Scheme Actuarial Valuation as at 30 June 2020

ReturnToWorkSA

September 2020

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Actuarial and Insurance Consultants

1 September 2020

Mr Greg McCarthy
Chair
ReturnToWorkSA
400 King William Street
ADELAIDE SA 5000

Dear Mr McCarthy

Scheme Actuarial Valuation as at 30 June 2020

Enclosed is our final report on the 30 June 2020 scheme actuarial valuation.

Our work includes allowances for the impacts of the COVID-19 pandemic. While we have made allowances that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on ReturnToWorkSA's liabilities with any level of certainty at the current time. The response to COVID-19 continues to evolve and the unique set of circumstances means there is more than the general level of uncertainty around the valuation outcomes.

On top of this, there continues to be a large number of claimants seeking to access the Serious Injury benefit package. With considerable 'legal uncertainty' still in the scheme, and the large number of open disputes and slow rate of dispute resolution, there is still a material risk to the valuation results that Serious Injury claim numbers will be higher than we have allowed. On current trends it is likely to be at least another two years, and perhaps longer, before there is any real likelihood that this will change.

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

Yours sincerely

Andrew McInerney | Tim Jeffrey | Gae Robinson

Fellows of the Institute of Actuaries of Australia

Sydney
Tel +61 2 8252 3300
Level 7, 68 Harrington Street
The Rocks, NSW 2000

Melbourne
Tel +61 3 8080 0900
Level 3, 30 Collins Street
Melbourne, VIC 3000

Auckland
Tel +64 9 306 7700
Level 5, 79 Queen Street
Auckland 1010

Finity Consulting Pty Limited ABN 89 111 470 270 finity.com.au / finityconsulting.co.nz

Scheme Actuarial Valuation as at 30 June 2020

Glossary

Active Claim	A claim is regarded as 'active' in the valuation models if it had a payment in the relevant period.
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.
Development Quarter or DQ	The number of quarters between the injury date of a claim and the relevant activity (whether a claim report or claim payment).
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 is 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.
PPCI	Payments per claim incurred.
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	A claim that does not meet the Serious Injury threshold.
WRCA ('old Act')	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 ("the scheme") as at 30 June 2020.

Our previous actuarial review was as at 31 December 2019, and was documented in a report dated 23 March 2020.

2 Scope of the Review

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

The primary purpose of the June 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. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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 project future benefits separately for Serious Injury claims and for Short Term claims, reflecting the differences in benefits available between the two groups under the RTW Act.

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. Our risk margins continue to include a higher than normal allowance for 'legal uncertainty', since the large number of open disputes and slow rate of dispute resolution still present a material risk to the valuation results, in particular for Serious Injury claims.

Related to the above point, we observe that despite a number of apparently 'key cases' having resolved over the last two years, new avenues of challenge to the operation of WPI assessments continue to emerge. The case of *Summerfield*[1] is the latest where an appeal to the Full Court will be heard; if this case does not resolve favourably for ReturnToWorkSA then there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of serious injury claims). To be clear, while legal uncertainty has been considered in the setting of the risk margin, the adopted risk margin loading has not been set at a level that would be sufficient to cover the additional costs if these key cases were to resolve against ReturnToWorkSA.

[1] Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

4 COVID-19 Impacts

The COVID-19 pandemic and related health and economic response continues to evolve in Australia and throughout the world. The unique set of circumstances associated with the COVID-19 pandemic means there is greater than normal uncertainty in relation to the broader financial and economic landscape.

Key uncertainties at this time include the length of the pandemic, the potential for 'second waves' of outbreak, the related impacts of the ongoing 'slow-down' in the broader economy, and the effectiveness of government initiatives to mitigate these impacts.

Depending on the severity of the pandemic and related economic impacts, particularly how they present in South Australia, ReturnToWorkSA's liabilities will be impacted. We note that the situation is rapidly evolving – while South Australia is in many ways almost 'back to normal', the recent outbreak in Victoria highlights how quickly situations can change and demonstrates how the level of uncertainty is heightened at the current time.

In undertaking our valuation work, our central estimate has been prepared on the following basis:

- Our central estimate assumes that hours worked will stabilise at around 5% below pre-COVID-19 levels through to the end of 2020, meaning that unemployment rates continue at around 9% over the remainder of the year. This essentially assumes that positive forces (such as extra government spending on infrastructure) will mitigate any further deterioration due to employers which cease trading and/or workers who move off JobKeeper onto unemployment benefits.
- We assume that from early in 2021 the employment situation starts to gradually improve, such that by the end of 2021 there is no ongoing disruption to new employment opportunities compared to pre-COVID-19 levels.

Implicit in this approach are two key assumptions: (1) that Victoria manages to contain its current second wave of infections before there is any cross-over of infections into South Australia, and (2) that there are no additional shutdowns, further economic disruption or major impacts to business confidence.

On the above basis, we have made specific COVID-19 responses in relation to:

- **New claim numbers:** new claim numbers were lower in the June 2020 quarter, which we attribute to the reduction in work being undertaken; our assessment is that the reduction in claim numbers appears to broadly match the reduction in hours worked, which creates a saving in the liability, as discussed in Section 4.1.
- **Delays in RTW:** there is already direct information that some claims have experienced delayed RTW as a result of COVID-19 related impacts. Our valuation basis anticipates that there will be some further delays over the next 18 months – in particular for claimants with a new employer goal, where it will now be more difficult to find new employment; these allowances are discussed in Section 5.4.
- **Economic assumptions:** consistent with accounting standards, we have adopted economic assumptions that reflect the position as at 30 June. This has led to a further reduction in risk free discount rates and generally reduced inflation expectations, as discussed in Sections 10.1 and 10.2.

- **Risk margins:** the more uncertain economic situation has led us to increase the risk margin, from 14.0% to 14.3% at ReturnToWorkSA's targeted 75% probability of sufficiency, as outlined in Section 10.5.

While we have made allowances that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on ReturnToWorkSA's liabilities with any level of certainty at the current time. The response to COVID-19 continues to evolve and the unique set of circumstances means there is more than the general level of uncertainty around the valuation outcomes.

To be clear, our valuation basis assumes that all key legislative tools will continue to be applied as per their normal operation – as ReturnToWorkSA has advised us will continue to be the case. This means that the 104 week income support boundary will still be applied as and when it falls due, and that income support cessations will take place where there is a full medical recovery (that is, consistent with the legislation a claimant's income support payments cease upon medical recovery, even if they have not returned to a job).

5 Scheme Environment

In addition to the COVID-19 situation described above, recent developments which affect the scheme's operating environment and/or the liability estimate include:

- **Legal precedent**: the RTW Act continues to be tested through the scheme's dispute resolution processes, and legal precedent on a number of key issues is still emerging. The result is that there is still a range of circumstances where there is uncertainty about how and where the scheme's legislative boundaries will apply; as such, the real-world operation of the Act is still yet to be confidently known, and it is possible that more claims will access longer periods on benefits than has currently been projected. Of particular importance to our assessment are the provisions around WPI assessments, including how and when a claim is determined to be a Serious Injury.
- **Dispute resolution and appeals**: related to the above point, the number of open disputes remains high, and the resolution of disputes is slow. The slow resolution appears to be related to the fact that more claims are moving into the later stages of the dispute resolution process, including into appeal, following changes in the RTW Act that mean legal costs are no longer at risk until after the early stages of an appeal. This is lengthening disputes and increasing legal costs, and has led to higher non-claimant related costs (e.g. medico-legal costs).
- **Evolution of the claims management model**: the claims management model continues to include proactive steps to support the earlier identification of Serious Injury claims and speed up the WPI assessment process. On the back of these improvements, we are now seeing further proactive steps that are leading to the more effective management of service provider costs.
- **Growth in Hearing Loss claims:** there has been very rapid growth in the numbers of Hearing Loss claims over the last two years. While there was an apparent moderation in new Hearing Loss claims in the last six months, we are advised that this was largely attributable to interstate assessors that are strongly linked with certain legal firms having been unable to travel to South Australia through the COVID-19 period. We have therefore interpreted the most recent experience as a temporary dip rather than a break in the trend.

6 Recent Claim Experience

The key features of the claims experience in the six months to 30 June 2020 were:

- For claims managed entirely under the RTW Act:
  - New claim numbers reduced, as the claims experience was impacted by the COVID-19 pandemic and its associated reductions in work. Our analysis suggests that the reduction in claim numbers is comparable to the reduction in exposure.
  - However, partly offsetting this is a growing proportion of claims receiving at least two weeks of wage replacement benefits, which is the threshold to be included in our Income Support claims count.

    In addition, claim durations have further increased such that higher numbers of claims are remaining on Income Support benefits for longer. The biggest driver of the increase in overall continuance rates is mental injury claims; these claims have increased in number (making a greater contribution to the overall experience), and their experience has deteriorated significantly over the last 12 months.
  - Lump sum payments have begun to speed up, following additional work to encourage WPI assessments. Importantly, at this stage there is no indication that the deterioration in RTW outcomes will lead to any increase in WPI scores, and we have not allowed for any; if this occurred it would lead to further material increases in the claims cost – for example through higher lump sums and/or more claims reaching the Serious Injury threshold.
  - The numbers of disputes per month continue to run about 25% lower than pre-reform levels, but our assessment is not as favourable as six months ago, as the increase in lump sum activity appears to have also increased dispute numbers. Further, more claims are progressing to the later stages of the dispute resolution process as noted above.
- For transitional claims, there continues to be a much higher than anticipated level of disputation, and the pipeline of new WPI assessments has continued on old claims beyond what we expected. At the current rate of claim dispute closure it will be several years before the transitional cohort is finalised.
- The level of Serious Injury activity (applications, disputes and new determinations) remains higher than expected.
  - There continues to be a 'tail' of late emerging new Serious Injury claims; this experience is quite different from our expectation that most applications would have been made shortly after the cessation of Income Support. For transitional claims, this means new Serious Injury claims are still emerging a number of years after the end of Income Support.
  - For fully RTW Act claims, ReturnToWorkSA has changed the claims management approach to identify 'likely' Serious Injury claims much earlier, which we view as a positive step. There has also been a change to the Serious Injury acceptance approach, following the Full Court's *Mitchell* decision, which has led to fewer claims being accepted as Serious Injury. There does however continue to be a high level of uncertainty about how many Serious Injury claims will ultimately emerge for these cohorts, and new areas of legal challenge have continued to emerge. It remains possible that our estimates will prove to be too low.
  - Medical and treatment costs for Serious Injury claims have continued to generally be lower in the periods after initial treatment is completed. As previously noted, the only qualitative explanation we have received for this is that claimants 'no longer need to look sick' to remain on benefits.

Total net claim payments in the six months were $7.2 million (3%) lower than projected at the previous valuation, although total payment levels are still at the high end of experience in the last few years. Payments were $8 million lower than projection for lump sums, with other benefit types having positive and negative differences that broadly net off.

7 Liability Valuation Results

Summary of Results

Our central estimate of the scheme's outstanding claims liability for registered employers as at 30 June 2020 is $2,944 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 14.3% (up from 14.0% previously) to produce a provision with a 75% probability of sufficiency, consistent with ReturnToWorkSA's policy, gives an outstanding claims provision of $3,365 million, as shown in Table 1. The provision includes an allowance for future claims handling expenses equivalent to 10% of gross claim costs.

Table 1 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,974		
Gross Claims Cost - Short Term Claims	770		
Claims Handling Expenses	266		
Gross Outstanding Claims Liability	3,009	430	3,440
Recoveries	-66	-9	-75
Net Outstanding Claims Liability	2,944	421	3,365

Table 1 indicates that the majority of the OSC liability relates to Serious Injuries. The balance will continue moving toward Serious Injury liabilities over time, particularly if lump sums continue to speed up.

The risk margin remains higher than it would be if the workers compensation system was operating with lower 'frictional costs' than it does currently; that is, the risk margin would reduce if there were fewer disputes, faster resolution of disputes, lower rates of appeal, and fewer key legal questions being challenged.

As explained in Section 4 of the Executive Summary above, the liability includes a number of COVID-19 specific adjustments. Without these adjustments, the central estimate would have been $11 million higher and the provision $4 million higher (the gap is smaller for the provision, because the risk margin is higher in the COVID-19 adjusted basis).

Movement in Liability

Our central estimate is $24 million higher than projected at the previous valuation. We have attributed the change in central estimate to 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. This step also includes the impact of changes in the timing of lump sum payments; slower than expected lump sums lead to an increase in the remaining liability.
- Impact of changes in economic assumptions – this component 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, as shown in Table 2 below.

Table 2 – June 2020 Central Estimate and Determination of Actuarial Release/(Strengthening)

	Central Estimate		
	Liability Estimate[1]	AvE Payments in 6 mths to Jun-20	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m
Liability at Dec-19 Valuation	2,839		
Projected Liability at Jun-20 (from Dec-19 valuation)	2,920		
Claims Movement - Short Term Claims	15	1	-16
Claims Movement - Serious Injury	2	-8	7
Impact of Change in economic assumptions	7		
Recommended Liability at Jun-20	2,944		
Total Actuarial Strengthening			-9

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

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

There is an actuarial strengthening (increase) of $9 million for the period, an unfavourable result for the scheme. Changes to economic assumptions increased the central estimate by a further $7 million. Each of these items is discussed briefly below.

Components of the Actuarial Release/(Strengthening)

Table 3 shows the $9 million actuarial strengthening by entitlement group, and split between Short Term claims and Serious Injuries.

Table 3 – Actuarial Release/(Strengthening) by Entitlement Group

Entitlement Group	Short Term Claims[3]	Serious Injury Claims[3]	Total Actuarial Release [3]	Release (Strengthening) as %
			$m	
Income & Related	-8	-25	-33	-5%
Lump Sums	9	-4	5	1%
Legals	-6	-1	-7	-7%
Treatment Related [1]	-1	28	27	2%
Rehabilitation	1	1	2	7%
Other Costs [2]	1	0	1	6%
Recoveries	0	-2	-2	-3%
Total Claim Costs	-4	-3	-7	-0%
Expenses	-12	9	-3	-1%
Net Central Estimate	-16	7	-9	-0%

[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 factors contributing to the $9 million actuarial strengthening at the current valuation are:

- For **Short Term claims**, the actuarial strengthening (negative release) of $16 million is the result of:

- An increase of $8 million for Income Support costs, in response to increasing claim durations and a more unfavourable claims mix (a higher proportion of mental injuries and musculoskeletal injuries starting income support).

  There are also offsetting impacts as a result of COVID-19: a $7 million reduction due to lower new claims in the June 2020 quarter, offset by a $6 million increase in anticipation of poorer continuance rates as the higher unemployment rate will make it harder for injured workers with a new employer goal to return to work. In developing our COVID-19 allowances, we have anticipated that ReturnToWorkSA will make additional use of income support cessations upon medical recovery to mitigate the impacts of the poorer employment market; if this is not the case then the impacts would be larger than shown.

- A decrease of $9 million for lump sum entitlements. This is largely due to a reduction in the adopted ultimate number of RTW Act claims being paid a lump sum. This was partly offset by an increase in the basis for transitional claims, where a large number of claims are still commencing WPI assessment activity.

- An increase of $6 million for legal costs, as new disputes continue and disputes increasingly move into the later (and more expensive) stages of the dispute resolution process.

- An increase of $1 million for Treatment costs, which is the net impact of a number of factors: extra medical costs from the increase in Income Support claims, higher medical device costs following the increase in hearing loss claims, and high medico-legal costs related to the additional dispute activity; these impacts were offset by lower hospital and other treatment costs, and also reflect the reduction in new claims.

- Small changes for the remaining entitlements

- A $12 million increase in the claims handling expenses, as a result of the additional activity required to manage the slower than expected run-off of short term claims.

- For **Serious Injury claims**, there was an overall release of $7 million, due to:

  - A $25 million increase for Income Support costs, which is mostly due to further increases in Serious Injury claim numbers.

    We caution that even after this strengthening we are still only allowing for a very small percentage of ongoing claims to ultimately reach the Serious Injury boundary. Further, we continue to interpret the higher numbers of Serious Injury claims being identified at early durations for recent accident years as a speed up in the identification pattern, meaning we have not allowed for the continued late identifications for more recent accident years. If either of these assumptions do not hold, there will be material implications for both the outstanding claims liability and average premium rate.

  - A $28 million decrease for Treatment and care costs. The biggest driver of this release is a reduction in the allowance for future care, which has a number of contributing factors: lower than expected number of Severe Traumatic Injuries (who have a very nigh cost); a number of claims ceasing being valued, due to both deaths and deeds of release; re-negotiation of care rates on a number of very high cost claims; and a lowering of the IBNER allowance for Severe Traumatic Injury claims.

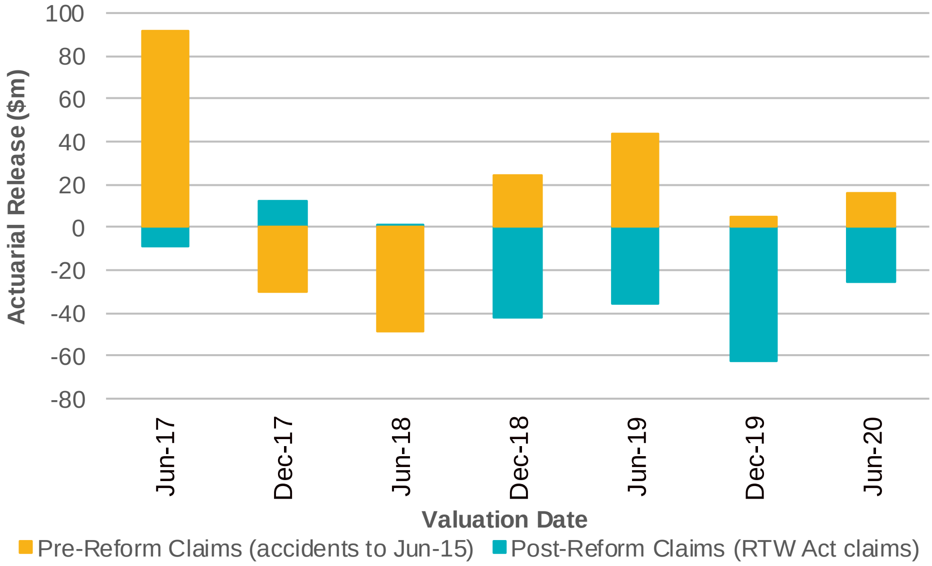
  - A $4 million increase in lump sums, due to the higher number of claims in the Serious Injury cohort.

  - A reduction in the claims handling expense loading for Serious Injury claims, from 8.5% to 8.0%, which reduced the liability by $9 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/(strengthening) at each valuation over the last few years. The current results are the fourth in a row where there has been cost growth on RTW Act claims.

Figure 1 – History of Actuarial Releases/(Strengthenings)



Impacts of Economic Assumption Changes

Changes to inflation and discount rate assumptions increased the net central estimate by $7 million.

There are two offsetting key factors that led to this result:

- Discount rates have fallen dramatically over the last six months, particularly for short to mid durations, and reductions in inflation expectations have not been sufficient to offset this; at longer durations the gap between our selected long term inflation and discount rates remains unchanged. The impact of these changes is an increase in the liability of $57 million.
- A reduction in the superimposed inflation assumption for Serious Injury care benefits, from 2.0% to 1.5%, reduces the liability by $49 million. To add context to this change, we note that the other elements of the care liability basis that allow for future cost escalation – that is, the allowances for increases in the level of Care required as claimants age and for gratuitous care to transition to paid care over time – have not been changed, so the change in the superimposed inflation component is essentially in relation to the unit cost of services. In the current economic environment we believe it is unlikely a premium of 2% above inflation will continue over the lifetime of these claims, and this view is further supported by recent re-negotiations in care rates on some high cost claims.

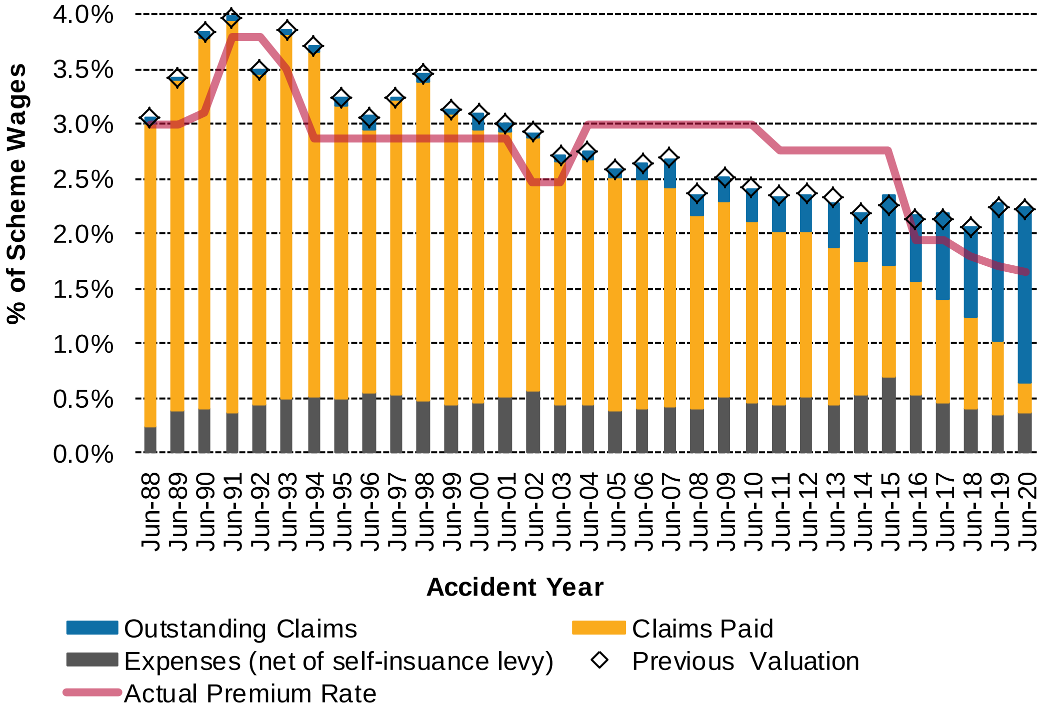
The current assumptions imply a negative real yield (i.e. projected wage inflation exceeds the discount rate) out to nearly 15 years into the future.

8 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, using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, allowing 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:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to just under 2.5% of wages
- For accident years between 2011 and 2018 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits
- The BEP estimates for 2019 and 2020 are higher than the 2018 BEP, reversing the downward trend
- The current estimate of the BEP for the 2020 accident year is 2.25% of wages, up from 2.22% at the December 2019 valuation. The majority of this increase is attributable to changes in the underlying claims performance:
  - Short Term claim costs are projected to be higher than at the previous valuation by 0.06% of wages

- Serious Injury costs and Scheme expenses both reduced slightly, by 0.02% and 0.01% of wages respectively.

- Scheme expenses have reduced year-on-year since 2015, when they were particularly high as a result of additional transition related costs. Expenses for the 2020 year are forecast to be 0.36% of wages, which is below the targeted post-reform rate of 0.40% of wages.

We note that these calculations assume past and future investment earnings at risk free rates. 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 2020 still involves some estimation.

9 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 relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. In particular, there are still many claims in dispute seeking to access higher levels of benefits than ReturnToWorkSA has determined. Despite a number of apparently 'key cases' having resolved over the last two to three years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge.

  The case of *Summerfield* is the latest where an appeal to the Full Court will be heard; if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). On current timing, this risk is likely to remain for at least another two years, and perhaps longer.

- **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 lump sum for future economic loss payable to Short Term claims, means there is pressure on WPI assessments. The scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold or 'WPI creep'. The robustness of the 'once and for all' WPI assessment rules under the RTW Act is an important area of risk.

- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, and deviations from our assumptions that compound across multiple years. For the current valuation the key uncertainties are:

  - **Ultimate numbers of claims** – there are several areas of uncertainty in relation to claim numbers. These include the impact of claimants delaying their WPI assessments, as well as the number of outstanding Serious Injury application disputes and other WPI disputes that could see claims ultimately meet the 30% WPI threshold.

  - **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections. There is some evidence emerging that life expectancy for this group could be shorter than is allowed, and we will continue to monitor this.
  - **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 that 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 wage pressures and/or market demand pressures for these specialists as the National Disability Insurance Scheme continues to scale up.

- **Claim durations for Short Term Claims** – over the last two years there has been an increase in claim numbers and slippage in return to work outcomes (relative to the much improved RTW rates seen over the preceding few years); this deterioration continued in the last six months, particularly for claims at 3-12 months duration. Compounding this, the COVID-19 situation has created a poorer and more uncertain economic environment that has the potential to impact on claim outcomes.

  Further, we emphasise that no allowance has been made for the increasing numbers of longer duration claims to impact on WPI assessments – that is, we have not anticipated any slippage in WPI scores, nor any increase in the numbers of Serious Injury claims, as a result of the increasing claim durations.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has again impacted adversely on the discount rates that are used to determine the valuation results.
- **COVID-19 allowances** – our valuation work makes some allowances for COVID-19 impacts, but as previously noted the level of uncertainty about this is much higher than is normally the case. Any increase in infections, as is currently occurring in Victoria, or a further disruption to the workforce similar to what has already occurred would likely lead to material disruption to claim outcomes beyond what has been allowed in the valuation basis. This situation continues to evolve rapidly and could lead to materially different outcomes than projected.

Even though the RTW Act provisions commenced five years ago, there are still key areas of the Act being tested in the courts, and there is as yet only limited information on the numbers of Serious Injury claims which will ultimately emerge. 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 will differ materially from our current expectations.

To place these uncertainties and risk in context, Figure 3 shows some of the key risks and uncertainties in the central estimate (in orange), as summarised in Section 12 of the report, relative to the risk margin adopted in the liability reserves (in blue). The risk areas below are largely independent of each other, so it is possible that a number of these risks could crystallise at the same time.

Figure 3 – Comparison of Reserving Risk Margin to Key Risks and Uncertainties

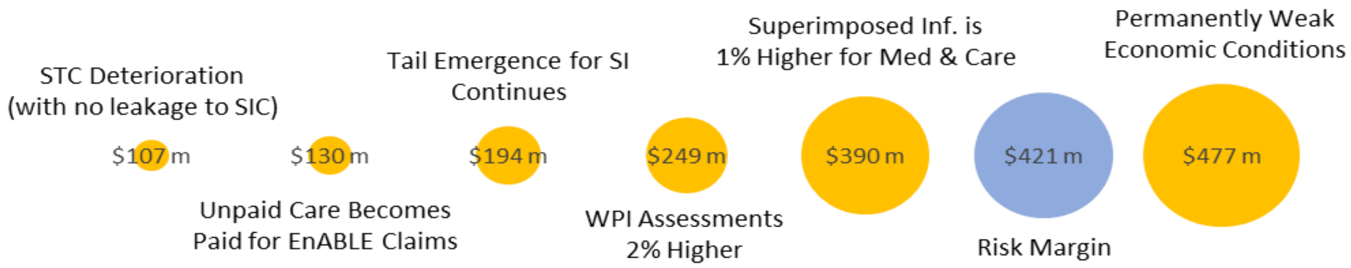


Figure 3 indicates that there is a range of plausible scenarios that could see the liability move by multiple hundreds of millions of dollars. While the most significant scenario relates to long term economic conditions, most of the other scenarios relate primarily to Serious Injury claims numbers and/or costs. We observe that while most of the larger uncertainties would emerge over the long term, a significant increase in the liability reserves could occur more quickly – in particular, adverse legal precedent which increased the number of claims who meet the criteria for Serious Injury benefits would have immediate consequences for the liability.

10 Reliances and Limitations

Our results and advice are subject to a number of important limitations, reliances and assumptions. This executive summary must be read in conjunction with the full report and with reference to the reliances and limitations set out in Section 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 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 2020.

Our previous actuarial review was as at 31 December 2019, and was documented in a report dated 23 March 2020.

1.2 Scope of the Review

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

The primary purpose of the June 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. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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 302 issued by the Institute of Actuaries of Australia sets out the expectations of actuaries preparing estimates of the liability for outstanding claims of statutory authorities involved in general insurance activities. Our valuation, and this valuation report, have been prepared in accordance with PS 302's requirements (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 AASB1023'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	Summarises the current 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	Summarises the 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.

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 a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency. Our risk margins continue to include a higher than normal allowance for ‘legal uncertainty’, since the large number of open disputes and slow rate of dispute resolution still present a material risk to the valuation results, in particular for Serious Injury claims.

Related to the above point, we observe that despite a number of apparently ‘key cases’ having resolved over the last two years, new avenues of challenge to the operation of WPI assessments continue to emerge. The case of *Summerfield*[2] is the latest where an appeal to the Full Court will be heard; if this case does not resolve favourably for ReturnToWorkSA then there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of serious injury claims). To be clear, while legal uncertainty has been considered in the setting of the risk margin, the adopted risk margin loading has not been set at a level that would be sufficient to cover the additional costs if these key cases were to resolve against ReturnToWorkSA.

[2] Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

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 2020. 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 and its claims agents EML and Gallagher Bassett. This included briefing sessions on 25 June 2020 and operational information that was provided separately.

The additional information we received included:

- Tableau-based monthly monitoring reports showing:
  - Claim reports
  - Payments by benefit type
  - Open, closed and lodged disputes by month
  - Income Support continuance rates and numbers
- Serious Injury claim list containing:
  - All claims that are currently included in our ultimate claims, with the information as to why they have been included
  - Flags to indicate whether they should be valued for Income Support and medical benefits
  - General information pertinent to Serious Injury claims such as determination status and WPI
  - Information on any disputes relating to Serious Injury applications
- EnABLE case estimates covering:
  - Estimated half-yearly costs by payment type
  - The level of care that is currently unpaid (that is, where there is gratuitous care that is generally provided by a family member)
  - Description of the injury and current condition
- Information on WPI assessments including:
  - Completed and in-progress assessments by claim number
  - Disputed assessments by claim number
  - Lump sum payment status of completed disputes

- Information on disputes including:
  - List of open and finalised disputes by accident year and latest disputation phase
- Additional information including:
  - Impacts of COVID-19 on claims outcomes
  - List of Transitional Regulation 5 applications and their current status
  - List of pre-approved surgeries and current status
  - Remuneration projections for 2019/20 and onwards.

3 Scheme Environment

This section summarises changes in the scheme's legislative and operational landscape which are considered in our valuation. An additional consideration for the June 2020 valuation is the COVID-19 pandemic and the associated lockdowns, and their potential impacts on claim outcomes over time.

3.1 Legislation

There have been no changes to the scheme's legislation since the December 2019 valuation.

There has however been a small change to the Return To Work Regulations, whereby silica related lung diseases are now exempt to the medical expenses duration caps which apply to most claims. Given the small number of silicosis claims the scheme has historically experienced, the impacts of this change are expected to be very minor.

3.2 Legal Precedent under the RTW Act

The RTW Act continues to be tested through the scheme's dispute resolution processes. As has been the case for a number of years, there remains a large number of open disputes, including a higher than usual number of cases on appeal to the Full Bench of SAET and to the Supreme Court. Until there is a settled legal basis around the functioning of the scheme's key boundaries there will be uncertainty as to the financial costs which eventuate under the RTW Act benefit package.

The types of cases that are key to the long term operation of the Return To Work scheme that are still to be resolved include:

- 'Combining' of injuries for WPI assessment and lump sum purposes – many claims remain in various stages of the dispute resolution process that relate to the WPI assessment rules.

  Despite a number of apparently 'key cases' having resolved over the last two to three years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge. The case of *Summerfield*[3] is the latest where an appeal to the Full Court will be heard; if this case does not resolve favourably for ReturnToWorkSA then there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of serious injury claims).

- Whether employment is the significant cause of secondary injuries or injuries away from the workplace – these types of cases have the potential to extend the benefit eligibility period beyond the 104 week cap by 're-starting the clock' on account of a new injury having occurred.

- Issues related to the functioning of the dispute resolution system, for example: the reviewability of decisions, the validity of past agreements and consent orders, and rules relating to legal costs.

Given the slow rate of dispute resolution (discussed below) and continued emergence of new legal challenge to the RTW Act boundaries, it is likely that it will still be at least another two years, but probably longer, until there is confidence about how the various RTW Act legislative provisions apply in practice. In some areas it may take years before all areas of outstanding issues are resolved.

[3] Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

3.3 COVID-19 Impacts

The COVID-19 pandemic and related health and economic response continues to evolve in Australia and throughout the world. The unique set of circumstances associated with the COVID-19 pandemic means there is greater than normal uncertainty in relation to the broader financial and economic landscape.

Key uncertainties at this time include the length of the pandemic, the potential for 'second waves' of outbreak, the related impacts of ongoing 'slow-down' in the broader economy, and the effectiveness of government initiatives to mitigate these impacts.

Depending on the severity of the pandemic and related economic impacts, particularly how they present in South Australia, ReturnToWorkSA's liabilities will be impacted. We note that the situation is rapidly evolving – while South Australia is in many ways almost 'back to normal', the recent outbreak in Victoria highlights how quickly situations can change and demonstrates how the level of uncertainty is heightened at the current time.

Potential Impacts from COVID-19

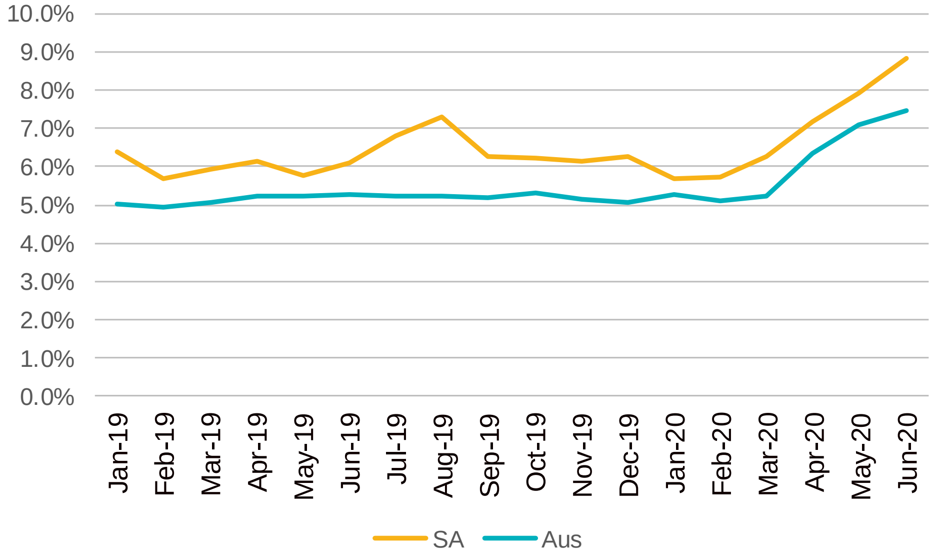
Table 3.1 summarises a number of areas where COVID-19 has or may impact on the scheme's operations.

Table 3.1 – Potential COVID-19 Impacts

Impact	What we know
Actual COVID-19 claims	Very few actual COVID-19 claims have been reported as at 30 June. The SA infection rate is very low, so IBNR cases should be trivial.
Disruption to patterns of work	There was a material reduction in the level of work being undertaken in the June quarter, and a shift to working from home where possible. Through the month of June, and into July, it appears that Adelaide has been on a trajectory back towards normal work operations.
Changes in RTW opportunities	The changes in work patterns have in some cases impacted on the availability of suitable duties. Changes in the unemployment rate mean new employment opportunities are likely to be more difficult to find.
Claims processing disruptions	Mobile claim management was temporarily suspended during the lockdown period, and the claims management workforce was temporarily moved to a working from home arrangement. There have also been changes in the speed at which employers and providers are paid – in many cases invoices/reimbursement are being sent to ReturnToWorkSA more quickly than normal, and ReturnToWorkSA is also then paying more quickly. We are advised that both claims managers are currently running at better than normal levels on their various operational productivity measures. Dispute resolution has been slowed down in some cases due to restrictions on cases being heard in person.
Delays to treatment	There are some examples of surgeries being delayed, but we are advised that treatment has largely been provided at similar to normal levels, as the transition to telehealth has been very rapid; payment experience supports this view.
Economic factors	There has been major disruption to investment markets and the economic outlook. Both inflation expectations and risk free yields have reduced since the previous valuation.

One already known consequence of COVID-19 is that the unemployment rate has increased noticeably since February. In broad terms the SA unemployment rate has increased by nearly 50% in recent months: from a pre-COVID level of 6%, up to 8.8% in June (based on data collected up to a mid-June reference period). As Figure 3.1 shows, the SA trend is comparable to the Australia wide experience.

