
2005/06 - 2012/13	24.7	20.9	(3.8)	(1.8)	5.5	22%
2013/14 - 2014/15	32.1	31.1	(1.0)	(0.5)	1.5	5%
2015/16 - 2016/17	143.6	148.7	5.1	(5.2)	0.1	0%
Total	207.6	207.3	(0.3)	(7.2)	7.5	4%

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

The $0.3 million decrease in projected liability combined with actual payments being $7.2 million less than expected results in an actuarial release of $7.5 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		7.2
Changes to Valuation Basis		
Lower First Paid IBNR numbers	3.6	
Top Up numbers	0.9	
Lower Deafness size	0.4	
Economic Loss Lump Sum basis change:	(4.7)	
Subtotal		0.3
Total		7.5

Reductions in the number of First Paid and Top Up lump sums along with a small reduction in Deafness sizes results in a release of $5.0 million. This is offset by changes to the Economic Loss lump sum basis to treat the slower payments than expected as a delay rather than a saving, resulting in an increase of $4.7 million.

7 Treatment and Related Costs – Short Term Claims

Workers who suffer a compensable injury 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 December 2016 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Dec16 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-16	106.4	17.0	5.3	15.0	7.9	8.8	160.5
Projected Liab at Jun-17	102.2	17.1	5.1	15.7	7.4	7.9	155.4
Jun-17 Valuation							
Impact of experience/OSC - Movement in liab	1.5	(0.2)	(0.8)	0.6	(0.8)	1.7	2.1
Estimated Liab at Jun-17 (Dec-16 eco assumptions)	**103.7**	**16.9**	**4.3**	**16.3**	**6.7**	**9.6**	**157.5**
Impact of change in eco assumptions	0.7	0.0	(0.0)	(0.0)	(0.0)	(0.0)	0.7
Estimated Liab at Jun-17 (Jun-17 eco assumptions)	**104.4**	**16.9**	**4.3**	**16.3**	**6.7**	**9.6**	**158.2**
AvE Payments - six months to Jun-16	(1.6)	(1.5)	(0.1)	1.5	(0.6)	(0.4)	(2.7)
Actuarial Release at Jun-16	0.1	1.7	0.9	(2.2)	1.3	(1.3)	0.7

The main movements from our December 2016 projection of the June 2017 liability are:

- An increase of $2.1 million in the liability, reflecting the claims experience since December 2016 and our valuation response. This includes the impact of our lower ultimate claim numbers projection as outlined in section 4.1; which for older accident years, has been driven by employer transitions to self insurance. This produces an actuarial release of $0.7 million when offset by actual payments in the period being $2.7 million lower than expected.
- Movements in economic assumptions, increasing the treatment related liabilities by $0.7 million.

The remainder of this section deals with the payment experience and valuation basis. The impact of the change in economic assumptions is discussed in Section 11.3.2.

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 (PPAC) – this is used for the valuation of medical liabilities (excluding Aids and Appliances) for claims that are also receiving Income Support (IS) payments.
- Long term model (PPCI) – 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 some time 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. The "Transitional claims" selections shown in this section relate to our projections up this date. The "RTW Act claims" selections are used for our payment projections past this date.

Detailed descriptions of the projection models and details of all projection assumptions are included in Appendix A and H.

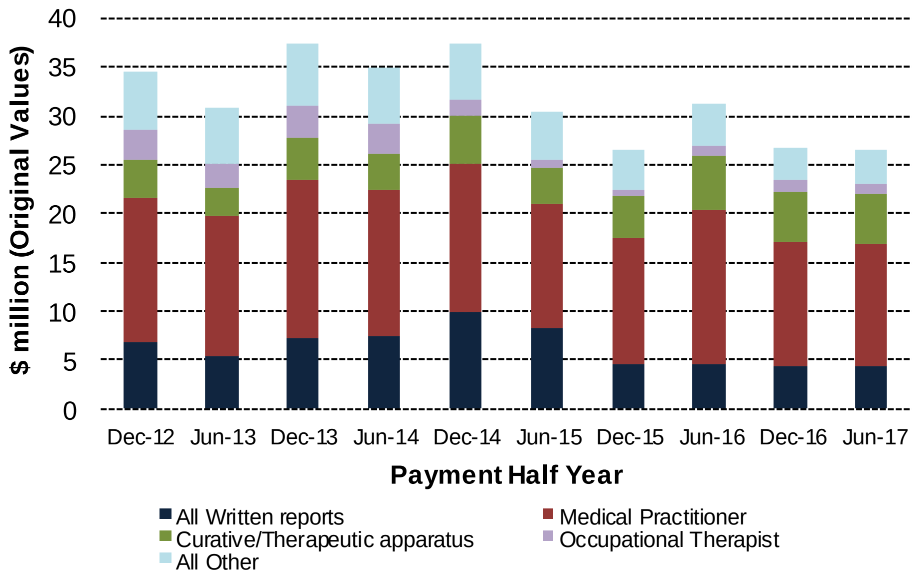
7.3 Medical

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 payment levels have reduced since December 2014 and remain lower compared to prior periods. The reduction is largely driven by:

- Lower written report activity post-June 2015 following the removal of WCA under the RTW Act
- Lower other medical expenses including psychologist and chemist costs
- Offset by higher medical apparatus costs.

Table 7.2 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

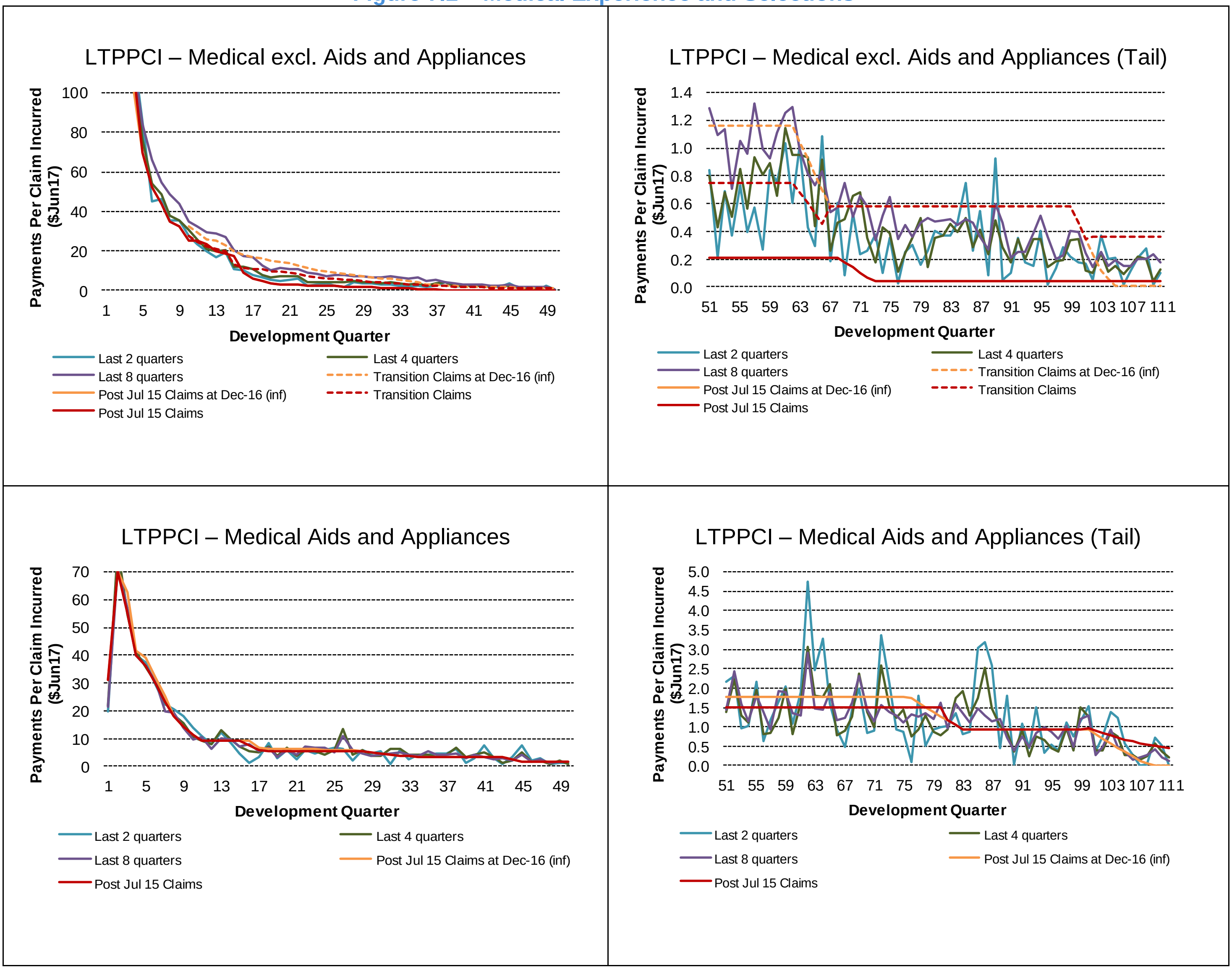
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.6	2.0	(0.4)	81%
2005/06 - 2012/13	3.4	4.6	(1.1)	75%
2013/14 - 2014/15	3.9	4.6	(0.7)	84%
2015/16 - 2016/17	17.7	17.1	0.6	103%
Total	26.6	28.2	(1.6)	94%

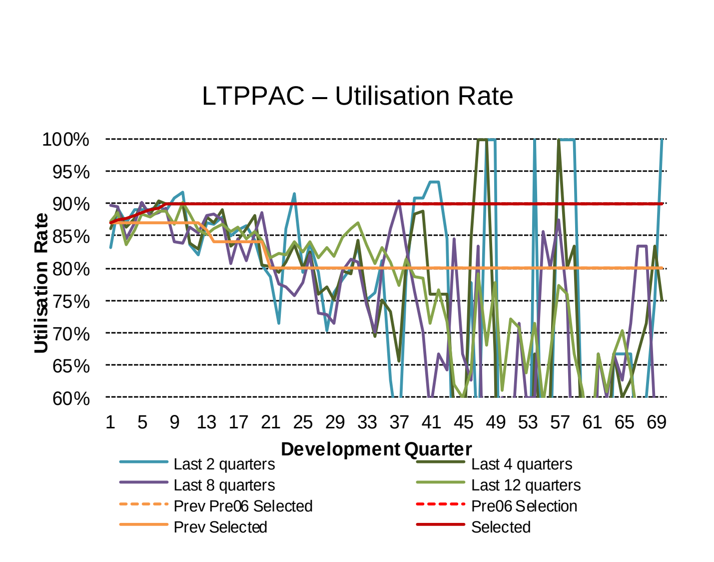
Overall, payments were slightly lower than expected in the six months to June 2017; driven by pre-reform accident periods. Payments were close to expected for RTW Act accident years.

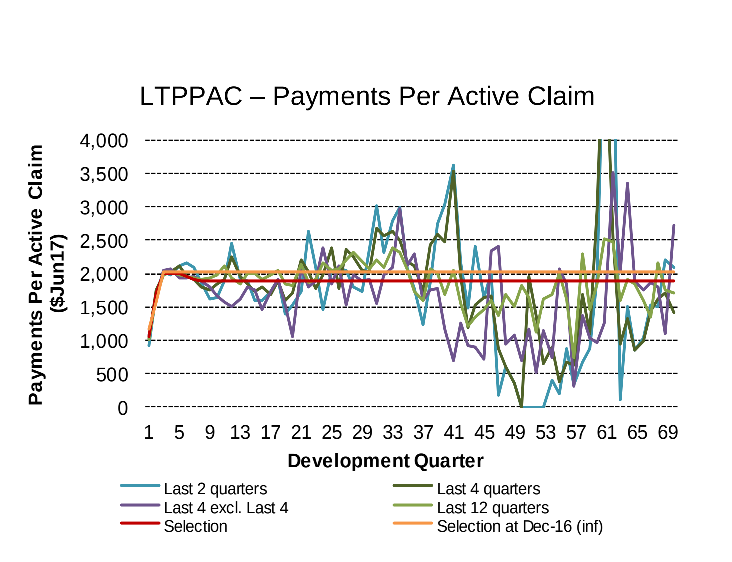
Valuation Basis

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 (Medical excl. aids and appliances):
  - We have reshaped our previous valuation basis for transition claims to better reflect the recent payment experience. The longer-term experience is higher than our basis as a result of high levels of written report activity. We do not expect this to be a feature of the experience going forward following the removal of WCA under the RTW Act.
  - From 1 July 2015 the capping of benefits under the RTW Act commences, and our selected PPCIs reduce significantly by 4.5 years duration. We have not adjusted out basis for post July 2015 claims at this valuation.
- LTPPCI (Medical aids and appliances)
  - We have used the same PPCI pattern for transitional claims and RTW Act claims.
  - We have reshaped our tail assumptions in line with the recent payment levels for older accident periods.
- LTPPAC:
  - We have increased the utilisation pattern at earlier durations to reflect the recent experience, maintaining our assumptions from the two year duration mark (in line with the IS two year boundary) through to later durations.
  - Payments per active claim are also very volatile at longer durations. We have reduced our selections slightly to better reflect the recent payment experience.

Medical Fee Increases

The medical fee rate paid to General Practitioners (GP) is set to increase by around 9% above inflation over the next year. This increase is part of a longer term plan which started in July 2015 to better align fee rates with AMA rates in order to improve the engagement of medical practitioners. GP fees currently account for around 10% of all Medical payments which implies the overall medical costs are set to increase by around 2%. This is within the superimposed inflation allowances already adopted in the valuation, and in the context of recent cost control 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 December 2016 valuation.

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	15.3	20.1	4.8	(0.4)	(4.4)	-29%
2005/06 - 2012/13	28.4	27.2	(1.2)	(1.1)	2.3	8%
2013/14 - 2014/15	13.9	12.8	(1.1)	(0.7)	1.8	13%
2015/16 - 2016/17	44.6	43.7	(1.0)	0.6	0.4	1%
Total	102.2	103.7	1.5	(1.6)	0.1	0%

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

The $1.5 million increase in the projected liability combined with actual payments being $1.6 million less than expected results in an actuarial release of $0.1 million.

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		1.6
Changes to Valuation Basis		
Ultimate claims	1.3	
Long term assumption changes	(2.8)	
Subtotal		(1.5)
Total		0.1

A decrease in ultimate claim numbers (primarily driven by employers moving to self insurance, particularly for older accident years) has resulted in an actuarial release of $1.3 million.
For medical payments on claims also receiving IS, the increase in utilisation rates and offsetting decrease in PPACs, as described earlier, results in an increase of $0.3 million. The increases to our tail PPCI assumptions for other medical payments, despite offsetting decreases for earlier and medium term durations, has resulted in a $3.1 million increase in the liability. Combined, our long term assumption changes have resulted in a $2.8 million actuarial strengthening of the overall liability estimate for medical benefits.

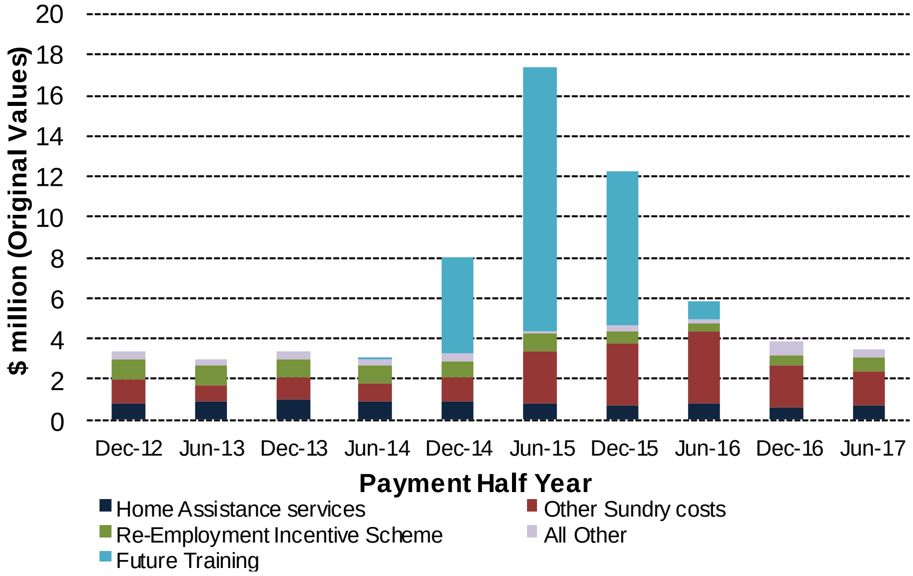
7.4 Other

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



After a period of high payments peaking with the June 2015 half-year, Other payments have stabilised in the last 12 months following reductions in Other Sundry Costs (which relate to professional financial advice fees that were part of the recent redemption activity). 'Future training and education' benefits are no longer paid to workers following the cessation of redemption activity after June 2016.

Table 7.5 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

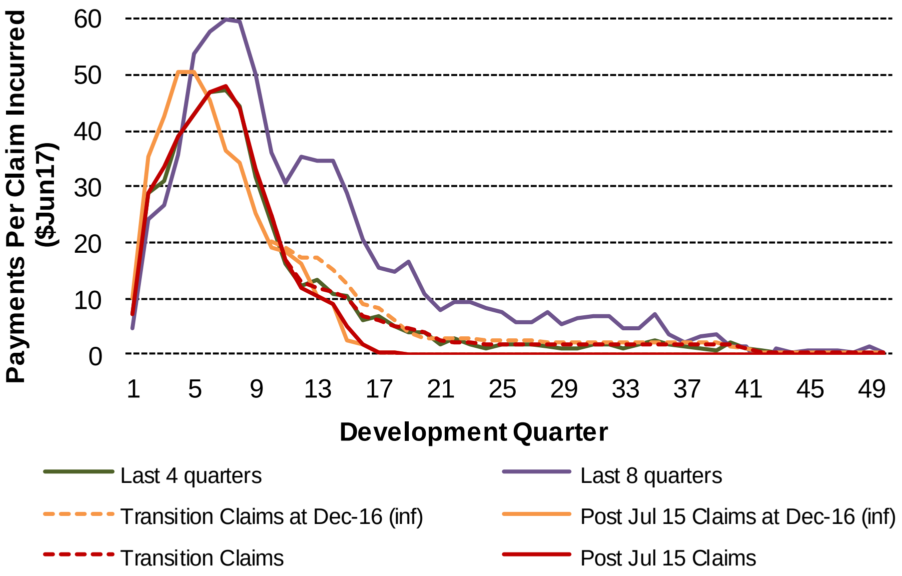
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	89%
2005/06 - 2012/13	0.4	0.7	(0.2)	64%
2013/14 - 2014/15	1.0	1.1	(0.1)	93%
2015/16 - 2016/17	2.0	2.0	(0.1)	97%
Total	3.4	3.8	(0.4)	90%

Overall, payments were lower than expectations. Payments were close to expected in RTW Act accident periods but materially lower than expected in accident years 2013 and older.

Valuation Basis

Figure 7.4 below shows the recent experience and selected basis for 'other' payments.

Figure 7.4 – PPCI Experience and Selections: Other



Previously, we adopted the transitional claims PPCI basis for payments up to June 2017, rather than the June 2018 as for other treatment benefits, given a faster expected runoff of payments in this category. We have extended our application of the transitional claims basis until June 2018 at the current valuation in light of the continued, albeit diminishing, payments on older accident years. We have also reshaped our PPCI pattern for transitional claims to better reflect the payment experience in these older years.

The PPCI pattern for post July 2015 claims has also been reshaped in line with the payment pattern emerging in the recent experience. This has resulted in front end payments being 'pushed back' (full orange line to full red line) as can be seen in Figure 7.4.

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 December 2016 valuation.

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.1	0.1	(0.0)	(0.1)	0%
2005/06 - 2012/13	0.0	0.8	0.8	(0.2)	(0.6)	-3015%
2013/14 - 2014/15	0.8	1.2	0.4	(0.1)	(0.3)	-41%
2015/16 - 2016/17	7.1	7.4	0.3	(0.1)	(0.3)	-4%
Total	7.9	9.6	1.7	(0.4)	(1.3)	-16%

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

The actuarial increase (strengthening) of $1.3 million is driven by the changes to our valuation basis; partially offset by lower than expected payments in the last six months.

Table 7.7 breaks down the actuarial strengthening by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.4
Changes to Valuation Basis		
Ultimate claims	0.1	
Long term assumptions	(1.8)	
Subtotal		(1.7)
Total		(1.3)

The extension of our PPCI basis for transitional claims, as described above (from June 2017 to June 2018), combined with the reshaping of our PPCI pattern for post July 2015 claims, has increased the liability by $1.8 million. This is partially offset by the decrease in our projection of ultimate claims numbers; for a total actuarial increase (strengthening) of $1.7 million.

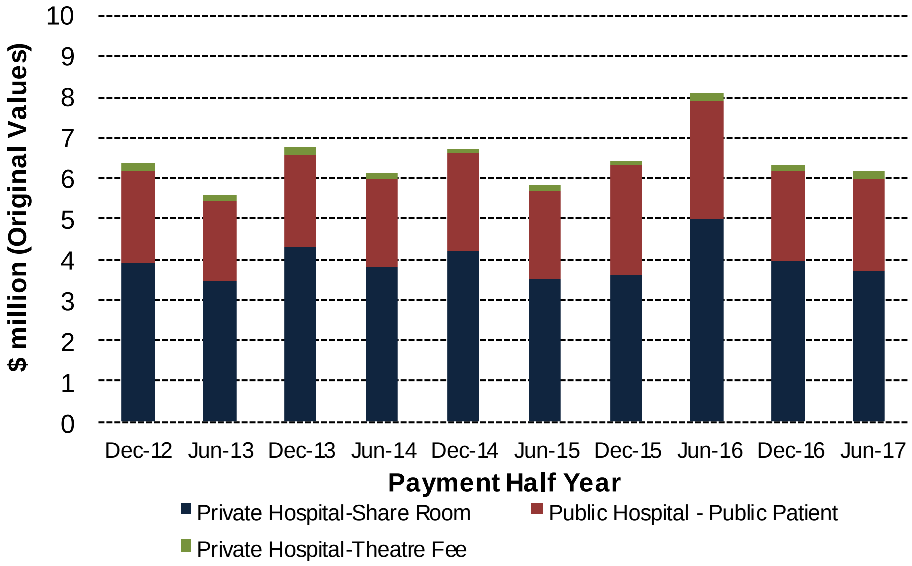
7.5 Hospital

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



Hospital payments have stabilised in the last 12 months after a one-off spike in payments in the June 2016 half-year which we are treating as a one-off feature of the experience.

Table 7.8 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

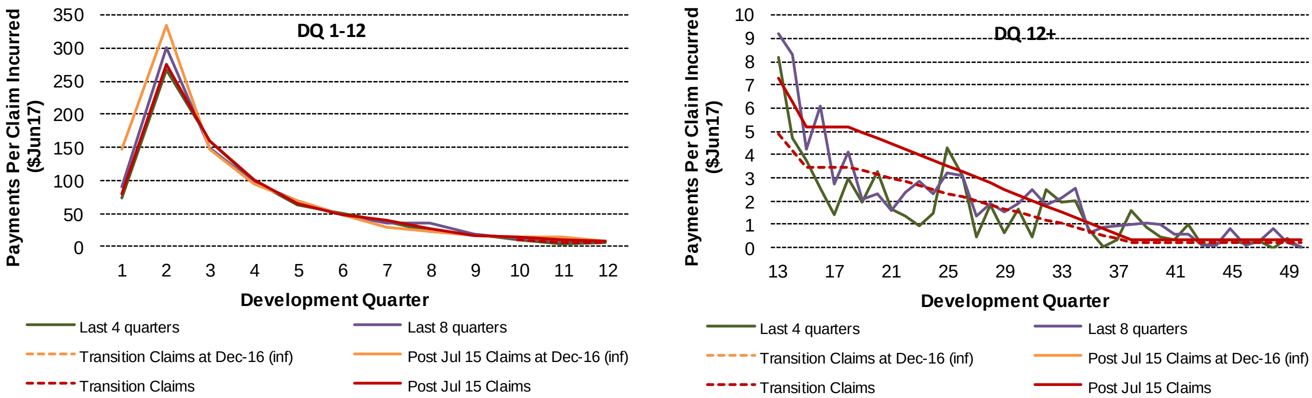
Accident Period	Payments in Six Months to Jun 17			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.1	(0.1)	28%
2005/06 - 2012/13	0.3	0.7	(0.4)	45%
2013/14 - 2014/15	0.4	0.7	(0.2)	64%
2015/16 - 2016/17	5.4	6.2	(0.8)	87%
Total	6.2	7.7	(1.5)	80%

The bulk of hospital payments are made in the first year or two after injuries occur. Payments in the last six months were $1.5 million lower than expected; driven by lower payments across all accident periods, particularly older accident years.

Valuation Basis

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

Figure 7.6 – Hospital Experience and Selections



At the current valuation, we have decreased our PPCI pattern for early durations (for post RTW Act claims) to reflect the emerging payment experience detailed in Table 7.8. We have maintained our assumptions for later durations (as per the graph above on the right).

The basis for transitional claims is largely unchanged at this valuation. Due to difficulties in obtaining data on the number and statuses of applications for future surgeries on transitional claims, we have not adjusted our existing PPCI pattern for these payments. We have also maintained our allowance for future surgery costs for post RTW Act claims from the previous valuation.

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 December 2016 valuation.

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.9	0.9	(0.0)	(0.1)	0.1	12%
2005/06 - 2012/13	2.8	2.7	(0.0)	(0.4)	0.4	15%
2013/14 - 2014/15	2.1	2.1	(0.0)	(0.2)	0.3	14%
2015/16 - 2016/17	11.2	11.1	(0.1)	(0.8)	0.9	8%
Total	17.1	16.9	(0.2)	(1.5)	1.7	10%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The $0.2 million decrease in the projected liability combined with actual payments being $1.5 million lower than expected results in an actuarial release of $1.7 million.

Table 7.10 breaks down the actuarial release by source.

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.5
Changes to Valuation Basis		
Ultimate claims	0.3	
Long term assumptions	(0.1)	
Subtotal		0.2
Total		1.7

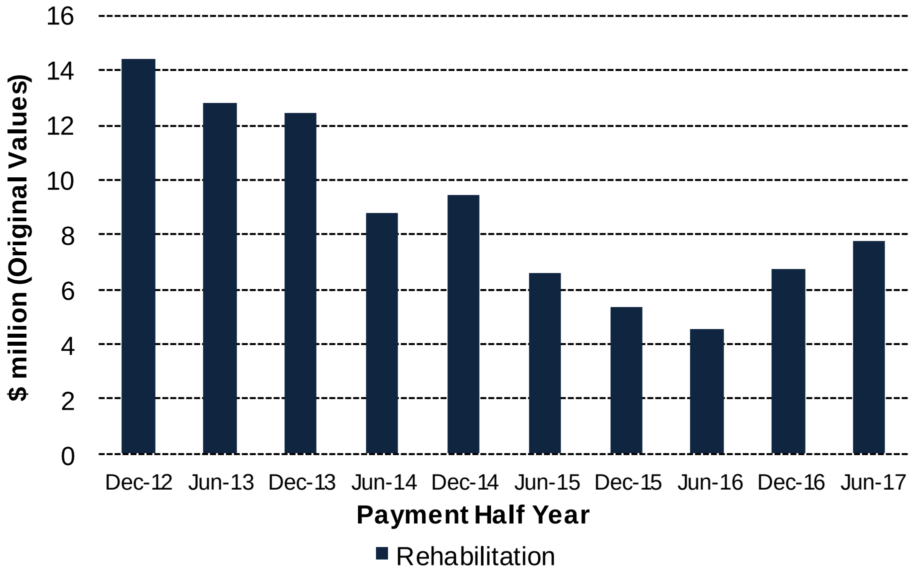
7.6 Rehabilitation

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



From 2012 to June 2016 rehabilitation payments reduced considerably. Since then however, there has been an increase in rehabilitation spending by agents as part of new strategies to achieve better return to work outcomes.

Table 7.11 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

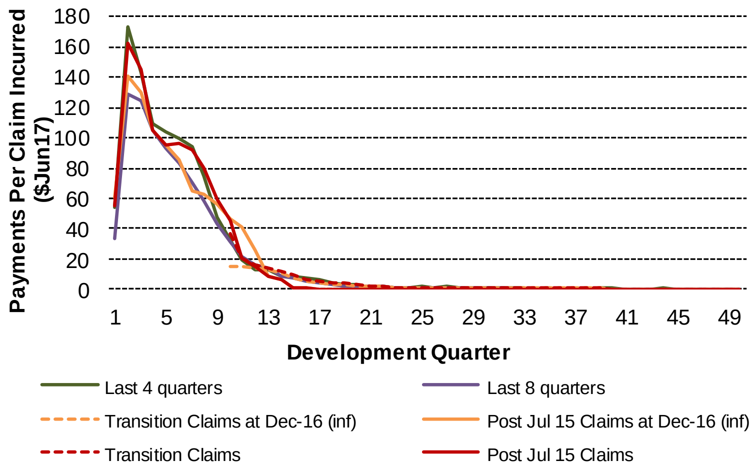
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	1917%
2005/06 - 2012/13	0.4	0.3	0.1	127%
2013/14 - 2014/15	1.6	0.9	0.7	170%
2015/16 - 2016/17	5.8	5.0	0.7	115%
Total	7.8	6.3	1.5	124%

Overall, payments were $1.5 million (24%) higher than expected, across both pre-reform and RTW Act accident periods.

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 transitional claims PPCIs for rehabilitation have been increase slightly to reflect the emerging experience in accident years 2015 and prior.

We have increased the post RTW Act PPCI pattern at early durations again at this valuation to reflect the increase in the utilisation of rehabilitation services seen recently.

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 December 2016 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.1	0.1	0.0	(0.1)	-3264%
2005/06 - 2012/13	0.5	0.5	0.0	0.1	(0.1)	-26%
2013/14 - 2014/15	1.0	1.3	0.2	0.7	(0.9)	-86%
2015/16 - 2016/17	14.2	14.5	0.3	0.7	(1.1)	-7%
Total	15.7	16.3	0.6	1.5	(2.2)	-14%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The $0.6 million increase in the projected liability combined with actual payments being $1.5 million more than expected results in an actuarial increase (strengthening) of $2.2 million. The increase falls primarily in accident years after 2013.

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		(1.5)
Changes to Valuation Basis		
Ultimate claims	0.3	
Long term assumptions	(0.9)	
Subtotal		(0.6)
Total		(2.2)

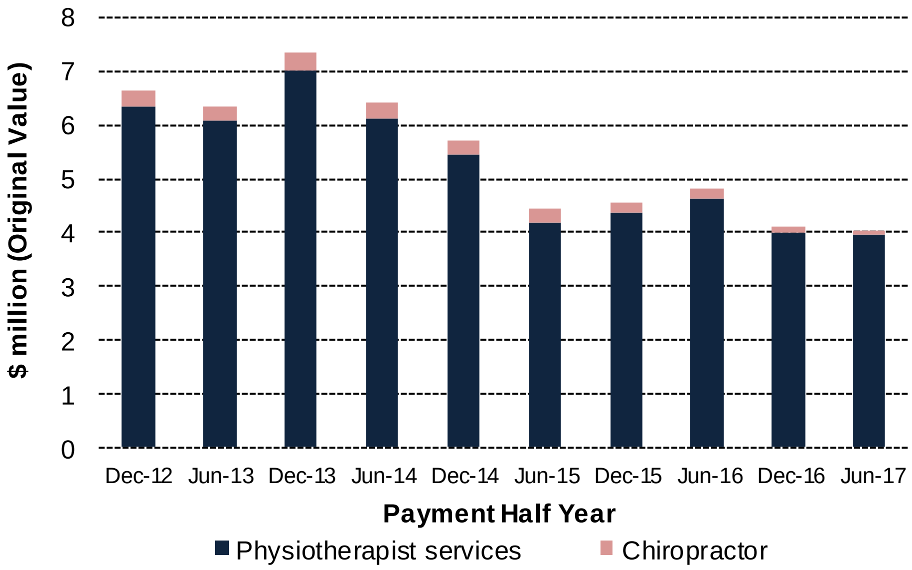
7.7 Physical Therapy

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



Physical therapy payments have been relatively stable since June 2015.

Table 7.14 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

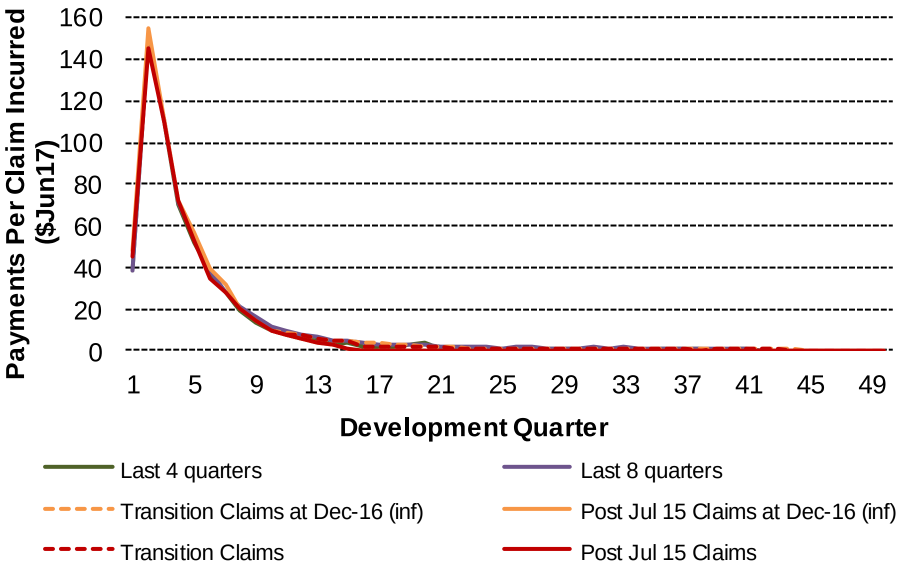
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.1	(0.1)	20%
2005/06 - 2012/13	0.2	0.4	(0.1)	63%
2013/14 - 2014/15	0.4	0.5	(0.0)	91%
2015/16 - 2016/17	3.4	3.7	(0.3)	91%
Total	4.0	4.6	(0.6)	88%

Overall, payments were $0.6 million (12%) lower than expected, with particularly low payments in the older accident periods.

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 decreased our transitional claims PPCI assumptions for later durations to reflect the faster runoff of payments in older accident years (as evidenced in Table 7.14).

We have decreased our front end PPCI assumptions for post RTW Act claims slightly to reflect the favourable experience for the last two accident years.

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 December 2016 valuation.

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.1	(0.1)	(0.1)	0.1	85%
2005/06 - 2012/13	0.6	0.3	(0.3)	(0.1)	0.4	72%
2013/14 - 2014/15	0.6	0.5	(0.1)	(0.0)	0.1	20%
2015/16 - 2016/17	6.1	5.8	(0.3)	(0.3)	0.7	11%
Total	7.4	6.7	(0.8)	(0.6)	1.3	18%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The $0.8 million decrease in the projected liability combined with actual payments being $0.6 million lower than expected results in an actuarial release of $1.3 million.

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		0.6
Changes to Valuation Basis		
Ultimate claims	0.1	
Long term assumptions	0.6	
Subtotal		0.8
Total		1.3

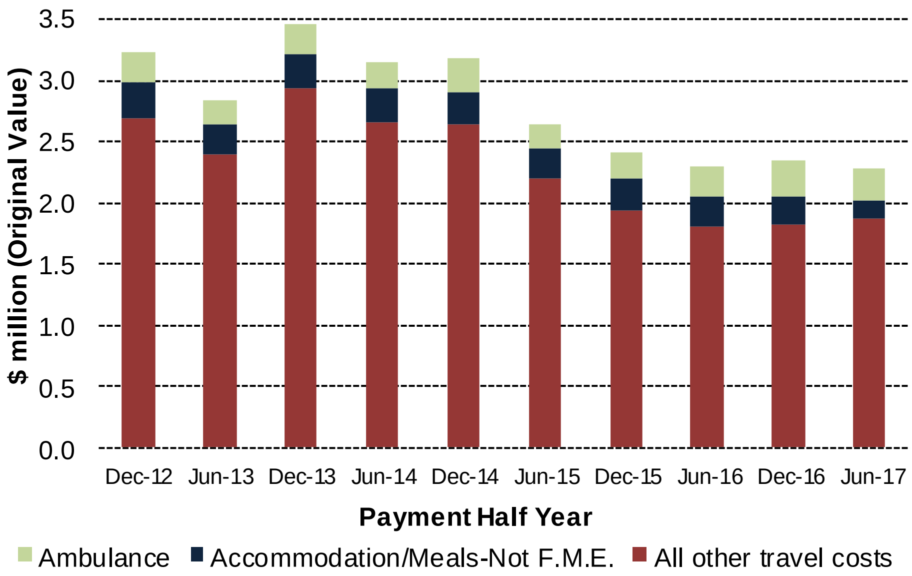
7.8 Travel

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



Overall, travel payments have remained low in the last six months with accommodation and meal costs slightly lower than six months ago.