Figure 3.1 – Unemployment Rate (Seasonally Adjusted)



Importantly, the observed movement in unemployment levels likely understates the full economic impacts, as the true reduction in work levels is distorted by two factors:

1. JobKeeper benefits are keeping some people officially employed, even though they are not working
2. The reduced employment participation rate means that some people are not being counted as looking for work even though they want to be working.

Data on hours worked also indicates a reduction in work levels. Hours worked dropped significantly in April, and stayed low in May, before beginning to return to normal levels in June; the June 2020 result was 9% lower than the hours worked in June 2019. A number of 'lead indicators'[4] suggest that the trend back toward normal working levels continued into July, and this is supported by anecdotal comments in our discussions with ReturnToWorkSA. Our best guess is that at the time our technical work was finalised (end of July) the workforce was running at 5-10% below pre-COVID-19 levels, and still on a trend back toward BAU levels.

Allowances for COVID-19 Impacts in the Valuation

In undertaking our valuation work, our central estimate has been prepared on the following basis:

- Our central estimate assumes that hours worked will stabilise at around 5% below pre-COVID-19 levels through to the end of 2020, meaning that unemployment rates continue at around 9% over the remainder of the year. This essentially assumes that positive forces (such as extra government spending on infrastructure) will mitigate any further deterioration due to employers which cease trading and/or workers who move off JobKeeper onto unemployment benefits.

[4] For example, the TomTom Traffic Index Data for Adelaide (https://www.tomtom.com/en_gb/traffic-index/adelaide-traffic/) and Google Mobility Data for South Australia (https://www.google.com/covid19/mobility/)

- We assume that from early in 2021 the employment situation starts to gradually improve, such that by the end of 2021 there is no ongoing disruption to new employment opportunities compared to pre-COVID-19 levels.

Implicit in this approach are two key assumptions: (1) that Victoria manages to contain its current second wave of infections before there is any cross-over of infections into South Australia, and (2) that there are no additional shutdowns, further economic disruption or major impacts to business confidence.

The key COVID-19 responses made in our valuation work are:

- New claim numbers are lower, due to a reduction in the level of work being undertaken. For the June 2020 injury quarter, the reduction in claim numbers appears to broadly match the reduction in hours worked, as discussed further in Section 4.1.
- Allowances for delays in RTW for some claims, particularly for claimants with a new employer goal where it will be more difficult to find new employment. This will also extend the period of medical benefits for these claims.

  To be clear, we are not anticipating that all claimants with a new employer goal will remain off work for extended periods, as we have also anticipated that ReturnToWorkSA will be able to increase the number of Income Support cessations where there is a full medical recovery (i.e. a weekly benefits will cease even though the claimant has not returned to a job) over time. We note, though, that even though there are legislative tools to ensure income support is not prolonged due to the unavailability of work, our view is that this is unlikely to provide a full offset to any delayed exits; this is due to additional notice periods being required, and because some doctors may be less likely to certify a worker as fully fit when they know there is no work. These allowances are discussed further in Section 5.4.
- The more uncertain economic situation has led us to increase the risk margin, from 14.0% to 14.3% at ReturnToWorkSA's targeted 75% probability of sufficiency, as explained in Section 10.5.
- Consistent with accounting standards, economic assumptions have been updated to reflect the position as at 30 June. In particular, this has led to a further reduction in risk free discount rates and generally reduced inflation expectations. These assumptions are discussed in Sections 10.1 and 10.2.

For clarity we note that we have *not* made any additional adjustment for delays in medical costs (for example due to surgeries that were delayed as a result of the COVID-19 restrictions) for two reasons: firstly, the claims with delayed surgeries are considered as part of the group with delayed RTW, and secondly, the general speeding up of payments acts as a partial offset to areas where there have been reductions in spend.

While we have made assessments that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on ReturnToWorkSA's liabilities with any level of certainty at the current time. The response to COVID-19 continues to evolve, and the unique set of circumstances means there is more than the general level of uncertainty around the valuation outcomes.

3.4 Other 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.

3.4.1 Evolution of the Claims Management Model

Earlier Identification of Potential Serious Injury Claims

Over the last two years ReturnToWorkSA has progressively improved its claims management approach to identify 'likely' Serious Injury claims much earlier. This allows targeted activity to take place earlier in the claim and helps to ensure that those with the most serious injuries do not 'slip through the cracks' due to incomplete or unresolved WPI assessments.

While there (necessarily) still remains a high degree of uncertainty as to the ultimate number of Serious Injury claims that will emerge over time, particularly given the slow process to resolve disputes, the earlier identification of most serious injuries is a positive step.

The impact of this change on observed Serious Injury claim numbers is discussed further in Section 4.2.

Management of Care Costs on Long Term Claims

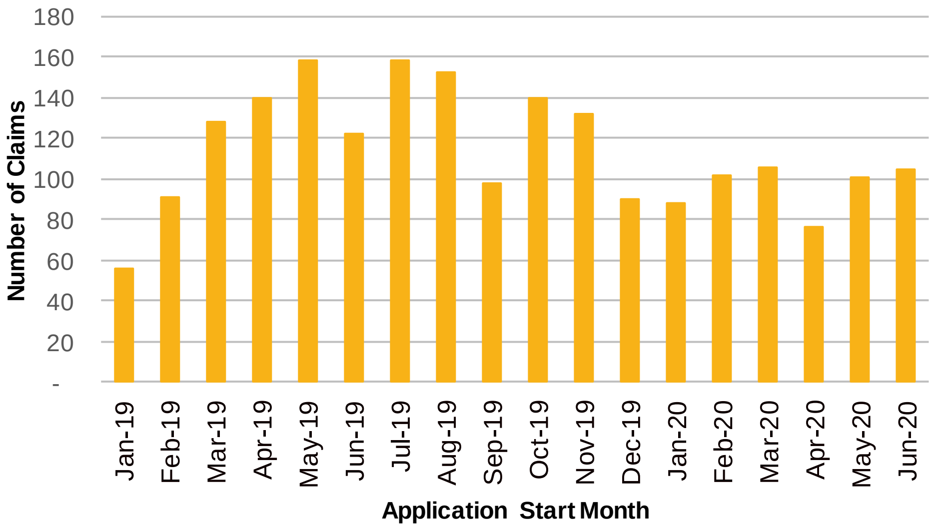
Further to the above point, the improved knowledge relating to serious injury claimants is also leading to proactive decision making that leads to better value for money purchasing. There have been recent examples of this in the EnABLE cohort, where it was identified that some providers operate at materially higher cost than others, and this has led to provider changes that are forecast to save many millions of dollars.

Resolution of Transition Claims

Since early 2019, ReturnToWorkSA and their claims agents have been proactively working with claimants to try and resolve as many outstanding WPI assessments as possible (subject to the claimant being ready to proceed with the WPI assessment). Delays in completing WPI assessments and/or resolving related disputes, particularly as a result of the need to await key legal precedent, has meant that some claims have had to wait longer for lump sum payments than was historically the case.

Due to the continued emergence of new referrals into this project, the timeline has been extended. Figure 3.2 shows the number of transitional claims commencing a new WPI assessment application since 2019 under the transitional claims project.

Figure 3.2 – New Applications for WPI Assessments (Transitional Claims only)



As this shows, the volume of transitional claimants still commencing WPI applications continues to be high (remembering that these claims all have injury dates prior to June 2015). Given this, it seems likely that it will be at least another six months (and possibly longer) until the tail of new applications reduces to a low level. Completing the assessments, finalising disputes that follow the assessments and finally completing outstanding lump sum payments is therefore likely to take a number of years.

This work is helping to crystallise the number of lump sum claims that remain from 'old-Act' injury periods, and it will also resolve legacy Serious Injury disputes; although on current trends this will take quite a while, as cases seem to be more inclined to go to hearing (and, further still, appeal rates have been higher than was historically the case, which is further delaying the resolution of these older claims). The lump sum valuation basis is discussed further in Section 6 and Serious Injury claim numbers are discussed in Section 4.2.

"Back to Basics"

Following growing claim numbers in the last two years, there has been an increase in the number of claims managers in the last six months to help return key metrics back to the level they were previously operating at. This is intended to lead to:

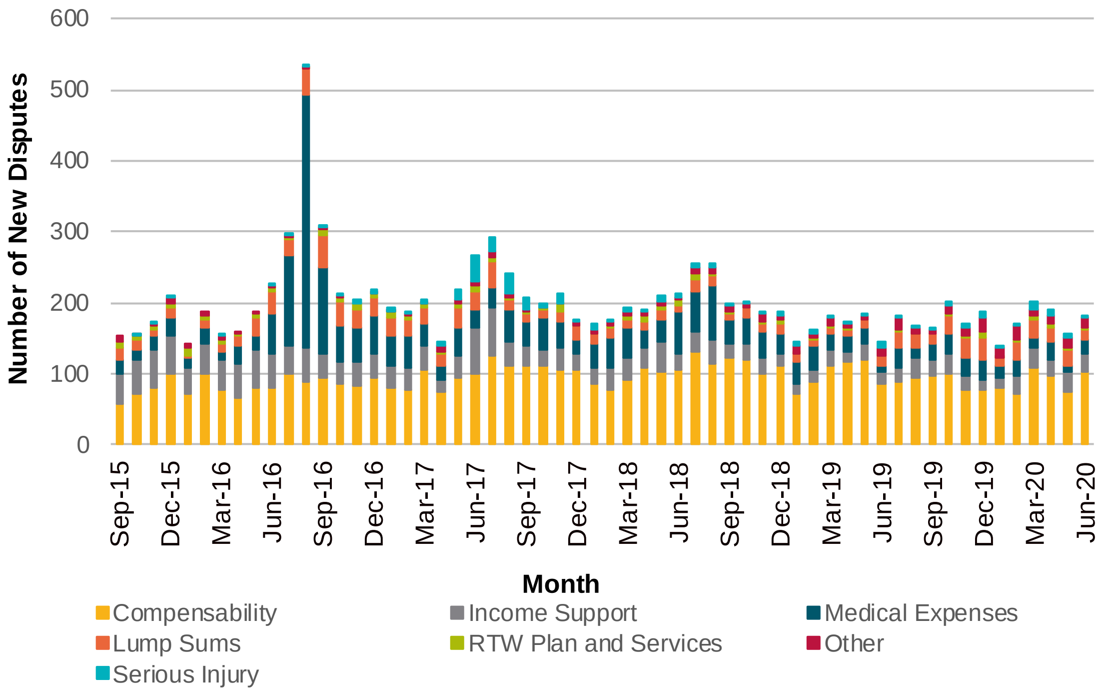
- Improved RTW outcomes, via reduced case loads and refinement in the model to have more experienced resources undertaking key roles. Mobile claims managers are also increasingly being aligned to key industry sectors to ensure they have the best possible knowledge of potential RTW options in those sectors.
- Faster and tighter claim acceptance practices, including additional support in calculating pre-injury earnings and overtime amounts.
- More focus on the appropriate goal for each claimant, whether that be at the pre-injury employer or with a new employer.
- More targeted referrals to vocational rehabilitation providers.

In most of the cases mentioned above, we can already see changes in relevant 'lead indicator' trends that suggest the actions are beginning to impact on claim outcomes. The influence of these actions has been considered when considering the relevant components of our valuation basis.

3.4.2 Dispute Numbers and Dispute Resolution

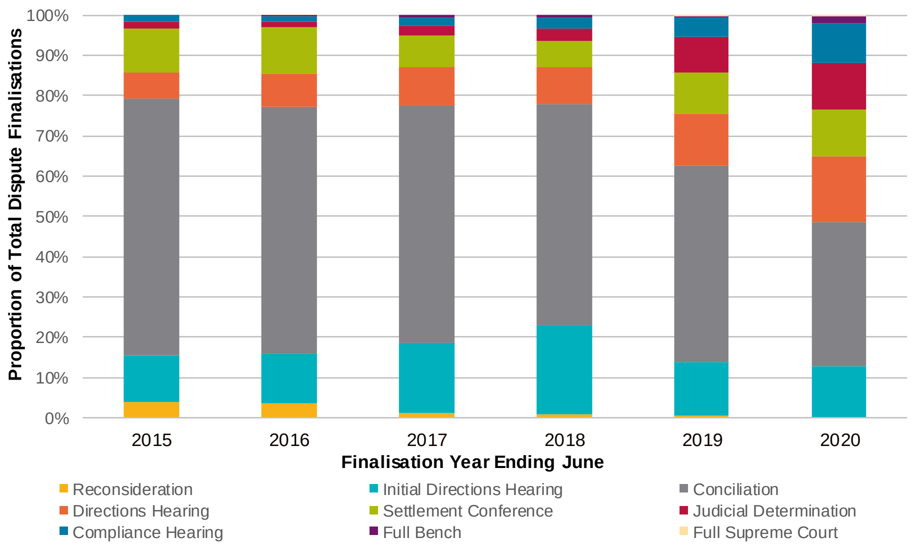
Since the RTW Act commenced in mid-2015, dispute numbers have tended to be between 150 and 200 new disputes per month, although there have been a number of 'spikes' as key boundaries commenced: medical expenses disputes spiked after June 2016, due to a significant number of disputes around future surgery applications, and Serious Injury disputes increased around June 2017, as shown in Figure 3.3.

Figure 3.3 – New Disputes by Dispute Type (monthly)



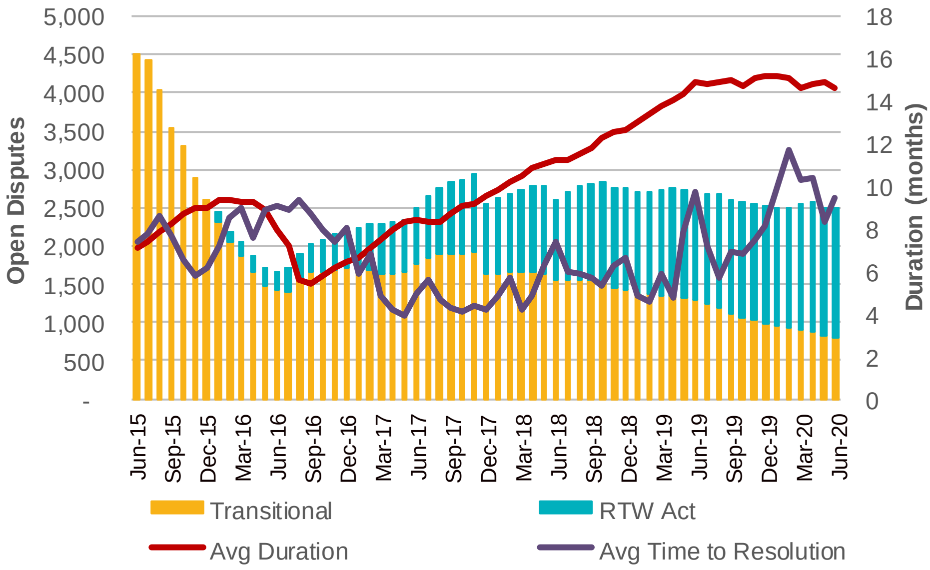
While new dispute numbers appear to be quite stable at the moment, there has been a clear shift in dispute finalisation patterns, with far fewer disputes resolving at or before conciliation, as shown in Figure 3.4 below. In the graph, the stages of dispute are ordered, with the bottom of the bars showing the early and therefore 'cheaper' stages of resolution, and the upper ends showing the later and more costly stages.

Figure 3.4 – Stage of Resolution for Disputes



The significant growth in the number of disputes moving beyond conciliation has led to a considerable lengthening of dispute timeframes over the last few years. The result is that the number of open disputes remains high, at around 2,500 claims. Figure 3.5 shows the number of open disputes over time, split between RTW Act claims and transitional claims, and the average duration of open and finalised disputes.

Figure 3.5 – Open Dispute and Duration



Our observations are:

- The level of open disputes has stabilised at around 2,500 disputes, with growing RTW Act claims replacing finalised transitional claims. This indicates the new scheme is not yet at a 'steady state' for disputes. There is still uncertainty as to the ongoing level of disputes under the RTW Act and the impact of these disputes on claim outcomes.
- There are still over 780 disputes open for transitional claims.
  - Five years after the RTW Act commenced, we are now more consistently seeing this number reducing, however there are still new disputes commencing from transitional claims and this group continues to represent a material risk to our liability estimate.
  - The open dispute count on transitional claims reduced by just over 200 disputes in the last six months, and at this rate it will still be 2 to 3 years before there are negligible transitional disputes left.
- The duration for open disputes has more than doubled since July 2016, from around seven months to 15 months. The duration for finalised disputes has grown at a more modest pace, suggesting the more complex and costlier disputes have yet to settle.
- Since Income Support benefits for most claims are capped under the RTW Act, even an 8-10 month dispute resolution timeframe is considered slow.

3.4.3 Potential for New Silicosis Claims

Around a year ago, following high numbers of new interstate silicosis claims from the benchtop industry, a project commenced in South Australia to screen for these types of claims among higher risk workers.

As reported in our previous valuation, this screening program led to the diagnosis of just over 20 workers with forms of silicosis or lung disease, although none had lodged workers compensation claims. Six months later, there is essentially no new information to add and no increase in workers compensation claims.

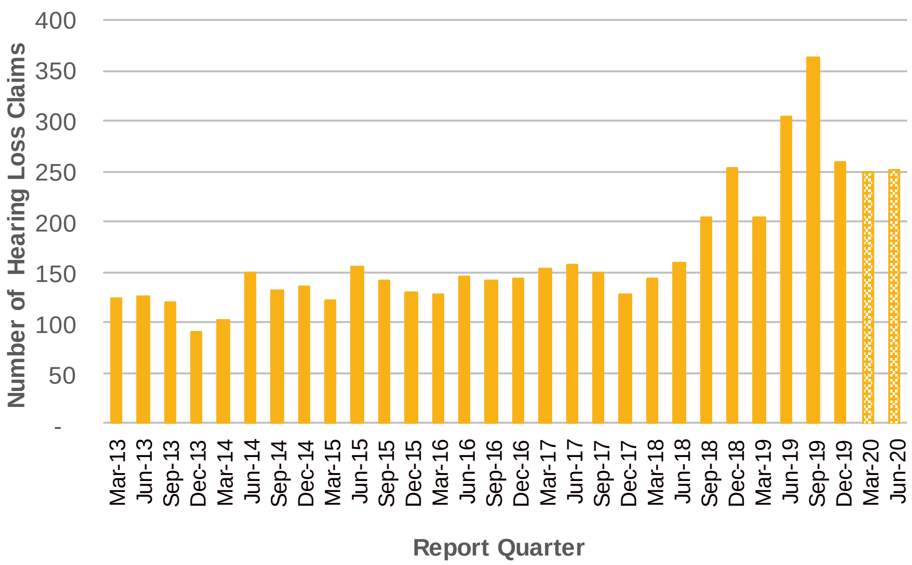
In light of this, we have continued our previous approach that no additional allowance is made in the central estimate liability on account of the known diagnoses. The potential for any additional costs is included in our risk margin considerations.

Consistent with the above observations, our previous view remains – that is, the South Australian experience with these types of claims is considerably better than in the Eastern states. As previously noted, this is believed to be a genuine difference which is attributed to a lower use of engineered stone in South Australia along with a correspondingly smaller workforce (for example, some suppliers will order in the benchtops from interstate).

3.4.4 Increasing Numbers of Hearing Loss Claims

Noise induced hearing loss claims are only a small proportion of total claim numbers, but their numbers have been growing rapidly. This has been a long term trend, but more recently it appears to be the result of targeted provider activity. Figure 3.6 below shows the numbers of new Hearing Loss claims by report quarter.

Figure 3.6 – New Hearing Loss Claims by Report Quarter



While the new claim numbers appear to have moderated in the last three quarters, we are advised that there are other factors that are important to be aware of when interpreting this change – in particular, interstate assessors that are strongly linked with certain legal firms have been unable to travel to South Australia through the COVID-19 period, so fewer new claims have emerged from these firms. In undertaking our work we have essentially interpreted this as a temporary slowdown, rather than a change in the previously identified trends. The projections relating to Hearing Loss claims are discussed in Section 4.1.2 and Section 6.3.

4 Recent Claims Experience

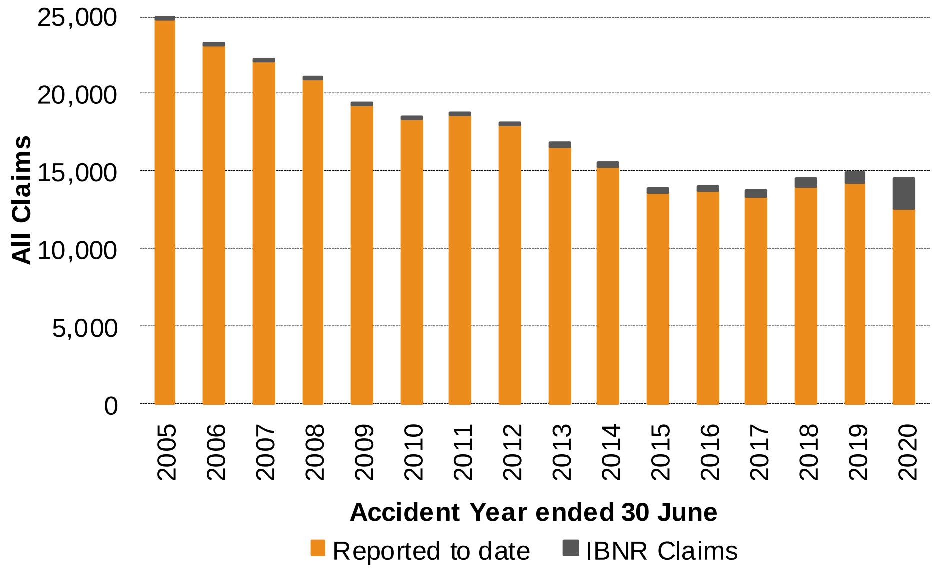
This section provides a high level analysis of scheme experience, including the numbers of new claims and overall payment trends.

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).

Figure 4.1 – Ultimate Number of Claims (All Claims)



The key features of the recent experience are an increase in claim numbers between 2017 and 2019, after a long term general downward trend, which has been followed by a reduction in 2020.

There were three primary factors driving the higher claim numbers over 2017-2019:

- Claim frequency deterioration: the construction and manufacturing industries in particular experienced an increased claim frequency trend
- Strong growth in the numbers of hearing loss and mental injury claims
- Higher exposure growth in 2018 and 2019, after an extended period of lower wages growth.

The main reason that 2020 claim numbers are lower than 2019 is a significant impact due to COVID-19. This is explained further below.

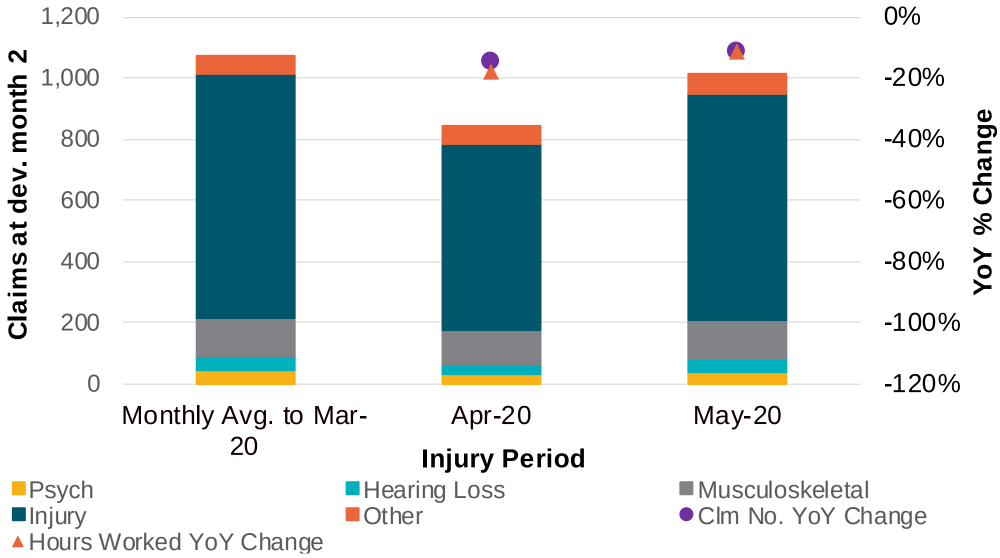
Our estimate of ultimate numbers for 2020 has decreased by around 5.5% since the previous valuation, and the current estimate for 2020 is 2.4% lower than 2019. Our current estimate for 2021 is consistent with 2020.

COVID-19 Impact

As discussed in Section 3.3, COVID-19 and the associated lockdown have had a significant impact on the South Australian workforce in recent months. ReturnToWorkSA estimates total insured wages for the June 2020 quarter will be around 9% lower than the previous quarter. This reduction in wages is expected to lead to ongoing lower insured wages for the remainder of calendar year 2020, before the rate of wages growth starts returning to normal levels at the start of calendar 2021 (albeit off a lower starting base).

To understand the impacts of these changes on claim numbers, we have undertaken a range of additional analysis looking at information in more granular ways – for example, monthly and weekly claim reporting patterns, medical certification, and eligibility for income support. Our analysis was generally undertaken by injury type, to check whether different injury types were impacted differently. Figure 4.2 below summarises some of this work, showing the number of claims reported in the first two development months for the April and May 2020 accident months, compared to the (average) equivalent experience for the 12 injury months to March 2020.

Figure 4.2 – Number of Claims Reported at Development Month Two



Claim reports for April 2020 injuries (in the first two development months) were significantly lower than the pre-COVID-19 average, by around 14%. This recovered slightly to a reduction of around 11% for May 2020 injuries. These reductions were consistent with the reductions in hours worked for South Australian workers in these months, which are indicated by the orange triangles in the figure.

At a more granular level, mental injury claims appear to have been impacted by COVID-19 more than other claim types, with reductions of 26% and 14% in April and May respectively compared to the previous year. Given the high cost of these types of claims, we had been concerned that their numbers might not reduce in line with the exposure, but to date we have no indications to suggest that these favourable improvements are not real; it may also be that the recent claims management initiatives noted in Section 3.4.1 have contributed to this result.

Our valuation response to the impact of COVID-19 is to largely allow for the reduction in exposure to flow through directly to lower claim numbers (essentially keeping claims frequencies unchanged) with the exception of:

- Hearing loss claims. These claims are typically assigned an injury date which is the diagnosis date, and with lower numbers of new assessments over the COVID-19 period we expect there will be a catch-up once restrictions are eased. We have therefore increased the adopted frequency for the September injury quarter to allow for additional claims to emerge.
- Mental injuries. We have let the lower frequency experience flow through to our basis, though not fully. However, we have treated this as a temporary improvement in frequency, with the September 2020 and later quarters assumed to revert to close to previous levels.

4.1.2 Income Support Claims

Income Support (IS) claims are those which receive more than 10 days of lost time benefits.

Figure 4.3 shows our projected ultimate numbers of IS claims, 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 4.3 - Ultimate IS Claim Numbers

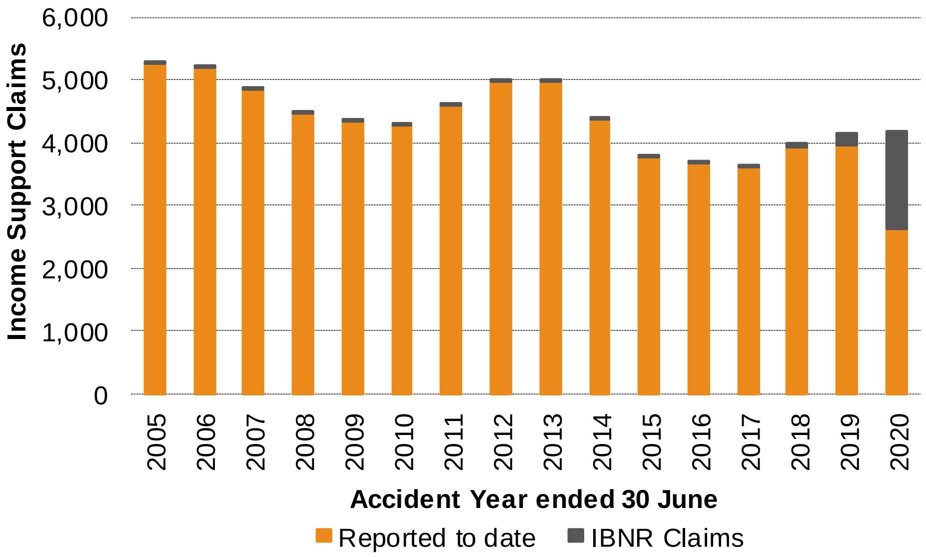


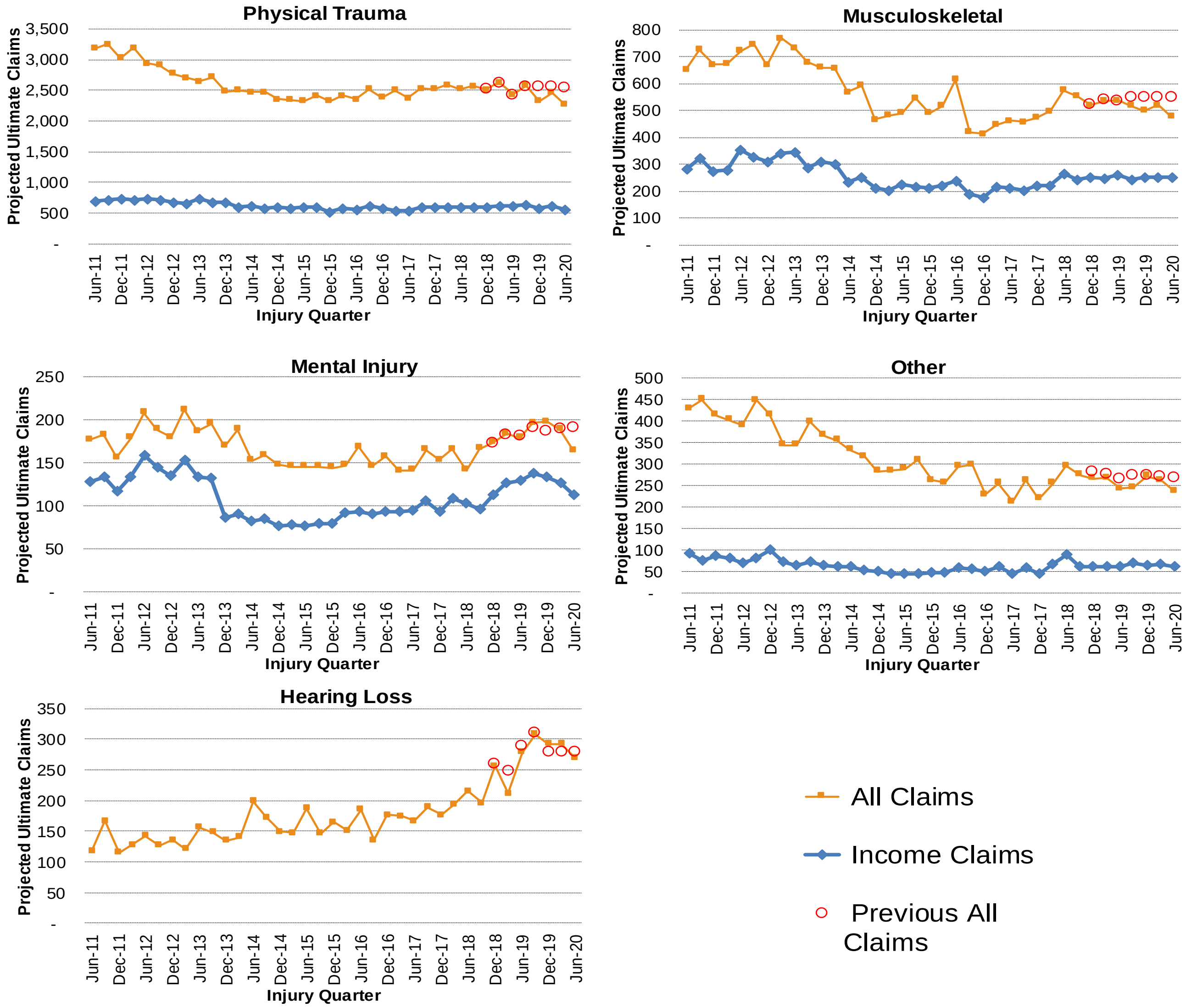
Figure 4.3 shows:

- IS claim numbers dropped by 17% between 2006 and 2010, and then rose again over the next two years to sit at about 5,000 claims per annum in 2012 and 2013
- IS claim numbers reduced again in 2014 and in 2015, and were then stable at around 3,750 per annum for three years; this experience represents the lowest level since the scheme commenced
- Since 2017 IS claim numbers have risen quite noticeably. The estimate of IS claim numbers for 2018 is 9% higher than 2017, 2019 estimate is 4% higher than 2018 and the estimate for 2020 is 1% higher again.
- We observe that while the 2020 injury year has been significantly impacted by COVID-19, with lower claim numbers overall, we have still seen an increase in income support claims – which highlights the underlying increasing trend in IS claims in recent years.

As seen in the graph, considerable development of claim numbers is still expected for the latest accident year, so there is more uncertainty around the ultimate outcomes for this year.

In order to better understand the trends in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.4 shows, by injury type, the total numbers of claims as well as IS claim numbers.

Figure 4.4 – All Claims and IS Claims by Type of Injury



The key features we note from Figure 4.4 are:

- COVID-19 has led to reduced claim numbers in the June 2020 quarter, across all injury types
  - The reduction for “All Claims” is consistent with the reduction in exposure
  - For IS claims, the trends are less consistent: Musculoskeletal claims have only marginally reduced, there are similar levels of reduction for Physical and Other injuries, and mental injuries have reduced by more than the exposure reduction
  - Mental Injury claims have reduced noticeably for both IS and All claims
- Taking a multi-year view, mental Injury claims have shown a strong growth trend over the last two years, and so it is unclear how this will emerge after COVID-19. As explained in Section 3.4.1, a number of recent claims management initiatives are also likely to have contributed to the improved claim numbers in recent months.

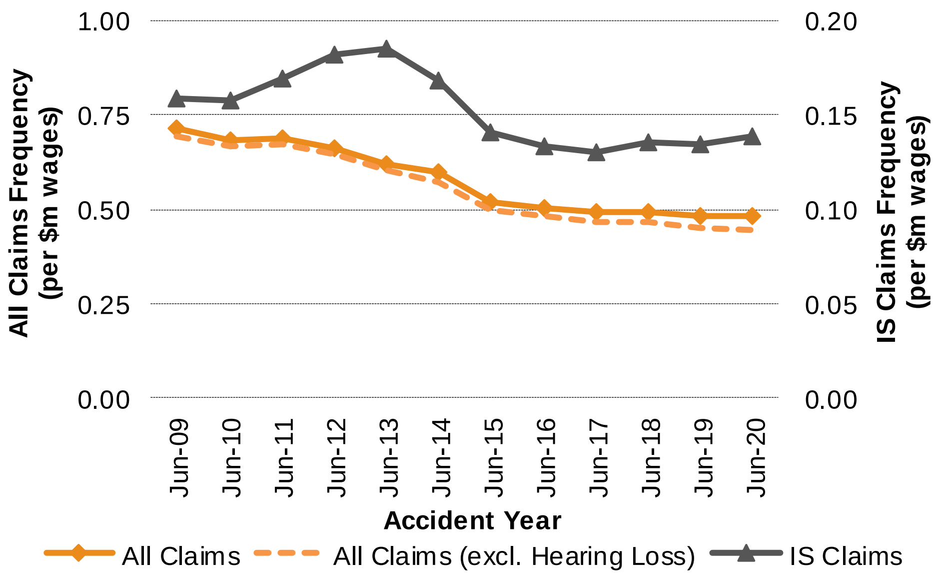
- While the growth in Hearing Loss claims appears to have plateaued over the last year, as explained in Section 3.4.4 we believe this is a temporary slowdown due to delays in the assessment process as a result of COVID-19. At an underlying level, there is still significant pressure on Hearing Loss claim numbers.
- There is a gradual upward trend in IS claim numbers over the past three to four years, which is most prominent for Musculoskeletal and Mental Injury claims.

The mix of claims by injury type has important implications for longer term IS claim costs, as there are noticeable differences in claim durations between the different groups. We assess that the growth in IS claims cost is likely to outpace the growth in IS claim numbers, as the mix has skewed more towards the higher cost claim types.

4.1.3 Claim Frequency – All Claims and IS Claims

Figure 4.5 compares the trends in (1) total claim frequency ('all claims' numbers from Section 4.1.1), (2) total claim frequency excluding hearing loss claims, and (3) IS claim frequency (IS numbers; Section 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 4.5 – Claim Frequency (Claims per $m wages)



The IS claim frequency was on a similar trend to the all claims frequency prior to 2010, before diverging between 2010 and 2013. After the steep improvement in the IS claim frequency between 2013 and 2015, trends in the IS claim and all claim frequencies were broadly in line until 2018, when the IS claim frequency began to deteriorate again, as it has continued to do since. The current reducing trend in the all claim numbers frequency is a product of growth in hearing loss claims offset by reducing claim frequencies in other claim types, which is broken down further in Table 4.1.

Table 4.1 – Projected Ultimate Claim Frequency: Comparison to Previous

	All claims (excl. hearing loss)				Hearing Loss Claims			
Accident Year	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Freq	Change from Prev	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Freq	Change from Prev
Jun-17	0.47	-3%	0.47	-0.1%	0.02	1%	0.02	-1.0%
Jun-18	0.47	0%	0.47	-0.3%	0.03	12%	0.03	-3.7%
Jun-19	0.45	-3%	0.46	-0.6%	0.03	16%	0.03	-7.2%
Jun-20	0.44	-2%	0.46	-3.2%	0.04	27%	0.04	3.8%

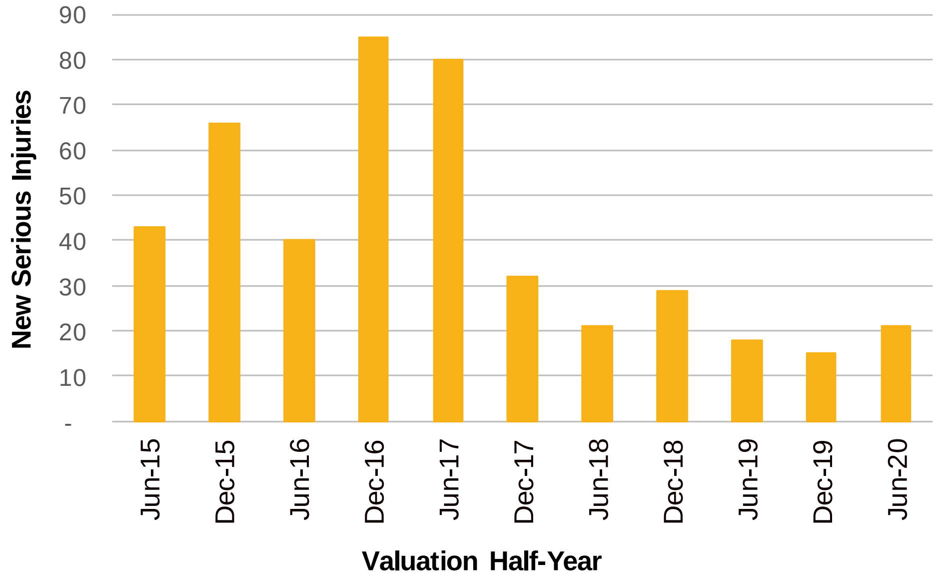
4.2 Serious Injury Claims

The Serious Injury threshold of 30% WPI is the most material scheme boundary from a financial perspective.

The formal process for recognising a claim as being a Serious Injury is a determination by ReturnToWorkSA once a claim is assessed as having a WPI of 30% or more. For our valuation work we also consider claims that are not yet formally determined as being a Serious Injury but who are expected to become so in future. We do this by using information on claims identified as 'potential' Serious Injury claims, based on profiling and review work by ReturnToWorkSA which uses the medical and claims file evidence (for example, information on the injury and any need for future surgeries) on a claim by claim basis. The list of likely Serious Injury claims is updated over time as claims are re-reviewed, such as when there is a change in the claim situation that suggests a claim will or won't meet the 30% WPI threshold; all claims are ultimately confirmed as either meeting or not meeting the requirements to be considered a Serious Injury.

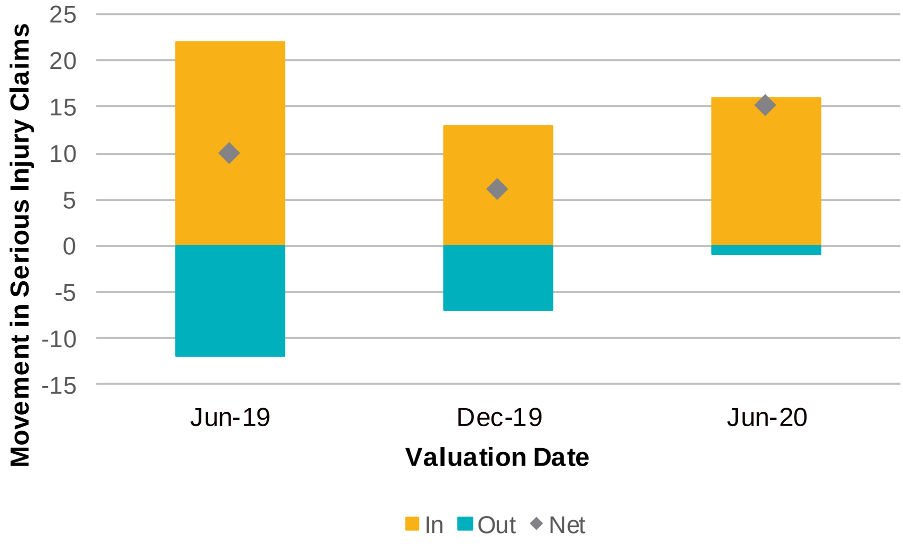
We are now five years into the RTW Act, and the emergence of Serious Injury claims from the transitional cohort has continued for much longer than expected. Even though very few pre-RTW Act claims are still in receipt of Income Support payments, Serious Injury claims continue to emerge and the number of open Serious Injury application disputes and/or unresolved WPI disputes remains high; we are now also seeing similar types of behaviour from RTW Act claims. This means there continues to be uncertainty around Serious Injury claim numbers well beyond when claims hit the two year Income Support boundary. Figure 4.6 shows the emergence of the current cohort of Serious Injury claims for transitional periods (excluding Severe Traumatic injuries as these tend to be identified quickly).

Figure 4.6 – Newly Identified Serious Injury Claims - Transitional claims only



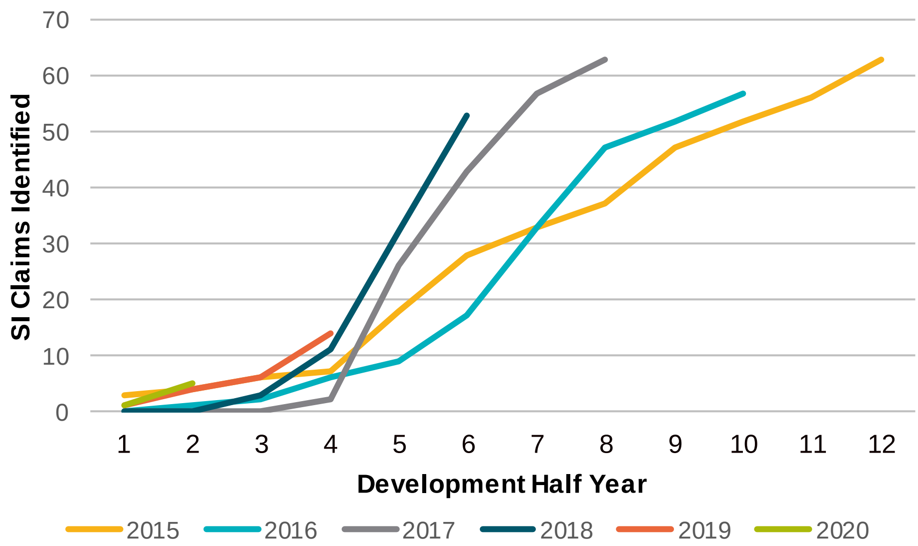
Although new Serious Injury claims for transitional periods have been lower since 30 June 2017, the run-off since this point has been very slow, with an additional 21 claims in the last six months identified as a Serious Injury claim. In previous valuations the number of newly identified Serious Injury claims has been partially (but not fully) offset by the removal of some claims from the 'potential' group as additional information became available. Given the size of the 'potential' cohort continues to reduce, any continued late identifications beyond the valuation allowances will likely result in a net increase for transitional periods. Figure 4.7 below highlights this feature for the 2014 to 2016 accident years; the 'out' movements are following a clear reducing pattern, whereas the 'ins' have not shown the same reduction. This has resulted in a net increase in serious injury claim numbers for these years in the last six months.

Figure 4.7 – Serious Injury Claim Movements: 2014-16 Accident Years



For RTW Act periods the emergence of Serious Injury claims continues to quicken, following changes ReturnToWorkSA has made to the claims management model to aid early identification as discussed in Section 3.4.1. This is shown in Figure 4.8 below.

Figure 4.8 – Serious Injury Emergence for Recent Accident Years



The combination of continued late Serious Injury identification (well beyond the two year Income Support cap) and the change in the speed of emergence for more recent accident years means it is challenging to estimate ultimate numbers based on historical patterns.

Further complicating this is the legal environment with key parts of the RTW Act still being tested and legal precedent being slow to emerge. Relating to this, following the favourable *Mitchell* decision ReturnToWorkSA advised us that their interpretation regarding combining surgery related injuries is different than it was prior to the decision (to align with the *Mitchell* decision). This interpretation will not allow for the inclusion of surgery related injuries on parts of the body that are not related to the initial injury to be considered in the WPI assessment. This change will lead to fewer claims reaching the Serious Injury threshold; for clarity we note that claims that have already been determined or interim determined will not be affected by this change, as only new Serious Injury applications will be assessed using this interpretation.

To assess the potential impact of this revised interpretation ReturnToWorkSA reviewed all currently identified Serious Injury claims from the 2014 to 2016 accident years to see if they would have still reached the Serious Injury threshold. This review indicated that this post-Mitchell interpretation would remove around five claims per accident year[5]. We note that this interpretation is yet to be tested through the dispute resolution process, although ReturnToWorkSA are confident in it given it flows directly from the Full Court's *Mitchell* decision.

Given this, our approach to setting ultimate Serious Injury numbers uses a similar framework to previous valuations:

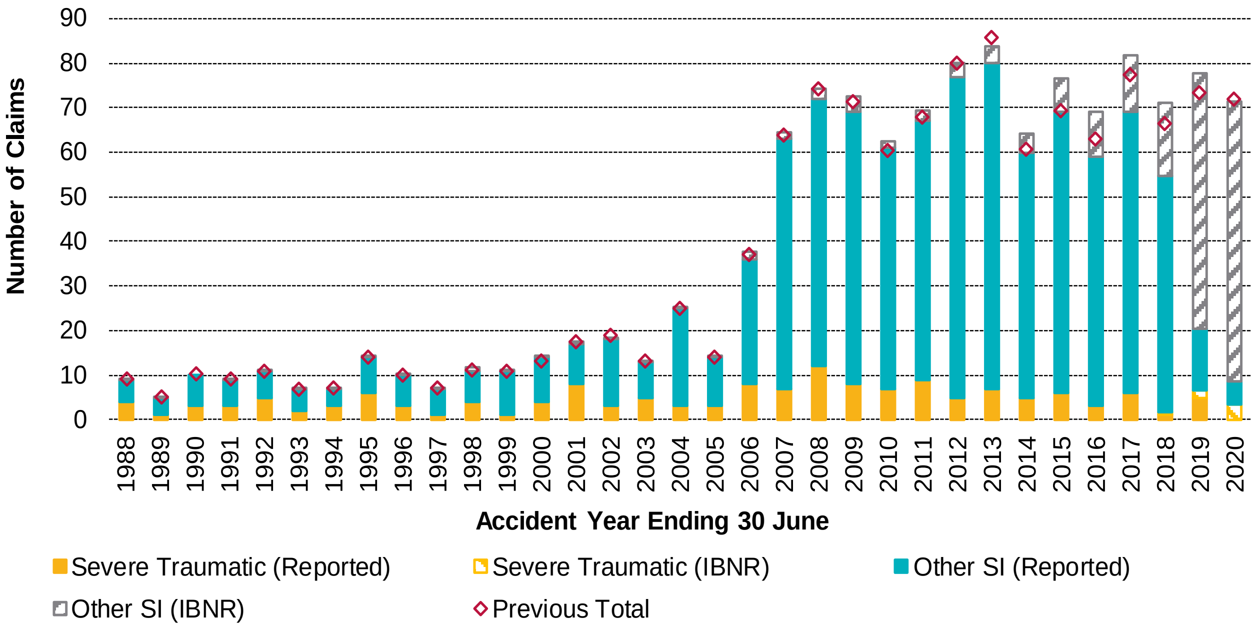
1. For 2017 and prior accident years the IBNR is an explicit allowance, based on the number of claims with either a Serious Injury dispute, Serious Injury application or WPI activity initiated (which we then add to the identified Serious Injury claims to give the ultimate). The approach for these periods is unchanged from the previous valuation with the following exceptions:
   (a) We have reviewed some of our conversion assumptions in light of actual experience over recent valuations
   (b) At the current valuation we have added a loading to this allowance, in recognition of new Serious Injury claims continuing to emerge from outside this pool.
2. For 2018 and later accident periods, we have set the ultimate number of claims equal to the average of the 2016 and 2017 accident years excluding claims that were identified by ReturnToWorkSA as not meeting the new interpretation of the Serious Injury threshold, with an allowance for exposure growth and the impact of safety initiatives.

   Importantly, this approach implicitly assumes that the current deterioration in RTW durations for short-term claims will not translate to more or higher WPI assessments.

Figure 4.9 shows our resulting estimated numbers of Serious Injury claims by accident year.

[5] All claims that were identified as not meeting the Serious Injury threshold under this new interpretation have been flagged to assist in setting future claim numbers, even though there is no change to the Serious Injury status for those specific claims. That is, while they will still be valued as part of the liability, we will manually remove these claims when considering the underlying future level of new Serious Injury claims.

Figure 4.9 – Serious Injury Claim Numbers by Accident Year



The key features we note from this are:

- The number of identified Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- For Severe Traumatic Injuries, which tend to be identified quickly, the estimates for each accident year generally give credibility to experience to date. The 2018 and 2020 years look like being very low years for Severe Traumatic Injuries, whereas the 2017 and 2019 years look higher (although they are still lower than the 2007 to 2013 years).
- For 2013 and prior accident years there has been little change to the ultimate number of claims
- For the 2014 to 2017 accident years the estimate of ultimate Serious Injury claims has increased. This is a result of the continued late identification of Serious Injury claims over the last six months, new claims continuing to enter the IBNR sources and an additional allowance on top of this reflecting the continued identification of Serious Injury claims from outside the pool of known IBNR sources.
- 2018 and later accident years are pegged to the 2016 and 2017 years with an allowance for the change in legal interpretation, exposure growth and the impact of safety initiatives. Given the 2016 and 2017 estimates have increased, the estimates for the 2018 and 2019 years have also increased. The 2020 year is marginally lower than our previous estimate as a result of no new Severe Traumatic Injuries being identified in the last six months and the drop in exposure in the second half of 2020 due to COVID-19; that is, we have allowed for the reduction in work levels in the June 2020 quarter to lead to slightly lower numbers of Serious Injury claims in this period.

Overall we have allowed for 200 IBNR claims in our projections, which equates to 2.7 injury years' worth of claims.

Underpinning our IBNR allowance is the assumption that the speed up in the identification of Serious Injury claims as shown in Figure 4.8 translates to fewer claims being identified well beyond the two year Income Support cap. Figure 4.10 shows the number of Serious Injury claims identified before and after development year three, split between claims that have already been identified and IBNR estimates.

Figure 4.10 – Serious Injury Identification by Duration from Injury

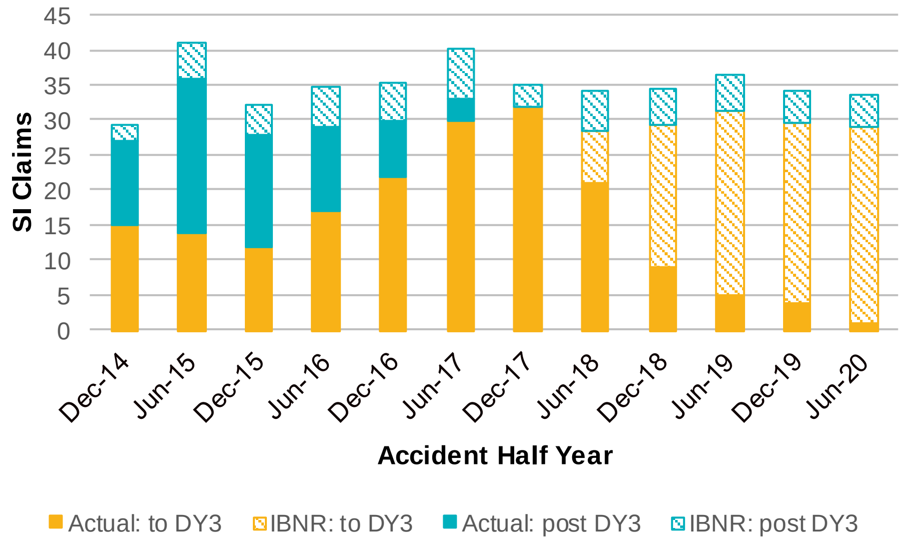


Figure 4.10 highlights the speed-up in identification, as well as the assumed reduction in the number of claims identified after development year three implicit in our current basis. Said another way, if our interpretation that "the increase in the number of claims identified at earlier durations indicates a change in pattern that will result in fewer late identifications" does not prove to be correct, the ultimate claim numbers will likely be higher than our current projection, with corresponding increases in the liability.

To put our allowances for Serious Injury claim numbers into context, we compare the remaining IBNR allowance for each accident year with the number of claims sitting in each 'IBNR pool' and other remaining open claims in Table 4.2 below.

Table 4.2 – Serious Injury IBNR vs Remaining Open Claims (pre-2017 accident years)

Accident Period	SI Application[1]	WPI Activity[2]	Other Open	Total Open Claims	Serious Injury IBNR	IBNR
Prior	5	106	211	322	5	1.6%
2007	2	20	24	46	2	3.3%
2008	5	11	33	49	2	4.5%
2009	10	18	28	56	3	6.1%
2010	3	21	45	69	1	1.9%
2011	5	25	53	83	2	2.7%
2012	5	27	59	91	3	3.5%
2013	9	47	63	119	4	3.2%
2014	11	78	83	172	7	4.2%
2015	19	93	109	221	8	3.4%
2016	23	200	207	430	10	2.4%
2017	14	275	288	577	13	2.2%
Total	111	921	1,203	2,235	61	2.7%

[1]Either in SI application dispute, or recent application without decision
[2]WPI assessment not completed, or WPI/s7 dispute

The table indicates that the allowances for remaining open claims to reach the Serious Injury threshold are low proportions of the open claims pool; it would take only small deviations from this to have large consequences for the outstanding claims liability – particularly for the 2016 and 2017 accident years where around 1,000 claims remain open. The trends in Figure 4.7 suggest that as the Serious Injury status and profiling for these periods becomes more certain, it is less likely that there will be offsetting 'out' movements to offset any IBNR claims in excess of our allowances. There is therefore more risk that our IBNR is too low than too high.

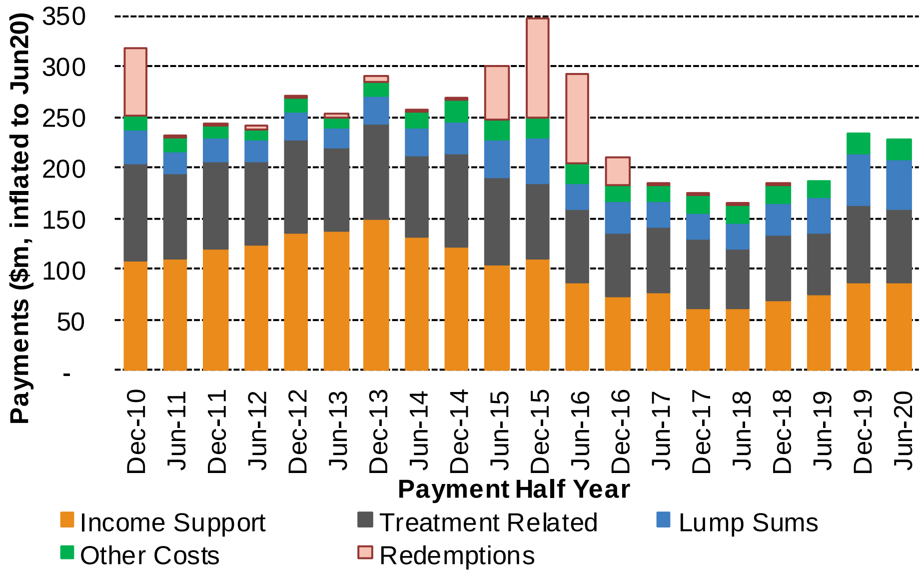
For accident years after 2017, ultimate Serious Injury numbers (excluding Severe Traumatic Injuries) are set in line with the average of 2016 and 2017, with an allowance for lower future Serious Injury claims arising from surgery and some exposure growth. While we assess that this is the best approach we can take for now given the limited information to date, it places a high level of reliance on the 2016 and 2017 accident years which themselves are still not fully developed, and further, this approach does not take into account any differences in the profile or management of claims from different periods, and so there is an implicit underlying assumption that the recent deterioration in short-term claims performance only affects the duration of those claims (subject to benefit caps) and won't result in higher WPI scores. In addition, it assumes that as a result of earlier Serious Injury identification there are far fewer late identified Serious Injury claims, as has been explained above.

Any adverse legal decisions that lead to more claims getting higher WPI scores would be likely to materially increase Serious Injury claim numbers. As explained in Section 3.2, new avenues of challenge to the assessment of WPI continue to emerge, and our basis continues to reflect the current operational implementation of these provisions, which is different to some recent SAET decisions. The Summerfield case is the latest where an appeal to the Full Court will be heard, and if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the Scheme. Given the high value of Serious Injury benefits, higher than expected Serious Injury claim numbers would materially increase the liability.

4.3 Overall Payment Experience

Figure 4.11 shows gross claim payments (before recoveries) in half-yearly periods over the last ten years, inflated to current values.

Figure 4.11 – Gross Claim Payments ($Jun20)



Gross payments of $228 million in the last six months were down 3% from the previous period. There was mixed experience by payment type:

- Income Support payments remained steady over the past six months, following increases of 15%, 9% and 12% in the three prior half years. These increases followed a series of steady reductions between 2013 and 2018.
- Treatment related costs reduced slightly, by 6%, following a 24% increase in the previous period.
- Lump sum payments also eased off slightly, by around 3%, following steep increases in payment levels over the preceding year and a half as part of the transition project.
- Redemption activity has now ceased under the RTW Act.

After allowing for recoveries of $5.8 million in the last six months, net claim payments of $222 million were $7.2 million (3%) lower than projected at the previous valuation. Table 4.3 shows the breakdown.

Table 4.3 – Payments: Actual vs Expected

Entitlement	Six Months to Jun-20				Split by Category	
Group	Actual	Expected	Act - Exp	% A - E	Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	86.7	85.2	1.5	2%	-0.5	2.0
Redemptions	0.0	0.0	0.0	n/a	0.0	0.0
Lump sums	49.3	57.0	-7.6	-13%	2.2	-9.8
Worker legal	8.2	7.0	1.2	18%	0.9	0.3
Corporation legal	10.2	10.8	-0.6	-6%	-0.2	-0.5
Medical	38.1	38.5	-0.4	-1%	0.3	-0.7
Hospital	9.9	9.9	0.1	1%	0.0	0.1
Travel	2.8	3.3	-0.5	-15%	-0.6	0.1
Rehabilitation	7.7	7.5	0.2	2%	0.2	0.0
Physical therapy	5.2	5.3	-0.1	-2%	0.0	0.0
Investigation	1.0	1.1	0.0	-3%	0.0	0.0
Other	8.0	7.6	0.4	5%	0.1	0.3
Common law	0.0	0.2	-0.2	-100%	-0.2	0.0
LOEC	0.1	0.1	0.0	0%	0.0	0.0
Commutation	0.0	0.2	-0.2	-86%	-0.2	0.0
Gross Payments	227.3	233.6	-6.2	-3%	2.0	-8.2
Recoveries	-5.8	-4.8	-1.0	21%	-1.0	0.0
Net Payments	221.5	228.7	-7.2	-3%	1.0	-8.2

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

- Income support payments were mostly in line with expected; payments were above expectations for Serious Injury claims and slightly below expectations for Short Term claims.
- Lump sum payments were 13% lower than expected due to lower payments from Serious Injury Claims; this was purely due to timing of payments, and does not represent a change in the underlying claims experience.
- Treatment costs were, overall, very close to expected.
- Worker legal costs were higher than expected for both Serious Injury and Short Term claims.

Our valuation basis for Short Term claims is discussed in the following sections: Income Support 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 (STC) only.

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments since the December 2019 valuation.

Table 5.1 – Valuation Results: Income Support

Valuation Results: STC Income Support			
Dec-19 Valuation	$m	$m	$m
Estimated Liab at Dec-19	169.9		
Projected Liab at Jun-20	172.7		
Jun-20 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	8.3	(0.5)	(7.8)
Estimated Liab at Jun-20 (Dec-19 eco assumptions)	**181.0**		
Impact of change in eco assumptions	1.2		
Estimated Liab at Jun-20 (Jun-20 eco assumptions)	**182.2**		

At June 2020 there is an actuarial strengthening of $7.8 million, reflecting the claims experience since December 2019, our valuation response relating to this claims experience, and our additional COVID-19 allowances. The actuarial strengthening comprises an increase of $8.3 million in the liability estimate slightly offset by $0.5 million lower payments than expected over the past six months.

The impact of economic assumptions is fairly minor for the Short Term claim IS payments; economic assumptions are 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 2020 with the expected payments from our December 2019 valuation projection.

Table 5.2 – Actual vs Expected Payments: IS

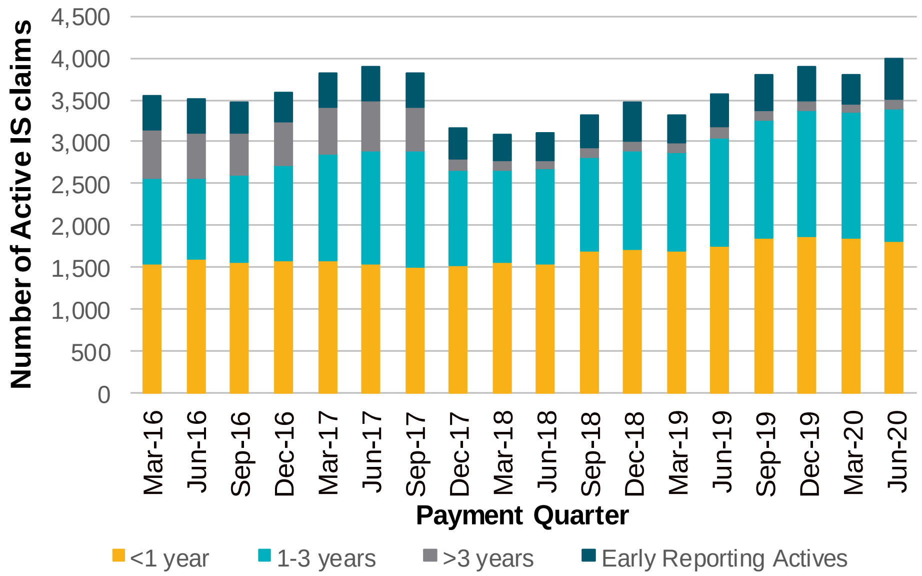
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	Difference
	$m	$m	$m	
To 30 Jun 05	0.4	0.3	0.1	47%
2005/06 - 2014/15	2.0	1.2	0.8	70%
2015/16 - 2016/17	1.6	1.6	(0.0)	0%
2017/18 - 2018/19	36.8	38.5	(1.7)	-4%
2019/20	31.2	30.9	0.3	1%
Total	72.0	72.4	(0.5)	-1%

IS payments were broadly in line with expectation in total; they were 2% ($1.4 million) lower than expected for the most recent three accident years, and 30% (or $0.9 million) higher for accident years prior to 2016/17. The experience for the years 2017/18 to 2019/20 compares to a December 2019 expectation that incorporated a significant strengthening of liability, and the experience has emerged broadly in line with these revised expectations. The unfavourable experience for accident years 2016/17 and earlier relates predominantly to some large back-pays in the period. Payments to date do not show any material impact of COVID-19 on existing claims.

5.2.2 Active Claims and Exits

Figure 5.1 shows the numbers of (quarterly) active IS claims, by duration, since the RTW Act came into effect.

Figure 5.1 – Numbers of Active IS Claims



During calendar year 2016, medium-duration actives (1-3 years) were low, as many transitional claims had exited via redemption in the lead-up to the RTW Act. With IS redemptions no longer being used, the numbers of 1-3 year actives increased up to June 2017; active claim numbers then declined notably in December 2017 (and similarly for >3 years claims) as a result of claims exiting due to the 104 week boundary on IS payments.

Since June 2018, active claim numbers have steadily increased, from just over 3,000 claims per quarter to almost 4,000 in June 2020. This increase is due to a combination of higher exposure, deteriorating claim frequency and longer claim durations. The fastest growth has been observed in 1-3 year actives, which have grown by more than forty percent since September 2018.

In Table 5.3 we compare the numbers of active IS claims at June 2020 with our December 2019 valuation projection. This has been done only for periods where we projected future active claims at the December 2019 valuation (accident quarter September 2017 and later).

Table 5.3 – AvE Active Claims

Accident Quarter	Proj from Dec-19 Val	Actual Actives	Act *less* Proj	Diff as % Proj
Sep-17	23	15	-8	-34%
Dec-17	28	37	9	32%
Mar-18	77	86	9	11%
Jun-18	236	232	-4	-2%
Sep-18	253	241	-12	-5%
Dec-18	268	274	6	2%
Mar-19	316	320	4	1%
Jun-19	369	383	14	4%
Sep-19	432	480	48	11%
Dec-19	546	545	-1	0%
Mar-20	684	660	-24	-4%
Jun-20	221	130	-91	-41%
Total	3,453	3,403	-50	-1%

Overall, active claim numbers at June 2020 for these periods were 1% below expectations. The experience varies by duration, in particular:

- The March 2020 and Jun 2020 accident quarters were impacted by the COVID-19 economic shutdown. The shutdown meant less work was undertaken, and as discussed in Section 4.1 we assess that there were fewer new injuries. The lower claim numbers have flowed through to lower income support numbers and lower active IS claims.
- Active claims are higher than expected for claims 1 to 2 years post injury, due to claims receiving income support for longer durations than expected.

5.3 Modelling of STC IS Payments

Our modelling approach for IS payments involves:

- **For all IS payments in the first three years after injury (development years 1 to 3) – a PPAC model** which models all IS entitlements at these durations; this includes IS payments to dependants, late IS payments (back-pay), claims with 'late starting incapacity' and IS payments made following surgery where the claimant would not otherwise have been entitled to IS.
  - At the June 2020 valuation we modelled IS entitlements separately for five main injury groups: Injury, Musculoskeletal, Psychological, Hearing Loss and Other. The split allows us to better reflect the specific continuance and average size profiles of each claim segment, and allow for the changing mix of injuries over time.
  - We have first modelled the 'underlying' payment experience, based on the return to work experience to 30 June 2020, which has been largely un-impacted by the COVID-19 shutdown. We have then separately made a specific allowance for future return to work impacts of the current economic climate.
- **For all IS payments more than three years after injury (development years 4 and later) – a PPCI model**, which splits out IS payments to dependants from other IS payments (mostly back-pay and IS payments following surgery). This PPCI model uses total claim numbers (not just IS claims) as the base.

This duration split of the modelling is unchanged from our December 2019 valuation, however the inclusion of injury splits for the PPAC model and a COVID-19 overlay is new for the June 2020 valuation.

Detailed valuation assumptions for Hearing Loss claims are not provided in Section 5.4, on materiality grounds, and these can be found in Appendix F. In the last five years there have been around two Hearing Loss claims per accident year that receive income support payments, and the separation of Hearing Loss is of less relevance for IS payments than it is for other payment types.

5.4 Valuation Basis

5.4.1 IS Payments in Years 1-3: PPAC Model

In this section we show the June 2020 continuance rate and PPAC selections for each individual injury group and compare them to the December 2019 combined (all injury types) selections. Later, we show the overall assumptions compared to the December 2019 valuation, to demonstrate the overall movement in the basis.

As explained above, for the June 2020 valuation there are three main components to the modelling:

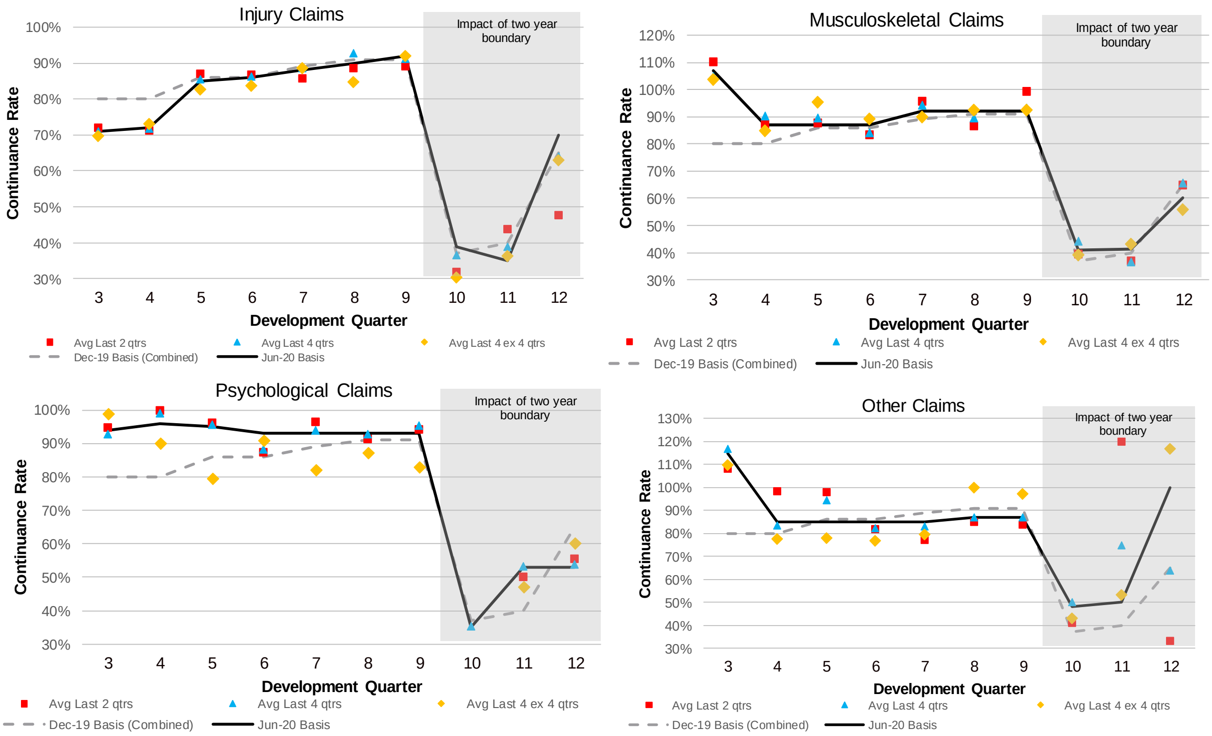
- Projected active claims: based on historical claims performance, as well as expectations of how this performance will emerge in future
- Projected average payment size (PPAC): based on historical claims performance
- Impact of the current economic climate on future return to work rates (COVID-19 overlay).

These three components of the income cost projection are described in more detail below.

Projection of Active Claims

Figure 5.2 below shows the recent continuance experience and our adopted bases at the December 2019 valuation (for all injuries combined) and the current valuation for each injury segment.