Table 7.17 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

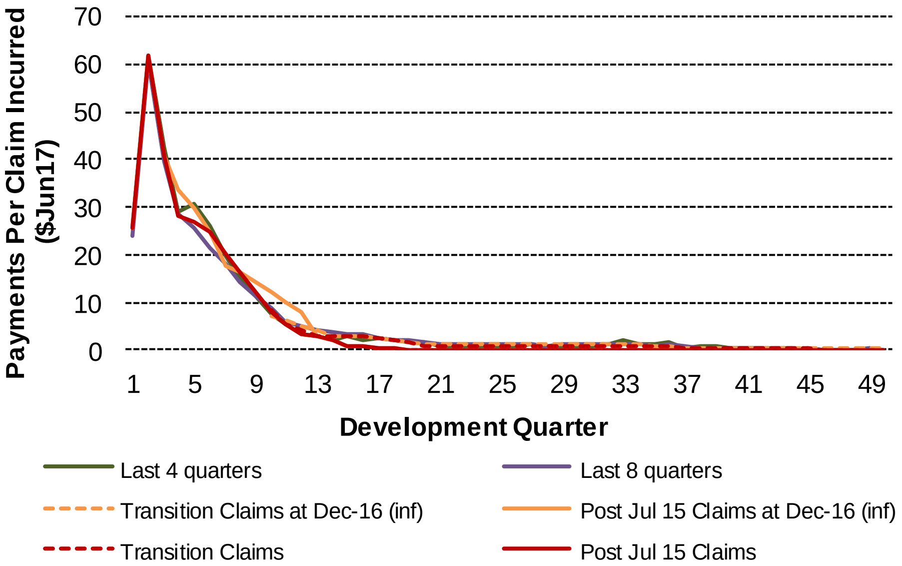
Accident Period	Payments in Six Months to Jun 17			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.1	(0.1)	15%
2005/06 - 2012/13	0.3	0.3	(0.0)	94%
2013/14 - 2014/15	0.3	0.3	0.0	103%
2015/16 - 2016/17	1.7	1.7	(0.0)	99%
Total	2.3	2.4	(0.1)	95%

Payments in the last six months were close to expectations with any difference attributable to older accident periods.

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 transitional claims in the tail to reflect the emerging experience in older accident years (as per Table 7.17). The front end PPCI assumptions for RTW Act claims have been reshaped to better reflect the emerging payment pattern of the last two accident years.

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 December 2016 valuation.

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.1	(0.1)	(0.1)	0.2	112%
2005/06 - 2012/13	0.5	0.4	(0.1)	(0.0)	0.1	21%
2013/14 - 2014/15	0.4	0.4	(0.0)	0.0	0.0	5%
2015/16 - 2016/17	4.0	3.5	(0.6)	(0.0)	0.6	15%
Total	5.1	4.3	(0.8)	(0.1)	0.9	18%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The actuarial release of $0.9 million is driven primarily by a decrease in the projected liability. The release is spread across older and more recent accident periods.

Table 7.19 breaks down the actuarial release by source.

Table 7.19 – Components of Actuarial Release: Travel

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.1
Changes to Valuation Basis		
Ultimate claims	0.1	
Long term assumptions	0.7	
Subtotal		0.8
Total		0.9

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 December 2016 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Dec16 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-16	32.7	34.0	2.1	2.3	1.2	2.2	(34.3)	40.2
Projected Liab at Jun-17	31.2	34.5	1.9	2.4	1.0	2.2	(34.4)	38.8
Jun-17 Valuation								
Impact of experience/OSC - Movement in liab	(2.4)	(3.1)	(0.1)	0.0	(0.1)	0.0	5.1	(0.6)
Estimated Liab at Jun-17 (Dec-16 eco assumptions)	**28.8**	**31.3**	**1.9**	**2.4**	**0.9**	**2.2**	**(29.4)**	**38.2**
Impact of change in eco assumptions	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Estimated Liab at Jun-17 (Jun-17 eco assumptions)	**28.8**	**31.4**	**1.9**	**2.4**	**0.9**	**2.2**	**(29.3)**	**38.3**
AvE Payments - six months to Jun-17	(1.6)	0.2	(0.2)	(0.1)	(0.0)	(0.2)	0.1	(1.7)
Actuarial Release at Jun-17	3.9	2.9	0.2	0.1	0.2	0.1	(5.2)	2.3

The movements from our December 2016 projection of the June 2017 liability are:

1. A decrease of $0.6 million in the liability, reflecting the claims experience since December 2016 and our valuation response (some of which is attributable to employer transitions to self insurance). Combining this with payments being $1.7 million lower than expected produces an actuarial release of $2.3 million.
2. The change in economic assumptions at the current valuation increases the estimated liability by $0.1 million (see Section 11.3.2).

8.2 Worker Legal

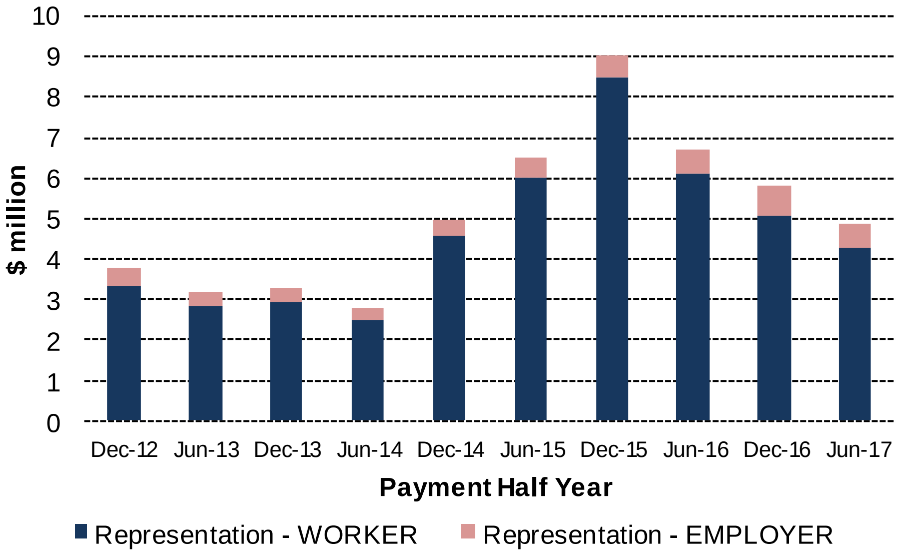
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the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

Disputes are the main driver of expenditure for both worker and corporation legal fees, and were discussed in Section 3.3.3. 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.

8.2.1 Experience

Figure 8.1 below shows worker legal payments in each six month period over the last five years.

Figure 8.1 – Worker Legal Half Yearly Payments



Worker legal payments peaked in the December 2015 half-year and have continued to reduce over the last eighteen months. The reduction in dispute numbers during the 2015/16 year continues to emerge in the experience, reflecting the long delay between lodgement of disputes and payment of worker legal fees.

Table 8.2 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

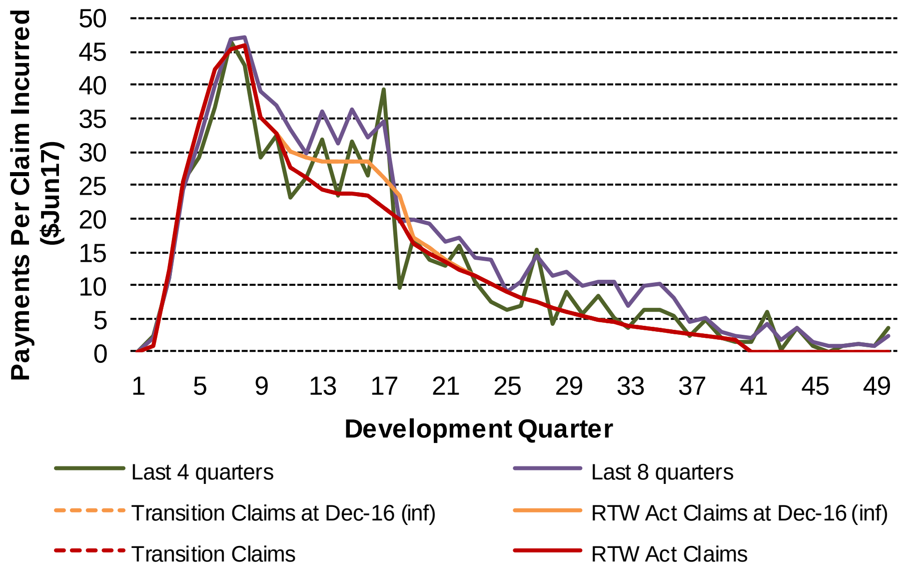
Accident	Payments in Six Months to Jun 17			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.4	0.1	0.2	281%
2005/06 - 2012/13	1.9	2.9	(1.0)	64%
2013/14 - 2014/15	1.4	2.1	(0.7)	65%
2015/16 - 2016/17	1.3	1.3	(0.0)	98%
Total	4.9	6.4	(1.6)	76%

Overall, payments were $1.6 million (24%) lower than expected over the last six months due to a faster reduction in payments than our basis had allowed.

8.2.2 Valuation Basis

A PPCI model is used to value Worker Legal fees. Figure 8.2 below shows the recent experience and selected basis for worker legal payments.

Figure 8.2 – Worker Legal Experience and Selections



We have continued to reduce our valuation basis for both transition and RTW Act claims at the current valuation reflecting the lower than expected level of disputes in the experience.

8.2.3 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 December 2016 valuation.

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.2	(0.2)	N/A
2005/06 - 2012/13	5.9	5.7	(0.2)	(1.0)	1.2	20%
2013/14 - 2014/15	8.9	8.0	(0.9)	(0.7)	1.6	18%
2015/16 - 2016/17	16.5	15.1	(1.4)	(0.0)	1.4	8%
Total	31.2	28.8	(2.4)	(1.6)	3.9	13%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The $2.4 million decrease in the projected liability combined with actual payments being $1.6 million lower than expected results in an actuarial release of $3.9 million. The release falls across all accident periods after June 2015.

Table 8.4 breaks down the actuarial release by source. This shows that our lowering of long term assumptions – essentially a view that there will be significantly fewer disputes on longer duration claims – is the driver of the valuation release.

Table 8.4 – Components of Actuarial Release: Worker Legal

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.6
Changes to Valuation Basis		
Ultimate claims	0.6	
Long term assumptions	1.8	
Subtotal		2.4
Total		3.9

8.3 Corporation Legal

Corporation Legal refers to the legal fees paid to ReturnToWorkSA's contracted legal advisers. Since 1 January 2013 there have been two legal service providers, Minter Ellison and Sparke Helmore, who were originally paid fees based on the number of matters handled and the complexity of these matters.

Beginning in 2016, a new 1-year contract was agreed upon whereby the contracted legal advisers would be paid a pre-determined fixed fee each month throughout the contract period. Fees for advice and representation pertaining to complex cases are paid in addition to the fixed fee at the same rate outlined in the previous contract. This contract has been extended into 2017 with revised fixed fees.

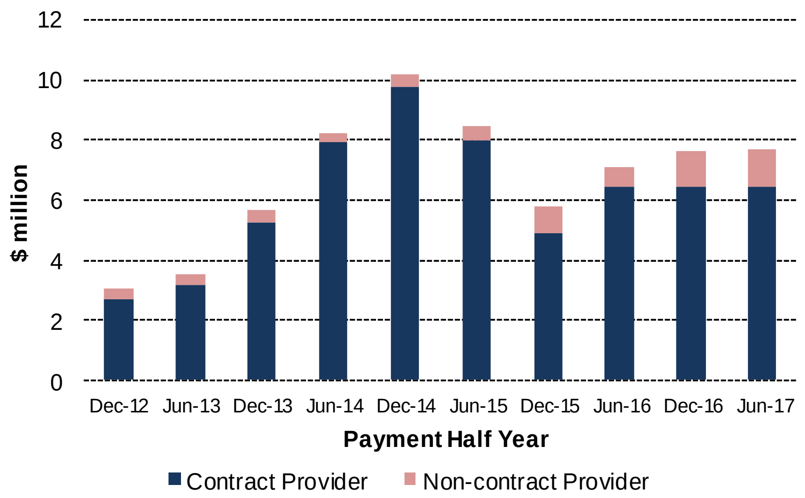
A performance fee is also payable at the end of each year based on the achievement of certain performance outcomes. Under the new contract in 2016 and 2017, this fee has been reduced significantly.

In addition to the two main legal service providers, ReturnToWorkSA also pay additional providers legal fees related to third party recoveries and staff claims. These providers are referred to as "non-contract" providers in the remainder of this section of the report.

8.3.1 Experience

Figure 8.3 below shows Corporation Legal payments in each six month period over the last five years.

Figure 8.3 – Corporation Legal Half Yearly Payments



Corporation Legal expenditure in the six months to June 2017 is at a similar level to the previous half-year period.

Table 8.5 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 8.5 – Actual vs Expected Payments: Corporation Legal

	Payments in Six Months to Jun 17			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
Total	7.7	7.5	0.2	103%

Overall, actual payments were $0.2 million (3%) higher than expected driven by “non-contract” payments. A breakdown by accident period is not possible as Corporation Legal payments are not allocated to individual claims.

8.3.2 Valuation Basis

Under the current extended contract, a fixed amount is paid to both legal providers each month regardless of the number of non-complex matters referred. Table 8.6 below summarises the payments applicable under the current contract compared to the previous categories.

Table 8.6 – Corporation Legal Contract Comparison

		Contract Terms
Matter Type	Previous Category	Current
Advice only	Event Fee 1	Fixed Fee per month
Dispute repentation	Event Fee 2	
Complex matters	Event Fee 3	Paid per matter
Incidental Advice	Event Fee 4	N/A
Performance Fee		Paid at the end of year

To project the future costs of Corporation Legal we have:

- Adopted the fixed monthly fees payable to each provider under the contract
  - We have revised the fixed fee per month starting from July 2017 to reflect the new terms under the extended contract for 2017. Beyond 2017, the fees are estimated to remain at a similar level reflecting the recent stability in the number of new disputes in the scheme.
- Estimated the number of complex matters that will be referred each year for the duration of the contract and multiplied this by the relevant fees as specified in the contract terms
  - We have made an allowance for payment of two complex matters per year, unchanged from our previous valuation basis
- Allowed for payment of additional performance fees as specified in the terms of the contract as well as outstanding performance fees payable under the previous contract
- Allocated the cash flows in each payment year across accident periods
- Estimated a separate allowance for matters handled by “non-contract” providers.
  - We have increased the allowance to $1.1 million per-half year at this valuation, up from $1.0 million previously to reflect the recent experience.

Beyond the current contract, payments for Corporation Legal are projected to increase in line with inflation.

The allocation of cash flows across accident periods is based on the observed experience in Worker Legal costs, with an adjustment to reflect the quicker payment pattern of Corporation Legal costs. As transition claims run-off, dispute lodgements are expected to occur earlier due to the shorter duration of claims under the RTW Act. To reflect this changing dynamic, we have sped up the payment pattern for contract legal fees at this valuation. This reduces the outstanding claims liability.

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 December 2016 valuation.

Table 8.7 – Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
Total	34.5	31.3	(3.1)	0.2	2.9	9%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

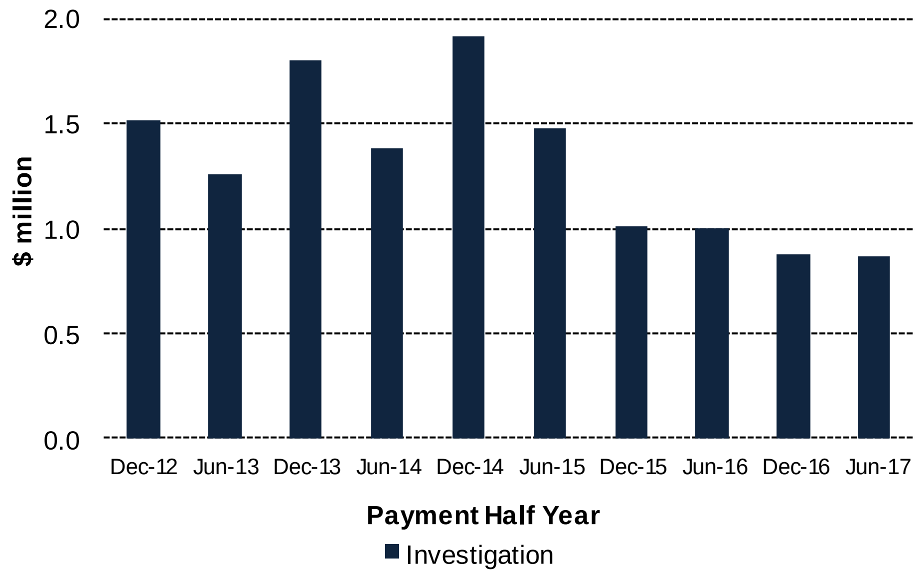
The $3.1 million decrease in the projected liability offset by actual payments being $0.2 million more than expected results in an actuarial release of $2.9 million.

8.4 Investigation

8.4.1 Experience

Figure 8.4 below shows investigation payments in each six month period over the last five years.

Figure 8.4 – Investigation Half Yearly Payments



Investigation spending remains low, with under $1 million of payments being made. The reduction in investigation payments over the last two years is 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 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

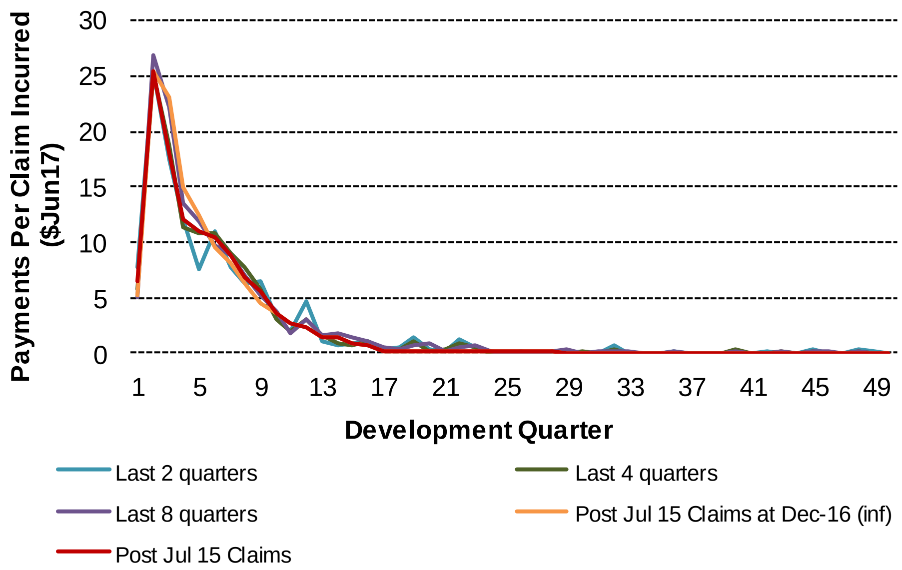
Accident Period	Payments in Six Months to Jun 17			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	24%
2005/06 - 2012/13	0.1	0.1	(0.0)	61%
2013/14 - 2014/15	0.2	0.2	(0.0)	96%
2015/16 - 2016/17	0.6	0.7	(0.1)	88%
Total	0.9	1.0	(0.2)	85%

Overall, actual payments were $0.2 million (15%) less than expected.

8.4.2 Valuation Basis

A PPCI model is used to value investigation payments. Figure 8.5 below shows the recent experience and selected basis.

Figure 8.5 – PPCI Experience and Selections: Investigation



The adopted investigation PPCIs have been reduced slightly for earlier durations in response to the favourable emerging experience. We have not allowed for a different PPCI pattern for transitional claims up to 30 June 2018 on materiality grounds.

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 December 2016 valuation.

Table 8.9 – Actuarial Release for Investigation

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	(0.0)	0.0	17247%
2005/06 - 2012/13	0.1	0.1	(0.0)	(0.0)	0.0	34%
2013/14 - 2014/15	0.2	0.2	(0.0)	(0.0)	0.0	4%
2015/16 - 2016/17	1.6	1.6	(0.1)	(0.1)	0.1	9%
Total	1.9	1.9	(0.1)	(0.2)	0.2	11%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit

The $0.1 million decrease in the projected liability combined with actual payments being $0.2 million less than expected results in an actuarial release of $0.2 million.

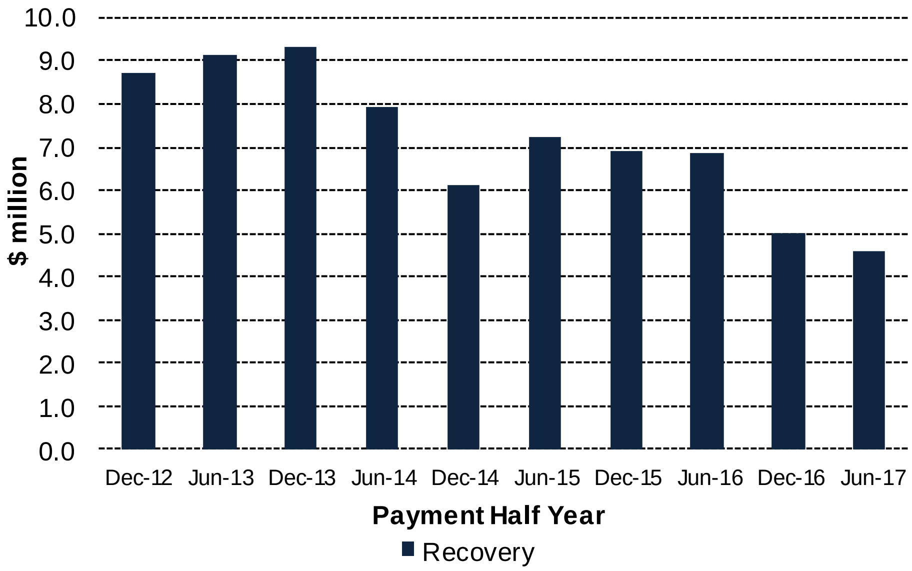
8.5 Recoveries

Recoveries can be made by ReturnToWorkSA from overpayments to workers, from the Motor Accidents Commission (MAC) and private insurers 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 8.6 below shows recovery payments in each six month period over the last five years.

Figure 8.6 – Recovery Half Yearly Payments



Recovery payments have been lower since 2014 in line with reducing gross payment levels. Payments in the last six months have continued to fall and are at the lowest level of all periods shown.

Table 8.10 compares the payments in the six months to 30 June 2017 with the expected payments from our December 2016 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

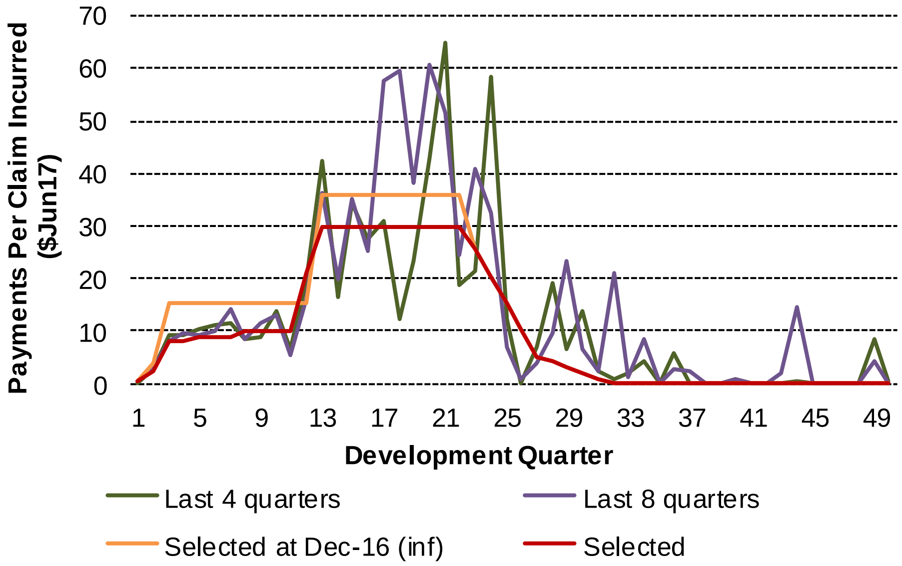
Accident Period	Payments in Six Months to Jun 17			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.2)	0.0	(0.2)	n/a
2005/06 - 2012/13	(2.6)	(2.7)	0.1	96%
2013/14 - 2014/15	(1.4)	(1.4)	0.0	99%
2015/16 - 2016/17	(0.4)	(0.6)	0.2	64%
Total	(4.6)	(4.7)	0.1	97%

Overall, actual recovery payments were close to expected ($0.1 million less than expected).

8.5.2 Valuation Basis

A PPCI model is used for recovery payments. Figure 8.7 below shows the recent experience and selected basis.

Figure 8.7 – PPCI Experience and Selections: Recoveries



We have reduced our recovery PPCI assumptions at this valuation to reflect the recent emerging experience and our expectation of the lower recoverability of costs going forward.

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 December 2016 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Jun 17 from Dec 16 Valuation	Jun 17 Estimate on Dec 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	(0.2)	0.2	0%
2005/06 - 2012/13	(5.2)	(4.7)	0.5	0.1	(0.6)	11%
2013/14 - 2014/15	(12.3)	(10.7)	1.6	0.0	(1.7)	13%
2015/16 - 2016/17	(16.9)	(13.9)	3.0	0.2	(3.2)	19%
Total	(34.4)	(29.4)	5.1	0.1	(5.2)	15%

[1] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation

The decrease in the recoveries asset of $5.1 million combined with actual recoveries being $0.1 million below expectations results in an overall actuarial strengthening of $5.2 million (i.e. a decrease 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. At 30 June 2017, there are only five remaining claims. The basis is largely unchanged from our previous valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependant benefits. Payments in the last six months were around 67% lower than expected.

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 related to other jurisdictions, and needs to be considered over long time horizons. Having taken this into consideration we have left the valuation basis unchanged.

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

9 Serious Injury Claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 30 June 2017, and the movement in our liability estimates since the December 2016 valuation.

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

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabilitation	Physical Therapy	Investigation	Legal - Non-Contract	Legal Contract	Lump sums	Redemptions	Recoveries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Dec-16 Valuation														
Estimated Liab at Dec-16	273	429	333	81	42	46	34	1	8	9	31	0	-26	1,261
Projected Liab at Jun-17	282	447	346	86	44	49	36	1	8	8	30	0	-27	1,309
Jun17 Valuation														
Impact of experience/basis change	3	-22	-26	1	3	-13	-2	0	1	0	-2	0	0	-57
Estimated Liab at Jun17 (Dec16 ecos)	**285**	**425**	**320**	**87**	**47**	**35**	**34**	**1**	**9**	**9**	**28**	**0**	**-28**	**1,252**
Impact of change in ecos	6	18	13	4	2	2	1	0	0	0	0	0	0	46
Estimated Liab at Jun17 (Jun17 ecos)	**290**	**443**	**333**	**91**	**50**	**37**	**35**	**1**	**9**	**9**	**28**	**0**	**-28**	**1,298**
AvE Payments - six months to Jun-17	2	0	0	0	1	0	0	0	0	0	0	0	1	3
Actuarial Release at Jun-17	-4	22	25	-1	-4	14	2	0	-1	0	3	0	0	54

The outstanding claims cost for Serious Injury claims (excluding CHE), is $1,298 million at 30 June 2017. The main movements from our December 2016 projection of the June 2017 liability are:

- Claims experience and basis changes reducing the liability by $57 million, as a result of:
  - Net changes to claim numbers (including IBNR claims) increasing the liability by $7 million
  - Changes to entitlement and half-yearly payment levels reducing the liability by $17 million
  - Basis and assumption changings leading to a reduction of $47 million
- The change in economic assumptions at the current valuation – principally the decrease in the discount rate, increases the estimated liability by $46 million. The impact of the change in economic assumptions is discussed in Section 11.3.2.

The remainder of this section deals with the claims experience and basis changes.

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 of the now Serious Injury cohort. Our Serious Injury cohort includes:

- Known Serious Injury claims, comprising:
  - Claims managed internally by ReturnToWorkSA in the EnABLE group, 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 confirmed 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 been formally assessed as Serious Injury, but who may do so at some point in future
  - We were previously provided with a list of such claims by ReturnToWorkSA, based on claims profiling and medical review which identified claims with potential to be considered a Serious Injury based on the nature of their injury and other characteristics
- IBNR claims that will be identified in future.

The vast majority of transitional claims that do not meet the Serious Injury threshold will have had their IS benefits cease on 30 June 2017. As a result of this, the number of Serious Injury applications and determinations over the last six months (and particularly in May and June) has increased significantly relative to prior periods. This process has reduced the size of the 'potential' group as most claims that have not submitted an application have had benefits ceased and therefore are considered not Seriously Injured, while claims that have submitted an application and had a determination can categorically be confirmed either Serious Injury or not. For the claims were an application has been submitted but a determination has not yet been made, then there is still uncertainty in the outcome. The central estimate does not currently include any allowance for adverse legal precedent to increase Serious Injury claim numbers.

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 Appendix A.7 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 18 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 ReturnToWorkSA.	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 ReturnToWorkSA. Allowed for IBNER on Other and Medical costs above identified costs.	Paid for life. Early duration claims (in the treatment and recovery phase) based on payment per active claim curves selected from this cohort. Mid-to-long duration claims (in the maintenance phase) based on historical experience.

	Severe Traumatic Injuries	Other Serious Injury
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.	Modelled as payment per claim incurred.
Recoveries	Projected on claims identified by ReturnToWorkSA as having recovery potential.	Applied a recovery as a proportion of gross payments for future periods.
Common Law	Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.	
Future cost escalation	WCI: IS AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment and Other Needs Utilisation: 75% loading applied at age 65 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 outstanding Serious Injury applications (for older accident periods) and the delay from injury to WPI assessment (for newer accidents). 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.

The approach for modelling Other Serious Injuries has been modified at the current valuation, so as to smooth out volatility seen early in the life of many Serious Injury Claims, and to better reflect the general reduction in medical and related costs as claims move from the initial 'recovery' phase in the first few years to a longer term 'maintenance' level. The changes are:

- Aggregate models were built for all payment types, with the exception of Lump Sums
- The models selected for each payment type are as follows:
  - Income Support, Treatment and Other – Payments per Active Claim. The only decrement for Treatment and Other payments is mortality, while Income Support payments have an additional decrement for retirement.
  - Legal and Investigation – Payments per Claim Incurred
  - Recoveries – Proportion of Gross Payments
- These models were adopted for the following:
  - All IBNR claims and future accident years

- All Legal, Investigation and Recovery payments
- All Treatment and Other payments for claims less than five years old. The utilisation of these benefits tends to be heightened at early durations, making it difficult to select future payment levels based on a claimant's historical experience. When aggregated across all claims the shape to this utilisation can be captured and applied up to a point (that has been selected as five years), where the Treatment and Other needs have stabilised.

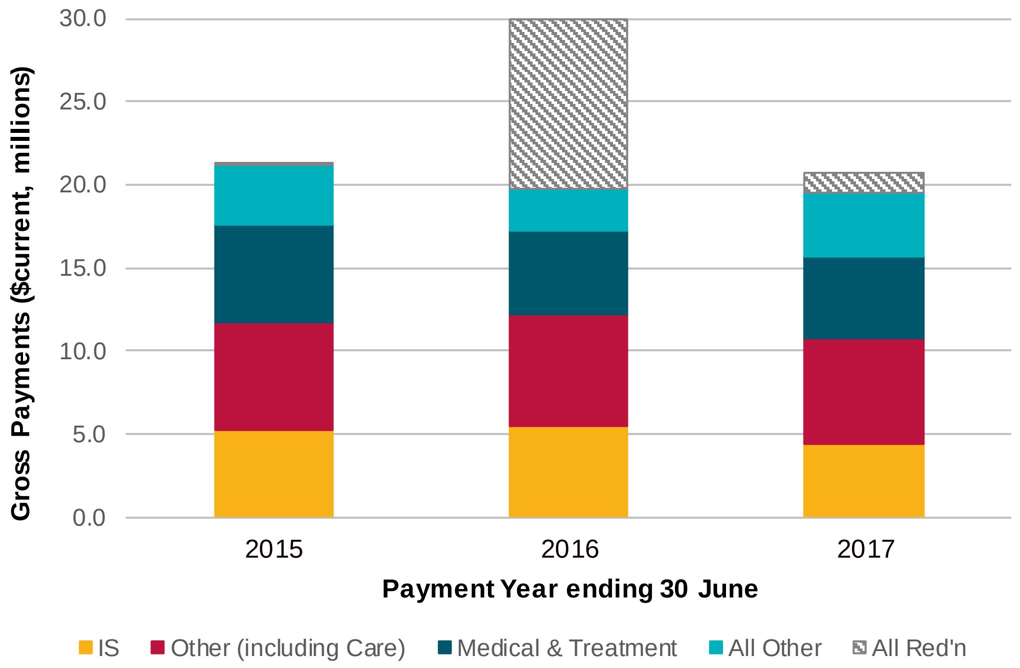
One of the key determinants of very long term costs will be how much, if any, of the costs associated with ageing are compensated out of the compensation scheme. For example, whether ReturnToWorkSA will fund the full costs of living in a nursing home for an elderly claimant or just the additional care 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 Valuation of Severe Traumatic Injury claims

9.4.1 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 ($Jun-17)



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 redemptions, this equates to an average of around $15 million per annum in net claim payments (inflated to 30 June 2017 values), comprising around:

- $7 million per annum in care and other costs
- $5 million per annum in medical, treatment and related benefits
- $5 million per annum in Income Support

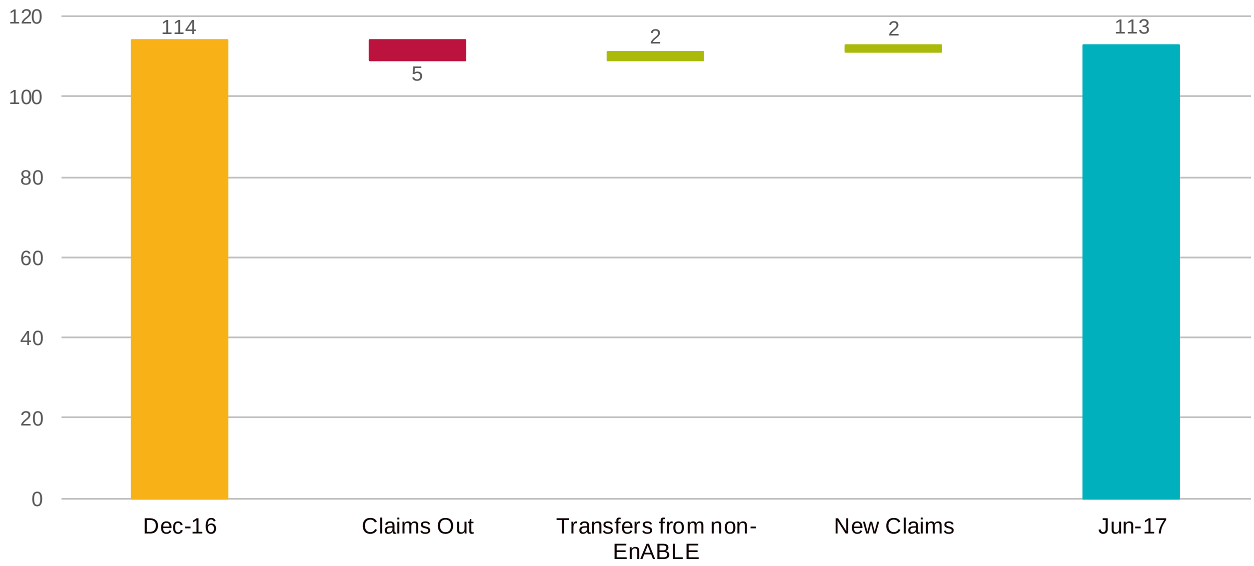
- $3 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.4 million per annum)
- $5 million per annum in recoveries.