Figure 5.2 – Continuance Rates – by Injury Group



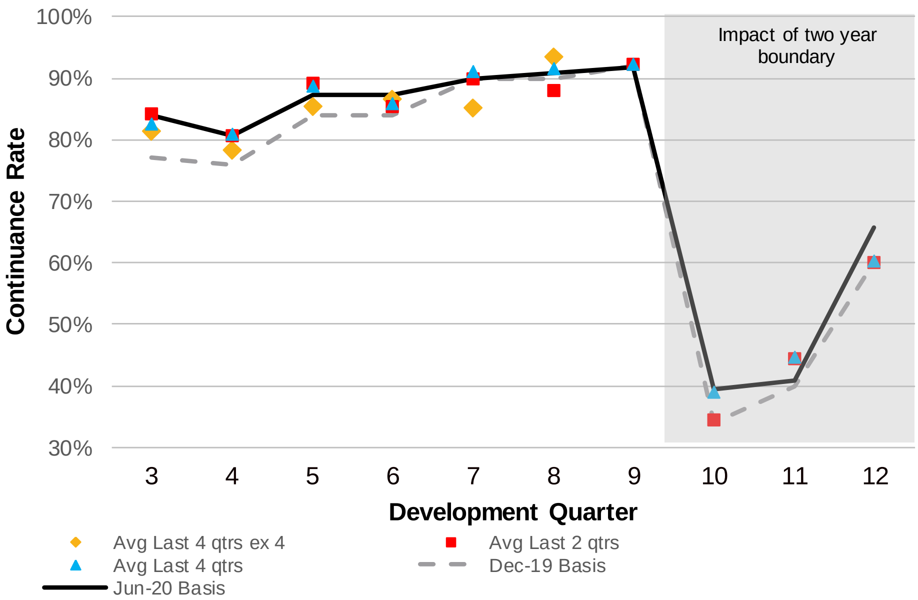
The valuation basis has been set close to the latest experience represented by the averages of the last 2 and 4 quarters. The 'average 4 excluding 4' metric shows the experience for FY2019, for comparison with the experience of FY2020 ('average last 4'). The key take-outs from Figure 5.2 include:

- There has been a significant deterioration in continuance rates for Psychological claims over the last year, across all durations, and our basis has been strengthened to reflect the latest experience. However the adopted basis up to development quarter 5 does not go as far as the 'worst' of the recent experience. This recognises claims management initiatives that have been implemented in the last six months and mainly impact on early duration claims; our assessment is a number of 'lead indicators' show that the adverse trends at earlier durations have been arrested.
- The experience for Musculoskeletal and Injury claims has been broadly consistent across FY2019 and FY2020.
- There has been some deterioration in continuance rates for Other claims over the last year. However this is a small cohort of claims, and we have taken a longer term view of the experience so as not to over-react to volatility.

The tougher economic conditions due to COVID-19 are essentially not reflected in the FY2020 continuance rate experience shown above, which has formed our initial basis. Further allowance for additional deterioration due to the economic conditions is considered in the 'COVID-19 overlay' section below.

Figure 5.3 shows the combined continuance rates compared to that selected for December 2019.

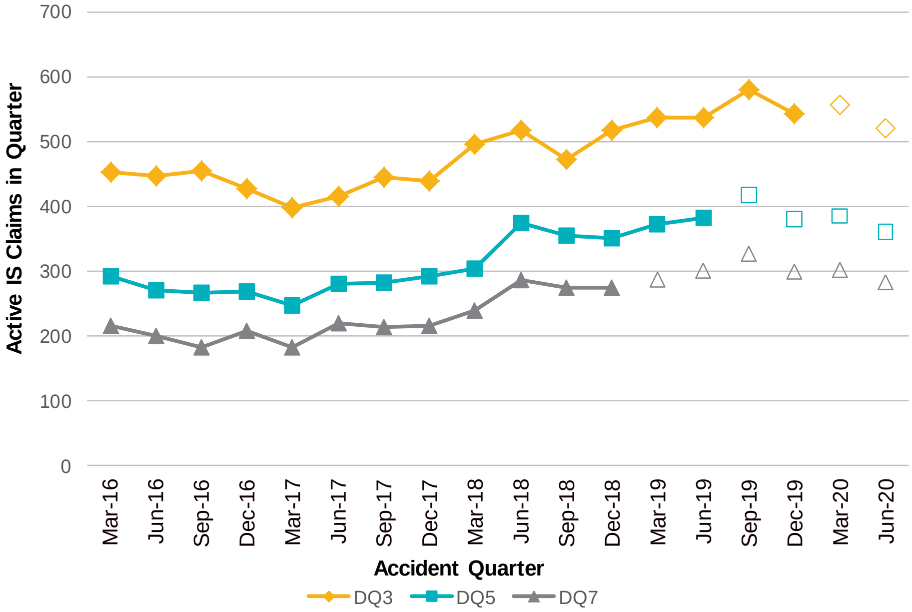
Figure 5.3 – Continuance Rates – Implied Overall Assumptions



The overall average continuance rates are higher at this valuation, reflecting the deterioration in continuance rate experience in FY2020 as seen in the two and four quarter averages in Figure 5.3. The main area of increase is at early durations, with continuance rates increased out to development quarter 6. As discussed above, the main driver of the higher overall continuance rates are Psychological claims, whose experience has deteriorated significantly over the last 12 months; they have also increased in number, thereby making a greater contribution to the overall continuance rates.

Figure 5.4 below shows the outworking of our projection of active claims at development quarters 3, 5 and 7. The solid lines show the actual number of active claims and the dots show our projection. While this is prior to our COVID-19 adjustments, it demonstrates the 'underlying' claims experience.

Figure 5.4 – IS Claims Reaching Specified Durations (before COVID-19 Adjustment)

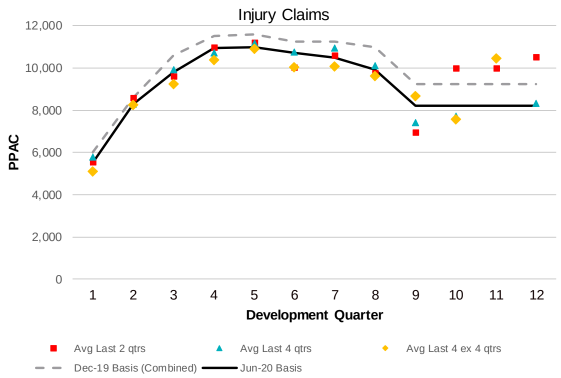


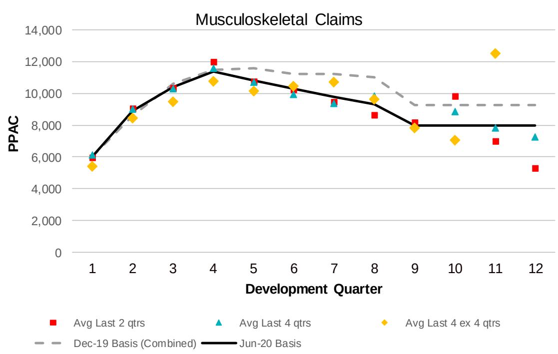
As Figure 5.4 shows, active IS claim numbers increased further in the last six months, reaching higher levels through development quarters 3 and 5, which is also projected to flow through to higher active claim numbers reaching development quarter 7. Our projection implies that the future active claims for the March 2020 accident quarter will be broadly consistent with other recent quarters, despite active numbers at this very early stage being lower than normal due to COVID-19 disruptions. The June 2020 quarter is expected to have lower claim numbers, reflecting COVID-19 disruptions that have reduced the number of new claims reported.

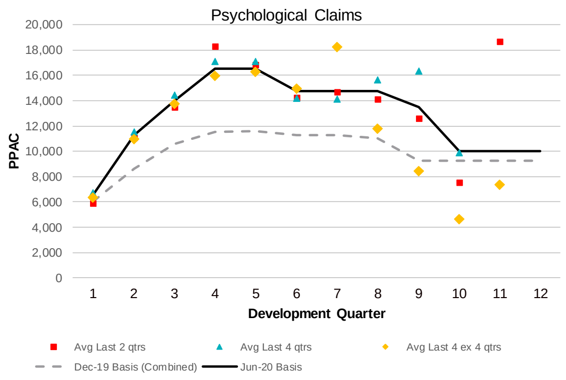
Payments per Active Claim

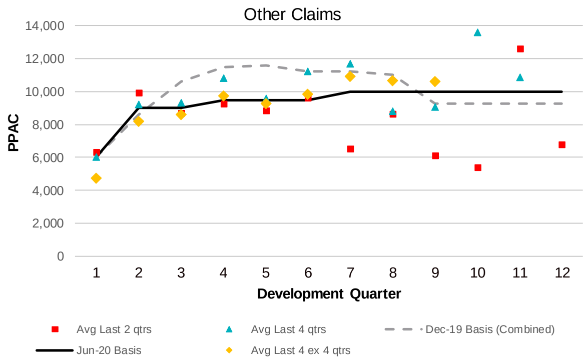
Figure 5.5 below shows the recent PPAC experience and our adopted bases at the December 2019 valuation (for all injuries combined) and current valuation for each injury segment. There are clear differences in payment levels for the different injury type segments.

Figure 5.5 – Payments per Active Claim ($Jun-20): Injury Groups





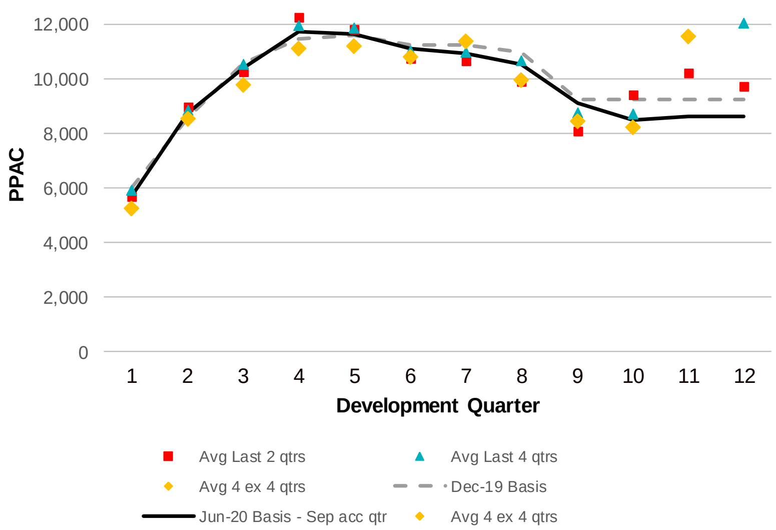




The FY2020 experience (Average last 4) has been broadly consistent with the FY2019 experience (Average last 4 excluding 4) across all injury types. The valuation basis has been set close to the latest experience.

Figure 5.6 shows the combined payment per active claim compared to that selected for December 2019.

Figure 5.6 – Payments per Active Claim ($Jun-20): Implied Overall Assumption



The recent PPAC experience is emerging higher than our December 2019 basis at Development Quarter 4, and lower for development quarters 6 to 10. We have responded with minor adjustments to our adopted PPACs as shown. The impact of these changes is a small reduction in the estimated liability.

COVID-19 Overlay

As discussed in Section 3.3, COVID-19 has impacted the economic climate and unemployment rates, and information from the claims agents indicates that this is already delaying RTW in some cases. Particularly for claimants with a new employer goal, we expect there will continue to be cases of delayed RTW over the coming months.

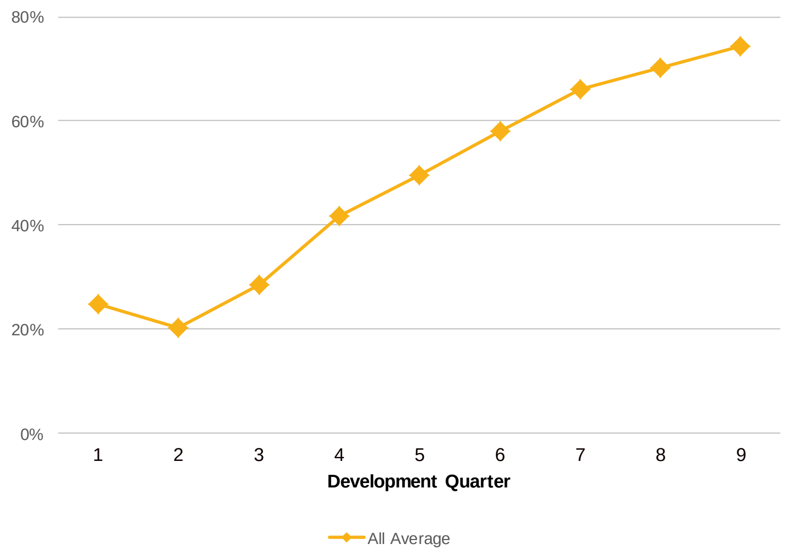
As an offset to these delays, ReturnToWorkSA is able to make use of legislative tools to cease Income Support where there is a full medical recovery, and ReturnToWorkSA has already identified a likely need to increase the number of such cessations. Our view is that the increase in cessations is unlikely to provide a full offset to exits that are delayed due to (1) additional notice periods being required and (2) some doctors being less likely to certify a worker as fully fit if there is no work.

The mechanism we have adopted for estimating future return to work deterioration is:

- Assess what proportion of active claims are on direct IS payments (and therefore not attached to pre injury employers) at each duration post injury. A large proportion of this group will have 'new employer goals', so they are most likely to be impacted by any delay in return to work due to the economic climate.
- Adopt an assumed level of deterioration in return to work rates that will apply to claims that are on direct payments. This includes assumptions about the shape and duration of the deterioration in return to work.
- Apply these assumptions to the collective (all injuries) active claim projection. For simplicity, and due to the high level of uncertainty, we have not attempted to estimate differential impacts for different injury types.

Figure 5.7 shows the proportion of active claims that are receiving IS benefits directly from ReturnToWorkSA rather than via employer reimbursement. The figure shows all injuries combined and excludes early reporting active IS claims.

Figure 5.7 – Proportion of Active IS claims on Direct Payments (All Injuries)



At early durations most claims are still 'attached' to the pre-injury employer and the proportion on direct payments is low. By development quarter 4, around 40% of active IS claims are on direct IS payments, and this increases to 60% at 6 quarters after injury. The above percentages are applied to the active claims projection to determine our estimate of the claims most at risk of RTW deterioration as a result of COVID-19; most of the impact is expected to affect mid- to longer-duration claims.

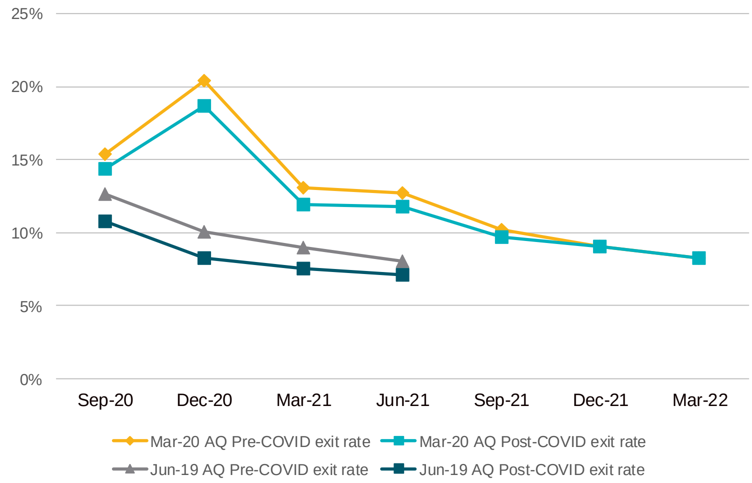
The next step is to estimate how significant the reduction in RTW will be for the impacted cohort. Our allowances anticipate that this will begin immediately, appearing in the September 2020 payment quarter via higher active claims (as a result of lower than normal RTW exits). We have assumed that claims in the most impacted cohort (claims on direct payments) will have one-third worse exit rates than the underlying experience. In accordance with our COVID-19 allowances that were explained in Section 3.3, the deterioration in RTW rates has been assumed to remain high through to December 2020, before improving from early 2021, such that by the end of 2021 there is no ongoing disruption to employment opportunities compared to pre-COVID levels.

Table 5.4 – Adjustment to Exit Rates due to Economic Conditions: Applied only to Claims on Direct IS Payments

Future Quarter	% Reduction to BAU exit rate
Sep-20	-33%
Dec-20	-33%
Mar-21	-25%
Jun-21	-17%
Sep-21	-8%
Dec-21	0%
Mar-22	0%
Jun-22	0%

The implication of these assumptions is a lower overall exit rate in the next five quarters. We have demonstrated the compound nature of these adjustments (as there are both time period and development period effects) by showing two accident quarter examples in Figure 5.8 below – this shows the implied pre-COVID and post-COVID exit rates for the June 2019 (an older) and March 2020 (a newer) accident quarters.

Figure 5.8 – Overall Pre-COVID and Post-COVID Exit Rates – March 2020 and September 2019 Accident Quarters

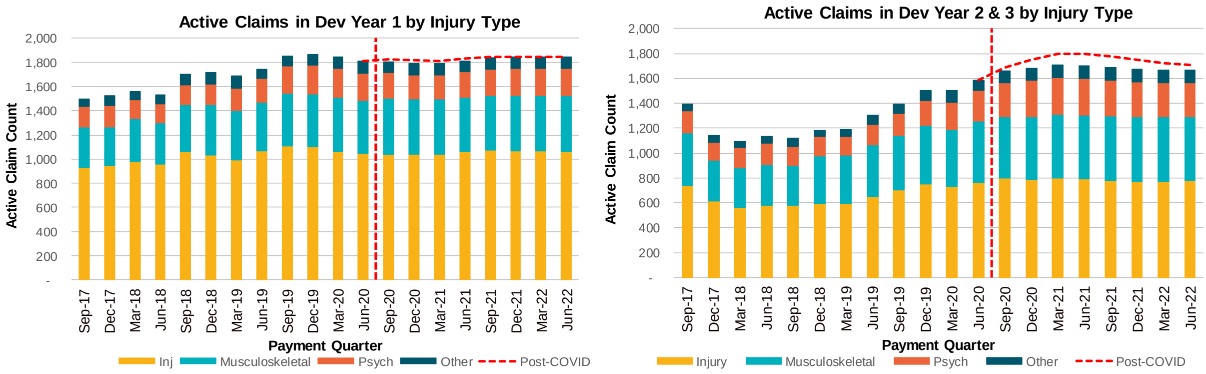


The key features of these adjustments are that: (1) the impact is proportionately larger on longer duration claims (where there is a higher likelihood of a new employer goal), and (2) the impacts are assumed to reduce over time before returning to normal levels at the end of 2021.

Figure 5.9 then shows the final 'post-COVID' active IS claims projection. The lower exit rates result in:

- The impact on active claims (as represented by the difference between the red dotted line and the bar heights) is anticipated to continue for the next 1 to 2 years
- Around 25 more active claims per payment quarter for injuries within the first year post injury (left hand graph)
- Around 100 more active claim per payment quarter for injuries in the second and third year post injury (right hand graph).

Figure 5.9 – Active Claims including COVID-19 Overlay



As discussed earlier, when developing our COVID-19 allowances we have also anticipated that ReturnToWorkSA will make use of income support cessations upon medical recovery; if this is not the case then the impacts would be greater than currently projected.

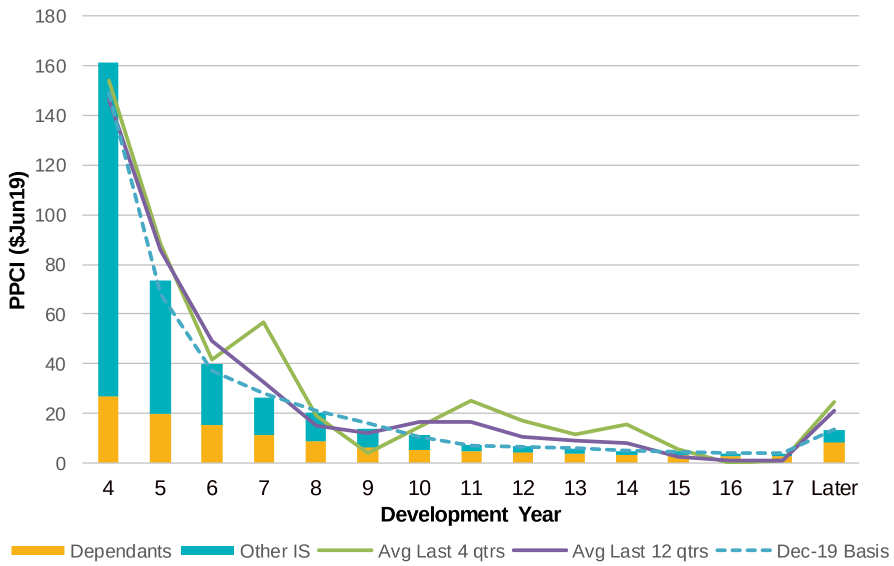
5.4.2 IS Payments after Year 3: PPCI Model

The overall adopted average PPCI size of about $396 per reported claim is made up of two components:

- The allowance for ongoing dependant claim benefits of $126 per reported claim, this is 19% higher than our previous allowance which reflects higher recent experience.
- An allowance for post-surgery IS payments, claims with ‘late starting incapacity’ and back-pay of about $270 per reported claim, unchanged from December (a reduction of 1.5% due to no inflation). This assumption will continue to be updated as more post-RTW Act experience emerges, given that there are still only eight accident quarters which have passed the three-year mark to date.

Figure 5.10 shows the adopted PPCI basis and its components. As this shows, our basis has been increased and is in line with the 4 and 12 quarter averages.

Figure 5.10 – Adopted IS PPCI Basis (Average IS Cost per Reported Claim)



5.5 Valuation Results and Actuarial Release

Table 5.5 sets out the components of the actuarial release for IS payments.

Table 5.5 – Components of Actuarial Release: Income Support

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.5
Difference from projected liability		
IS actives experience	12.9	
Continuance rates	(17.3)	
PPACs	2.0	
PPCI model	(0.3)	
COVID RTW Adjustments	(5.7)	
		(8.3)
Total		(7.8)

The actuarial strengthening of $7.8 million is made up of payments in the six months being $0.5 million lower than expected, and an $8.3 million increase in the projected liability from December 2019, composed of the following changes:

- A $12.9 million decrease due to actual active claim numbers at June 2020 being lower than projected ('IS Actives Experience'). We have attributed around $7 million of this to the reduction in new claims that has occurred as a result of COVID-19.
- A $17.3 million increase as a result of increases in the continuance rates used to project future IS claim numbers ('Continuance rates').
- A $1.7 million decrease due to changes in payment assumptions: an increase in tail costs (PPCI model) and a small reduction in lower front end average payment expectations (PPAC model).
- A $5.7 million increase due to our allowances for delayed RTW for some claims due to COVID-19.

Table 5.6 summarises these movements by accident period.

Table 5.6 – Actuarial Release for Income Support

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.7	1.7	0.0	0.1	(0.1)	-7%
2005/06 - 2014/15	10.3	10.2	(0.1)	0.8	(0.7)	-7%
2015/16 - 2016/17	6.4	6.5	0.1	(0.0)	(0.1)	-1%
2017/18 - 2018/19	45.4	47.6	2.2	(1.7)	(0.5)	-1%
2019/20	108.9	115.0	6.1	0.3	(6.4)	-6%
Total	172.7	181.0	8.3	(0.5)	(7.8)	-5%

6 Lump Sums – Short Term Claims

This section describes our valuation of lump sum payments for Short Term claims, including payments for claims which were not identified as a Serious Injury claim prior to the payment of the lump sum. A lump sum is payable to a worker who suffers a compensable disability that results in at least 5% whole person 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 from 1 July 2015.

Introduction

We value lump sums in five segments:

- "Death" and funeral claims
- "Hearing Loss" claims
- "First Paid" lump sums – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Hearing Loss claims); this is for non-economic loss only
- "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
- "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 Hearing Loss claims). These are now only allowable for claimants with injury dates prior to 1 July 2015 who lodged an application prior to 30 June 2016.

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 2019 valuation.

Table 6.1 – Valuation Results: Lump Sums

Dec19 Valuation	$m	$m	$m
Estimated Liab at Dec-19	295.2		
Projected Liab at Jun-20	303.2		
Jun-20 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	(10.8)	2.2	8.6
Estimated Liab at Jun-20 (Dec-19 eco assumptions)	**292.4**		
Impact of change in eco assumptions	5.0		
Estimated Liab at Jun-20 (Jun-20 eco assumptions)	**297.5**		

The June 2020 liability shows an actuarial release of $8.6 million since June 2020, reflecting a decrease of $10.8 million in the liability, and $2.2 million of higher claims payments. The remainder of this section deals with this impact while the impact of the change in economic assumptions is discussed in Section 11.3.2.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident Period	Payments in Six Months to Jun 20			
	Actual	Expected	Act - Exp	% Difference
	$m	$m	$m	
To 30 Jun 05	1.1	0.5	0.6	137%
2005/06 - 2014/15	5.5	3.9	1.6	41%
2015/16 - 2016/17	15.8	18.2	(2.4)	-13%
2017/18 - 2018/19	17.8	14.2	3.6	25%
2019/20	1.8	3.0	(1.3)	-42%
Total	42.0	39.8	2.2	6%

Payments were 6% higher than expected in the six months to 30 June 2020, with higher than expected payments for transitional injuries and injuries from 2017/18 to 2018/19 partly offset by lower payments in all other accident periods. The recent payment experience reflects a higher number of WPI assessments coming through from projects related to transitional claims and a speed up in the WPI assessment process.

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 and there have been changes in the pattern of payments. Table 6.3 below compares the actual and expected number of First Paid lump sums paid in the six months to June 2020.

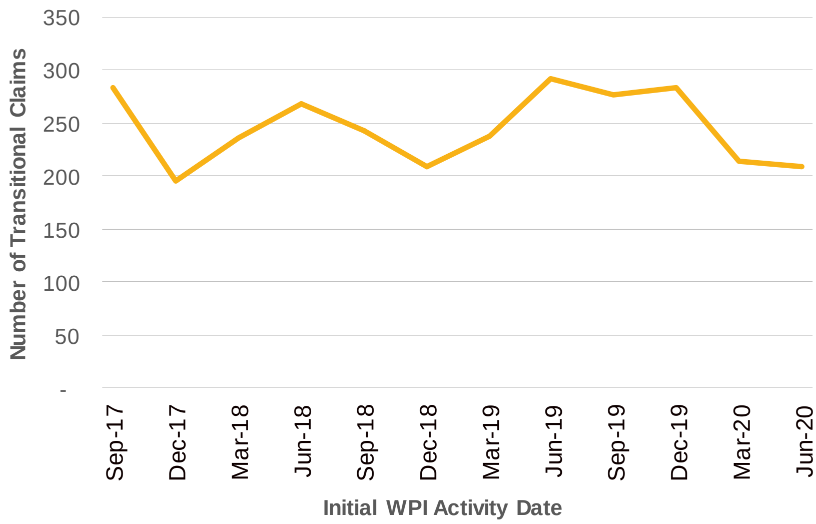
Table 6.3 – Actual vs Expected Payments: First Paid Lump Sums

Accident Period	Number of Payments in Six Months to Jun 20			
	Actual	Expected	Act - Exp	% Difference
To 30 Jun 05	30	2	28	1124%
2005/06 - 2014/15	121	99	22	22%
2015/16 - 2016/17	197	285	-88	-31%
2017/18 - 2018/19	278	176	102	58%
2019/20	1	1	0	-14%
Total	627	564	63	11%

The number of First Paid lump sums in the last six months was 11% higher than expected. This was mostly due to higher than expected payments for transitional claims as a result of the claims projects currently underway. Experience for RTW Act periods are variable, with lower than expected payments for 2015/16 to 2016/17 offset by faster than expected payments for the more recent accident periods.

Figure 6.1 below shows the number of transitional claims starting a WPI assessment process by initial activity date.

Figure 6.1 – Number of Transitional Claims commencing WPI Activity



There still appears to be a significant number of claims starting the WPI assessment process as at June 2020. The increase in activity from the June 2019 quarter onwards coincides with the start of the transition claims project as explained in Section 3.4.1. As the claims project has now been operating for over 12 months, we would have expected the number of claims starting a new WPI assessment to have reduced significantly by now given the finite number of claims in the transitional cohort. Given the lag from claims starting assessments up to finalisation of payments, this suggests there is still a significant number of transitional claims who are yet to be paid a lump sum.

To test the reasonableness of our basis for older accident years, Figure 6.2 below summarises a breakdown of open claims in the most likely sources of future lump sum payments (left-side bar) which is compared with the IBNR allowance for First Paid lump sums (right-side bar) for each accident year up to 2016.

Figure 6.2 – Comparison of Identified Potential Future Lump Sum Claims and Model IBNR Allowance (for accident periods up to June 2016)

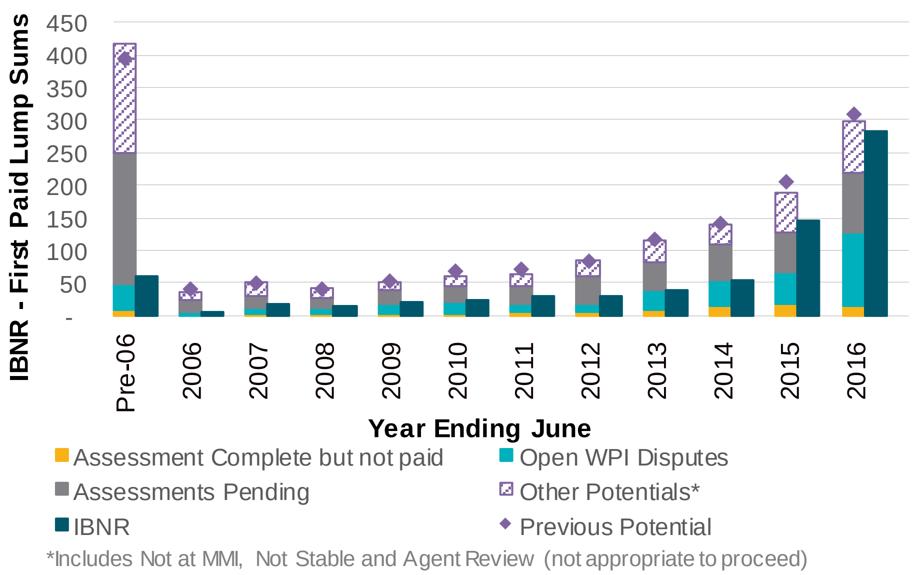


Figure 6.2 shows that:

- The number of identified potential future lump sum claims has reduced marginally for most accident years, due to high settlement activity following ReturnToWorkSA's transitional claims project.
- Pre-2006 accident periods have a high number of WPI assessments in progress. We understand this is linked to activity by ReturnToWorkSA to undertake WPI assessments for all 'prior claims' on workers currently having a WPI assessment. Most of these assessments are expected to end up with a WPI lower than 5% and therefore not be entitled to a lump sum payment. Our adopted IBNR allowance is unchanged for these accident periods and allows for around 35% of open disputes and 15% of pending assessments to be successful.
- For accident years 2006 to 2014 which are initially based on the chain ladder approach, there are a large number of claims with pending WPI assessments, open disputes or potential future assessments. Our previous valuation included an additional IBNR allowance in addition to the chain ladder projections to reflect the number of pending assessments and open disputes, and we have increased the allowance at this valuation by around 10 claims per year to reflect the continuing high number of claims with WPI activity in the pipeline, even though claims in these cohorts have been receiving payments (that is, the pipeline has not reduced, even though other claims were finalised). Our basis allows for around 35% of open disputes and 30% of pending and future assessments to receive a lump sum.
- For the 2015 and 2016 accident years, we have reduced our IBNR allowance by 50 and 40 claims respectively in response to the declining number of workers starting a WPI assessment for these injury years. Our revised basis allows for around 35% of open disputes and 60% of pending and future assessments to receive a lump sum. In short, given the increasing duration from injury and declining rate of new assessments starting, it no longer seems likely that the previous estimates could be reached.

Beyond 2016, we have reduced our projection of ultimates by 20 claims per year to realign our basis with the proportion of non-hearing loss claims receiving a lump sum payment prior to 2016. To be clear, our lump sum basis does *not* factor additional lump sum claims to emerge due to the longer durations of Income Support claims in the last two years. We will continue to monitor the lump sum experience over the coming valuations and adjust the basis as necessary.

For the June 2020 half-year and beyond, we have put through a reduction of 30 claims per year in line with the reduction in ultimate claim numbers due to the impact of COVID-19 and reducing exposure.

Figure 6.3 shows the projected ultimate numbers of First Paid lump sums, split into paid and IBNR claims. The 2015 and 2016 years show the impact of the noticeable slowdown in lump sum payments, with the number paid up to the end of the fourth development year (the height of the red part of the bar) being much lower than occurred historically.

Figure 6.3 – Projected Ultimate Numbers of First Paid Lump Sums

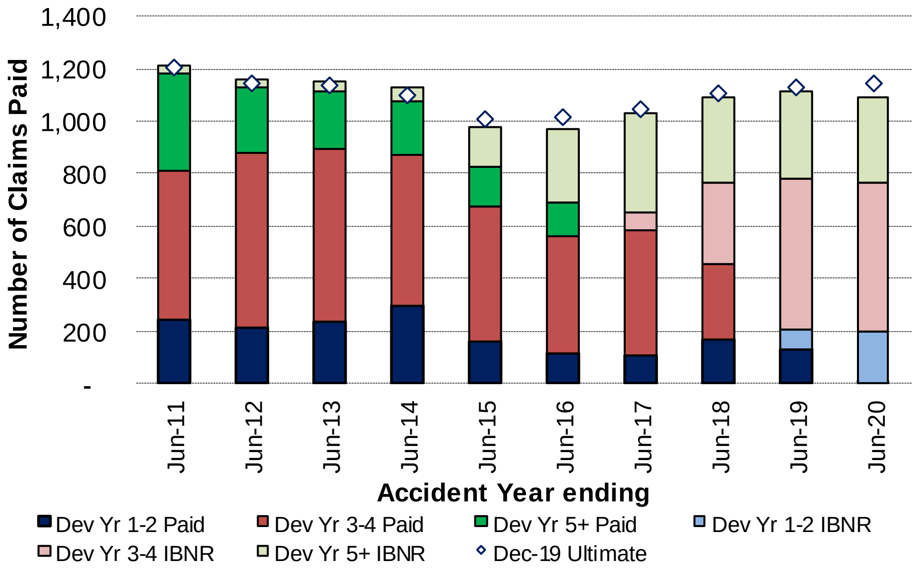
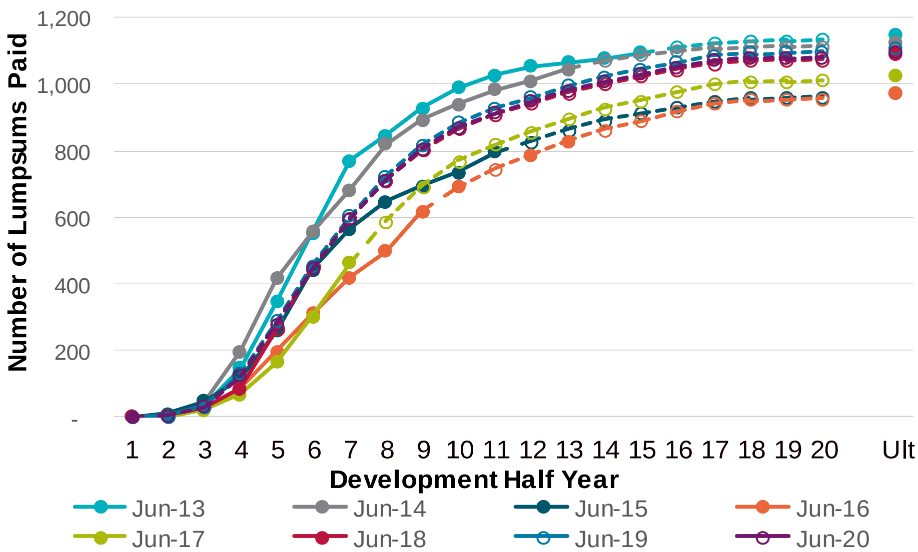


Figure 6.4 shows the cumulative number of First Paid lump sums by development year for accident years 2013 to 2020. The dotted line represents the projected development based on our selected payment pattern.