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 and IS only redemptions.

9.4.2 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

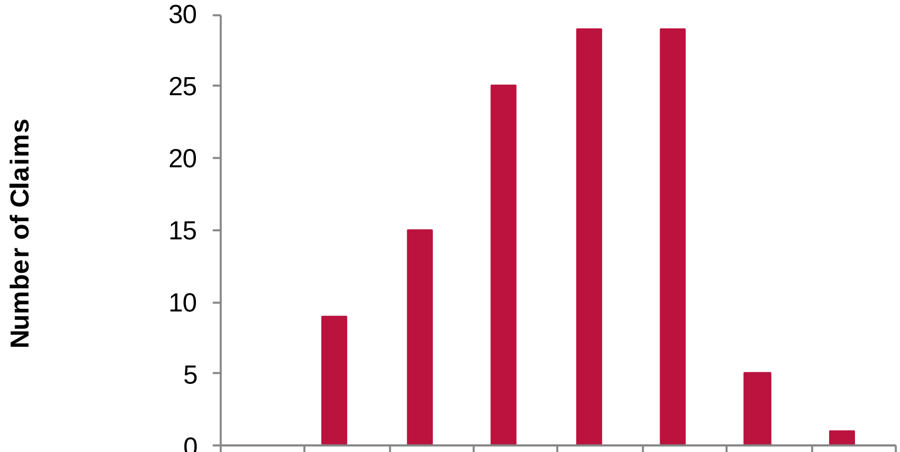


There are 113 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at June 2017, compared to 114 at the previous valuation. The movements are:

- 1 claim signed a deed of settlement, removing their entitlement to ongoing benefits
- 1 claimant is now deceased
- 3 claims were confirmed as not Serious Injury
- 4 claims transferred in from the claims agents, 2 of which were identified as Other Serious Injury at the December 2016 valuation.

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

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



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	9	15	25	29	29	5	1
Loaded Life Expectancy	0	59	39	33	23	17	12	6

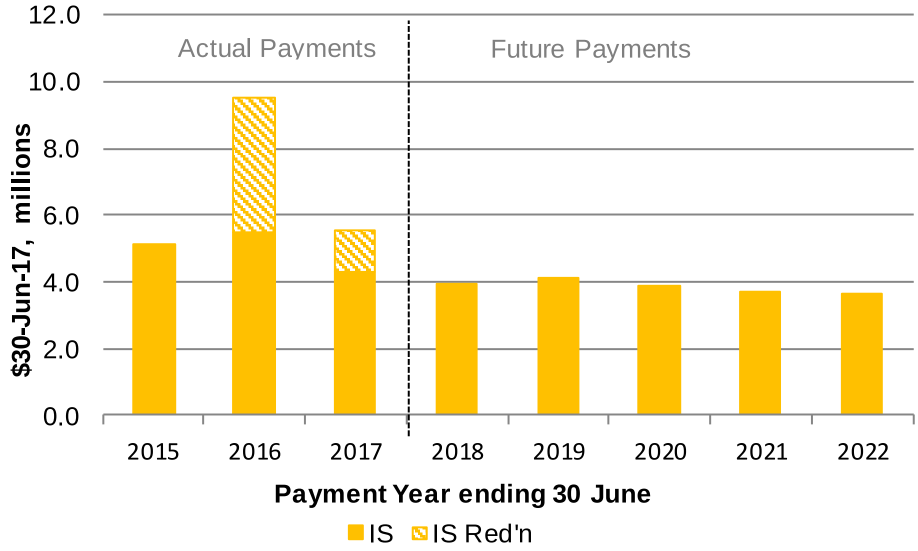
Severe Traumatic Injury claimants are currently around 52 years old on average, with an expected future life expectancy of around 32 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 40 years.

Only around half the current Severe Traumatic Injuries have a WPI assessment, averaging around 52%, although this is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. Somewhat surprisingly, 15 of these claims have been assessed as being less than 30% impaired. The average impairment level excluding these low assessments is around 60%, which is consistent with the high care needs for this group.

9.4.3 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 ($Jun-17)

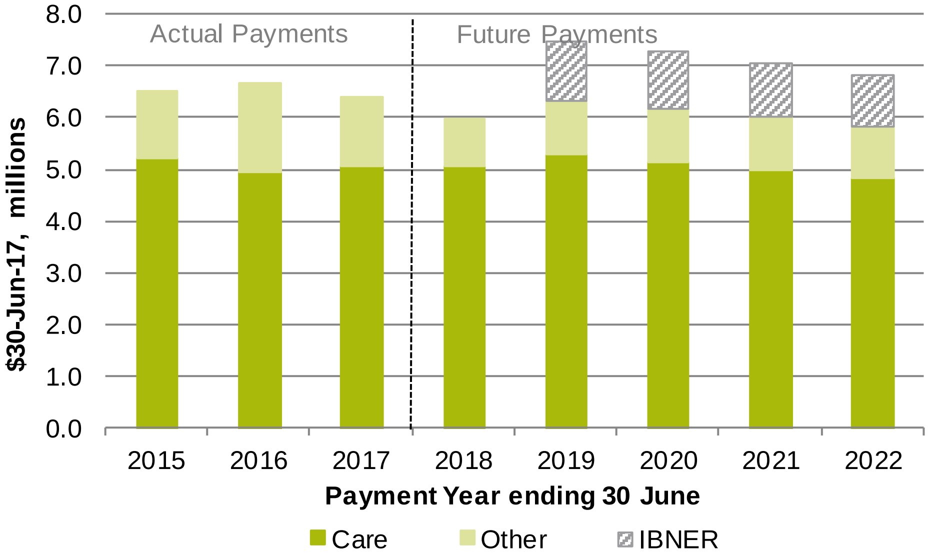


We estimate around $3.9 million will be paid in Income Support to Severe Traumatic Injury claims in 2018. There is a slight reduction from the recent payment levels due mainly to the impact of recent redemption activity (which has commuted future recurrent benefits). Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 16 years of the 2018 payments.

9.4.4 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 ($Jun-17)

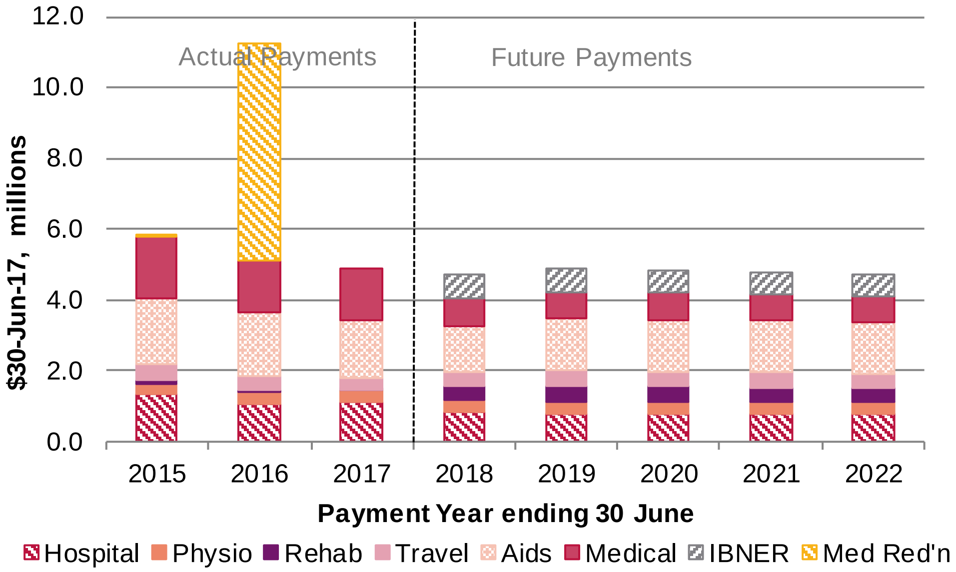


We expect $6.0 million of other and care payments in 2018, which is slightly less than the 2017 year. Payments then increase in the short term due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture an annualised contribution for other benefits (primarily modifications and transfers from initial hospital care into home care). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 32 years of the 2018 payments.

9.4.5 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 ($Jun-17)

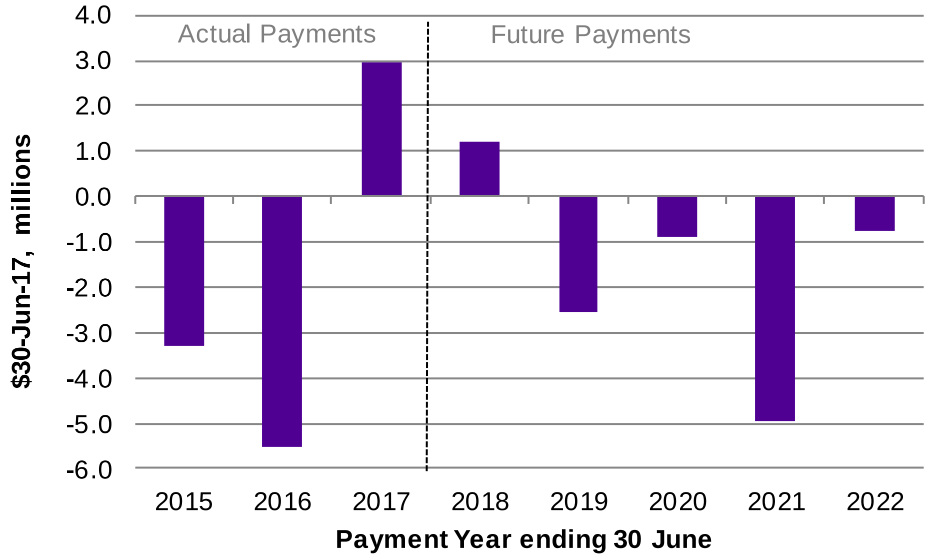


We expect future treatment and related payments of $4.7 million in 2018, similar to the 2017 level. The outstanding claims projection is equivalent to 43 years of the 2018 payments.

9.4.6 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 ($Jun-17)



In the three years to 30 June 2017, a net amount of -$6 million of other benefits was received for Severe Traumatic Injury claims. Our future projections include:

- Lump sum benefits of $9.7 million paid to current Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $1.9 million

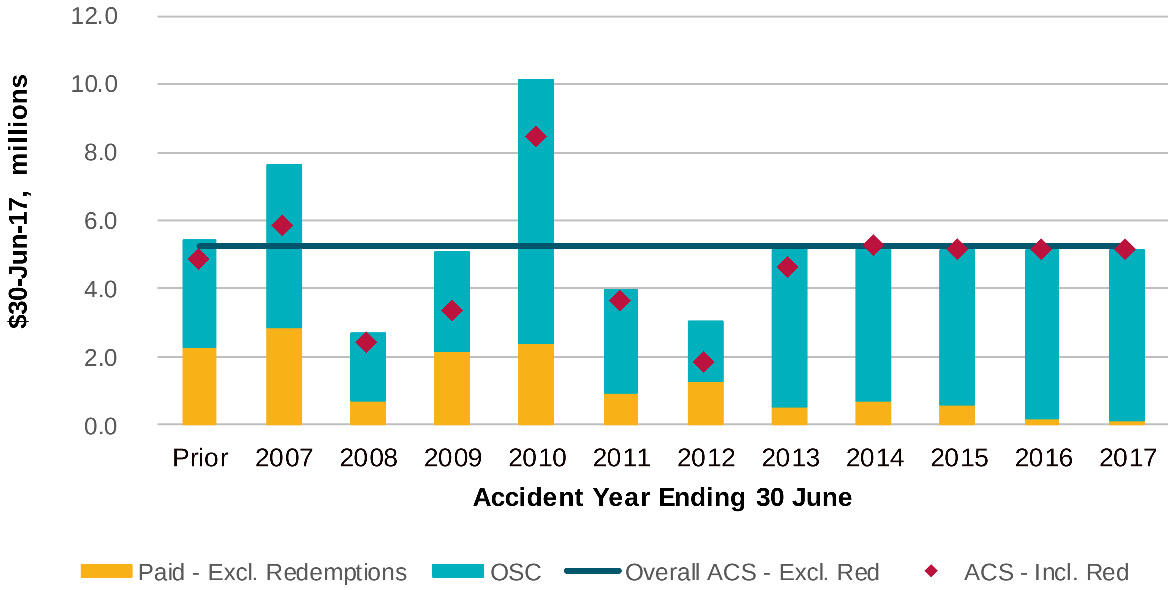
- Recoveries of $18.7 million, for those claims where ReturnToWorkSA has identified recovery potential.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of 2018 expenditure.

9.4.7 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 ($Jun-17)



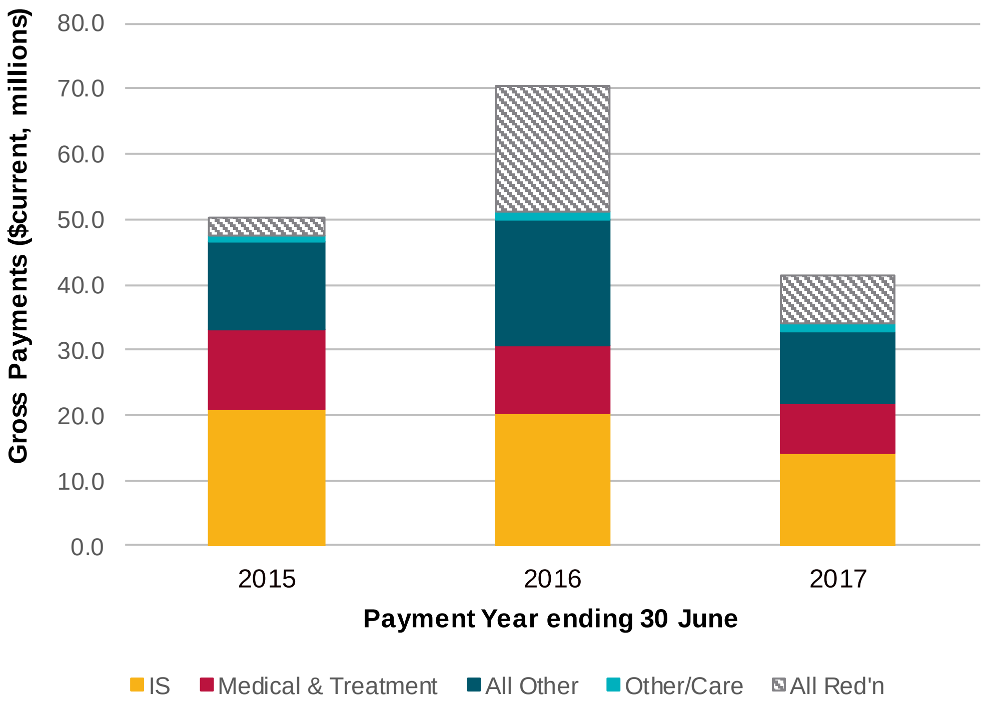
The average claim size across current Severe Traumatic Injury claims is around $4.7 million in current dollar values; however, this includes claims that have been redeemed at less than the full lifetime value. Excluding redeemed claims the average claim size is $5.3 million, which is similar to the projected average size for recent accident years where injuries are yet to stabilise. This is unchanged from the previous valuation, except for an additional half-year of inflation.

9.5 Valuation of Other Serious Injury claims

9.5.1 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-16)



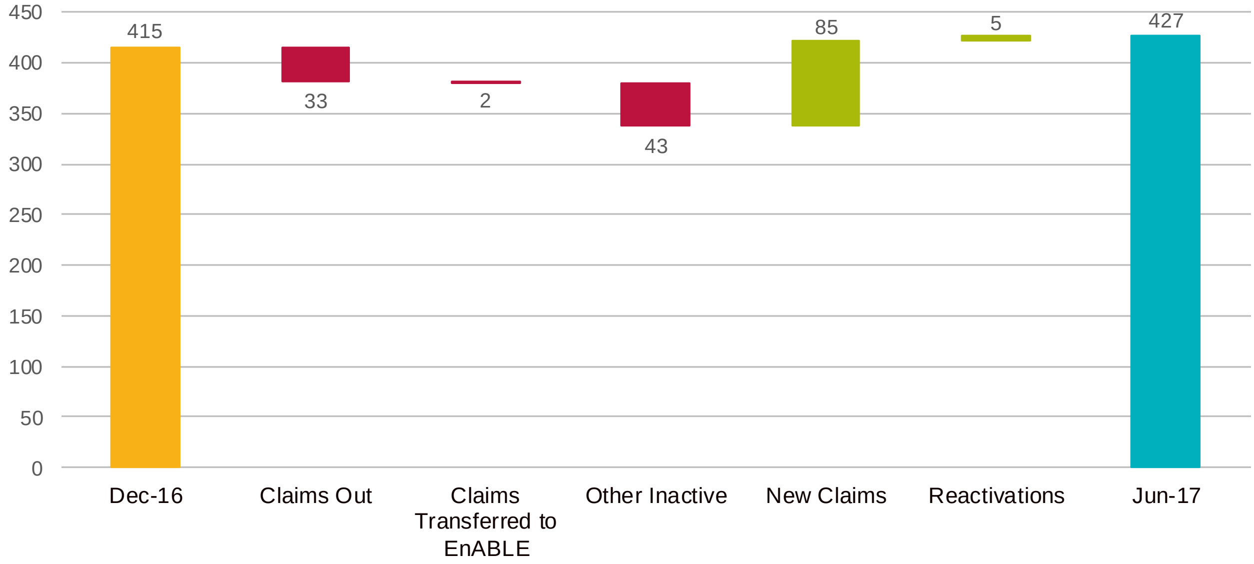
Around $162 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $7 million over this same period and removing redemptions, this equates to an average of around $42 million per annum in net claim payments (inflated to 30 June 2017 values), comprising:

- $19 million per annum in Income Support
- $10 million per annum in medical, treatment and related benefits
- $12 million per annum in lump sums
- Only small amounts of other benefits ($3 million)
- $2 million per annum in recoveries.

9.5.2 Claimant Profile

Figure 9.2 shows the number of Other Serious Injury ongoing claims at the current and previous valuation.