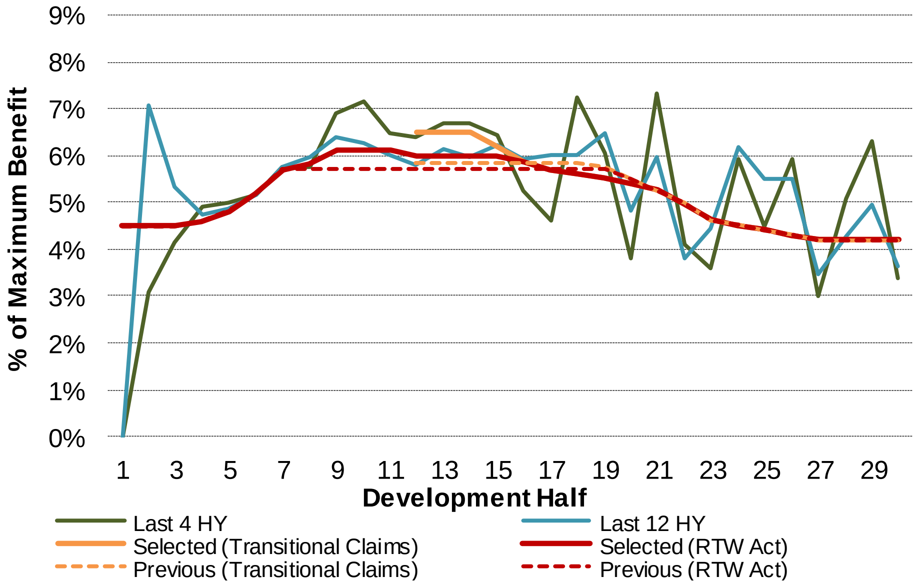
Figure 6.4 – First Paid Lump Sums Development



As Figure 6.4 shows, lump sum payments for all RTW Act accident years are currently sitting below pre-reform years. For 2018 and later years, the emerging experience suggests a faster payment pattern is occurring compared to 2016 and 2017. Our selected payment pattern up to development half-year 10 reflects this faster payment experience.

Figure 6.5 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

Figure 6.5 – First Paid Lump Sums by Development Half-Year (as a percentage of the maximum benefit)



We have reshaped our adopted size selections for both RTW Act and Transitional Claims at this valuation in response to the emerging experience. At an overall level, the average First Paid lump sum is expected to be 5.4% of the prescribed maximum benefit, or around $26,500.

Over the 12 months to June 2020, ReturnToWorkSA implemented new assessor guidelines with the goal of ensuring consistency across assessments. We have not observed any material change in the size of WPI assessments since the introduction of these guidelines and therefore have not built in any allowance for sizes to change in response to this in our basis.

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).

The number of Top Up lump sum payments in the six months to 30 June 2020 was slightly lower than expectations. Average payments sizes were around 157% higher than expected, albeit on very few payments. We have increased the selected Top Up lump sum sizes at this valuation consistent with the emerging experience and our basis allows for 81 future payments. While there is uncertainty around the success rate of the current top up applications and related disputes, the value is not large.

Details are included in Appendix G.

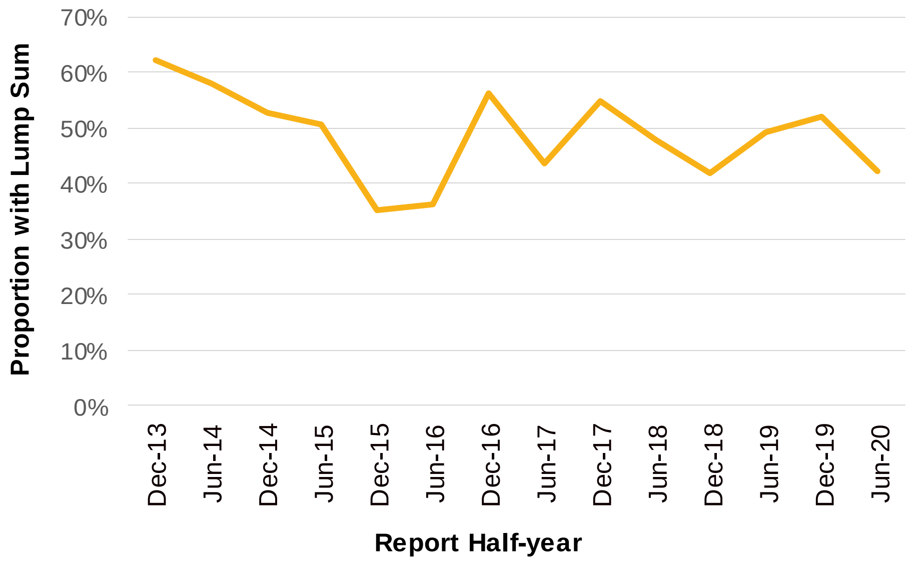
Valuation Basis for Hearing Loss Lump Sums

When estimating the number of future Hearing Loss lump sums, there is no differentiation between First Paid and Top Ups. In undertaking the Hearing Loss lump sum projection, we have been conscious of the recent increase in the number of reported hearing loss claims.

Hearing Loss lump sum payments over the last six months were around 9% lower than expected, but still emerged higher across most accident periods. As noted in Section 3.4.4, there have been some delays in interstate assessors undertaking assessments due to COVID-19, and we have interpreted the lower than expected payments as a temporary slowdown in hearing loss assessments which we expect to eventually catch-up once travel restrictions ease from COVID-19.

Figure 6.6 below shows the number of Hearing Loss lump sum payments as a proportion of overall hearing loss claim reports, as a test of whether the rapid growth in new claims has led to any apparent change in the utilisation of lump sums. Note the lump sum payments have been lagged by half a year to account for the delay between claim report and payment.

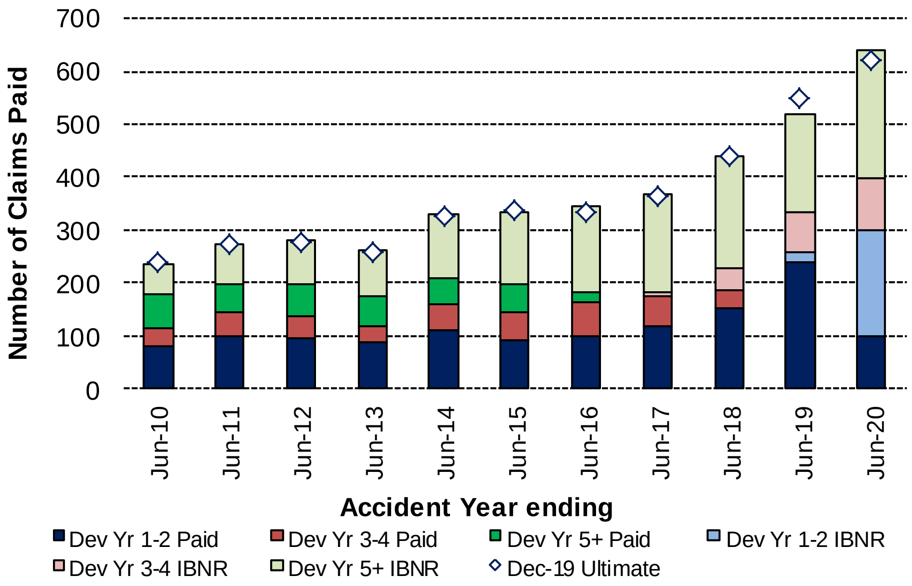
Figure 6.6 – Proportion of Hearing Loss Claims Getting a Lump Sum



As this shows, the proportion of Hearing Loss claims receiving a lump sum has been relatively stable at around 50%, and our projection has been set to be consistent with this.

Figure 6.7 shows the projected numbers of Hearing Loss lump sums by accident year. The tail of Hearing Loss IBNR claims is considerably longer than for First Paid lump sums, with claims still occurring many years after the injury (as is common for Hearing Loss claims).

Figure 6.7 – Projected Ultimate Numbers of Hearing Loss Lump Sums

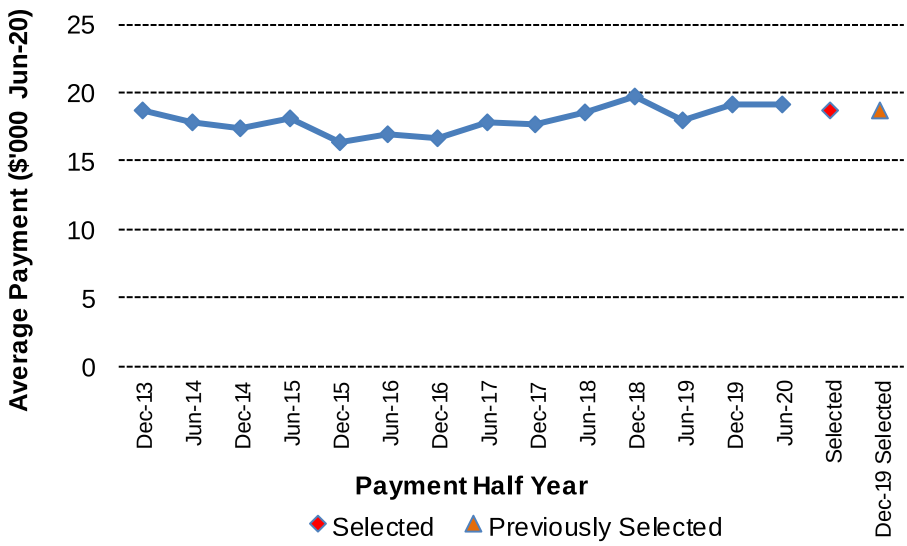


We adopt a frequency approach relative to hearing loss claims for accident periods after June 2017 to allow for changes in payment speeds, given the somewhat "lumpy" nature of Hearing Loss lump sum payments. At this valuation, we have made minor and generally offsetting changes to our valuation basis to reflect the emerging experience observed for overall hearing loss claims in 2019 and 2020. For June 2020 half-year and onwards, we have reshaped our selection of the ultimate hearing loss lump sum payments in line with the changes we have put through for the ultimate number of hearing loss claims due to delays from COVID-19 as discussed in Section 4.1.1.

Periods prior to June 2017 adopt a chain ladder approach. Our selected development factors are unchanged at this valuation.

Figure 6.8 shows the overall average benefit paid for a Hearing Loss lump sum claim. The selected average Hearing Loss benefit at this valuation is around $19,000 per claim which is unchanged from our previous valuation. The selected average size is consistent with the experience over the last two years.

Figure 6.8 – Average Lump Sum Hearing Loss Payment ($Jun-20)



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 27% and 26% lower than expected respectively. Death lump sums experience tends to be volatile, and at this valuation we allowed the favourable numbers experience to flow through to the basis, but have not changed our expectation of future Death claim numbers.

Figure 6.9 shows the projected numbers of Death lump sums by accident year.

Figure 6.9 – Projected Ultimate Numbers of Death Lump Sums

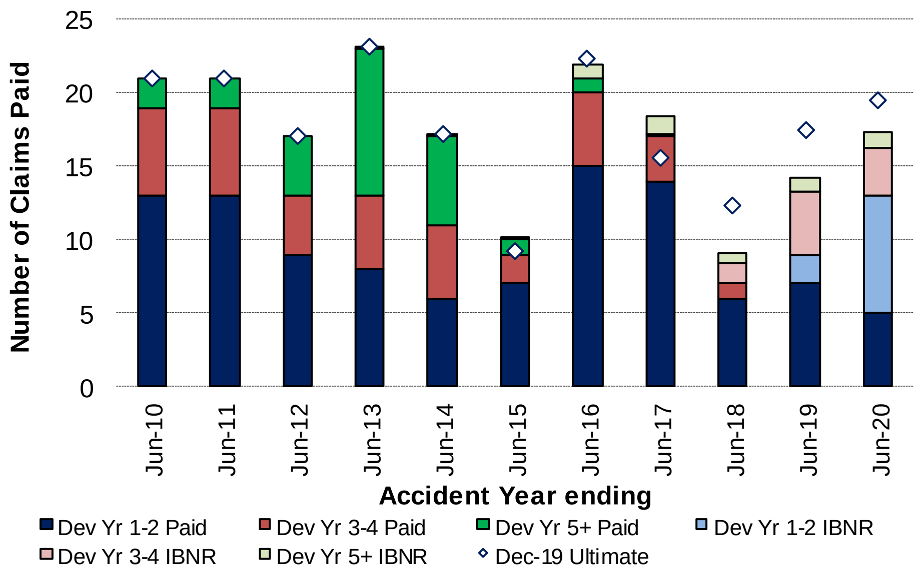
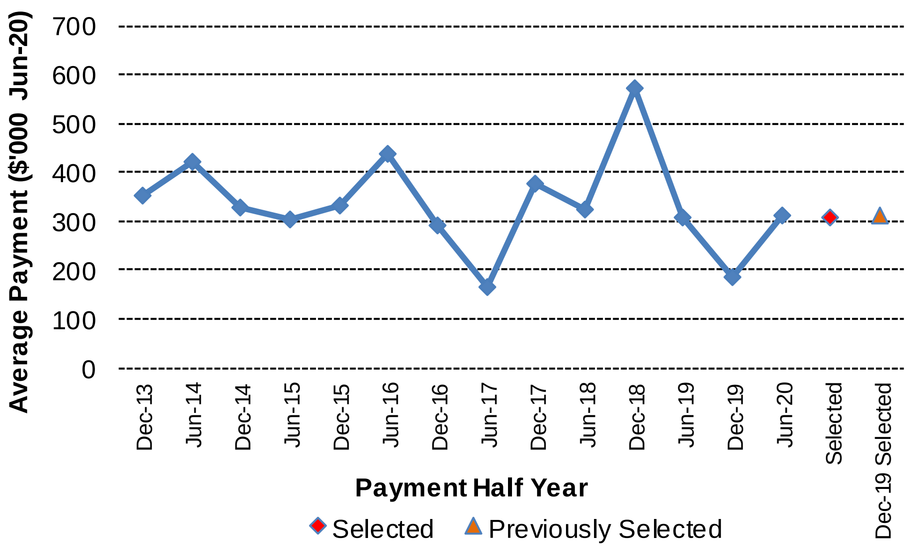


Figure 6.10 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.10 – Average Lump Sum Death Payment ($Jun-20)



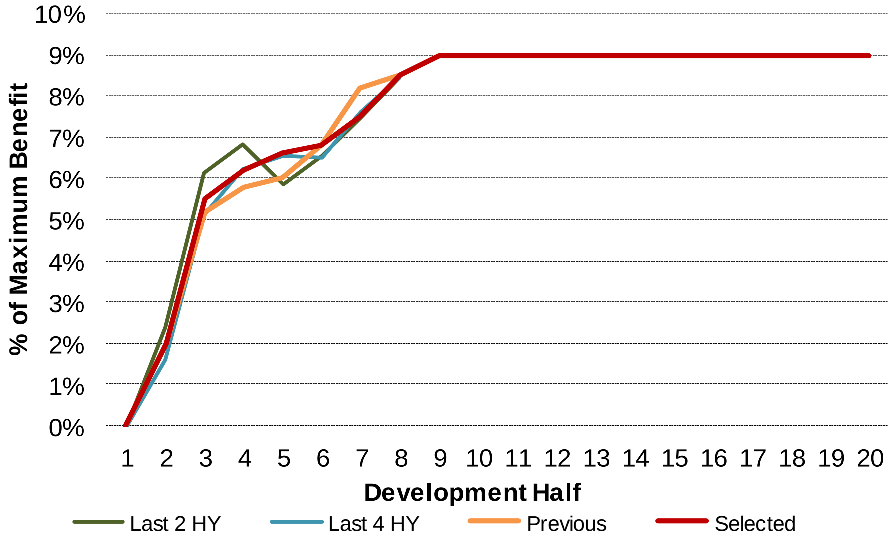
Our adopted size is unchanged at this valuation after adjusting for (CPI) inflation and is consistent with the long-term experience.

Valuation Basis for Economic Loss Lump Sums

Economic Loss lump sums are paid to a worker for loss of future earning capacity. This benefit is only available under the RTW Act and is available to injuries from 1 July 2015. As expected, payments have emerged in line with First Paid lump sums. We have continued to align the ultimate number of Economic Loss lump sum payments with First Paid lump sums.

Figure 6.11 shows the average size of Economic Loss lump sum payments as a percentage of the maximum benefit available. We have reshaped our size selection for development halves 3 to 8 to be more consistent with the emerging experience. The overall impact is broadly neutral.

Figure 6.11 – Economic Loss Lump Sum Size by Development Half-Year (as a percentage of maximum benefit)



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 2019 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	4.1	4.2	0.1	0.6	(0.7)	-17%
2005/06 - 2014/15	20.3	21.3	1.1	1.6	(2.7)	-13%
2015/16 - 2016/17	60.4	61.2	0.8	(2.4)	1.6	3%
2017/18 - 2018/19	130.6	121.5	(9.0)	3.6	5.4	4%
2019/20	87.9	84.2	(3.7)	(1.3)	5.0	6%
Total	303.2	292.4	(10.8)	2.2	8.6	3%

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

The $10.8 million release in projected liability combined with payments being $2.2 million more than expected in the six months, results in an actuarial release of $8.6 million. The actuarial release comes from recent accident years, with the pre-RTW Act claims generally increasing in cost.

Table 6.5 breaks down the actuarial strengthening by source.

Table 6.5 – Components of Actuarial Release: Lump Sums

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(2.2)
Changes to Valuation Basis		
First paid and eco loss numbers	9.7	
First paid size and payment pattern	1.1	
Hearing loss numbers	0.2	
Eco loss size	(0.2)	
Subtotal		10.8
Total		8.6

Higher than expected payments in the six months to June 2020 contribute a strengthening of $2.2 million. This is offset by changes to the expected number of First Paid and Economic Loss lump sum claims resulting in a decrease of $9.7 million, which is mainly due to reductions in projected ultimate claim numbers for RTW Act periods. Higher sizes for First Paid lump sums, offset by a faster payment pattern contribute to a $1.1 million release. The remaining changes for Hearing Loss numbers and Economic Loss sizes are small and broadly offsetting.

7 Treatment and Related Costs – Short Term Claims

Workers who suffer a compensable injury are entitled to compensation 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 2019 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Dec19 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-19	134.2	20.3	5.7	15.9	8.4	7.9	192.3
Projected Liab at Jun-20	136.7	21.0	5.8	16.2	8.5	8.1	196.3
Jun-20 Valuation							
Impact of experience/OSC - Movement in liab	4.7	(3.4)	(0.2)	(1.1)	(0.0)	0.2	0.1
Estimated Liab at Jun-20 (Dec-19 eco assumptions)	**141.4**	**17.5**	**5.6**	**15.1**	**8.5**	**8.2**	**196.3**
Impact of change in eco assumptions	1.6	0.1	0.0	0.0	0.0	0.0	1.8
Estimated Liab at Jun-20 (Jun-20 eco assumptions)	**142.9**	**17.7**	**5.7**	**15.1**	**8.5**	**8.3**	**198.2**
AvE Payments - six months to Jun-20	0.3	(0.0)	(0.6)	0.2	(0.0)	0.1	(0.1)
Actuarial Release at Jun-20	(5.0)	3.5	0.7	1.0	0.1	(0.3)	0.0

The main movements from our December 2019 projection of the June 2020 liability are:

- An increase of $0.1 million in the liability, which is the net result of a number offsetting ups and downs, reflecting the recent experience and valuation response. This is offset by payments in the period being $0.1 million less than expected resulting in virtually no actuarial change.
- Movements in economic assumptions, increasing the treatment related liabilities by $1.8 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 exceptions to this are payments for medical aids and appliances, payments related to approved surgeries, and medico-legal costs (for example related to medical assessments for WPI). Our modelling approach captures these features using:

- 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; for up to three years from the date of injury.
- Long term model (PPCI) – this is a quarterly model used for the valuation of all other treatment related liabilities, namely:
    - For Medical payments (excluding Aids and Appliances): to claims that are not receiving IS payments.

- For claimants receiving Medical payments (excluding Aids and Appliances) alongside IS payments more than three years from the date of injury (generally due to long delay to first IS incapacity).
- 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 near zero, due to a combination of (1) claimants who do not commence their incapacity until sometime after their injury, and (2) payment delays.
  - "Transitional claims" – those that occurred prior to 30 June 2015: for these claims, the duration boundaries commenced on 1 July 2015 and so direct treatment payments will generally have ceased soon after 30 June 2018. The "Transitional claims" selections generally only apply for a small number of projection quarters before reverting to the "RTW Act claims" selections; the exception is certain benefit types where there is still a high level of payments related to dispute activity, in which cases we have extended the period where transitional selections are applied.
- As noted in Section 3.3, as a result of COVID-19 there are areas where there was limited access to certain treatments in the June 2020 quarter. On the flip side, we have observed a noticeable speeding up of medical payments in the same period. We have analysed the payment experience excluding the June 2020 quarter where necessary in setting our valuation basis, and been conscious of the need to allow for any catch-ups in payments.

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

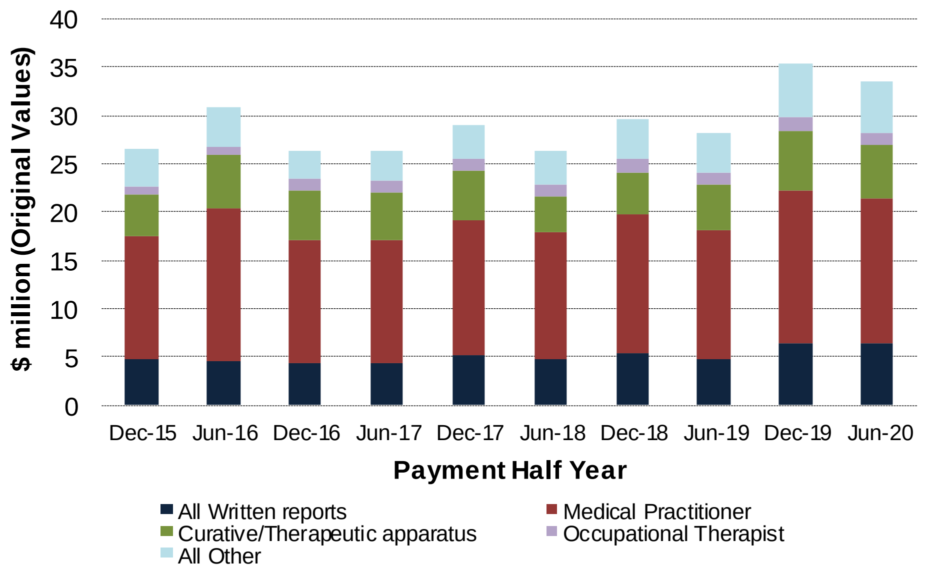
7.3 Medical

Medical payments includes payments for treating doctors, written medical reports, therapeutic devices, pharmaceuticals, psychologists, dentists and other allied health (except for physiotherapy costs which are separately modelled in Section 7.7), including medico-legal costs.

Payments vs Expectations

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

Figure 7.1 – Medical Half-Yearly Payments



After a period of stability, Medical payments continued to be high in the June 2020 half-year following similarly high payments in the December 2019 half-year. The higher payments were evident across all main types of services.

Table 7.2 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

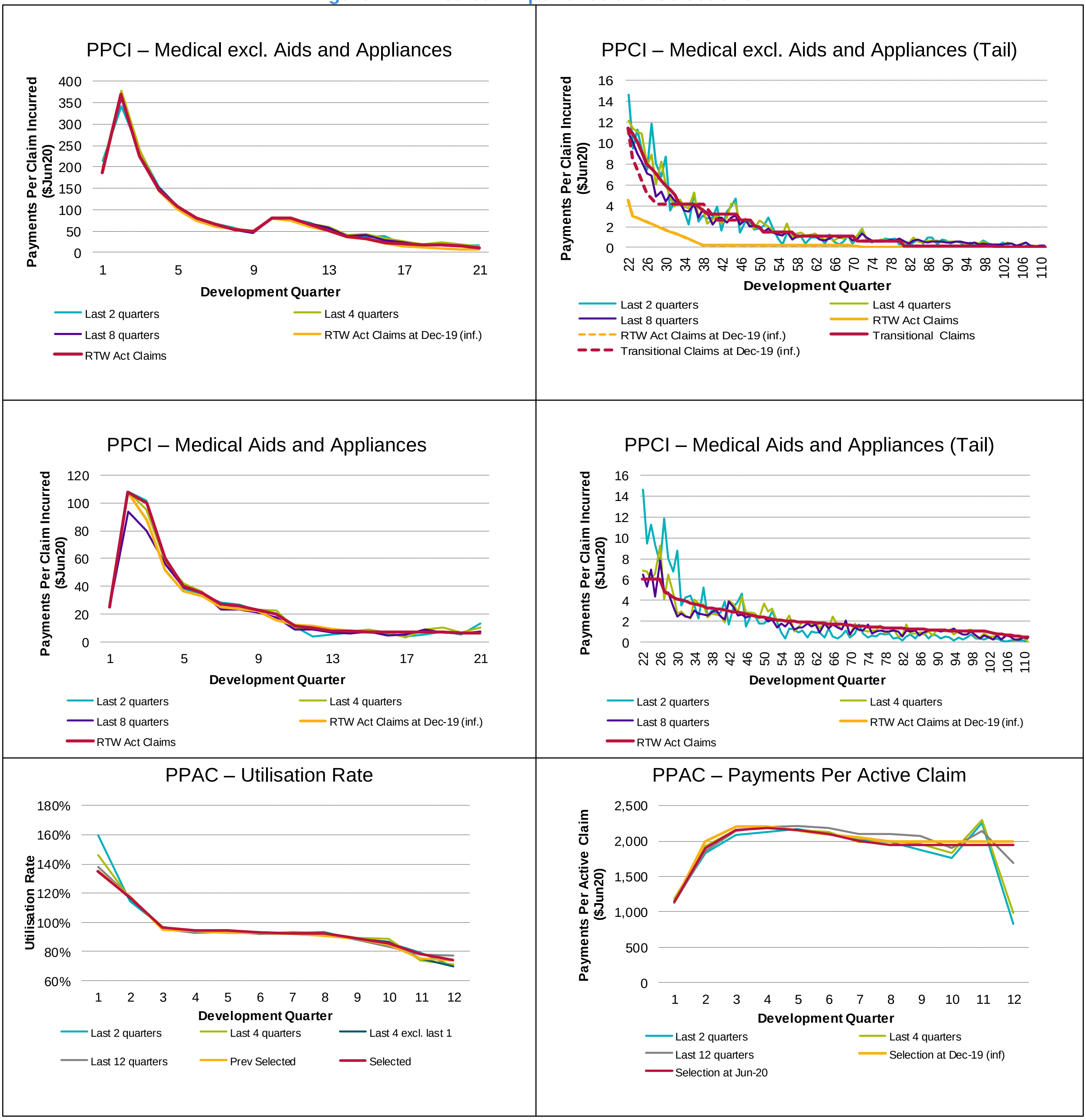
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	1.0	1.1	(0.1)	-8%
2005/06 - 2014/15	2.7	2.0	0.7	33%
2015/16 - 2016/17	2.2	2.0	0.2	11%
2017/18 - 2018/19	12.8	12.6	0.2	2%
2019/20	14.8	15.6	(0.7)	-5%
Total	33.5	33.3	0.3	1%

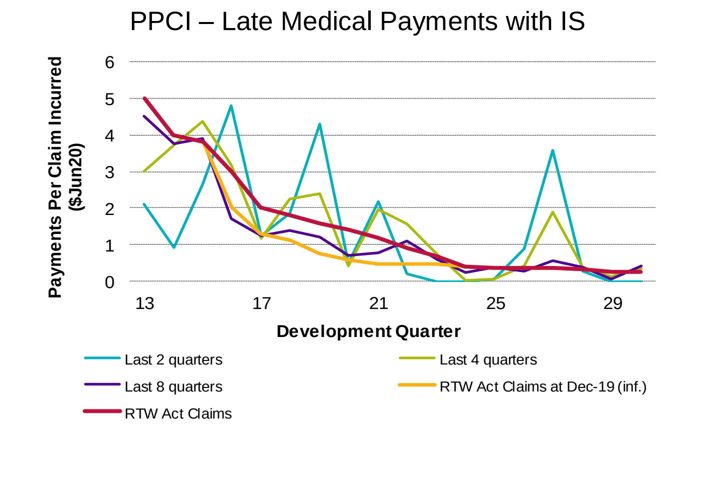
Overall, payments were 1% higher than expected in the six months to June 2020. This was due to a combination of lower than expected payments for the 2020 injury year, which is partly COVID-19 related, offset by higher than expected payments for prior years.

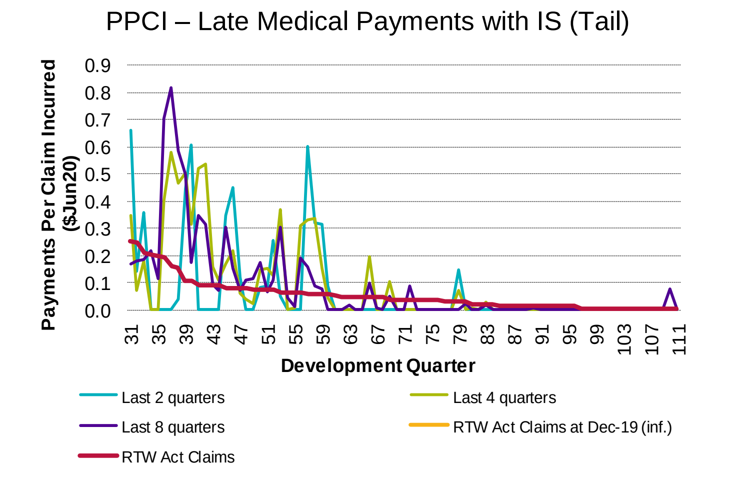
Valuation Basis

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:

- PPCI (Medical, excluding aids and appliances):
  - We increased our basis for RTW Act accidents for the first five development years in response to the emerging experience. We have not fully reflected the latest experience as a key driver of the higher payments is medico-legal costs which we expect to be temporarily inflated due to the activity around the transitional claims project and associated dispute activity.
  - Our valuation basis for transitional claims includes additional payments over the next six months and reflects the high levels of written report activity currently. We have increased the tail allowance for transitional claims at the current valuation in response to the experience observed over the past 18 months.
- PPCI (Medical aids and appliances)
  - We adopt the same PPCI pattern for transitional claims and RTW Act claims.
  - Payments continue to be high up to develop quarter 10 which we attribute to increased hearing aid costs from increased activity around hearing loss claims. We have increased our valuation basis in response from development quarters 3 to 10, as this appears to be a permanent feature now. From development quarters 11 to 13, we have reduced our selection in line with the emerging experience. Beyond development quarter 13, our selection is unchanged and is in line with the experience over the last year.
- PPAC:
  - Medical payments have increased marginally more than the already increasing IS payments, with utilisation levels increasing over the last six months for claims that are receiving an IS payment. In response, we have increased our selected basis for development quarters 3 to 11.
  - PPACs decreased across most durations over the last six months. We have responded to this experience and reduced our PPACs for development quarter 2 to 12.
- PPCI (late medical payments for claimants also receiving IS):
  - The dollar value of these medical payments is small; our PPCI selections have been increased at this valuation, consistent with the experience observed over the last four quarters.

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 2019 valuation.

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	13.9	13.9	0.1	(0.1)	0.0	0%
2005/06 - 2014/15	29.3	29.9	0.6	0.7	(1.2)	-4%
2015/16 - 2016/17	11.2	12.0	0.8	0.2	(1.0)	-9%
2017/18 - 2018/19	33.7	35.9	2.2	0.2	(2.4)	-7%
2019/20	48.6	49.6	1.0	(0.7)	(0.3)	-1%
Total	136.7	141.4	4.7	0.3	(5.0)	-4%

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

The $4.7 million increase in the projected liability combined with actual payments being $0.3 million higher than expected results in an actuarial strengthening of $5.0 million.

Table 7.4 breaks down the actuarial strengthening by source.

Table 7.4 – Components of Actuarial Release: Medical

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.3)
Changes to Valuation Basis		
Claim numbers	2.0	
IS active projection changes	(1.9)	
PPACs and utilisation	0.3	
PPCIs	(5.1)	
Subtotal		(4.7)
Total		(5.0)

The main drivers of change are:

- Lower ultimate claim numbers result in an actuarial release of $2.0 million; this is primarily attributable to the COVID-19 reduction in work.
- Higher Income Support actives increase the liability by $1.9 million.
- Changes to PPAC and utilisation decrease the liability by $0.3 million.
- Increases to PPCI assumptions (i.e. higher costs per claim) for other medical payments have resulted in a $5.1 million increase in the liability.

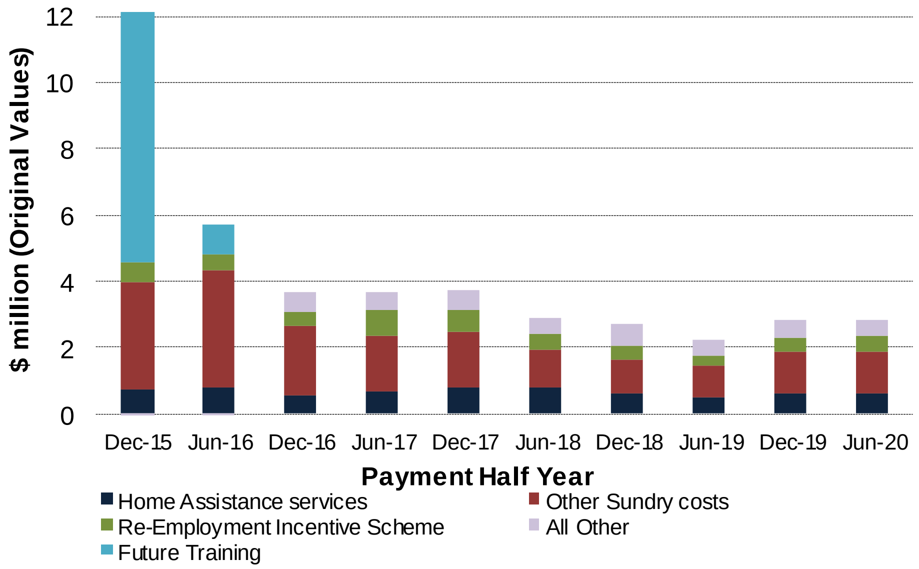
7.4 Other

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 been lower in the last four years following reductions in Other Sundry Costs and re-employment incentives. 'Future training and education' benefits are no longer paid to workers. Over the last year, payments have increased slightly due to higher Other Sundry Costs.

Table 7.5 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

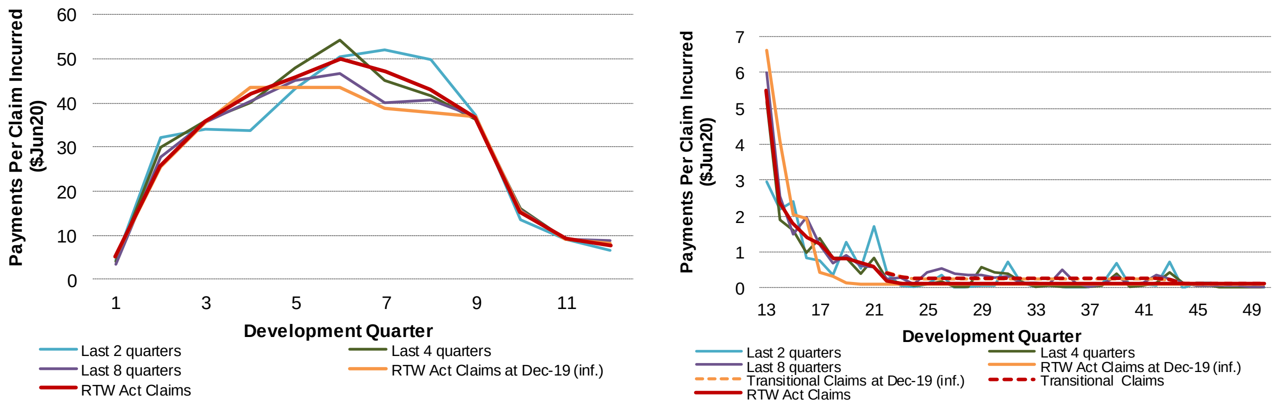
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	0.0	34%
2015/16 - 2016/17	0.1	0.1	(0.0)	-24%
2017/18 - 2018/19	2.0	1.9	0.2	9%
2019/20	0.6	0.7	(0.0)	-5%
Total	2.8	2.7	0.1	4%

Overall payments were close to expectations, with offsetting movements within RTW Act accident periods.

Valuation Basis

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

Figure 7.4 – PPCI Experience and Selections: Other



We have increased our PPCI selections for development quarters five to eight in response to the continued higher level of payments observed in the recent experience. Beyond development quarter eight, we have reshaped the PPCI pattern consistent with the experience over the last four quarters. Our basis for transitional claims is unchanged and includes additional payments over the next six months for surgery and dispute related costs.

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 2019 valuation.