Figure 9.10 – Movement in Other Serious Injury Claim Numbers

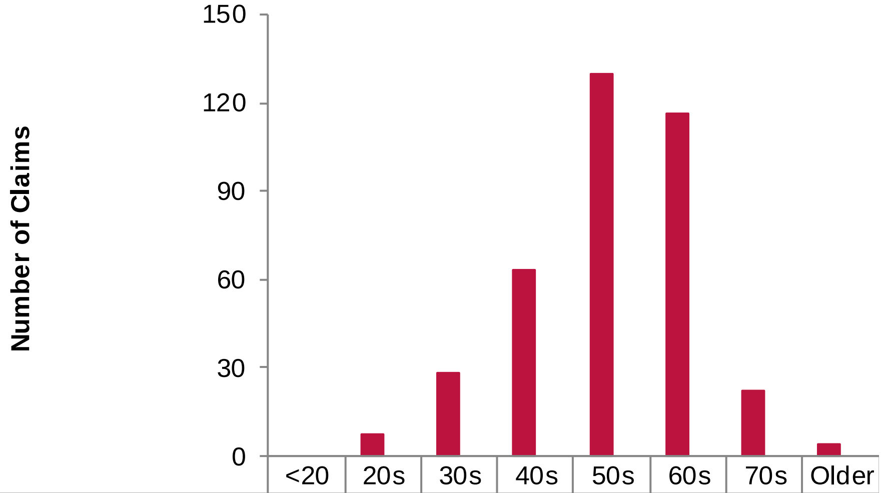


There are 427 active (i.e. with expected ongoing benefits) Other Serious Injury claims at June 2017, compared to 415 at the previous valuation. The major reasons for this change are:

- Claims Out – reduction of 33 claims. This largely refers to claims which were reviewed and found to not meet the eligibility criteria for a serious injury claim, or have low likelihood of being assessed as a serious injury claim.
- Claims transferred to EnABLE – 2 claims. These claims are now being managed by the EnABLE claims management team at ReturnToWorkSA and are included in the valuation of Severe Traumatic Injury claims.
- Other Inactive – reduction of 43 claims. This reduction is attributable to consideration of whether claims that have been closed for a prolonged period are likely to continue to access benefits over their lifetime.
- New Claims – increase of 85 claims. These are claims that were newly identified as Serious Injury over the last six months. Unlike the generally low value on claims removed in the 'Claims Out' and 'Other Inactive' cohorts, these claims have had a recent payment profile similar to that of a typical Serious Injury claim, leading to a meaningful impact (increase) on the outstanding claims liability.
- Reactivations – 5 claims. This reflects a recent review assessing that a claim is more likely to be serious injury than thought previously. As we only value claims that are likely to ultimately be deemed serious injury claims, these claims are now valued.

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

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



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	7	28	63	130	116	22	4
Standard Life Expectancy	0	61	51	41	31	23	14	8

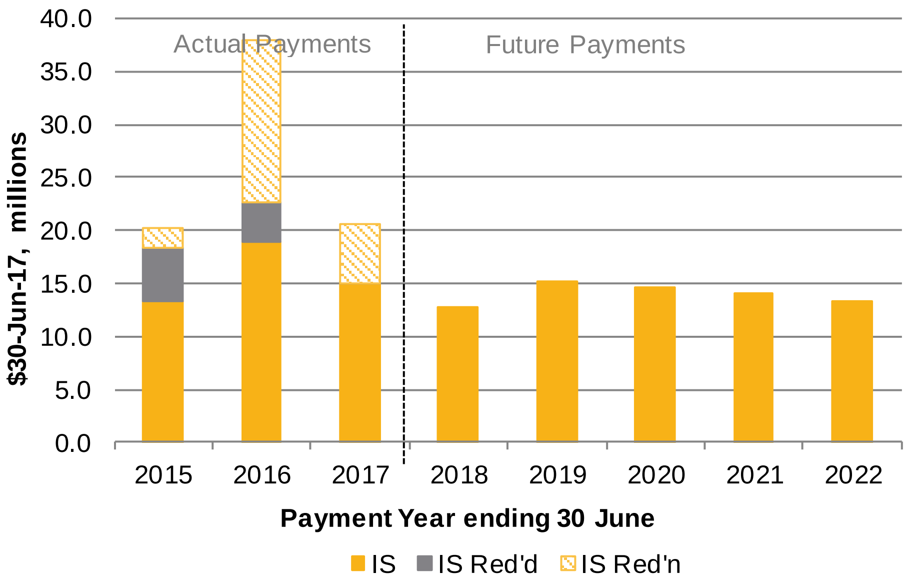
The Other Serious Injury claims are currently, on average, around 55 years old, with an expected future life expectancy of just over 30 years (after allowing for mortality, including mortality improvements). We note the average age at injury was around 46 years.

Around 60% of the current Other Serious Injuries have a WPI assessment, averaging around 32%. 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 40%.

9.5.3 Income Support

Figure 9.12 shows historic and projected Income Support payments for Other Serious Injury claims (including IBNR claims). The grey bars indicate Income Support payments for claims who have since been redeemed.

Figure 9.12 – IS Payments – Other Serious Injury claims ($Jun-17)

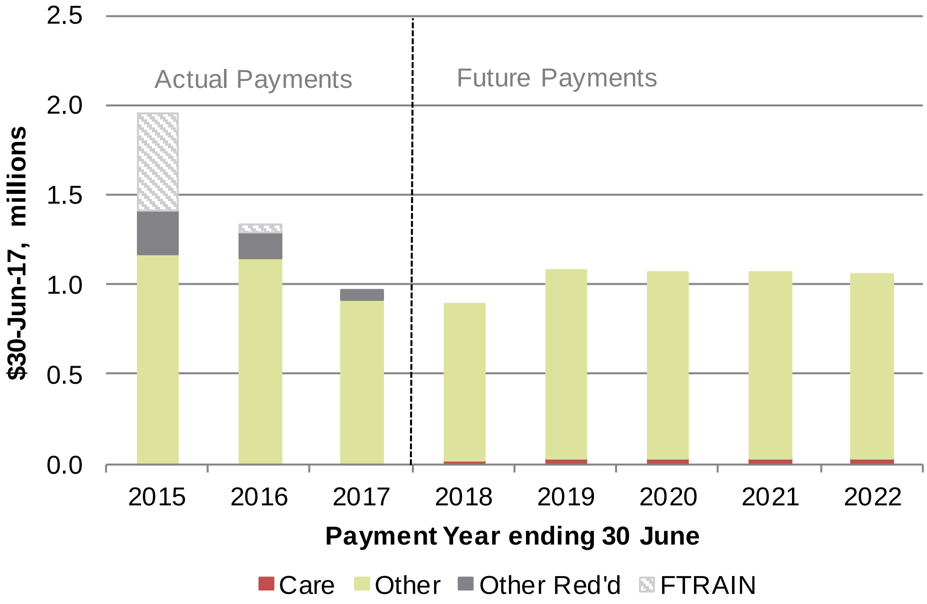


We estimate around $12.9 million will be paid in Income Support will be paid to Other Serious Injury claims in 2018. Future payments will generally reduce over time in line with expected mortality and retirement, although there is a stepwise change between 2018 and 2019 as the majority of additional IBNR claims are assumed to move into the Serious Injury group at one year's duration.

9.5.4 Care and Other Costs

Figure 9.13 shows historic and projected care and other payments for Other Serious Injury claims (including IBNR claims). The grey bars indicate Care and Other payments for claims who have since been redeemed.

Figure 9.13 – Other (incl. Care) Payments – Other Serious Injury claims ($Jun-17)

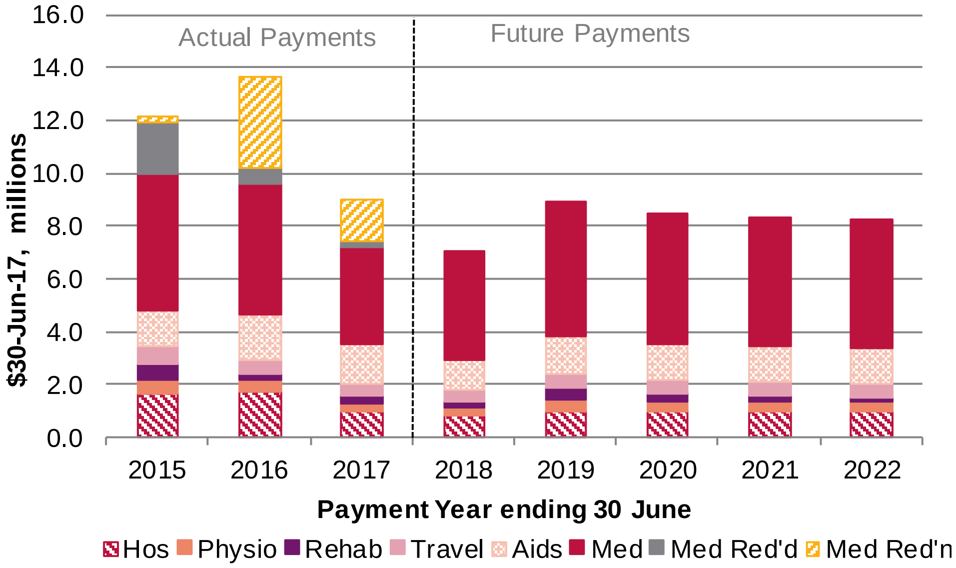


Other Serious Injury claims receive very little in care costs. We expect around $0.9 million in other payments in 2018, after which payments increase due to IBNR claims (in 2019) offset by reductions in line with mortality.

9.5.5 Treatment and Related Costs

Figure 9.14 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims). The grey bars indicate Medical and Treatment payments for claims who have since been redeemed.

Figure 9.14 – Treatment and Related Payments – Other Serious Injury claims ($Jun-17)

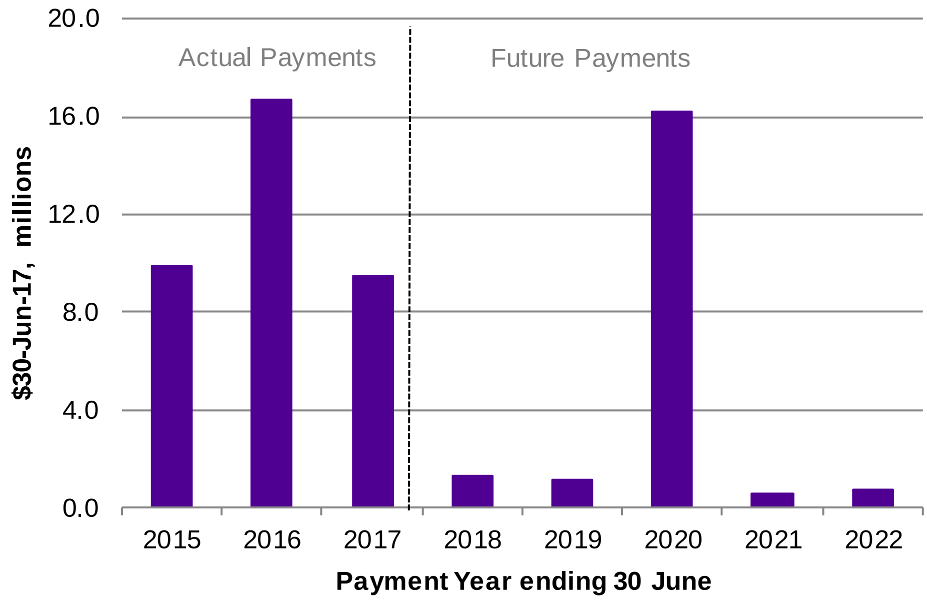


We expect treatment and related payments of $7.0 million in 2018 for ongoing claims. Payments increase in 2019 due to IBNR claims offset by reductions in line with mortality.

9.5.6 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 ($Jun-17)



Our future projections include:

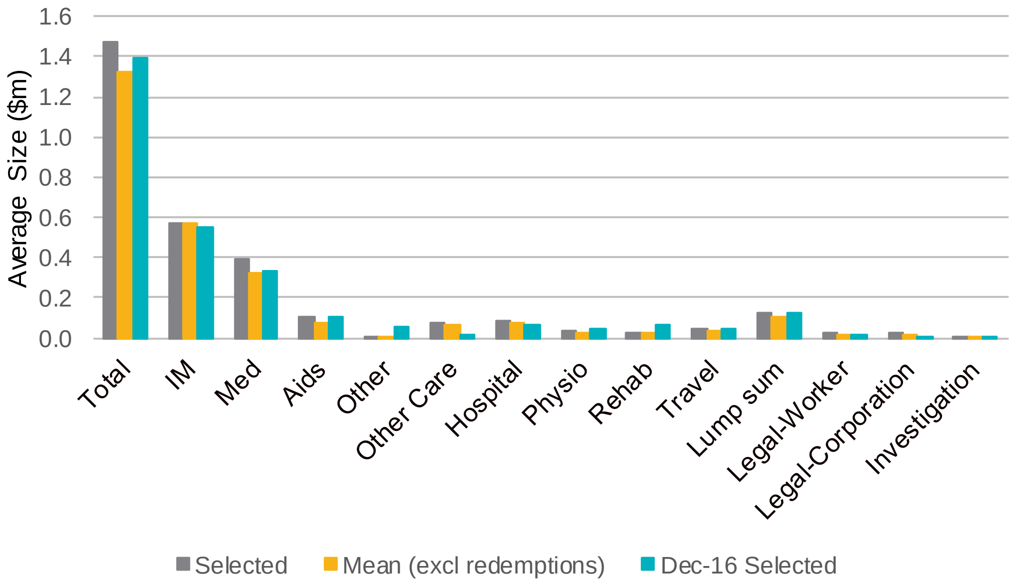
- Lump sum benefits of $18.3 million paid to current Other Serious Injury claims who have not yet had a lump sum paid. Lump sum payments on IBNR claims are pragmatically all assumed to be paid 3 years from the valuation date, leading to the spike in payments in 2020.
- Legal and investigation costs of $16.2 million

- Recoveries of $8.8 million.

9.5.7 Selected Average Size

As discussed in section 9.3, payments for IBNR claims and future accident year claims have been constructed using a combination of aggregate models, with future decrements for mortality and retirement (retirement decrement is for IS payments only). The average size implied by this process is summarised in Figure 9.16 below.

Figure 9.16 – Average Size by Payment Type

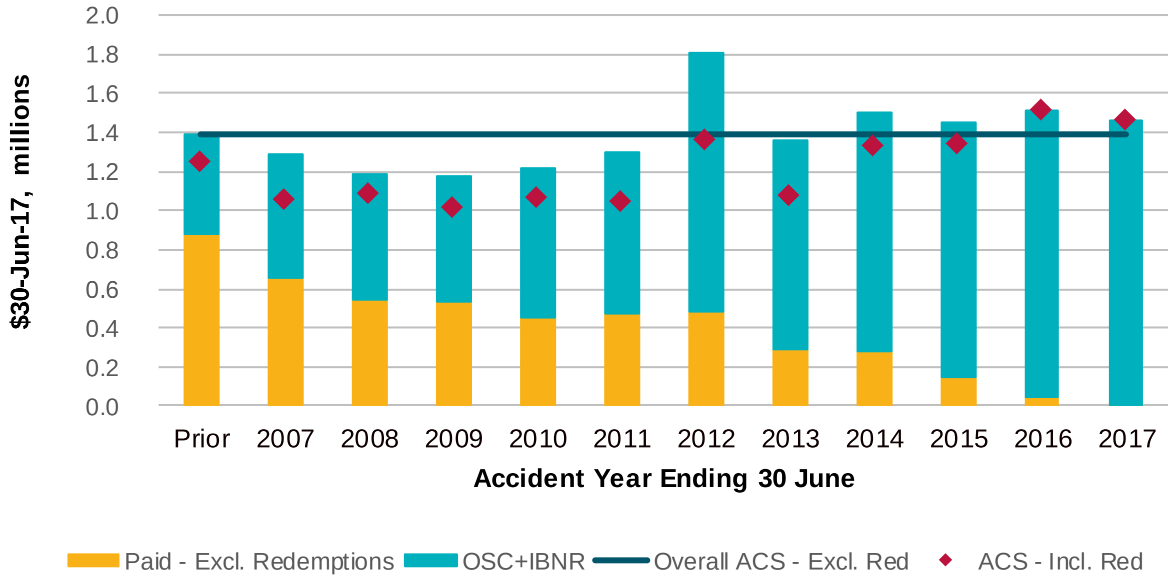


The total selected average size is just under $1.5 million, slightly above the mean for reported claims and the selection at the December 2016 valuation. More detail on the selections underlying this average size can be found in Appendix A.7.4.

9.5.8 Overall Results and Implications

Figure 9.17 shows the net ultimate average claim size (inflated to 30 June 2017 values) across all Other Serious Injury claims.

Figure 9.17 – Average Claim Size (Reported Claims) – Other Serious Injury claims



The overall average size for current Other Serious Injury claims is around $1.4 million, excluding claims that have been redeemed.

9.6 Valuation Results and Actuarial Release

Table 9.3 shows the actuarial release by accident period for Serious Injury claims.

Table 9.3 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Jun-17 from Dec-16 Valuation	Jun-17 Estimate on Dec-16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Jun-17	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	260.2	248.3	-11.9	0.7	11.2	4%
2005/06 - 2012/13	590.3	563.2	-27.1	-1.0	28.1	5%
2013/14 - 2014/15	218.6	194.8	-23.8	1.7	22.1	10%
2015/16 - 2016/17	239.7	245.5	5.7	1.2	-6.9	-3%
Total	1,308.8	1,251.8	-57.0	2.6	54.4	4%

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

Recent accident periods experienced a slight strengthening due to minor increases to the ultimate number of Serious Injury claims and the Other Serious Injury average size. Releases on older periods reflect emerging experience being lower than expected, some high value Severe Traumatic Injury claims being removed (including one claim that is now deceased, that had required close to full-time care), as well as the use of aggregate models for more recent Other Serious Injury claims which better capture the gradual reduction in Treatment and Other utilisation.

Table 9.4 shows the drivers of the actuarial release for Serious Injury claims.

Table 9.4 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to	Severe Traumatic Injury	Other Serious Injury	Total	
	$m	$m	$m	$m
AvE payments in six months				(3)
Difference from projected liability				
Changes to Valuation Basis				
Claim Numbers[1]	25	(32)	(7)	
Change in Ongoing Status	0	17	17	
Basis and Assumption Changes	20	27	47	
Subtotal				57
Total				54

[1]Net effect of deceased, removed, newly identified and IBNR claims

These movements are driven by:

- Claim Numbers – strengthening of $7 million split by:
  - Severe Traumatic Injury claims – release of $25 million. Claim numbers continue to come in below expectations for recent accidents periods and ultimate numbers for recent periods have been adjusted accordingly, with reductions in the IBNR allowance.
  - Other Serious Injury claims – strengthening of $32 million. Newly identified claims continue to exceed expectations, particularly on older accident periods, while claims that were removed (i.e. are no longer expected to be Serious Injury claims) had a generally lower outstanding claim value from the previous valuation. With the transition of existing known claims to the RTW Act expected to be complete in the coming months, it is anticipated that there will be less emergence from these older accident periods in future (subject to dispute outcomes).
- Change in ongoing status – release of $17 million. This release is a combination of 'Other Inactive' and 'Reactivations' as described in section 9.5.2.
- Selection Changes – release of $47 million. This describes the impact of changes to the assumed half-yearly payment for each claimant and can attributed to:
  - Severe Traumatic Injury claims – release of $20 million. This release is attributable to revisions made to ongoing cost estimates made by ReturnToWorkSA's internal claims management team. It is expected that as more becomes known about this cohort, and additional tools are developed to assist with estimation process, changes in the provision due to selections will reduce over time. There were significant releases from Care and Rehabilitation costs.
  - Other Serious Injury claims – release of $27 million. This is largely due to experience continuing to be better than originally assumed and moving to an aggregate method being used for Other Serious Injury claims for the latest 5 years. The majority of this release is from Medical and Rehabilitation payments.

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.

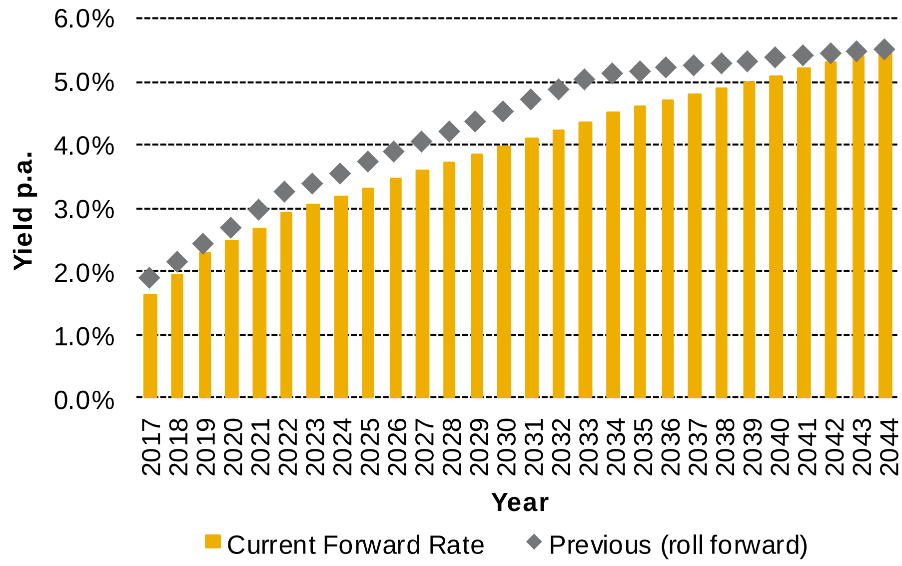
The resulting forward rates are applied to the projected cashflows for each future period. When discounting using forward rates, the relevant rates must be 'chained' together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

Government bond yields at June 2017 are lower than at December 2016 at all durations. Beyond this point we have assumed a long-term rate of 5.5%, unchanged from 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 31 December 2016 to 3.9% p.a. at 30 June 2017.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



Details of the discount rates by year are included in Appendix C.

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.

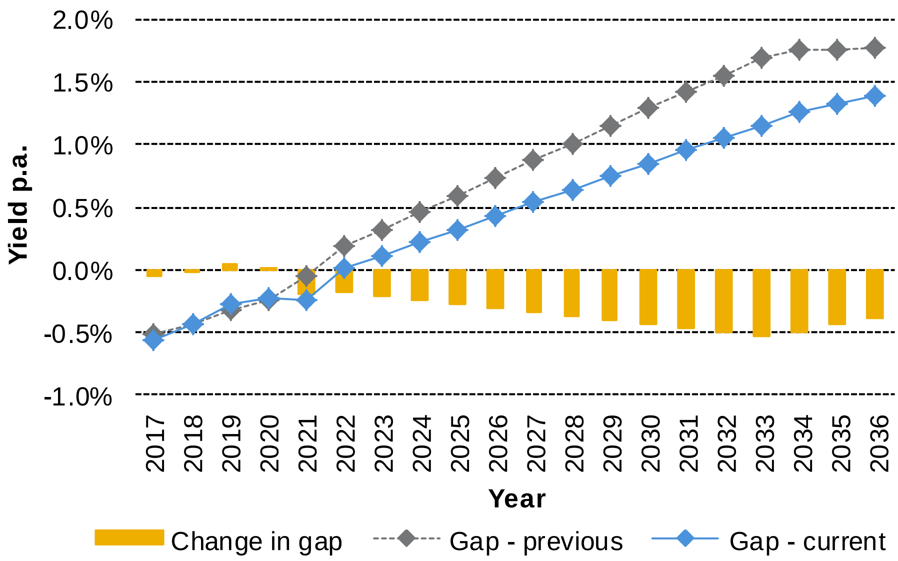
In summary, our assumptions at the current valuation are:

- Wage Price Inflation has been assumed to be 2.2% p.a. for the coming year, increasing to 2.9% 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 3.75% over the next 23 years, where a gap of 1.75% p.a. is maintained between Wage Price Inflation and forward discount rates. This gap is consistent with the December 2016 valuation.
- Average Weekly Earnings (AWE) is set to be equal to Wage Price Inflation for the coming year, steadily increasing to be 0.25% higher by 2021. This gap is maintained for all periods beyond this point and is consistent with the December 2016 valuation.
- CPI inflation has been set at 2.5% p.a. for all future durations. This is consistent with the mid-point of the 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 11.3.2.

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.

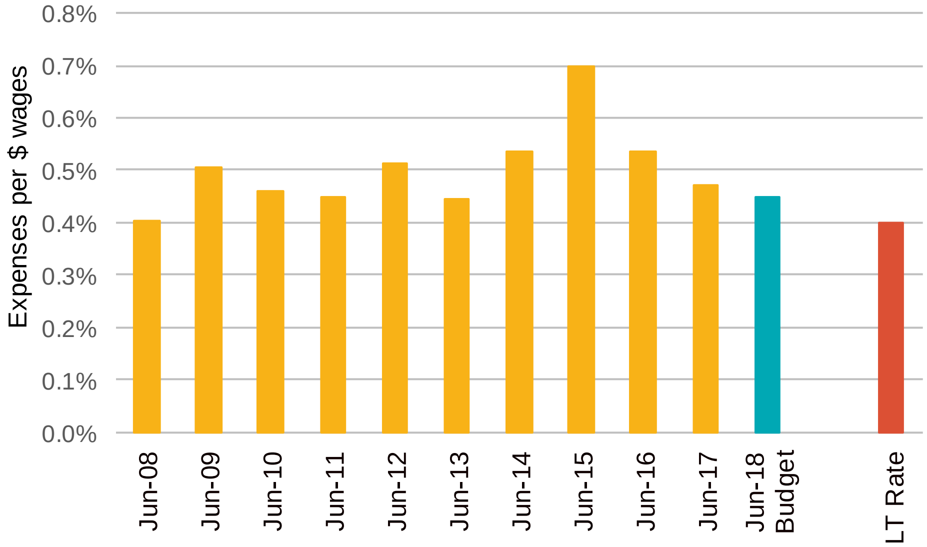
We have made assumptions about superimposed inflation for some payment types, and on the timing of the application of inflation. These assumptions are detailed in Appendix C.

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.

Figure 10.3 below shows expenses as a percentage of wages over the past 10 years along with the budgeted figure for 2017/18 and the expected long term expenses of 0.4% of wages.

Figure 10.3 – Scheme expense rate



Following the passage of the RTW Act, there has been a period of high expenses driven by transitional costs in the scheme. The expenses have been reducing over the last few years and will continue to reduce until a stable state is reached. For future Break Even Premiums 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.

The approach we have taken to set our expense allowance for the outstanding claims valuation 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. As part of our review, we have considered ReturnToWorkSA's internal cost of running EnABLE claims and extrapolated this to the fees charged by claims agents to manage Other Serious Injury claims.

(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 is largely expected to be complete. At this valuation, we have extended the transition related expenses to the end of 2019 to reflect the large number of currently open disputes which relate to transition claims (around 1,700). This equates to roughly 70% of all open disputes with the total cost of running the SAET being around $10 million per annum.

(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 the claims handling component equates to around 12.5% of gross claim payments, up from 10% previously. The increase in expense rate reflects the dynamic where gross liabilities for Short Term Claims are reducing while expected expenses remain fixed at 0.4% of wages.

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 one to two years, it is expected that the expense loading will move more than would normally be the case over the next few valuations.

The overall expense rate equates to 9.9% of gross outstanding claims, down from 10.7% at the previous valuation. The reduction is driven by a higher mix of Serious Injury Claims in the outstanding claims which have a lower expense rate compared to Short Term Claims.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

Since 31 December 2003, ReturnToWorkSA have adopted a policy of establishing an outstanding claims provision with an intended 65% probability of sufficiency. A review was undertaken in the first half of 2017 with ReturnToWorkSA now intending to establish an outstanding claims provision with 75% probability of sufficiency, consistent with the basis adopted in the Scheme Adjustment Mechanism referenced in the RTW Act.

For this valuation, we have undertaken a minor review of risk margins, following a detailed review at the December 2014 valuation. Our approach is based on the key elements of the framework proposed by the Institute of Actuaries of Australia's Risk Margin Taskforce in their paper "Framework for Assessing Risk Margins" ('the task force paper'). Specifically, we have examined Coefficients of Variation (CVs) arising from internal systemic error and external systemic error. A summary of the framework is included in Appendix C.2.

We have split the various entitlements into six groups for the purposes of risk margins analysis. For each risk margins group, we derive assumptions about the independent error, internal systemic error and external systemic error, which are then combined to estimate the total CV for that risk margin group. We assume that there is some correlation between risk margins group within internal and external systemic error, while we assume that independent error is (by definition) uncorrelated. This leads to a 'diversification benefit' in the overall Scheme risk margin.

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	Jun-17	Dec-16
Serious Injury	31.3%	26.5%
Short Term Claims		
IS + Redemption	15.7%	14.5%
Lump Sums	23.8%	23.0%
Legal + Investigation	24.8%	25.8%
Medical and Other Treatment	18.2%	17.0%
Recoveries	21.6%	22.4%
Total (Undiversified)	28.2%	24.3%
Total (Diversified)	**24.2%**	**20.4%**
Diversification	14.2%	16.1%

The movements in the CVs since our previous valuation are:

- Serious Injury has increased due to a combination of higher uncertainty around legal interpretation of the reforms (e.g. the *Martin* decision) and higher model specification error. As more information is now available for Serious Injury Claims, we have been able to put through reductions in our

IBNR basis to reflect the emerging experience on expected Serious Injury claim numbers, if the legislation operates as ReturnToWorkSA intends. These reductions however, may not emerge due to unfavourable interpretation of reforms, which has led to the higher risk margin.

- IS and Redemption has increased due to higher external systemic risk as a result of changing employment conditions and higher specification error from uncertainty around the IS surgery allowance
- Lump Sum has increased due to higher uncertainty around economic loss lump sums and legal interpretation of reforms with a number of key cases current in SAET.
- Medical and Other Treatment has increased due to greater uncertainty around parameter selection for costs beyond the hard boundary cut-offs (surgery and medical aids and appliances).
- Recoveries have reduced as a result of reducing avenues of recovery resulting in lower exposure to external systemic risk.
- Legal and Investigation has decreased due to lower specification error in part from the stability of new disputes in the recent experience.
- The diversification benefit is reducing over time, in line with the increasing proportion of the liabilities that relate to serious injuries.

Based on a coefficient of variation of 24.2% 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 8.0%. This compares with 7.0% adopted at the previous valuation.
- For a 75% probability of sufficiency – a risk margin of 15.0%. This compares with 13.0% adopted at the previous valuation.

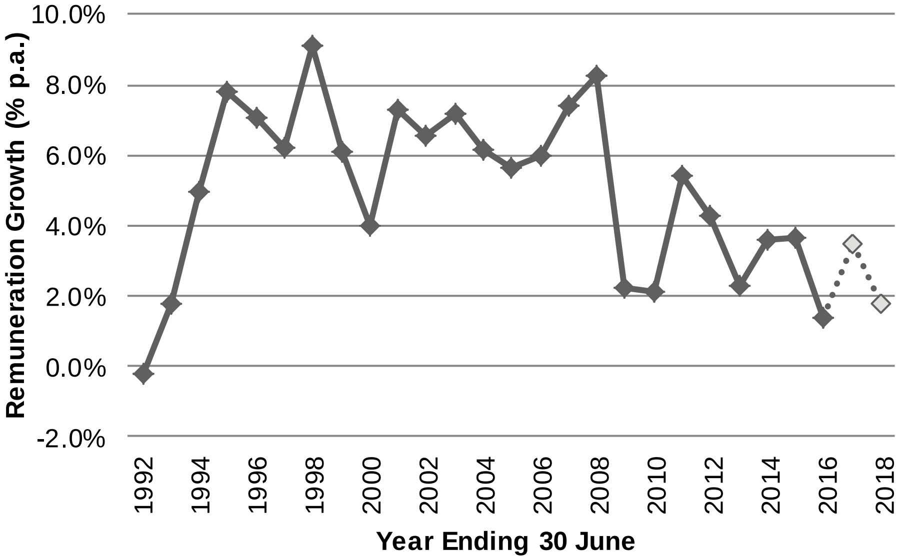
10.6 Non-Exempt Remuneration

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 becoming self-insured or exiting self-insurance.

The remuneration projection for current and future years is undertaken by ReturnToWorkSA. The implied annual growth in the total non-exempt remuneration by year is shown below in Figure 10.4

Figure 10.4 – Non-Exempt Leviable Remuneration: Annual Growth



We have adopted ReturnToWorkSA's remuneration projection of $26.6 billion for 2016/17, 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 (GFC) – 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 2017 remuneration growth to be 3.5%, higher than previously projected at December 2016 (2.2%) and the 1.4% in the 2016 financial year (which was a record low in 25 years). ReturnToWorkSA's projection of growth in years 2018 to 2020 are all currently below 2%. We understand that the low remuneration growth prospects are a result of low wage inflation expectations (see Section 10.2) and increased unemployment (see Section 3.3.1), along with increasing 'under employment' or reduced hours of work.

All else equal, the low wages growth puts pressure on the Scheme's breakeven premium rate, unless claims cost growth can also be constrained.

11 Valuation Results

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

- The central estimate of outstanding claims as at 30 June 2017
- 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 31 December 2017 and 30 June 2018
- Reconciliation of results with 31 December 2016 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2017 is set out in Table 11.1. This liability relates to all claims which occurred on or before 30 June 2017 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	128	290	418	20.7%
Redemptions	0	0	0	0.0%
Lump sums	208	28	236	11.7%
Worker legal	29	9	37	1.9%
Corporation legal	31	9	40	2.0%
Medical	104	443	548	27.1%
Hospital	17	91	108	5.3%
Travel	4	50	54	2.7%
Rehabilitation	16	37	53	2.6%
Physical Therapy	7	35	42	2.1%
Investigation	2	1	3	0.1%
Other (including Care)	10	333	343	17.0%
Common law	2	0	2	0.1%
LOEC	1	0	1	0.0%
Commutation	2	0	2	0.1%
Gross Liability	562	1,325	1,888	93.6%
Recoveries	-29	-28	-57	-2.8%
Expenses	74	113	187	9.3%
Net Central Estimate	607	1,410	2,017	

The outstanding claims liability before recoveries and expenses is estimated to be $1,888 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,017 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	32	256	289	14%
Jun-06	4	52	57	3%
Jun-07	5	64	69	3%
Jun-08	6	62	68	3%
Jun-09	7	48	55	3%
Jun-10	9	94	103	5%
Jun-11	11	73	84	4%
Jun-12	14	79	93	5%
Jun-13	18	118	136	7%
Jun-14	28	105	133	7%
Jun-15	47	109	156	8%
Jun-16	143	132	275	14%
Jun-17	238	130	369	18%
Gross Liability	562	1,325	1,888	94%
Recoveries	-29	-28	-57	-3%
Expenses	74	113	187	9%
Net Central Estimate	607	1,410	2,017	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	4,236	647	4,883
Inflated and Discounted	1,410	607	2,017
Ratio	33%	94%	41%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 75% probability of sufficiency, $2,320 million. The profitability of sufficiency has been increased from 65% to 75%, adding $141 million to the provision.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,325		
Gross Claims Cost - Short Term Claims	562		
Claims Handling Expenses	187		
Gross Outstanding Claims Liability	2,075	311	2,386
Recoveries	-57	-9	-66
Net Outstanding Claims Liability	2,017	303	2,320

11.3 Movement in Liability

Our central estimate is $10 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 Dec-16	1,873	-60	201	2,013
Plus liability for claims incurred in the period	214	-6	20	228
Less Expected Payments to Jun-17	193	-6	45	232
Plus Interest (unwinding of discount)	17	-1	2	18
Liability Projected from Previous Valuation	1,911	-62	178	2,028
Current Valuation	1,888	-57	187	2,017
Difference	-24	5	9	-10

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-17 Liability[1]	AvE Payments in 6 mths to Jun-17	Actuarial Release [2]
	$m	$m	$m
Liability at Dec-16 Valuation	2,013		
Projected Liability at Jun-17 (from Dec-16 valuation)	2,028		
Claims Movement - Short Term Claims	-0	-23	24
Claims Movement - Serious Injury	-62	3	59
Impact of Change in economic assumptions	52		
Recommended Liability at Jun-17	2,017		
Total Actuarial Release			83

[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 June 2017

The actuarial release over the period is a release (favourable result) of $83 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	14.2	-4.3	9.9	
Redemptions	8.8	-0.4	8.3	
Combined	*23.0*	*-4.7*	*18.2*	*4.3%*
Lump Sums	7.5	2.5	10.0	4.2%
Worker legal	3.9	-1.0	2.9	7.5%
Corporation legal	2.9	-0.1	2.8	6.5%
Investigation	0.2	0.1	0.3	9.3%
Medical	0.1	21.7	21.8	4.0%
Other	-1.3	25.2	23.9	6.8%
Hospital	1.7	-0.9	0.8	0.7%
Travel	0.9	-3.6	-2.7	-5.5%
Physical therapy	1.3	2.0	3.4	7.7%
Rehabilitation	-2.2	13.5	11.3	17.7%
Common Law	0.1	0.0	0.1	4.3%
LOEC	0.2	0.0	0.2	16.8%
Commutation	0.1	0.0	0.1	6.0%
Gross Liability	38.6	54.5	93.1	4.9%
Recoveries	-5.2	-0.1	-5.2	8.5%
Expenses	-9.8	4.8	-5.0	-2.8%
Net Central Estimate	23.6	59.2	82.8	4.1%

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

The major factors contributing to the $83 million actuarial release at the current valuation are:

- For **Short Term Claims**, the $24 million actuarial release comprises:
  - A net release of $23.0 million for income support and redemptions, which is due to a combination of lower than expected payments across both RTW Act claims and transitional claims, removal of remaining redemption allowances, and reductions in the expected cost of IS for future surgeries on transition claims.
  - A release of $7.5 million for lump sum payments, driven by favourable claim numbers experience for older period "First Paid" lump sums and Death payments.
  - A release of $6.9 million for legal payments recognising the lower level of new disputes in the recent experience.
  - A small release of $0.7 million for treatment benefits overall following offsetting changes to our estimates for individual constituent payment types.
  - A $5 million strengthening for recoveries, with lower recovery levels on STC
  - A $10 million strengthening on claims handling expenses for RTW Act claims.
- For **Serious Injury claims**, there was an overall release of $59 million, due to:
  - Net changes to Serious Injury claim numbers (including IBNR claims) increasing the liability by $8 million
  - Changes in the claims receiving benefits reducing the liability by $19 million
  - Changes in entitlement levels and valuation basis changes releasing $51 million

- Higher than expected payments resulting in a strengthening of $3 million

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 $52.1 million.