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	
2005/06 - 2014/15	0.3	0.3	(0.0)	0.0	(0.0)	-4%
2015/16 - 2016/17	0.2	0.2	0.1	(0.0)	(0.0)	-11%
2017/18 - 2018/19	2.8	2.8	0.1	0.2	(0.3)	-9%
2019/20	4.8	4.9	0.0	(0.0)	0.0	0%
Total	8.1	8.2	0.2	0.1	(0.3)	-3%

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

The $0.2 million increase in the projected liability combined with actual payments being $0.1 million higher than expected results in a minor actuarial strengthening of $0.3 million.

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.1)
Changes to Valuation Basis		
Ultimate claims	0.3	
PPCIs	(0.5)	
Subtotal		(0.2)
Total		(0.3)

As this shows, the higher PPCI basis is partly offset by lower ultimate claim numbers.

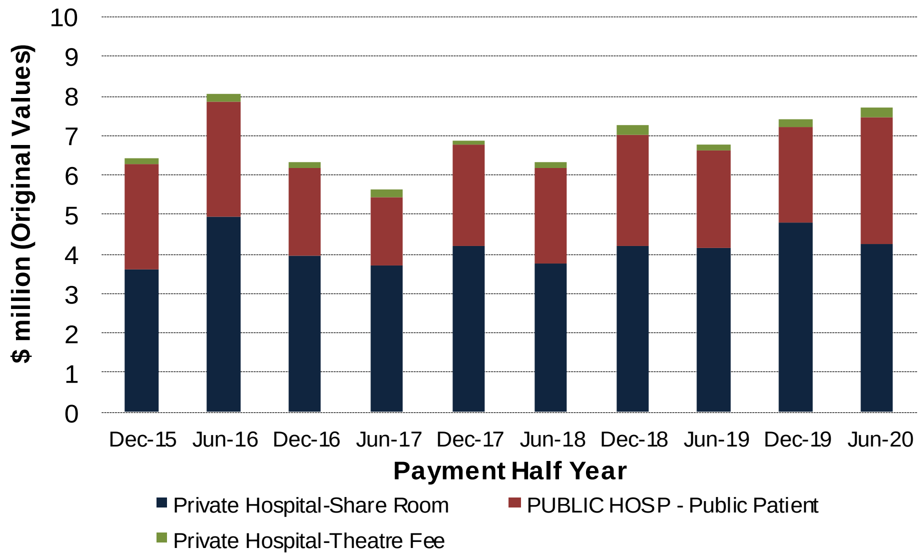
7.5 Hospital

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



While there is seasonality, Hospital payments have trended upwards since the end of 2016, with the latest twelve-month period now above $7 million per half-year. The increase is due to both higher private and public hospital costs.

Table 7.8 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 7.8 - Actual vs Expected Payments: Hospital

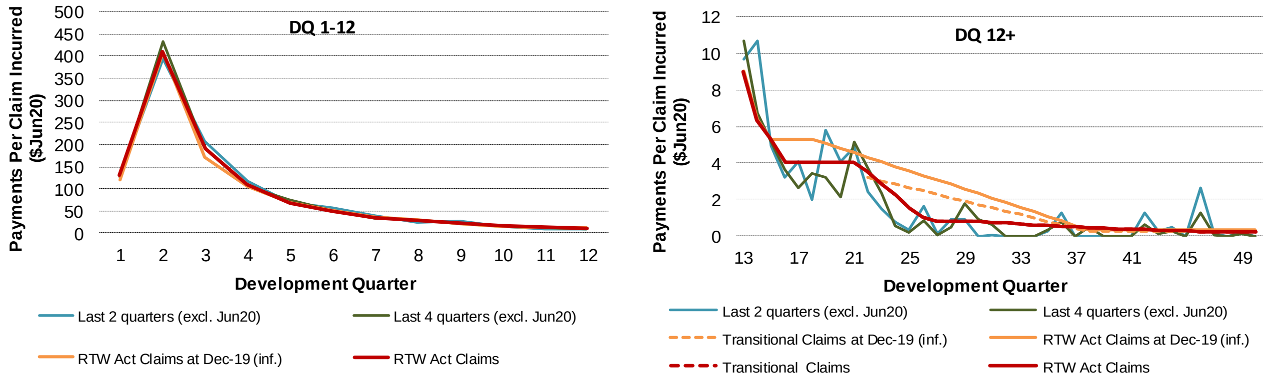
Accident Period	Payments in Six Months to Jun 20 Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.1	(0.0)	-82%
2005/06 - 2014/15	0.1	0.3	(0.2)	-58%
2015/16 - 2016/17	0.3	0.3	(0.1)	-22%
2017/18 - 2018/19	2.1	2.2	(0.1)	-4%
2019/20	6.2	5.8	0.4	6%
Total	8.6	8.7	(0.0)	0%

The bulk of hospital payments are made in the first year or two after injuries occur. While payments in the last six months were similar to expectations, hospital benefits and in particular elective surgeries may have experienced a slowdown due to COVID-19 resulting in the true underlying level of payments being understated. On materiality grounds, and given the general speeding up in other treatment related expenditure, we have not built in a 'catch up' allowance at this time.

Valuation Basis

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

Figure 7.6 – Hospital Experience and Selections



The RTW Act PPCI at this valuation has been reshaped with an increase at development quarters one to four offset by decreases for development quarters 16 to 70. Our selected basis is in line with the emerging experience over the last four quarters.

The basis for transitional claims has been reduced at this valuation as the number of pending future surgeries reduce. Our selected basis is consistent with the experience over the last 12 months.

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 2019 valuation.

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.6	0.5	(0.0)	(0.05)	0.1	11%
2005/06 - 2014/15	2.4	1.9	(0.5)	(0.17)	0.6	27%
2015/16 - 2016/17	2.3	1.5	(0.8)	(0.07)	0.9	40%
2017/18 - 2018/19	5.6	4.5	(1.1)	(0.09)	1.2	21%
2019/20	10.1	9.1	(1.0)	0.35	0.7	7%
Total	21.0	17.5	(3.4)	(0.04)	3.5	17%

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

The $3.4 million decrease in the projected liability combined with actual payments being $0.04 million lower than expected results in an actuarial release of $3.5 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		0.0
Changes to Valuation Basis		
Ultimate claims	0.7	
PPCIs	2.7	
Subtotal		3.4
Total		3.5

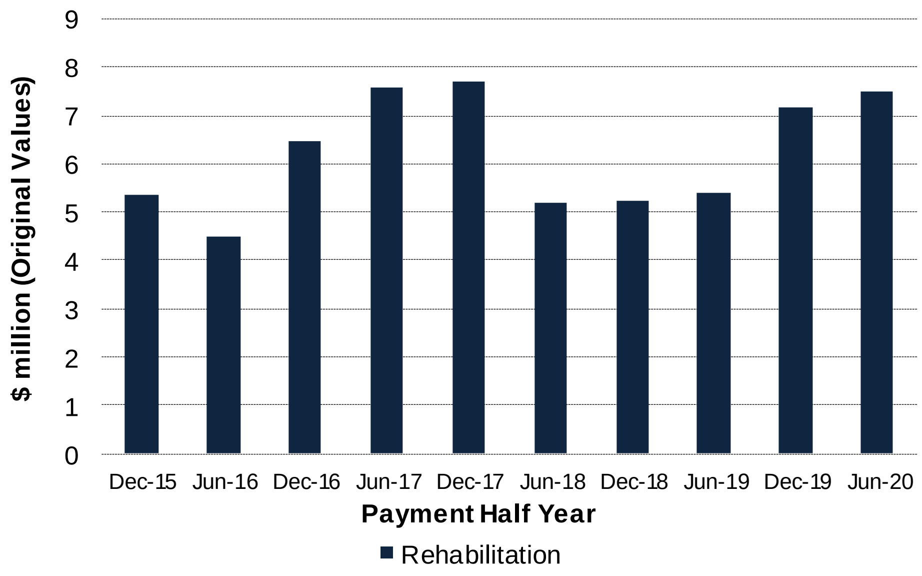
7.6 Rehabilitation

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



Rehabilitation payments continued to increase over the last six months, after a period of lower payments between January 2018 and June 2019. Increased management oversight has led to a decrease in the number of new rehabilitation referrals in recent months, and so it is expected that rehabilitation costs will stabilise in coming months.

Table 7.11 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

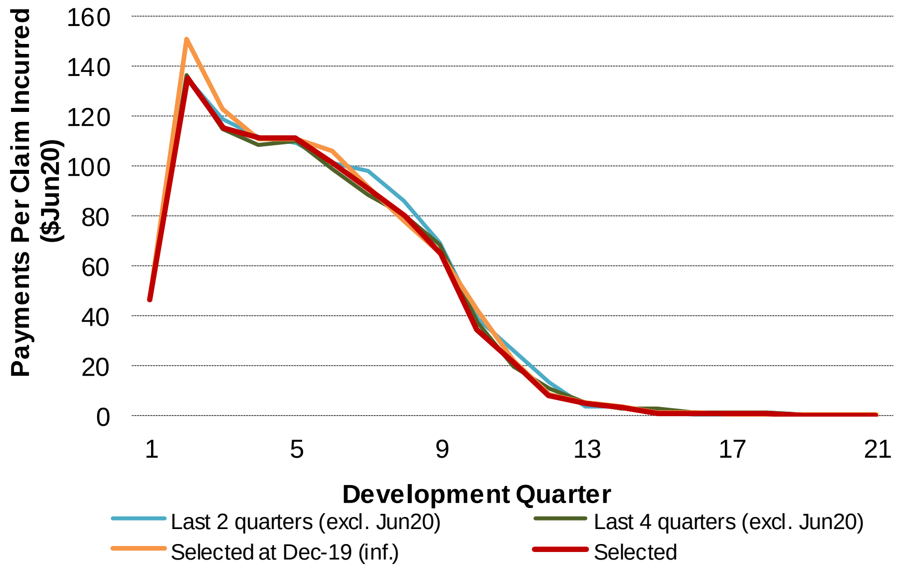
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-1%
2015/16 - 2016/17	0.1	0.1	0.1	54%
2017/18 - 2018/19	4.6	4.3	0.3	8%
2019/20	2.7	2.9	(0.2)	-7%
Total	7.5	7.3	0.2	2%

Overall, payments were $0.2 million higher than expected due to RTW 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



We have slightly reduced our PPCI selections at this valuation, particularly at early durations, to reflect anticipated savings from stricter operational directives to control rehabilitation spending going forward. If these controls prove effective, then later duration PPCIs may also show some improvement in the next year. There is essentially no rehabilitation cost after the fourth development year.

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 2019 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	0.0	
2005/06 - 2014/15	0.0	0.0	(0.0)	(0.0)	0.0	1%
2015/16 - 2016/17	0.1	0.1	(0.0)	0.1	(0.1)	-95%
2017/18 - 2018/19	4.9	4.7	(0.2)	0.3	(0.1)	-3%
2019/20	11.3	10.3	(0.9)	(0.2)	1.1	10%
Total	16.2	15.1	(1.1)	0.2	1.0	6%

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

The $1.1 million decrease in the projected liability combined with actual payments being $0.2 million higher than expected results in an actuarial release of $1.0 million.

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		(0.2)
Changes to Valuation Basis		
Ultimate claims	0.7	
PPCIs	0.4	
Subtotal		1.1
Total		1.0

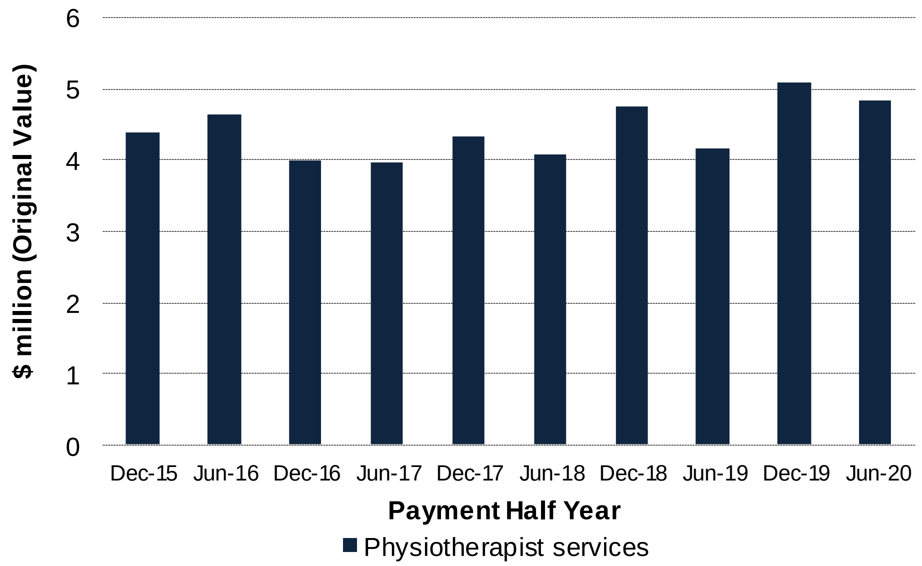
7.7 Physical Therapy

Physical therapy payments are payments made to physiotherapists.

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



Payments in the last six months remained high, at around $5 million. This follows a period of relatively stable payments up to the end of June 2019. As with some other service provider based costs, we expect there will be a small impact of COVID-19 in the latest quarter.

Table 7.14 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection. Overall, payments were in line with expectations.

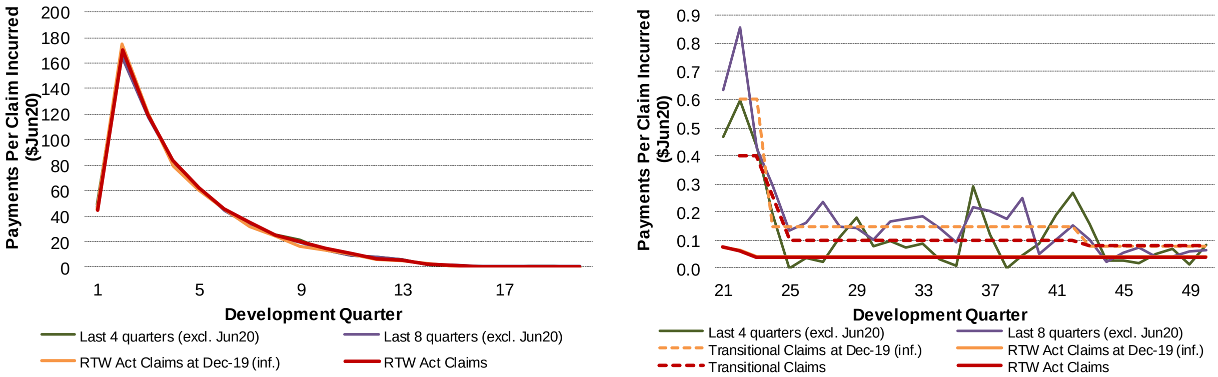
Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident Period	Payments in Six Months to Jun 20 Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	-72%
2005/06 - 2014/15	0.0	0.0	(0.0)	-18%
2015/16 - 2016/17	0.1	0.1	0.0	21%
2017/18 - 2018/19	2.0	1.8	0.2	8%
2019/20	2.7	2.9	(0.2)	-7%
Total	4.8	4.9	(0.0)	-1%

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



Our basis for transitional claims has been reduced to reflect the level of payments observed over the last 12 months, where physical therapy costs have continued to reduce.

We have also slightly increased our PPCI Selections for RTW Act claims for development quarters 4 to 17 consistent with the emerging experience.

Valuation Results and Actuarial Release

Table 7.15 sets out the actuarial release resulting from our valuation of physical therapy payments. The first column represents our projection from the December 2019 valuation.

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.00	(0.00)	0.00	3%
2005/06 - 2014/15	0.3	0.3	0.01	(0.01)	(0.00)	0%
2015/16 - 2016/17	0.1	0.1	0.01	0.02	(0.03)	-30%
2017/18 - 2018/19	2.0	2.1	0.14	0.16	(0.30)	-15%
2019/20	6.1	5.9	(0.18)	(0.21)	0.39	6%
Total	8.5	8.5	(0.02)	(0.05)	0.06	1%

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

A minor decrease in the projected liability combined with marginally lower than expected payments results an actuarial release of $0.1 million at June 2020.

Table 7.16 breaks down the actuarial change by source.

Table 7.16 - Components of Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.0
Changes to Valuation Basis		
Ultimate claims	0.4	
PPCIs	(0.4)	
Subtotal		0.0
Total		0.1

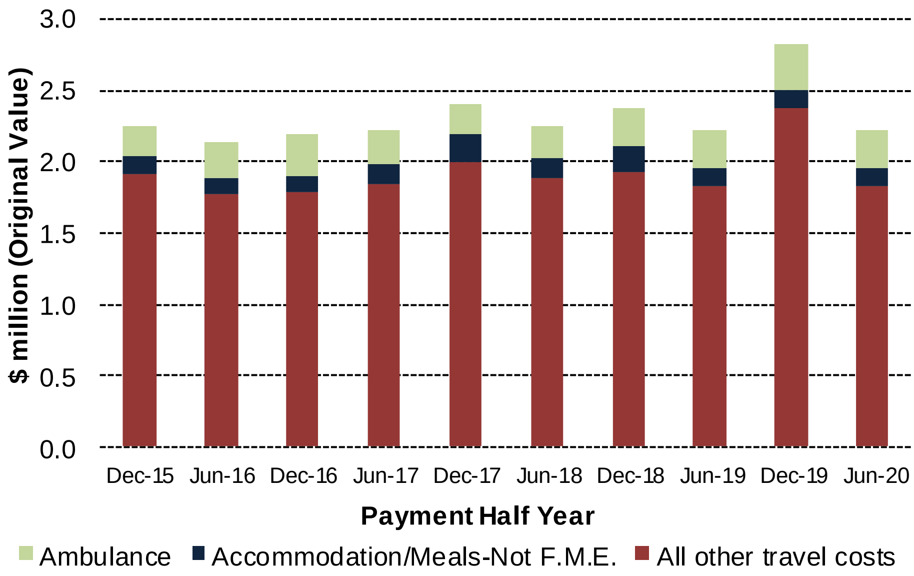
7.8 Travel

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



Following a spike in payments for the December 2019 half-year, payments in the six months of June 2020 appear to have reduced to prior levels. Again, there will have been an element of COVID-19 related reductions in the last quarter.

Table 7.17 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

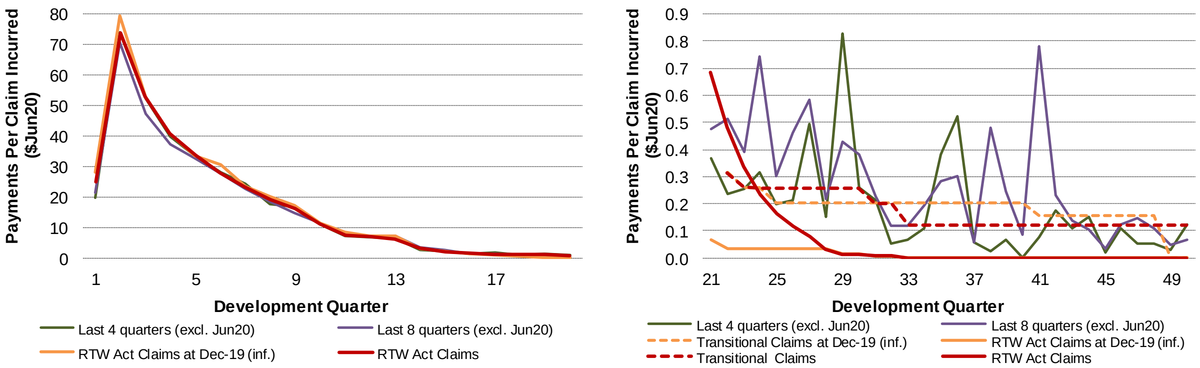
Accident Period	Payments in Six Months to Jun 20			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	0.0	47%
2015/16 - 2016/17	0.1	0.1	(0.0)	-25%
2017/18 - 2018/19	1.0	1.2	(0.2)	-18%
2019/20	1.0	1.4	(0.3)	-24%
Total	2.2	2.8	(0.6)	-20%

Overall, payments in the last six months were $0.6 million lower than expected, due in part to COVID-19 travel restrictions in place for the June 2020 quarter. The following section excludes the June 2020 quarter from the analysis.

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 our selected RTW Act PPCIs for development quarters 1 to 13 reflecting the lower payments observed in the experience over the four quarters to March 2020. Similarly, we have increased our allowance for development quarters 17 to 27 consistent with the emerging experience. Travel costs for transitional claims have been reduced at this valuation, in line with the emerging experience where costs continue to reduce.

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 2019 valuation.

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	
2005/06 - 2014/15	0.0	0.0	0.0	0.0	(0.0)	-56%
2015/16 - 2016/17	0.1	0.2	0.1	(0.0)	(0.1)	-93%
2017/18 - 2018/19	1.9	1.9	0.0	(0.2)	0.2	11%
2019/20	3.8	3.5	(0.3)	(0.3)	0.6	16%
Total	5.8	5.6	(0.2)	(0.6)	0.7	13%

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

The $0.2 million decrease in the projected liability combined with actual payments being $0.6 million lower than expected results in an actuarial release of $0.7 million at June 2020.

Table 7.19 breaks down the actuarial strengthening by source.

Table 7.19 - Components of Actuarial Release: Travel

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.6
Changes to Valuation Basis		
Ultimate claims	0.3	
PPCIs	(0.1)	
Subtotal		0.2
Total		0.7

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 2019 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Dec19 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-19	43.4	36.4	2.2	2.8	0.8	2.2	(31.6)	56.2
Projected Liab at Jun-20	42.6	35.7	2.2	2.8	0.7	2.2	(32.8)	53.3
Jun-20 Valuation								
Impact of experience/OSC - Movement in liab	4.3	0.9	(0.2)	0.0	0.0	(0.0)	0.6	5.7
Estimated Liab at Jun-20 (Dec-19 eco assumptions)	**46.9**	**36.6**	**2.0**	**2.8**	**0.7**	**2.2**	**(32.2)**	**59.0**
Impact of change in eco assumptions	0.5	0.3	0.0	0.0	0.0	0.1	(0.4)	0.6
Estimated Liab at Jun-20 (Jun-20 eco assumptions)	**47.4**	**36.9**	**2.0**	**2.8**	**0.7**	**2.2**	**(32.6)**	**59.6**
AvE Payments - six months to Jun-20	0.9	(0.2)	(0.0)	(0.2)	0.0	(0.2)	(1.0)	(0.7)
Actuarial Release at Jun-20	(5.2)	(0.8)	0.2	0.2	(0.0)	0.2	0.4	(5.0)

The movements from our December 2019 projection of the June 2020 liability are:

- An increase of $5.7 million in the liability, reflecting the claims experience since December 2019 and our valuation response. Partly offsetting this is payments being $0.7 million lower than expected, this produces an actuarial strengthening of $5.0 million.
- The change in economic assumptions at the current valuation is a minor increase of $0.6 million on other Entitlements.

8.2 Worker Legal

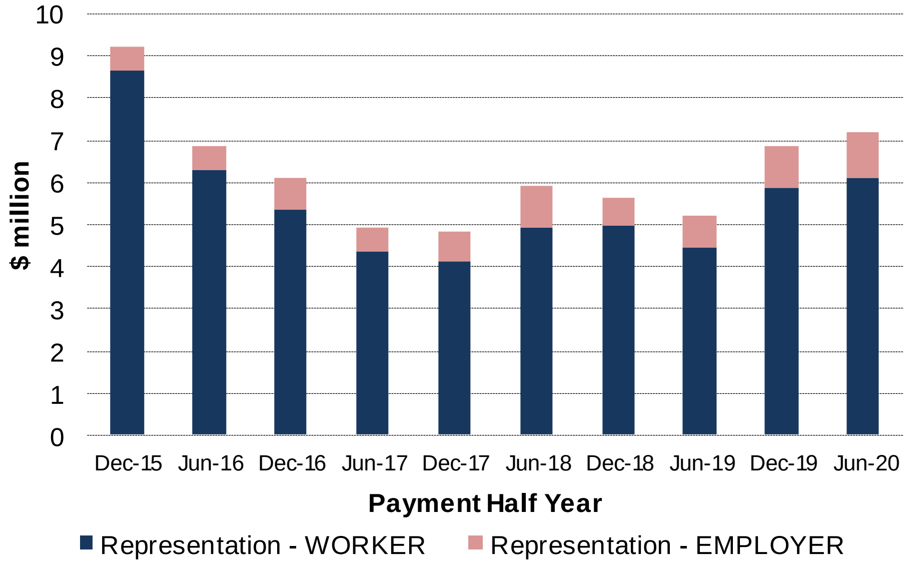
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the 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 3.4.2. 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 were high in the December 2015 half-year and then reduced over the two years to December 2017. This reduction in payments follows the reduction in dispute numbers during the 2015/16 year, which demonstrates the often long delay between lodgement of disputes and payment of worker legal fees. Payments have then been higher since 2017, and over the last six months were the highest since December 2015. As shown in Section 3.4.2, there remain a large number of open disputes in the scheme.

Disputes being lodged for RTW Act claims have increased to around 150 per month over the last year partly due to emerging lump sum disputes from increased WPI assessments. This is still lower than the longer-term average level of around 200 disputes per month for pre-RTW Act periods. While it remains to be seen if the lower level of disputes can be maintained going forward once more WPI assessments are completed for RTW Act claims, on current trends dispute numbers should still remain below 200 per month. However as noted in Section 3.4.2, disputes are progressing to higher stages of the dispute resolution process than they previously did, which translates to higher legal costs as the fees charged by lawyers increase significantly as you move through the dispute process.

Table 8.2 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

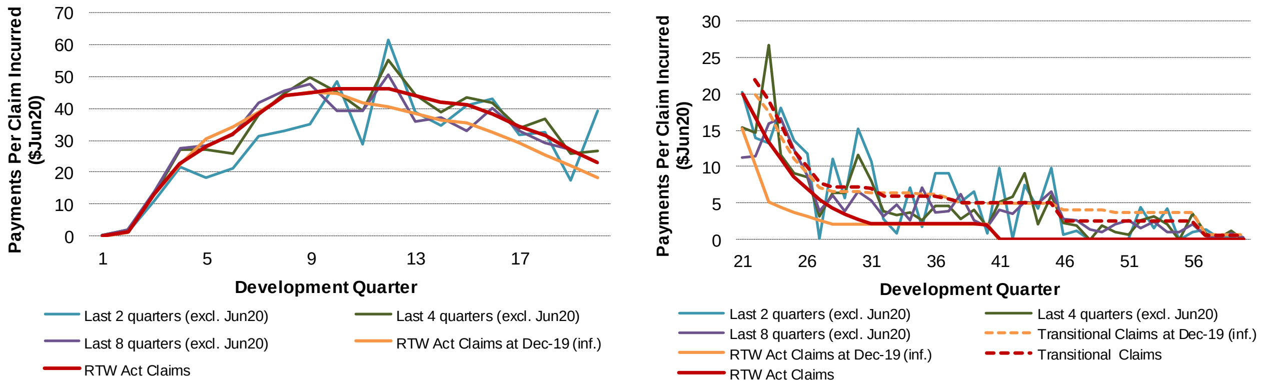
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.3	0.1	0.2	358%
2005/06 - 2014/15	2.3	2.1	0.3	12%
2015/16 - 2016/17	2.4	1.7	0.7	43%
2017/18 - 2018/19	2.0	2.3	(0.3)	-14%
2019/20	0.2	0.2	0.0	24%
Total	7.2	6.3	0.9	14%

Overall, payments in the six months to June 2020 were higher than expected by 14%, with the increase occurring across injury periods from more than three years ago.

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



For transitional claims, we have reshaped our valuation basis to result in a reduction of around $0.9 million. This is the net impact of higher payments in the tail to reflect the number of currently open disputes and their continued progression through to the later stages of the dispute resolution process, partly offset by the settlement activity in the last six months. Our revised valuation basis of around $13.0 million (discounted) for transitional worker legal costs allows for some further progression of currently open disputes, along with around 250 further new disputes to be lodged (at a lower cost) before the transitional cohort is fully runoff.

We have also increased our PPCIs for RTW Act periods with higher selections for development quarters 8 to 31 in light of the continuing higher payments in the emerging experience. This largely represents the higher costs per dispute as more are progressing further through the disputation process.

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 2019 valuation.

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.5	0.7	0.2	0.2	(0.4)	-84%
2005/06 - 2014/15	13.4	12.3	(1.1)	0.3	0.9	7%
2015/16 - 2016/17	4.4	6.1	1.7	0.7	(2.4)	-54%
2017/18 - 2018/19	13.9	16.6	2.8	(0.3)	(2.4)	-18%
2019/20	10.4	11.2	0.8	0.0	(0.9)	-8%
Total	42.6	46.9	4.3	0.9	(5.2)	-12%

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

The actuarial strengthening of $5.2 million is due to liability increases of $4.3 million combined with actual payments being $0.9 million higher than expected.

Table 8.4 breaks down the actuarial change by source.

Table 8.4 – Components of Actuarial Release: Worker Legal

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.9)
Changes to Valuation Basis		
Ultimate claims	0.7	
PPCIs	(5.0)	
Subtotal		(4.3)
Total		(5.2)

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, an annual 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 at the same rate outlined in the previous contract in addition to the fixed fee each month. This contract has been extended each year since with revised fixed fees.

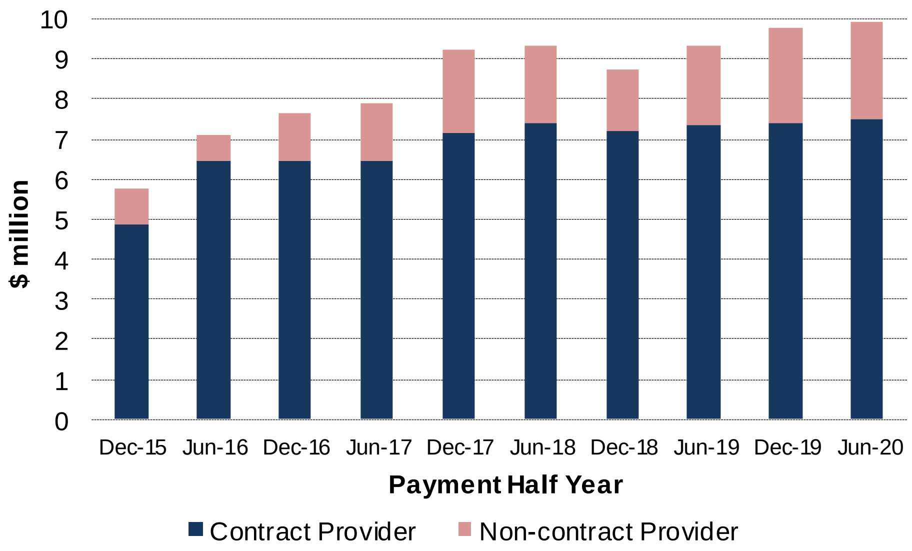
A performance fee is also payable at the end of each contract half-year based on the achievement of certain performance outcomes. This fee is unchanged for the FY2021 contract.

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

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 2020 is higher than the December 2019 half-year and remains higher than recent periods due to higher "non-contract" fees. The high amount of "non-contract" fees reflects the higher number of legal matters in the Supreme Court as mentioned in Section 3.4.2.

Table 8.5 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 8.5 – Actual vs Expected Payments: Corporation Legal

Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
Total	9.9	10.1	(0.2)	-2%

Overall, actual payments were $0.2 million (2%) lower than expected. 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 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.

Table 8.6 – Corporation Legal Contract Components

	Contract Terms
Matter Type	Current
Advice only	Fixed Fee per month
Dispute representation	
Complex matters	Paid per matter
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

  - The fixed fee per month has increased for the December 2020 half-year, reflecting general inflationary costs for the FY21 contract. Beyond the current contract, 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 payments of $154,000 per half-year due to the high number of complex matters currently open for transitional claims.
- 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.
  - Our base allowance of $1.2 million per half year is unchanged from our previous valuation and reflects the high volume of complex cases under the RTW Act.
  - We have extended and our temporary allowance of $1.5 million per half-year until September 2021 (an additional six months) for Supreme Court matters reflecting the current delay in resolving these matters.

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.

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 2019 valuation.

Table 8.7 - Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
Total	35.7	36.6	0.9	(0.2)	(0.8)	-2%

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

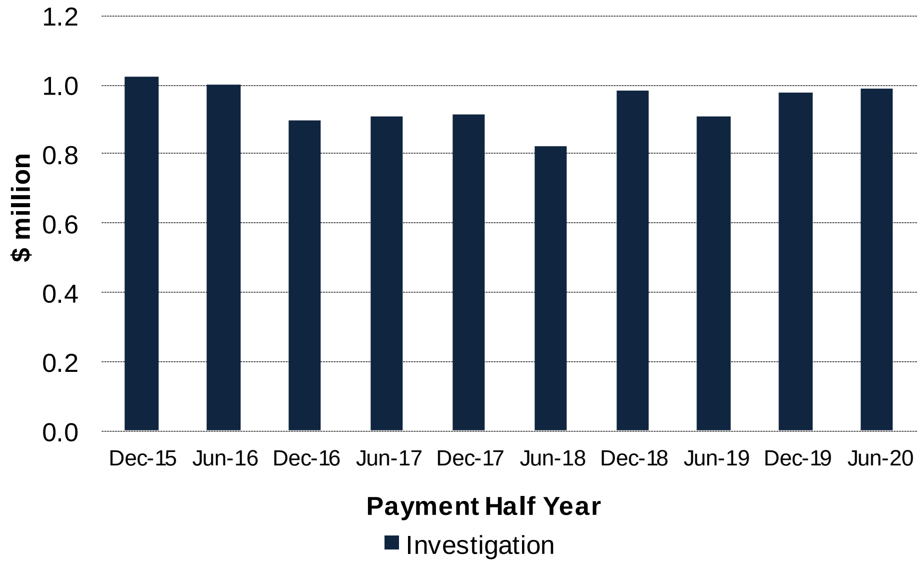
The $0.9 million increase in the projected liability combined with actual payments being $0.2 million lower than expected results in an actuarial strengthening of $0.8 million.

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 in the six months to June 2020 was around $1 million, which is consistent with the level of payments since the December 2018 half-year.

Table 8.8 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

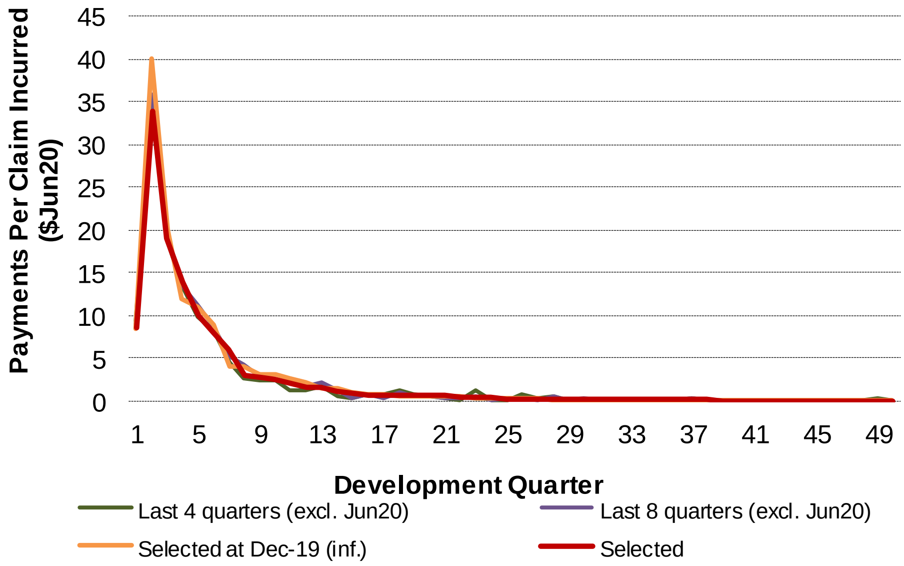
Accident Period	Payments in Six Months to Jun 20			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-18%
2015/16 - 2016/17	0.1	0.1	0.0	3%
2017/18 - 2018/19	0.4	0.3	0.1	26%
2019/20	0.5	0.6	(0.1)	-16%
Total	1.0	1.0	(0.0)	-1%

Overall actual payments were in line with expectations.

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



We have reshaped the adopted PPCIs at this valuation resulting in an overall slight reduction in the liability. We have not allowed for a different PPCI pattern for transitional claims up to 30 June 2015 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 2019 valuation.

Table 8.9 - Actuarial Release for Investigation

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release¹	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.00	0.00	(0.00)	
2005/06 - 2014/15	0.2	0.2	0.01	(0.01)	(0.00)	-1%
2015/16 - 2016/17	0.2	0.2	0.00	0.00	(0.01)	-3%
2017/18 - 2018/19	0.6	0.6	(0.06)	0.09	(0.03)	-5%
2019/20	1.2	1.1	(0.14)	(0.09)	0.23	19%
Total	2.2	2.0	(0.18)	(0.01)	0.18	8%

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

The $0.2 million decrease in the projected liability results in an actuarial release of $0.2 million.

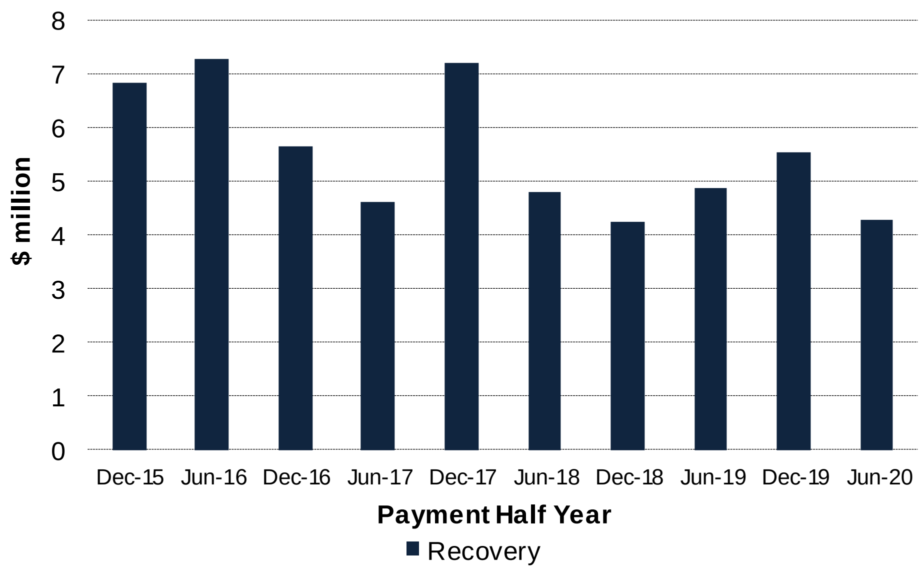
8.5 Recoveries

Recoveries can be made by ReturnToWorkSA from overpayments to workers, from the Motor Accident 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 Received



Recovery payments in the six months to June 2020 were lower than the average payment level over the last two years.

Table 8.10 compares the payments in the six months to 30 June 2020 with the expected payments from our December 2019 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

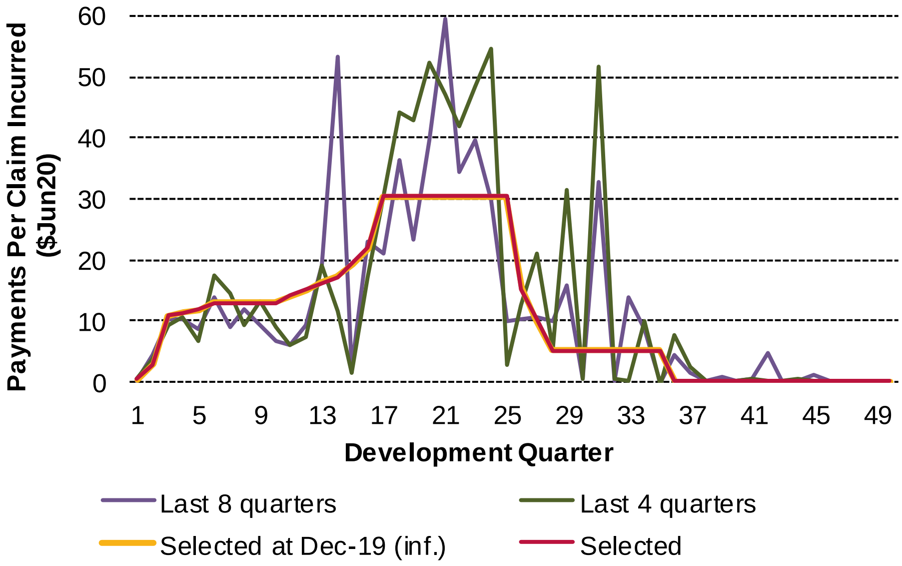
Accident	Payments in Six Months to Jun 20			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	(0.0)	0.0	(0.0)	n/a
2005/06 - 2014/15	(2.0)	(1.1)	(0.8)	76%
2015/16 - 2016/17	(1.4)	(1.3)	(0.1)	11%
2017/18 - 2018/19	(0.8)	(0.8)	(0.0)	4%
2019/20	(0.1)	(0.1)	0.0	-21%
Total	(4.3)	(3.3)	(1.0)	30%

Actual recovery payments were $1.0 million higher than expected, largely due to transitional claims.

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



Our selected recovery PPCI assumptions are unchanged at this valuation as recovery payments tend to be volatile and we have taken a longer-term view when selecting our basis. Our selection does not fully reflect the recent experience due to our expectation of the lower recoverability of costs going forward under the RTW Act (where gross payments are lower), and following CTP reforms in 2014.

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 2019 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Jun 20 from Dec 19 Valuation	Jun 20 Estimate on Dec 19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 20	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	(0.0)	0.0	
2005/06 - 2014/15	(1.3)	(1.3)	0.0	(0.8)	0.8	-63%
2015/16 - 2016/17	(8.7)	(8.7)	0.0	(0.1)	0.1	-2%
2017/18 - 2018/19	(14.1)	(14.0)	0.1	(0.0)	(0.1)	1%
2019/20	(8.6)	(8.1)	0.5	0.0	(0.5)	6%
Total	(32.8)	(32.2)	0.6	(1.0)	0.4	-1%

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

The overall actuarial release of $0.4 million is a combination of actual recoveries being $1.0 million above expectations combined with a decrease of $0.6 million in expected future recoveries due to reductions in ultimate claim numbers.

8.6 LOEC, Commutations, and Common Law

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

8.6.1 LOEC

Loss of Earning Capacity (LOEC) claims are a legacy feature of the portfolio, and are valued together with Short Term claims. At 30 June 2020, there are only five remaining claims. Our valuation basis is unchanged at this valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependant benefits. Minor payments were made in the last six months and we have maintained our basis at this 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 2020 and movement in our liability estimates since the December 2019 valuation.

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

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabi litation	Physical Therapy	Investi gation	Legal - Non-Contract	Legal Contract	Lump sums	Recove ries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Dec-19 Valuation													
Estimated Liab at Dec-19	455	615	475	119	58	20	41	1	12	12	94	-34	1,870
Projected Liab at Jun-20	470	643	489	126	61	22	43	1	13	13	88	-35	1,932
Jun20 Valuation													
Impact of experience/basis change	23	10	-36	0	0	-1	-1	0	1	1	14	2	11
Estimated Liab at Jun20 (Dec19 ecos)	**493**	**653**	**453**	**126**	**61**	**20**	**42**	**1**	**13**	**13**	**101**	**-33**	**1,943**
Impact of change in ecos	13	14	-36	3	1	0	1	0	0	0	1	0	-2
Estimated Liab at Jun20 (Jun20 ecos)	**505**	**666**	**417**	**128**	**62**	**21**	**43**	**1**	**14**	**14**	**103**	**-33**	**1,941**
AvE Payments - six months to Jun-20	2	-1	0	0	0	0	0	0	0	0	-10	0	-8
Actuarial Release at Jun-20	-25	-9	36	0	0	1	1	0	-1	0	-4	-2	-3

The outstanding claims cost for Serious Injury claims (excluding CHE) is $1,941 million at 30 June 2020. The main movements from our December 2019 projection of the June 2020 liability are:

- Claims experience and basis changes increased the liability by $11 million, as a result of:
  - Net changes to claim numbers (including IBNR claims assumptions) increasing the liability by $31 million, which was a combination of a $64 million increase for Other Serious Injury claims and a $34 million decrease for Severe Traumatic Injury claims
  - A number of claims signed a deed of release or died over the six months, reducing the liability by $15 million
  - Other changes, largely impacting average size, reduced the liability by $5 million in aggregate.
- The change in economic assumptions at the current valuation resulted in a small decrease of $2 million. However this is a result of two offsetting impacts:
  - The superimposed inflation applied to other and care has been reduced from 2% per annum to 1.5% per annum. As the valuation already contains explicit allowances for increases in the level of Care required as claimants age and/or gratuitous care transitions to paid care, our superimposed allowance largely covers increases in the unit cost of services. In the current economic environment we believe it is unlikely a premium of 2% above inflation will continue to over the lifetime of these claims; this view is further supported by recent re-negotiations in care rates on some high cost claims as noted in Section 3.4.1. This has reduced the liability by $45 million.
  - Changes to future inflation (excluding Serious Injury) and discount rates have increased the liability by $44 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 internally managed by ReturnToWorkSA
- Other ‘potential’ Serious Injury claims – these are claims who have not yet been formally assessed as Serious Injury, but who are considered likely to do so at some point in future.
  - ReturnToWorkSA proactively identify ‘potential’ Serious Injury claims prior to an official assessment, with claims identified through this process included in our valuation. ReturnToWorkSA’s approach for identifying these claims is still evolving, meaning it is difficult to compare accident years at the same point of development; nevertheless we view proactive identification as a positive from both a claims management and valuation point of view.
  - For older accident years, there is a pool of claims that have features that indicate they would have likely been a Serious Injury claim, but have ceased interaction with the Scheme before a formal assessment took place (for reasons such as redemptions). As there is no future liability associated with these claims, there is no need for ReturnToWorkSA to make a clear determination on their Serious Injury status, and as such these remain ‘potential’ Serious Injury claims. We continue to count this group as a Serious Injury claims for our valuation work, in order to understand potential numbers and trends in high severity claims over time.
- IBNR claims – Serious Injury claims that will be identified in future.

Section 4.2 describes our projection of 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 and summarised in the following table.

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

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a. Mortality loadings for claims with high care needs (reducing life expectancy by 19 years) and for moderate care needs (reducing life expectancy by 8 years).	Mortality improvement of 1.5% p.a.
Income Support	To retirement age on all operationally active claims. Based on historical experience and estimates provided by 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, with the exception of Hospital costs, which are based on selected payment per active claim curves for this cohort. Allowance 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.
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: Income Support AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment, 1.5% on Other Needs Utilisation: 75% loading applied at age 65 on Treatment and Other, capped at 30 hours of care per day	WCI: Income Support AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment, 1.5% on Other
IBNR Assumptions	IBNR claims in the latest three accident years only. Claim size based on historical experience of current claims.	IBNR claims on all accident years, reflecting outstanding Serious Injury applications and WPI disputes (for older accident periods) and the delay from injury to WPI assessment (for newer accidents). Claim size based on historical experience of 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 Severe Traumatic valuation is reliant on estimates provided by ReturnToWorkSA. The process for providing these estimates was revised 24 months ago and as ReturnToWorkSA has become more familiar with this process we are seeing less large movements from valuation to valuation, with estimates reflecting changes in claimant circumstances rather than short-term volatility in benefit utilisation.

The approach to modelling Other Serious Injuries smooths out volatility seen early in the life of many Serious Injury claims, to 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 key features 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 actual 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.

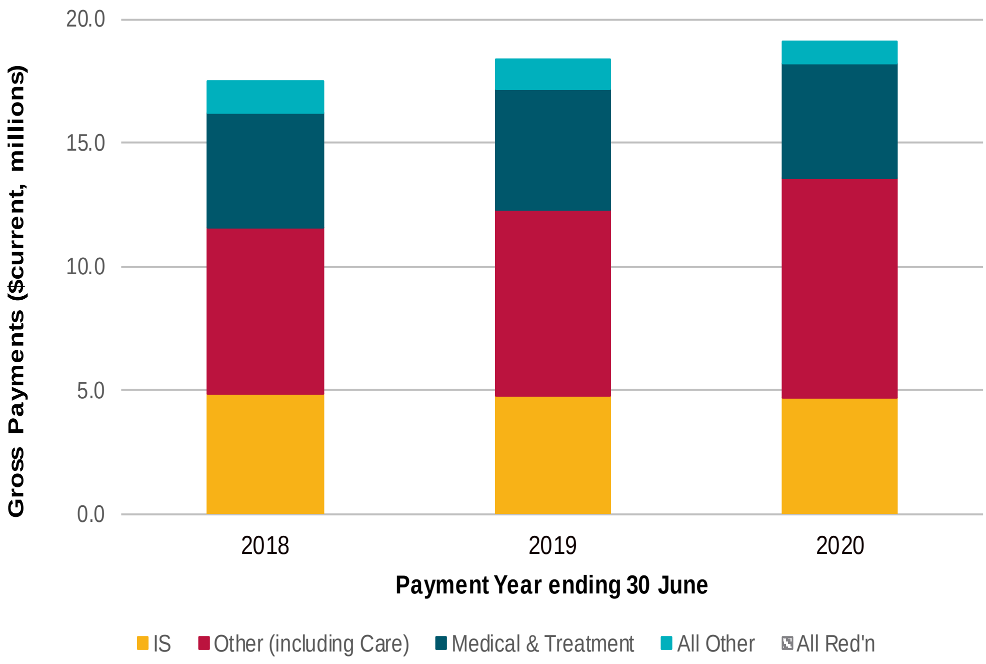
One of the key determinants of very long term costs will be how much, if any, of the costs associated with ageing are compensated out of the compensation scheme. Based on the experience to date, albeit on a relatively small number of claims who have been through this process, the costs for age related care and support are being handled consistently with the current understanding of the approach to aged care related costs being funded. If this changes then the cost implications would likely be significant.

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 ($Jun20)



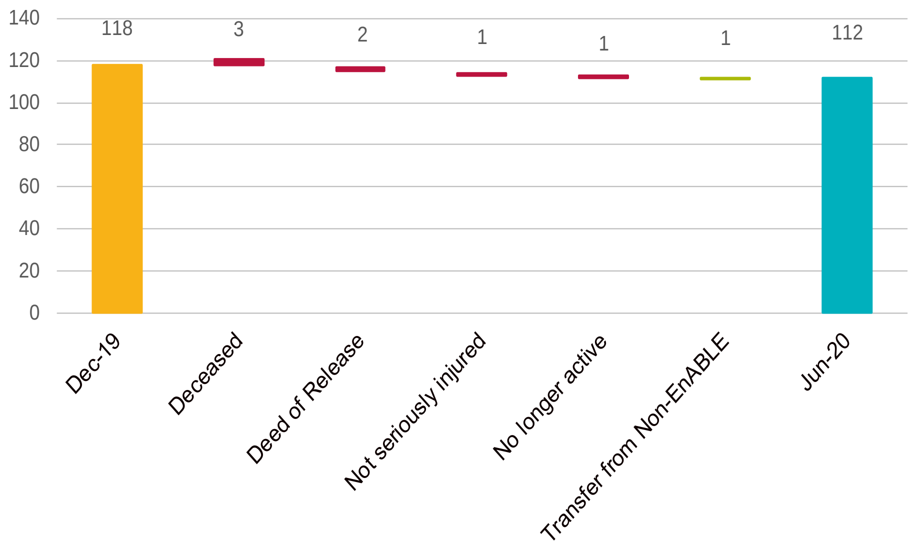
$55 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of $4 million over this same period, this equates to an average of around $17 million per annum in net claim payments (inflated to 30 June 2020 values), comprising around:

- $8 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
- $1 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.4 million per annum)
- $1 million per annum in recoveries.

9.4.2 Claimant Profile

Figure 9.2 shows the number of active Severe Traumatic Injury claims (i.e. those being valued) 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 112 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at June 2020, compared to 118 at the previous valuation. This was the result of three claimants dying, two claims signing deeds of release, one claim not meeting the Serious Injury threshold, one claim no longer meeting the active criteria and one claim transferring in from the Other Serious Injury cohort.

The last six months continued a trend of higher than expected mortality. With Serious Injury claims being valued as their own cohort for a number of years, we have at this valuation performed a comparison of actual and expected mortality for Severe Traumatic Injury claims since their Serious Injury identification date. This is shown below in Table 9.3.

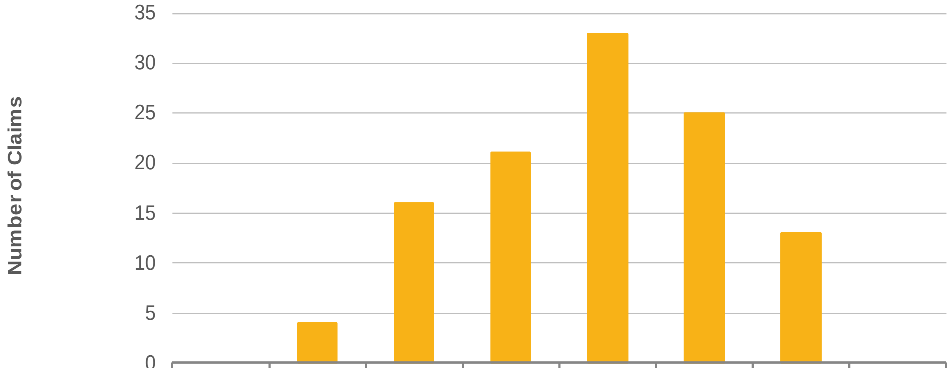
Table 9.3 – Mortality Actual vs Expected

Mortality Loading	Exposure years	Actual	Expected	AvE	%AvE
None	628	5.0	3.3	1.7	50%
Moderate	106	3.0	2.1	0.9	44%
High	73	4.0	2.6	1.4	52%
Very High	5	1.0	1.0	0.0	0%
Total	811	13.0	9.1	3.9	44%

This confirms that actual mortality rates have been higher than expected, with the difference not concentrated in any mortality loading band. Given the low number of actual and expected deaths and the large implications of changing mortality loadings, we have not at this stage made any changes to our mortality loadings, however we will continue to monitor mortality experience and make changes where supported by credible amounts of data.

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

Figure 9.3 – Age Distribution and Life Expectancy (in years) of Severe Traumatic Injuries



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	4	16	21	33	25	13	0
Loaded Life Expectancy	0	60	45	39	26	20	13	0

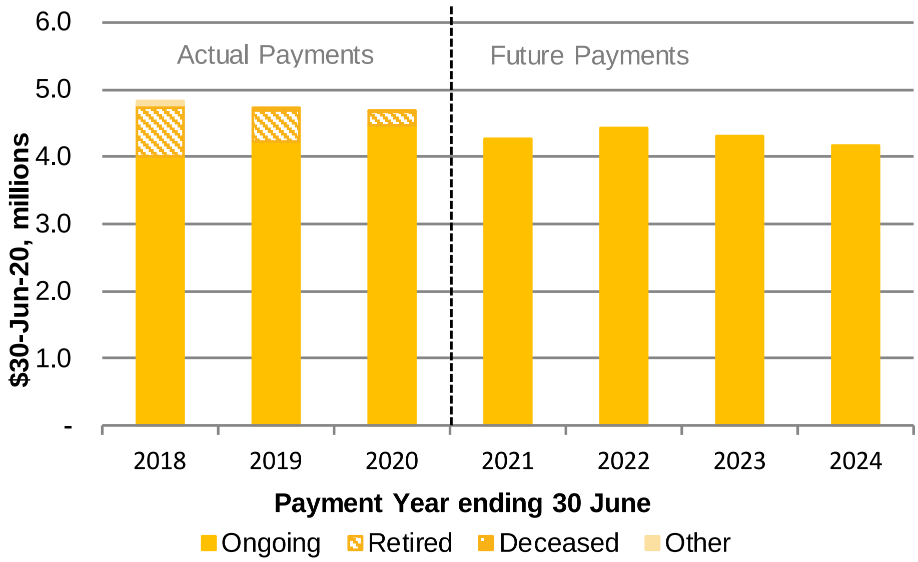
Severe Traumatic Injury claimants are currently around 55 years old on average, with an expected future life expectancy of around 30 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 40 years.

Over half of the current Severe Traumatic Injuries have a WPI assessment, with an average WPI of around 56%; the relatively low completion rate is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. At this valuation, there are 11 claims with recorded WPI assessments less than 30%; ignoring these claims, the average assessed WPI is close to 60%.

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 ($Jun20)

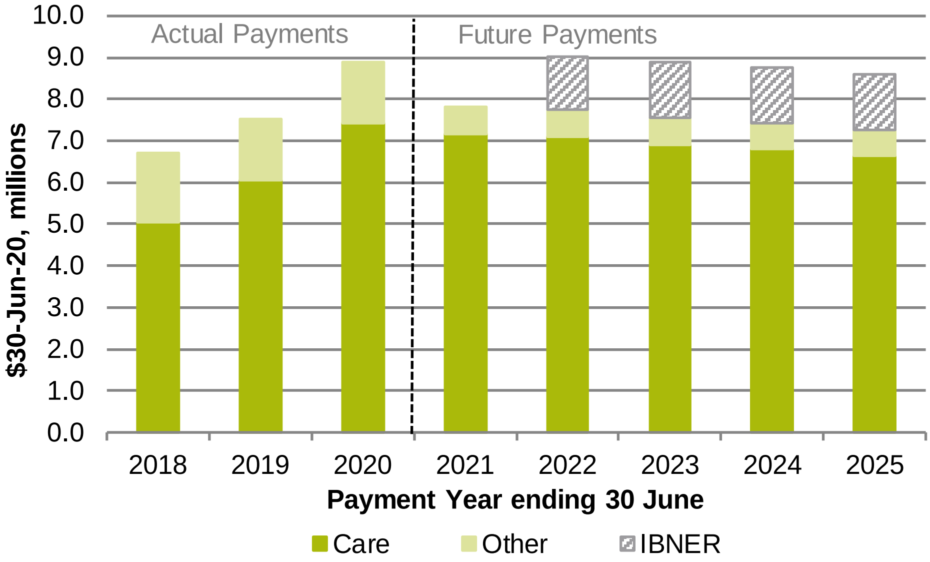


We estimate around $4.3 million will be paid in Income Support to Severe Traumatic Injury claims in 2021. Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 15 years of the 2021 payments (for known claims). The step change from actual payments to future payments relates to claims that are no longer expected to receive any IS benefits (mostly claims that have now reached retirement age), the application of the 80% step-down in future payment estimates and a small number of claims that appear to have received some backpay in the last 12 months.

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 ($Jun20)

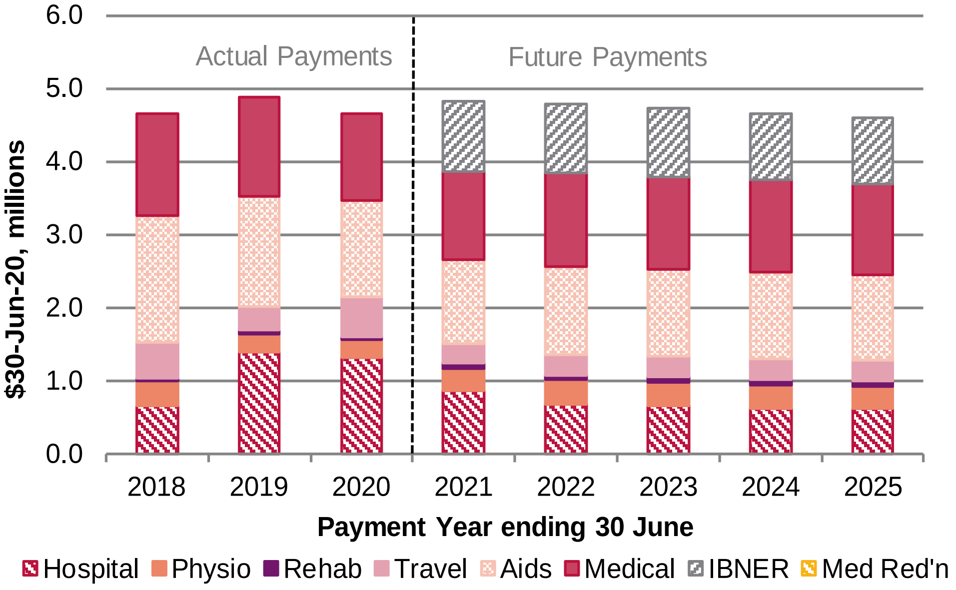


We expect $7.8 million of other and care payments in 2021. This is lower than actual payments in 2020, largely due to a lower projected level of other payments, noting that this payment category includes things like home modifications or training for which spend is not as recurrent as other payment types. Payments then increase in 2022 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 28 years of the 2021 payments, including the IBNER allowances.

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 ($Jun20)

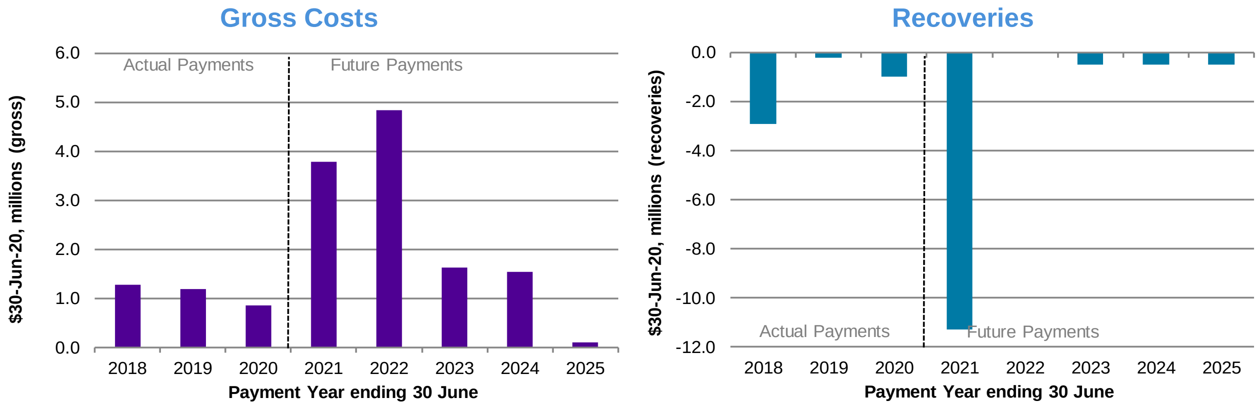


We expect future treatment and related payments of $4.8 million in 2021, similar to the average over the last three years. The outstanding claims projection is equivalent to 32 years of the 2021 payments.

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: Severe Traumatic Injury claims ($Jun20)



In the three years to 30 June 2020, a net amount of -$0.8 million of other benefits was paid for Severe Traumatic Injury claims. Our future projections for claims occurring prior to 30 June 2020 include (in current dollars):

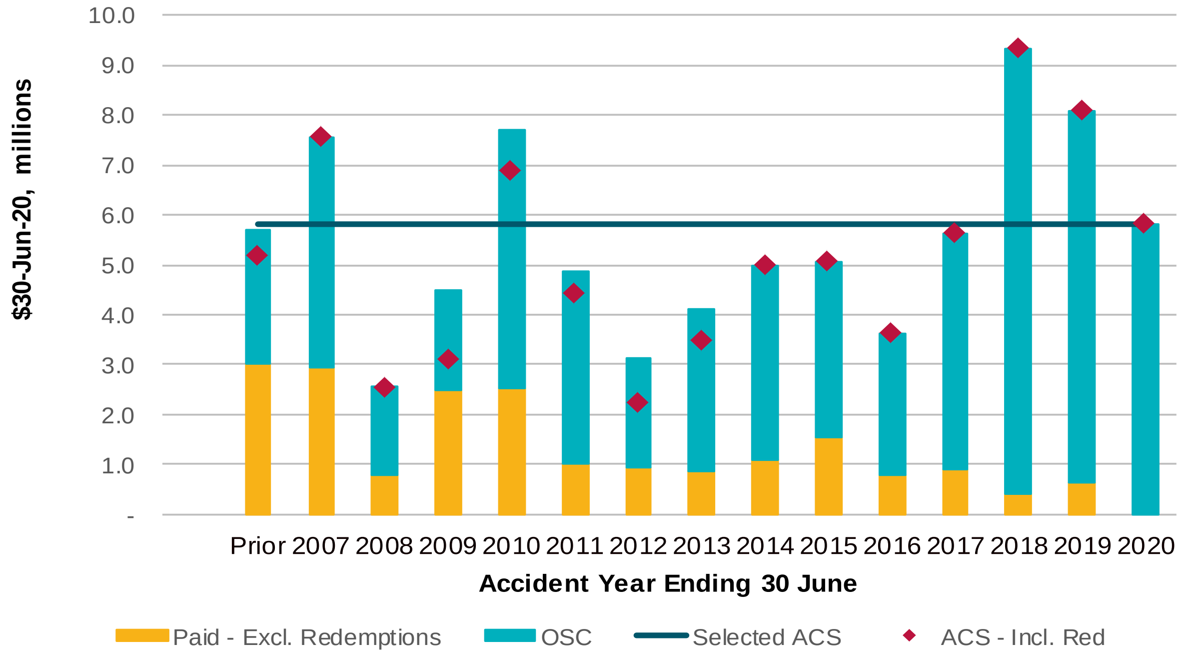
- Lump sum benefits of $10.9 million paid to Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $1.5 million
- Recoveries of $12.8 million, for those claims where ReturnToWorkSA has identified recovery potential.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of 2021 expenditure.

9.4.7 Overall Results and Implications

Figure 9.8 shows the net ultimate average claim size across current Severe Traumatic Injury claims. There is still a large share of the cost that is due to projected future payments, 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 ($Jun20)



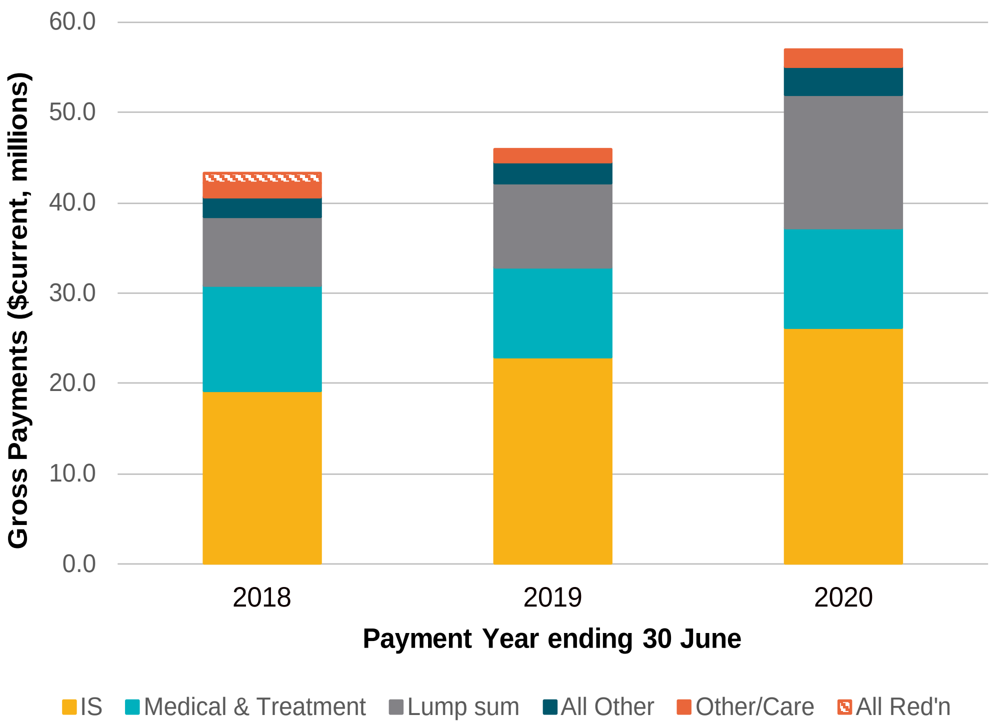
The average claim size across current Severe Traumatic Injury claims is around $5.0 million in current dollar values; however, this includes claims that have been redeemed at less than the full lifetime value. Excluding redeemed claims the average claim size is $5.5 million, which is similar to the projected average size ($5.8 million) for recent accident years where injuries are yet to stabilise. We project that the average size for the 2018 and 2019 accident years will end up higher than this in response to two (very) high needs claims.

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 ($Jun20)



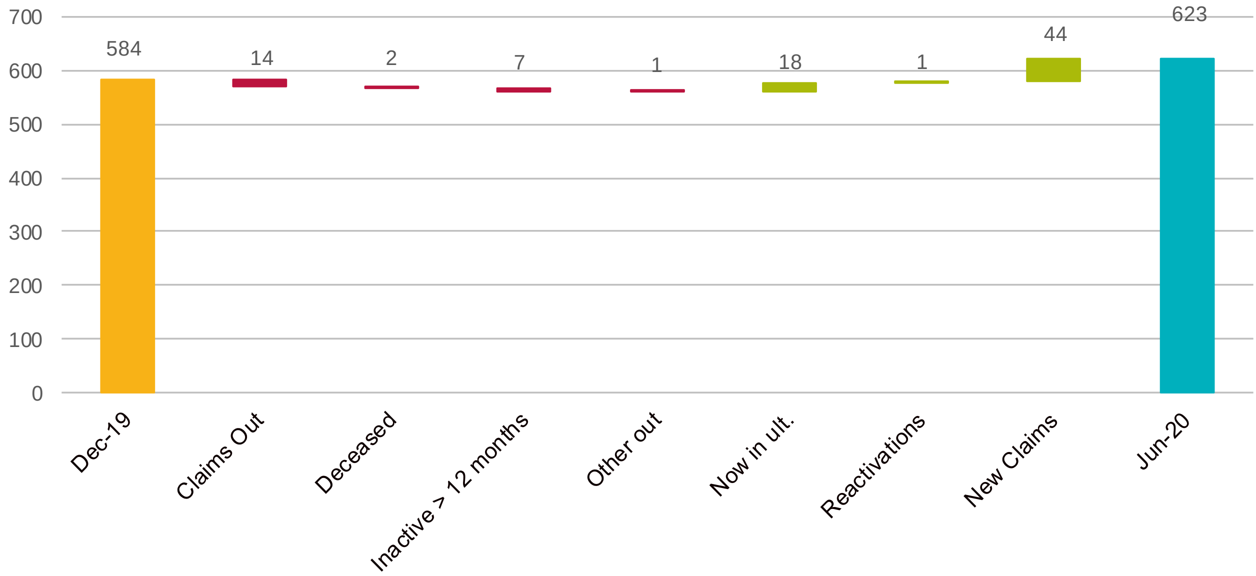
Around $146 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $6 million over this same period, this equates to an average of around $46 million per annum in net claim payments (inflated to 30 June 2020 values), comprising:

- $23 million per annum in Income Support
- $13 million per annum in medical, treatment and related benefits
- $11 million per annum in lump sums
- Small amounts of other benefits ($3 million)
- $2 million per annum in recoveries.

9.5.2 Claimant Profile

Figure 9.10 shows the number of active Other Serious Injury claims (those being valued) at the current and previous valuation.

Figure 9.10 – Movement in Other Serious Injury Claim Numbers



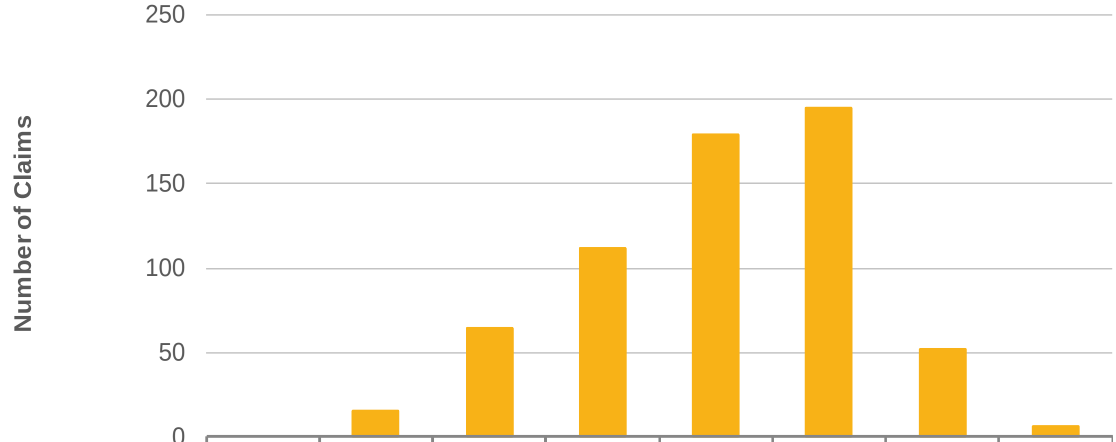
There are 623 active (i.e. with expected ongoing benefits) Other Serious Injury claims at June 2020, compared to 584 at the previous valuation. The major reasons for this change are:

- Claims Out – reduction of 14 claims. This largely refers to claims from the ‘potential’ cohort which were either confirmed not to meet the eligibility criteria for a Serious Injury claim, or where additional information has meant that their likelihood of becoming a Serious Injury claim has been revised.
- Deceased – reduction of two claims
- Other out – reduction of eight claims. This is largely due to claims being inactive for greater than 12 months and so do not meet our definition of ‘ongoing’.
- Revised ultimate status – increase of 18 claims. This increase is due to claims that had previously been identified as a potential Serious Injury, but who were not considered as likely to meet the threshold at their latest review. Most of these claims are now included due to formal determinations.
- Reactivations – increase of one claim. This claim was previously included in the ultimate, but was not treated as ‘ongoing’, most likely due to being inactive greater than 12 months. It is not unexpected that there will be some churn in the active status for claims in this cohort.
- New Claims – increase of 44 claims beyond the other claims noted above.