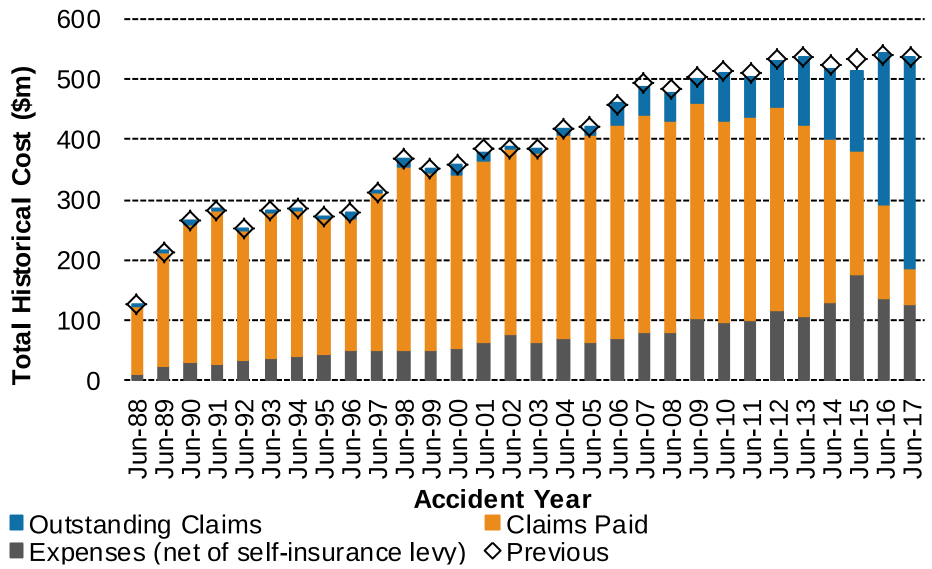
As discussed in Section 10.1 there have been decreases in discount rates for all durations, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

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 2017.

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 contain 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 slightly lower than the previous valuation estimates for years between 2007 and 2015, primarily as a result of favourable experience.

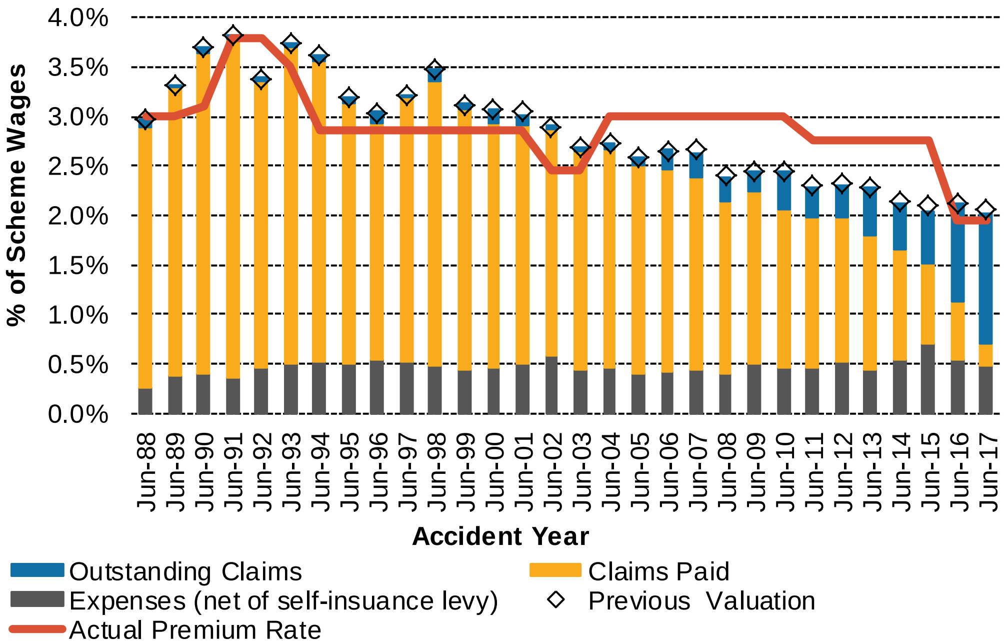
Figure 11.1 – Historical Cost Discounted to Accident Year



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 amount 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 (from Figure 11.1) by the total Scheme levyable remuneration in that year (discussed in Section 10.6). We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

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 Break Even Premium Rate in this Figure is calculated using the risk free rate, so that a like with like comparison can be made over the history of the scheme. For clarity, this is not the same as the scheme's pricing basis as the scheme targets a higher than risk free rate of return when premiums are set.

The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2010 to just under 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 2017 accident year is 2.02%, down from 2.05% at the December 2016 valuation. Based on previous economic assumptions, the BEP for the 2017 accident year would have decreased to 2.00% (i.e. a 0.05% decrease) at the current valuation, but unfavourable economic conditions have increased the BEP by 0.02%.
- Scheme expenses were relatively high from 2014 to 2016, and particularly high in 2015, as a result of additional transition related expenses. 2017 scheme expenses are lower than accident years 2014 to 2016 and ReturnToWorkSA expects that these will continue to reduce over the next few years as transition related activities are completed.

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 earnings above the risk free rate 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 2017 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			
	Jun-17 to Dec-17	Dec-17 to Jun-18	Jun-18 to Dec-18	Dec-18 to Jun-19
	$m	$m	$m	$m
Income Support & Redemption	64.8	61.3	62.9	63.4
Medical	29.7	28.3	28.6	28.6
Lump sums	45.4	46.1	48.0	45.9
Rehabilitation	8.0	7.9	7.9	7.8
Physical Therapy	4.6	4.5	4.4	4.4
Hospital	7.3	7.6	7.9	7.9
Worker legal	5.1	5.1	5.1	5.1
Other	6.9	7.1	7.4	7.5
Corporation legal	8.6	8.9	8.8	9.2
Travel	2.7	2.7	2.5	2.6
Investigation	0.9	0.9	0.9	0.9
Commutation	0.2	0.2	0.2	0.2
LOEC	0.1	0.1	0.1	0.1
Common law	0.2	0.2	0.2	0.2
Recoveries	-6.8	-6.2	-5.4	-8.2
Net Claims Cost - Total	177.5	174.7	179.6	175.6
Serious Injuries (net)	21.0	17.5	22.8	19.3
Short Term Claims (net)	156.5	157.2	156.8	156.3

Cash flows over the next two years are expected to remain relatively stable.

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 31 December 2017 and 30 June 2018. 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 Provision at 31 December 2017 and 30 June 2018

	Half year ending	
	Dec-17	Jun-18
	$m	$m
Provision at Period Start	2,320	2,375
Less Risk Margin	303	310
Central Estimate at Period Start	2,017	2,066
Plus Additional Liability Incurred in Period	234	237
Less Expected Payments in Period	-204	-202
Plus Interest (unwind of discount)	17	18
Projected Central Estimate at Period End	2,066	2,119
Plus Risk Margin	310	318
Projected Provision at Period End	2,375	2,437

We project the central estimate for the net outstanding claims liability at 31 December 2017 to be $2,066 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 July 2017 to 31 December 2017. The corresponding provision at a 75% probability of sufficiency is $2,375 million.

The projected *increase* to 31 December 2017 in the liabilities relates to the fact that the additional liability incurred on new Serious Injury claims is more than the expected payments on existing Serious Injury claims.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 31 December 2016 valuation we projected an additional claim cost liability of $207 million would be incurred from claims arising in the January to June 2017 half-year. Our current projection for the ultimate value of this liability is $201 million, a decrease of 3.2%. This decrease is mainly driven by favourable experience and our valuation response.

Table 11.10 – Comparison of December 2016 Projections to Current Valuation

For period 01 Jan 2017 to 30 Jun 2017		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-16 Valuation	207	
Incurred (current valuation)	201	-3.2%

12 Uncertainty and Sensitivity Analysis

12.1 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 75% probability of sufficiency). At the present time there are heightened uncertainties and risks, both potentially favourable and unfavourable, with the operation of the RTW Act still to stabilise.

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
- Short Term Claims – outcomes relating to claims whose entitlements are subject to the hard boundaries
- Serious Injury Claims – outcomes for claims who are entitled to long term payments from the scheme.

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.

12.2 Economic Scenarios

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

Table 12.1 – 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 12.2 – Economic Sensitivities

	OSC Impact	
	$m	%
30 Jun 17 OSC estimate (Including risk margin at 75% POS)	2,320	
Strong Economic Scenario (3% gap between inflation and discount rate)	-583	-25%
Weak Economic Conditions (0% gap)	+179	+8%
Economic assumptions return to pre-2008 levels over the next 5 years	-417	-18%

As this suggests, economic conditions are still currently unfavourable for scheme performance relative to long term historical norms. If conditions do improve the implications for both funding and premiums are favourable.

12.3 Legal Risk Scenarios

As discussed in section 3, there have been high numbers of disputes in the Scheme at various times and a number of key provisions of the RTW Act are subject to appeal. 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 12.3 – Legal Sensitivities

	OSC Impact	
	$m	%
30 Jun 17 OSC estimate (Including risk margin at 75% POS)	2,320	
WPI assessments increase by 2% as a result of the higher incentives under the RTW Act, resulting in extra Serious Injury claims and higher lump sum payments.	+147	+6%
Restrictions on multiple assessments ('top ups') do not work as expected.	+133	+6%

As indicated in the sensitivities above, if the WPI assessment provisions in the RTW Act do not work as intended then it is possible that the impacts could be measured in hundreds of millions of dollars. If several adverse outcomes occur together then the impact could be well more than $100 million.

There is improvement potential that would measure in the tens of millions of dollars if favourable resolution trends occur and the number of disputes drops as a result.

12.4 Short Term Claim Scenarios

The implementation of the RTW Act has brought 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:

- Reduced effectiveness of claim managers in returning people to work – halving discontinuance rates on IS benefits – and other changes to income support outcomes
- Increased access to surgery-related benefits via the 2015 Regulation changes – this has impacts on IS and Medical costs
- Further reductions in legal fees, reflecting an improvement in the dispute environment under the RTW Act
- Increases in future economic lump sums.

Table 12.4 – Short Term Claim Sensitivities

	OSC Impact	
	$m	%
30 Jun 17 OSC estimate (Including risk margin at 75% POS)	2,320	
Post 1 July 15 Claims		
Reduced effectiveness by claims managers to return people to work	+32	+1%
Claims experience mirrors Sep-15 experience (a high cost injury quarter)	+5	+0%
Lower second year PPACs (more partial return to works and more certainty around WPRRs changing the payment pattern)	-6	-0%
Best of the most recent experience - claim managers returning people to work and lower second year PPACs	-8	-0%
Treatment Costs		
Surgery costs emerge more than expected, approximately double the current allowance	+33	+1%
Legal Fees		
Legal fees reduce by 30% from January 2018 reflecting lower volumes of ongoing disputes (NB: any improvement in claim outcomes would further reduce costs)	-16	-1%
Lump Sums		
Economic Lump Sums emerge 20% higher than expected	+22	+1%

12.5 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 12.5 – Serious Injury Sensitivities

	OSC Impact	
	$m	%
30 Jun 17 OSC estimate (Including risk margin at 75% POS)	2,320	
Ultimate claim numbers do not reduce from 2007-2013 levels	+124	+5%
Half of the pending "Other" Serious Injury claims are assessed as not Seriously Injured	-55	-2%
50% of claims who have Serious Injury applications and been rejected ultimately get overturned	+161	+7%
Adverse legal precedent increases older periods by 10 claims p.a. and more recent years stay at old Act levels	+324	+14%
Unpaid care on EnABLE cohort ceases immediately and is replaced with paid care (NB: this information is currently only available for half the cohort)	+49	+2%
Uncertainty around mortality - impact of a 6 year increase in the life expectancy of the EnABLE claims (bringing them back in line with a standard population life expectancy).	+392	+17%
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.	+322	+14%
Superimposed inflation is 1% p.a. lower than assumed for medical and care.	-248	-11%
No increase in utilisation of Care benefits after age 65	-132	-6%
Twice the additional allowance for utilisation of Care benefits after age 65	+131	+6%

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 (so-called 'top ups') changes behaviour such that claimants either wait longer to have their WPI assessment (i.e. allowing the injury time to deteriorate after initial stabilisation, and potentially capturing subsequent non-compensable issues) or that claimants attempt to include more aspects of injury in their initial assessment than they otherwise would, then it is possible that the top-up restrictions will have no real impact on ultimate claim numbers. This would equate to around a $124 million strengthening on the OSC provision.
- Given the large number of claims that are still yet to be confirmed as having a WPI of 30% or over, if half of the 'potential' cohort remaining from ReturnToWorkSA's original profiling work are not ultimately confirmed in then the OSC provision would be around $55 million lower.
- If half of the claims who have submitted applications to be accepted as serious injuries but who have been rejected are subsequently overturned, there would be around a $161 million increase to the OSC provision.
- Somewhat similarly, if adverse legal precedent increases the number of Old Act claims accepted as serious injuries by 10 claims per year, and there is no reduction in claim numbers for recent accident years, then the provision would increase by around $324 million.

Changes in the level of benefits payable for care, support and medical needs also have very significant implications for the OSC liability.

12.6 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:

- **Legal precedent risk** – risks here include the possibility of decisions which are unfavourable to the Scheme or the cultures and behaviours of its participants. In particular, recent decisions have gone against ReturnToWorkSA's interpretation of the WPI assessment rules and if maintained would lead to increases in the liability; these decisions are currently under appeal. On current timing, this risk is likely to remain for at least another one to two years.
- **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 is 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 numbers of claims** – there are several areas of uncertainty in relation to claim numbers, including: 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 and Mobile Case Managers 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 was expected to be potential for further reductions in new claim numbers following changes to compensability rules, however current precedent suggests this is not going to eventuate. Regardless, it will be crucial to ensure that past

closed claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances or claims who have been discontinued at the two year boundary 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.
- **Labour market pressures** – the combination of higher than desired unemployment and low wages growth present a challenging environment, and could place additional pressures on achieving RTW outcomes and holding the BEP at current levels.

With the RTW Act provisions having commenced only on 1 July 2015, there is only two years of actual post-reform experience, and key areas of the Act are still to be tested in the Courts. The current valuation basis reflects our best estimate of how this experience will eventuate, based on ours and ReturnToWorkSA's interpretation of the intent of the Act. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience could differ, perhaps materially, from our current expectations.

13 Reliances and Limitations

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

13.1 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.

13.2 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. Its key features only came into effect from 1 July 2015, and legal testing of its implementation is still occurring and likely to take a number of years to complete.

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

13.3 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.

13.4 Reinsurance

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

13.5 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 questions, 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.

14 Scheme History

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

2007-08

Changes to the Workers Rehabilitation and Compensation Act passed by the South Australian Parliament. 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; Work Capacity Assessment; changes to non economic loss payments; changes to the dispute resolution framework (including Medical Panels introduced); provisional liability.

2009-10

- 'Window' for continuation of redemptions under previous legislation closed 1 July 2010
- Replacement of IT system IDEAS with Curam
- Change to process for reimbursement of weekly payments to employers
- Initial projects commenced under the $15 million Return to Work Fund.

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, with compulsory experience rating for medium and large employers, and optional 'retro paid loss' arrangement for large employers
- Second claims agent, Gallagher Bassett, commenced 1 January 2013 (Employers Mutual Limited had been the sole agent since 1 July 2006)
- Second legal service provider, Sparke Helmore, commenced 1 January 2013.

2014-15

The **Return To Work Act 2014** was passed in late 2014, with major changes to the Scheme and claimant entitlements. Key provisions took effect 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
- For Seriously Injured workers: ongoing benefits, reduced emphasis on RTW, access to common law benefits for economic loss

- Introduction of boundaries on claim duration for 'non-serious injuries': two years for weekly benefits and 12 months thereafter for medical costs
- New lump sum payment for loss of future earning capacity for non-serious injuries with WPI of 5% or more.

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

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

2015-16

The premium system was changed so that nearly all employers were subject to experience rating, but under a new and much simpler system.