With the portfolio still maturing we would generally expect the number of Other Serious Injury claims to increase, broadly in line with the number of new claims each year, as discussed in Section 4.2.

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 (in years) for Other Serious Injury Claims



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	15	64	112	179	195	52	6
Life Expectancy	0	62	52	41	31	23	15	9

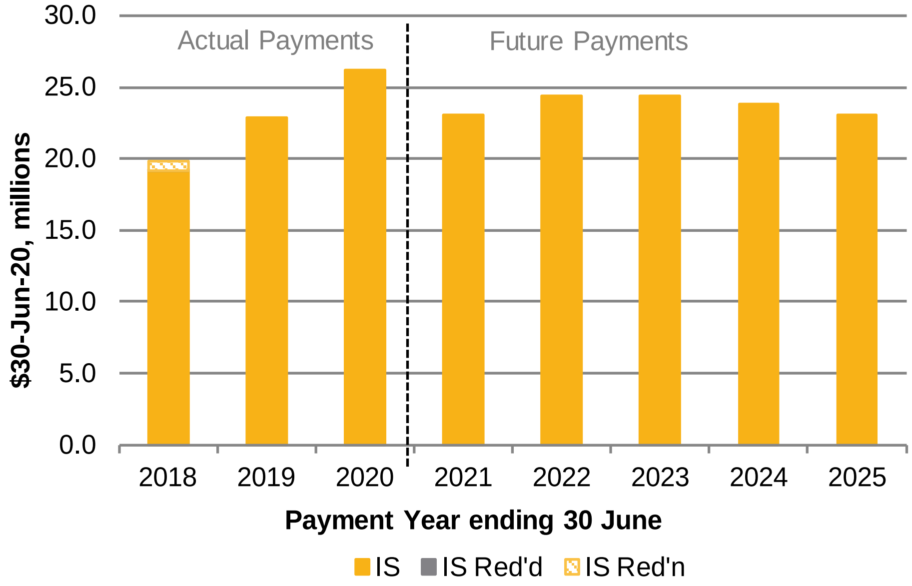
The Other Serious Injury claims are currently around 58 years old on average, with an expected future life expectancy of 28 years (after allowing for mortality, including mortality improvements). The average age at injury was 46 years.

Around 69% of the current Other Serious Injuries have had a WPI assessment, averaging around 36% WPI. At this valuation, there were 71 claims with recorded WPIs below 30%. The average impairment level excluding these low assessments is around 39%.

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 ($Jun20)

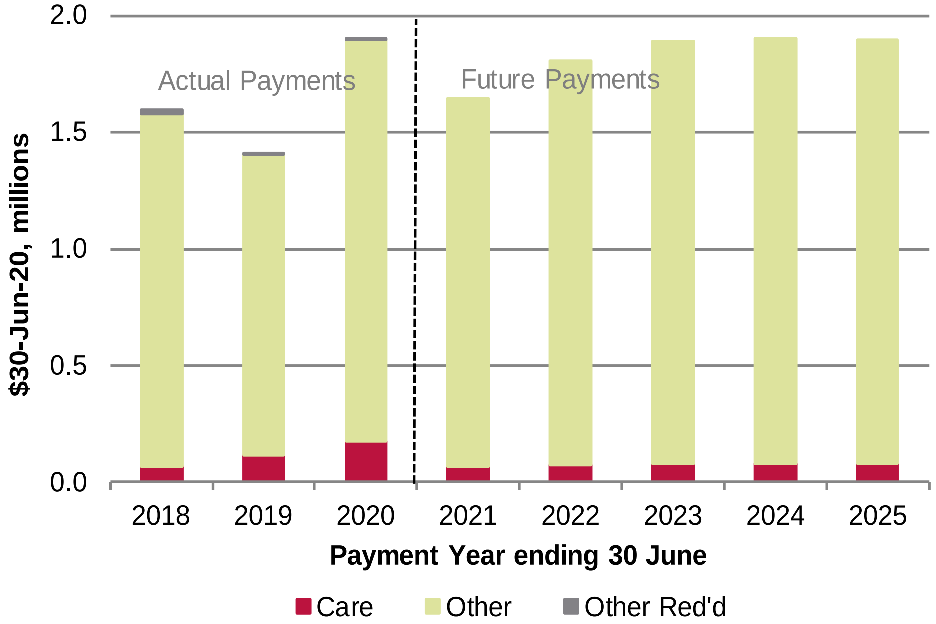


We estimate around $23 million will be paid in Income Support to Other Serious Injury claims in 2021. Future payments will generally reduce over time in line with expected mortality and retirement, although there is an increase between 2021 and 2023 as IBNR claims are identified. We note that the high level of Income Support payments in 2020 relates to backpay.

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 ($Jun20)

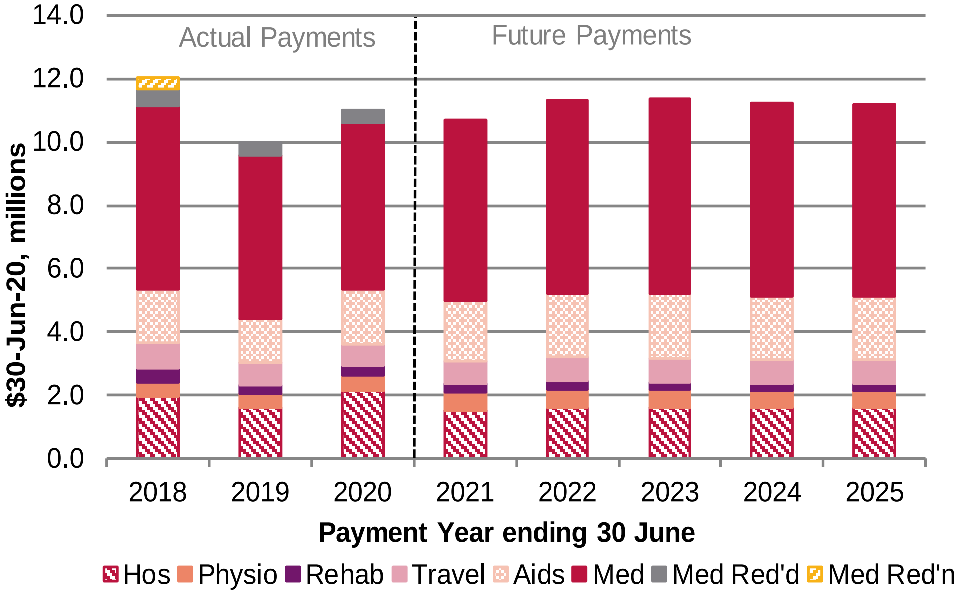


Other Serious Injury claims receive very little in care costs. We expect around $1.6 million in other payments in 2021.

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 ($Jun20)

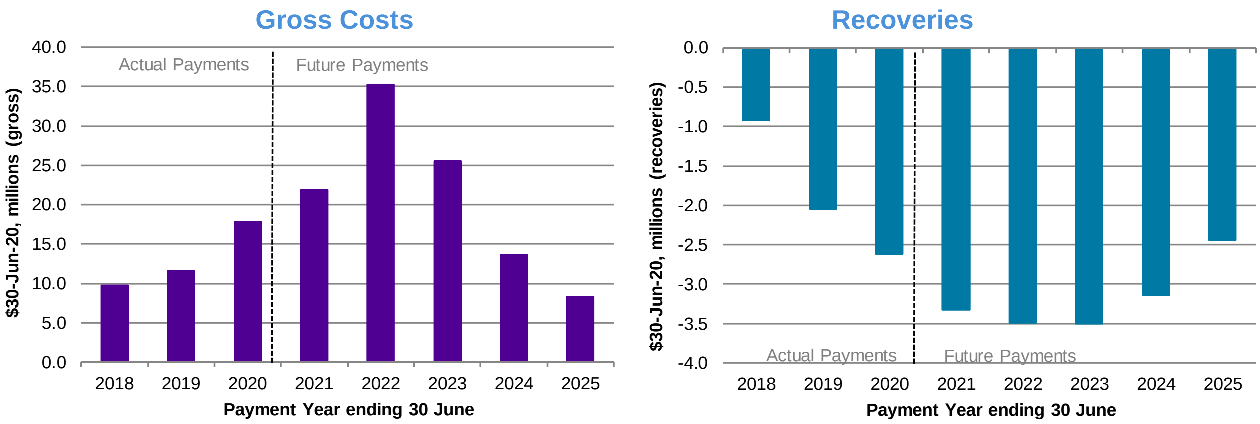


We expect treatment and related payments of $11 million in 2021 for ongoing claims. Payments increase in 2022 due to IBNR claims offset by reductions in line with mortality.

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 ($Jun20)



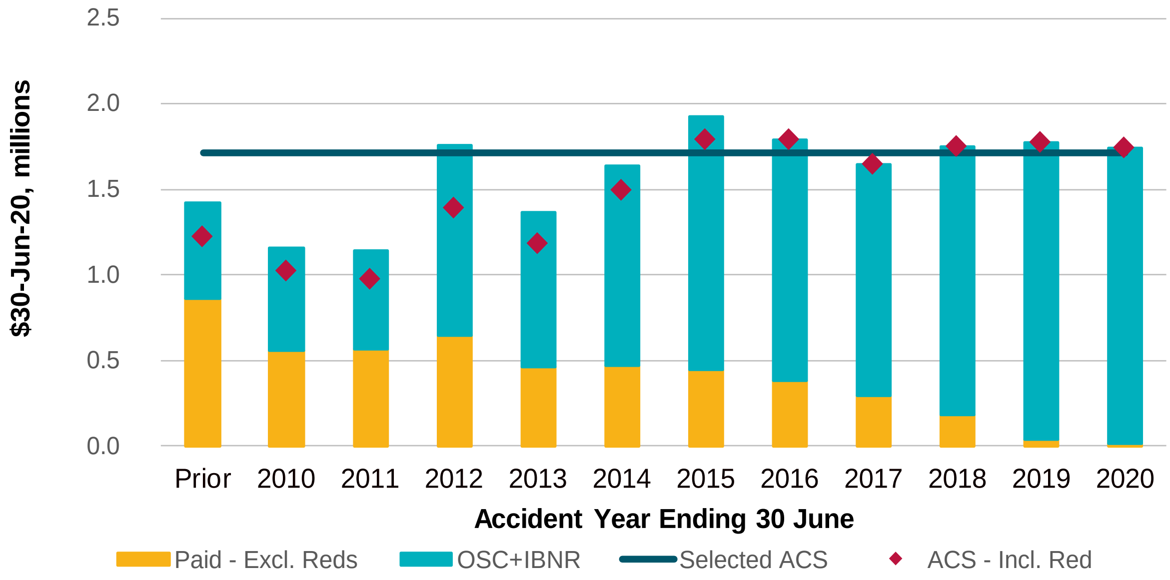
Our future projections include (in current dollars):

- Lump sum benefits of $93 million paid to current Other Serious Injury claims who have not yet had a lump sum paid.
- Legal and investigation costs of $25 million
- Recoveries of $19 million.

9.5.7 Overall Results and Implications

Figure 9.16 shows the net ultimate average claim size (inflated to 30 June 2020 values) across all Other Serious Injury claims.

Figure 9.16 – Average Size by Payment Type: Other Serious Injury Claims



The total selected average size is around $1.7 million. Pre-2015 accident years have a lower size due to redemptions on claims for less than lifetime cost and a higher than expected level of claims no longer being valued for ongoing benefits, likely as a result of some claims from these periods only being flagged as 'potential' Serious Injury claims due to WPI information despite no longer being engaged with the Scheme.

More detail on the selections underlying this average size can be found in Appendix A.6.4.

9.6 Valuation Results and Actuarial Release

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

Table 9.4 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Jun-20 from Dec-19 Valuation	Jun-20 Estimate on Dec-19 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Jun-20	Actuarial Release¹	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	265.7	257.8	-7.9	-1.0	8.9	3%
2005/06 - 2012/13	579.9	558.9	-21.0	-7.1	28.1	5%
2013/14 - 2014/15	244.8	268.3	23.5	-4.5	-19.0	-8%
2015/16 - 2019/20	841.8	858.0	16.2	4.4	-20.6	-2%
Total	1,932.2	1,943.0	10.9	-8.2	-2.6	0%

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

The main reasons for the movements by accident period are as follows:

- Pre-2014 accident periods movements were largely a combination of claims ceasing ongoing benefits (particularly in relation to the movement in EnABLE claims as shown in Figure 9.2) and a reduction in the level of care and medical IBNER, in response to continued lower payments for this group

- 2013/14 and 2014/15 accident periods increased due to some claims now using their own payment experience, which was materially higher than the aggregate selections that their valuations were relying on at the previous valuation, as well as increases to ultimate claim numbers for Other Serious Injury claims
- 2015/16 to 2019/20 accident periods increased, predominantly as a result of increases to Other Serious Injury claim numbers.

Table 9.5 shows the drivers of the actuarial release for Serious Injury claims.

Table 9.5 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to:	Other Serious Injury	Severe Traumatic Injury	Total
	$m	$m	$m
AvE payments in six months			8
Changes to Valuation Basis			
AvE IBNR	(64)	34	(31)
Deceased/ Deed of release	1	14	15
Care IBNER	0	13	13
Other basis changes	(20)	11	(8)
Subtotal	(84)	73	(11)
Total			(2.6)

The main drivers of the movement were:

- Net changes to claim numbers (including IBNR claims assumptions) increasing the liability by $31 million, which was a combination of a $64 million increase for Other Serious Injury claims and a $34 million decrease for Severe Traumatic Injury claims
- A number of claims signed a deed of release or died over the six months reducing the liability by $15 million
- Other changes, largely impacting average size, reduced the liability by $2 million in aggregate:
  - Severe Traumatic Injury claims reduced by $25 million, largely as a result of reductions to our care and medical IBNER loadings
  - Other Serious Injury claims increased by $20 million, largely as a result of some claims that were receiving low or nil levels of Income Support payments receiving large backpays that indicate little to no return to work prospects going forward, and a number of claims who moved from an aggregate payment method to rely on their own history which suggested a higher lifetime value.

10 Economic and Other Assumptions

10.1 Discount Rate

The discounted mean term (DMT) of the liabilities is 15 years, similar to the previous valuation. The high DMT is driven by the large proportion of the OSC made up of Serious Injury liabilities. As a result, even relatively small changes to economic assumptions can have a material impact on the liability.

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 cash flows 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.

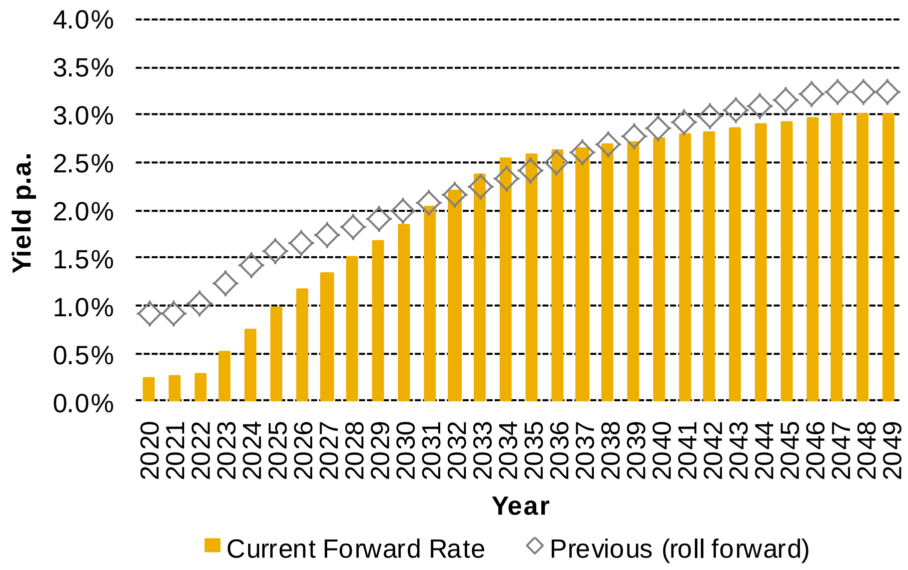
10.1.2 Current Assumptions

Discount rates at June 2020 have reduced sharply from their levels at December, one of the many economic consequences of COVID-19. A comparison of the currently adopted yield curve to previous is shown in Figure 10.1.

Maturities of less than 10 years have been the most affected, with RBA monetary policy decisions forcing yields out to three years down to 0.25% p.a., with the rest of the yield curve following short term yields down, albeit less so as the term to maturity increases. We have assumed a long-term discount rate of 3.00%, reduced by 0.25% from our previous valuation, based on the yield of the longest dated bond that was on issue at June 30 (matures in March 2047).

The equivalent single discount rate has reduced from 2.2% p.a. at 31 December 2019 to 1.9% p.a. at 30 June 2020.

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.

Given there is a prescribed inflation index for income support payments that is specific to South Australian conditions, our inflation assumptions consider inflation at a SA specific level for this portfolio.

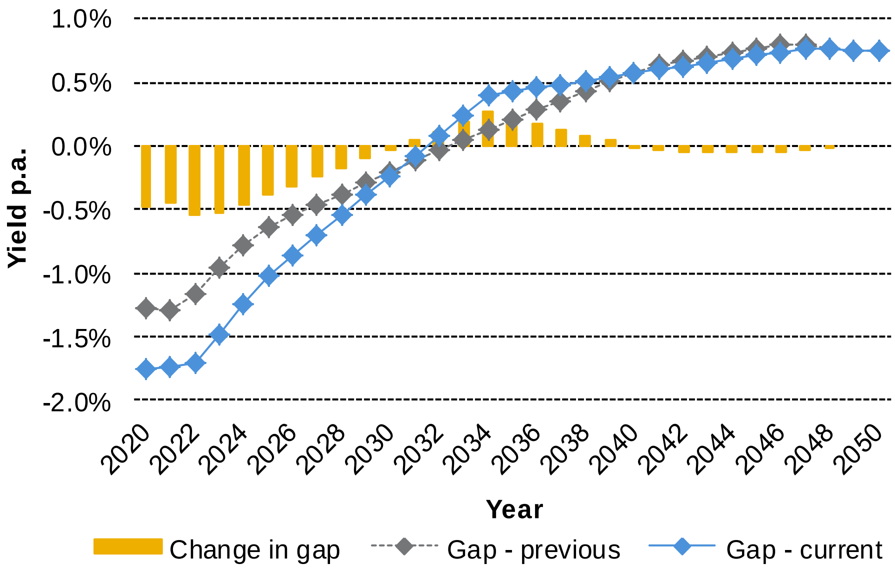
It is also important to note that the selected inflation assumptions are intended to reflect increases in claims cost over time, rather than being a pure forecast of the various inflation indices. This is important because there is anticipated to be some short-term disruption to the levels of inflation in the economy as a result of the COVID-19 pandemic, an example of which is the 1.9% fall in CPI inflation for the June quarter announced recently. We have only reflected these short-term disruptions to inflation indices in our selections where we believe this impact will actually flow on to inflation in the cost of claims, which we are using the available inflation indices as a proxy for.

In summary, our assumptions at the current valuation are:

- Wage Price Index (WPI) inflation has been assumed to be 2.00% p.a. for the next five years. This is a 0.2% p.a. reduction from the previous valuation and is a reflection of current forecasts of a reduction in wage inflation.
- WPI inflation assumptions then increase steadily over the following 25 year period, after which they remain steady at 2.25% p.a. This long-term assumption represents a 0.75% p.a. gap between WPI inflation and forward discount rates, unchanged from our December 2019 valuation.
- Average Weekly Earnings (AWE) inflation is set as equal to WPI inflation, at 2.00% p.a., for the coming five year period.
- The gap between AWE and WPI inflation is then assumed to widen to over the following ten years, after which it reaches a steady-state gap of 0.10% p.a. above WPI (i.e. long term AWE inflation of 2.35% p.a.). This is in line with our assumption at the previous valuation, and reflects the low AWE growth in SA in recent years.
- CPI inflation has been set at 1.75% p.a. for the next five years and 2.00% p.a. for all years after that. The selection for the first five years reflects a reduction in market expectations and forecasts of short-term CPI. The long term selection represents the lower bound of the Reserve Bank's targeted range of 2-3% p.a. and reflects the low CPI growth across both SA and Australia over recent periods.

The combined impact of the above movements in adopted inflation and discount rates is a widening of the 'negative gap' between inflation and discount rates for the short to medium term of the next ten years, with minimal change to the gap in the long term. This is shown in Figure 10.2 below. As this shows, the current economic assumptions imply a negative gap out to nearly 12 years.

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. As explained in Section 9.1 the superimposed inflation applied to Care benefits for Serious Injury claims has been reduced from 2.0% to 1.5% at this valuation, while other superimposed inflation assumptions remain unchanged. 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.

We have reviewed recent and budgeted expenses for ReturnToWorkSA to estimate the costs related to claims handling. Interpretation of this analysis must be conscious of the changing nature of the scheme, its claim management strategy and the expected permanency or not of these features; that is, the claims handling expense allowance is set as a forward looking measure that is intended to reflect the current expense structure. Table 10.1 shows the scheme's latest and projected expenses and the proportion allocated to CHE.

Table 10.1 – Expenses and Allocation to CHE

	2019-20 (unaudited)	**2020-21 (budget)**
	$m	$m
Administration	57.4	61.1
Claims Management	54.8	65.1
Tribunal	9.9	9.9
Total Expenses	122.1	136.1

% Expenses allocated to CHE

	2019-20	**2020-21**
Administration	27%	28%
Claims Management	69%	67%
Tribunal	54%	54%
Total	48%	49%

Table 10.1 shows the proportion of costs allocated to claims management in three main categories:

- Administration expenses - direct claims management costs plus a proportion of other cost centres
- Claims Management – allocation between new claims lodgement and processing and the ongoing claims management operations (including relevant performance fees)

- Tribunal – estimate of the proportion related to ongoing claims, net of the contribution from self-insurers to these running costs.

In addition costs are also split by serious injury and short term claims to enable a two way claims handling expense assumption. Table 10.2 shows the attributed CHE expenses split by the two claim groups. These costs are shown as a proportion of gross claim payments in each year, which is how the liability CHE loading is calculated.

Table 10.2 – CHE by claim type as a percentage of gross claim payments

	CHE Expenses / Claim Payments		CHE Assumption	
	2019-20	2020-21	Selected	Previous
Serious Injury	7.7%	8.0%	8.0%	8.5%
Short Term Claims	13.8%	15.1%	14.0%	12.5%
Liability Weighted Average %			9.7%	9.6%

As shown in Table 10.2, the CHE costs associated with serious injury have been below our previous CHE allowance, which corresponds to the period where ReturnToWorkSA has had a larger portfolio of serious injury claims to manage.

Short term claims however have seen higher expenses than previously assumed, which appears to be driven by the costs associated with managing the transition cohort. It is not expected that the features associated with managing short term claims will change in the foreseeable future, that is there are still many claims in dispute and finalising the runoff of the transition cohort still appears to be at least 2-3 years away, and so this recent experience is relevant for the CHE allowance.

The assumptions for our claims handling expense allowances for the outstanding claims valuation are as follows:

- For Serious Injury claims the allowance is 8.0% of outstanding claims, reduced from 8.5% at the previous valuation.
- For Short Term claims the allowance is 14.0% of outstanding claims, increased from 12.5% at the previous valuation.

This review includes significant costs attributed to management of the transition cohort of claims (those with an accident year prior to 2016). If the scheme reaches a point where these claims are finalising faster, that is more in line with the legislated scheme boundaries on income support and medical costs, then we would expect these costs to reduce and a lower expense rate to be likely. As such, the expense loading should be reviewed if a new steady state is reached over time.

The overall expense rate equates to 9.7% of gross outstanding claims, an increase from 9.6% from the previous valuation.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

Since June 2017 ReturnToWorkSA has established its outstanding claims provision with a 75% probability of sufficiency.

We have undertaken a high-level review of the risk margin scorecards for internal and external systemic risks at this valuation, given a more comprehensive review was done two previous valuations ago. 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.

We have also assessed the additional uncertainty in the valuation results due to COVID-19 and have applied an explicit adjustment to the risk margins. This additional uncertainty essentially relates to the Short Term Claims income support segment of our risk margins analysis, as the vast majority of other costs do not face any real change in their uncertainty levels as a result of COVID-19 (as anything based on WPI assessments ought not be impacted by COVID-19).

'BAU' Risk Margins

Our current estimated CVs for each entitlement group before the impact of COVID-19, along with the total diversified and undiversified CV, are set out in Table 10.3 below.

Table 10.3 – Coefficient of Variation

	Total CV	
Risk Margin Group	Jun-20	Dec-19
Serious Injury	27.9%	27.9%
Short Term Claims		
Income Support	15.7%	15.7%
Lump Sums	23.8%	25.1%
Legal + Investigation	28.0%	28.0%
Medical and Other Treatment	15.8%	17.1%
Recoveries	20.0%	20.0%
Total (Undiversified)	25.9%	26.1%
Total (Diversified)	**22.0%**	**22.1%**
Diversification	14.8%	15.2%

Our selected CVs have reduced slightly overall from our previous valuation due to:

- A reduction in the Lump Sums CV due to lower parameter selection error as WPI assessment speed up and there is less uncertainty in our estimate of future claim numbers. In addition, there is slightly more confidence around legal precedent, with several key cases having been resolved in the Supreme Court over the last year
- A reduction in the Medical and Other Treatment CV largely due to tighter controls in place for the management of medical providers and late surgeries, resulting in lower risk of unplanned cost escalations.

Based on a diversified coefficient of variation of 22.0% and our modelled distribution (which is a blend between a normal and lognormal distribution), we recommend a risk margin prior to adjustment for COVID-19 of 14.0% at a 75% probability of sufficiency.

COVID-19 Adjustment to Risk Margins

Due to the increased uncertainty in the claims environment brought on by COVID-19, we have assessed the impact of the additional uncertainty for the risk margins in the following way:

1. Assess the impact of COVID-19 on an industry benchmark portfolio. This work was performed by Finity's internal risk margins team. We have then assessed how to adjust the industry benchmark results for the specific circumstances of ReturnToWorkSA.
2. Re-do the scorecard analysis to incorporate the potential impacts of more adverse COVID-19 scenarios.

The industry benchmark portfolio for workers' compensation implies an additional allowance in the risk margin in the range of 0.3% to 1.2% to achieve a 75% probability of sufficiency. We have selected an adjustment of 0.3% which is at the low end of the range. This is due to the relatively lower impact of COVID-19 on the South Australian economy, and faster recovery in employment and hours worked post the initial shutdown period. The structure of the liabilities, that is a relatively short duration on most claims and only a small number of claims able to access the Serious Injury benefit package also supports a low-end risk margin impact. Further details around the risk margin adjustments for COVID-19 can be found in Appendix C.2.6.

Including the selected COVID-19 adjustment, we recommend a risk margin of 14.3% at a 75% probability of sufficiency, an increase of 0.3% from our BAU risk margin (and the risk margin at the previous valuation).

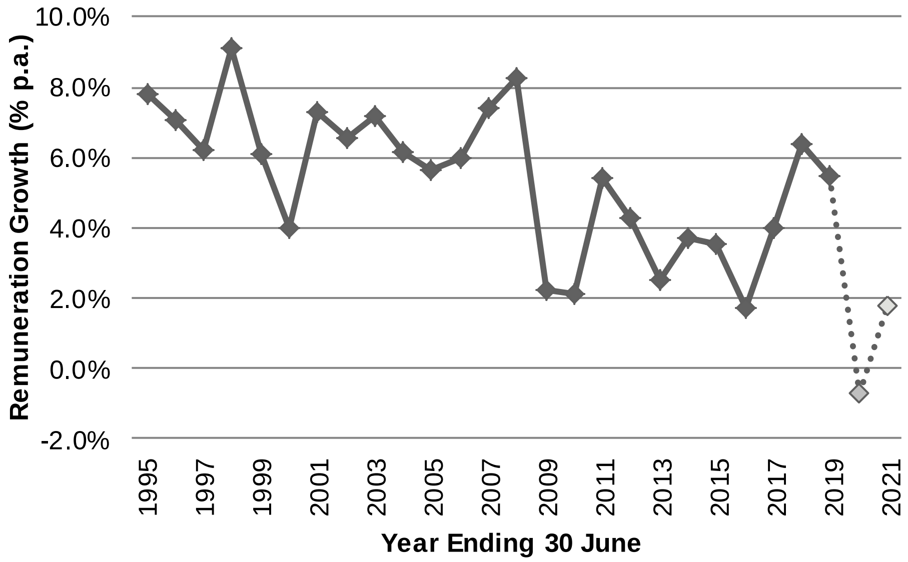
10.6 Non-Exempt Remuneration

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 10.3.

Figure 10.3 – Non-Exempt Leviable Remuneration: Annual Growth



We have adopted ReturnToWorkSA's remuneration projection of $30.2 billion for 2019/20, noting that it is still subject to estimation. 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 then reduced again towards levels seen during the GFC, and then stayed low until 2017.
- 2019 remuneration growth ended up at 5.5%, following on from 6.4% growth in 2018. Both of these years had higher growth than any other year all the way back to 2008.
- ReturnToWorkSA's projection for 2020 is a reduction in wages of 0.7% (reduced from previous projection of 3.3% growth), which marks the first time scheme wages have reduced since the 1991 recession. This updated forecast reflects the expected impact on wages of the COVID-19 pandemic, which has significantly disrupted business operations and led to many workers being forced to exit the workforce, therefore reducing wages. Whereas most wage changes occur gradually over time, the impact of the COVID-19 pandemic is a sudden 'step change' reduction in the June 2020 quarter.
- The current projections have wage growth returning to positive territory in 2021, with 1.8% growth, rising to 3.5% in 2022 and 3.8% after that. The low forecast of wages growth for 2021 is in line with a gradual recovery from COVID-19 after December 2020 for the SA economy.

11 Valuation Results

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

- The central estimate of outstanding claims as at 30 June 2020
- 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 cash flows for the current outstanding claims
- Projected outstanding claims as at 31 December 2020 and 30 June 2021
- Reconciliation of results with 31 December 2019 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2020 is set out in Table 11.1. This liability relates to all claims which occurred on or before 30 June 2020 and includes the impact of updated economic assumptions.

Table 11.1 – Outstanding Claims by Entitlement Type

Entitlement Group	Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m	
Income	182	505	688	23%
Medical	143	666	809	27%
Other (incl. Care)	8	417	425	14%
Lump sums	297	103	400	14%
Hospital	18	128	146	5%
Travel & Accomodation	6	62	68	2%
Worker legal	47	14	61	2%
Corporation legal	37	14	51	2%
Physical Therapy	9	43	52	2%
Rehabilitation	15	21	36	1%
Investigation	2	1	3	0.1%
Common law	3	0	3	0.1%
Commutation	2	0	2	0.1%
LOEC	1	0	1	0.0%
Gross Liability	770	1,974	2,744	93%
Recoveries	-33	-33	-66	-2%
Expenses	108	158	266	9%
Net Central Estimate	845	2,098	2,944	100%

The outstanding claims liability before recoveries and expenses is estimated to be $2,744 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,944 million.

Table 11.2 details the outstanding claims result by accident year.

Table 11.2 – Outstanding Claims by Accident Year

Accident Year	Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m	
Pre Jun-05 Years	22	255	277	9%
Jun-06	4	41	45	2%
Jun-07	4	72	76	3%
Jun-08	5	49	54	2%
Jun-09	5	57	62	2%
Jun-10	6	76	82	3%
Jun-11	8	79	87	3%
Jun-12	9	83	91	3%
Jun-13	10	101	111	4%
Jun-14	12	109	121	4%
Jun-15	17	172	189	6%
Jun-16	37	134	171	6%
Jun-17	56	174	230	8%
Jun-18	88	166	254	9%
Jun-19	172	224	396	13%
Jun-20	314	182	497	17%
Gross Liability	770	1,974	2,744	93%
Recoveries	-33	-33	-66	-2%
Expenses	108	158	266	9%
Net Central Estimate	845	2,098	2,944	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

	Short Term Claims	Serious Injuries	Total
	$m	$m	$m
Inflated	863	3,314	4,177
Inflated and Discounted	845	2,098	2,944
Ratio	98%	63%	70%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 75% probability of sufficiency, $3,365 million.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,974		
Gross Claims Cost - Short Term Claims	770		
Claims Handling Expenses	266		
Gross Outstanding Claims Liability	3,009	430	3,440
Recoveries	-66	-9	-75
Net Outstanding Claims Liability	2,944	421	3,365

11.3 Movement in Liability

Our net central estimate including CHE is $24 million higher 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-19	2,649	-65	255	2,839
Plus liability for claims incurred in the period	296	-7	33	323
Less Expected Payments to Jun-20	234	-5	27	256
Plus Interest (unwinding of discount)	13	0	1	14
Liability Projected from Previous Valuation	2,725	-68	262	2,920
Current Valuation	2,744	-66	266	2,944
Difference	18	2	4	24

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

	Liability Estimate[1]	AvE Payments in 6 mths to Dec-19	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m
Liability at Dec-19 Valuation	2,839		
Projected Liability at Jun-20 (from Dec-19 valuation)	2,920		
Claims Movement - Short Term Claims	15	1	-16
Claims Movement - Serious Injury	2	-8	7
Impact of Change in economic assumptions	7		
Recommended Liability at Jun-20	2,944		
Total Actuarial Strengthening			-9

[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 2020

The actuarial strengthening (negative release) over the period is $9.5 million. Table 11.7 shows the actuarial strengthening by entitlement type.

Table 11.7 – Actuarial Strengthening by Entitlement Type

Entitlement Group	Short Term Claims[1]	Serious Injury Claims[1]	Total Actuarial Release [1]	Release %
	$m	$m	$m	
Income Support	-7.8	-24.9	-32.7	-5.2%
Lump Sums	8.6	-4.0	4.6	1.2%
Worker legal	-5.2	-1.1	-6.4	-11.4%
Corporation legal	-0.8	-0.3	-1.1	-2.2%
Investigation	0.2	0.0	0.2	5.1%
Medical	-5.0	-8.8	-13.8	-1.8%
Other	-0.3	36.1	35.8	7.4%
Hospital	3.5	0.0	3.5	2.5%
Travel	0.7	0.3	1.1	1.7%
Physical therapy	0.1	0.8	0.9	1.9%
Rehabilitation	1.0	1.4	2.4	6.6%
Common Law	0.2	0.0	0.2	7.1%
LOEC	0.0	0.0	0.0	-3.0%
Commutation	0.2	0.0	0.2	9.9%
Gross Liability	-4.7	-0.5	-5.2	-0.2%
Recoveries	0.4	-2.1	-1.7	2.6%
Expenses	-11.7	9.1	-2.6	-1.0%
Net Central Estimate	-16.0	6.5	-9.5	-0.3%

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

The major factors contributing to the $9 million actuarial strengthening at the current valuation are:

- For **Short Term claims**, the actuarial strengthening (negative release) of $16 million is the result of:
  - An increase of $8 million for Income Support costs, in response to increasing claim durations and a more unfavourable claims mix (a higher proportion of mental injuries and musculoskeletal injuries starting income support).

    There are also offsetting impacts as a result of COVID-19: a $7 million reduction due to lower new claims in the June 2020 quarter, offset by a $6 million increase in anticipation of poorer continuance rates as the higher unemployment rate will make it harder for injured workers with a new employer goal to return to work. In developing our COVID-19 allowances, we have anticipated that ReturnToWorkSA will make additional use of income support cessations upon medical recovery to mitigate the impacts of the poorer employment market; if this is not the case then the impacts would be larger than shown.
  - A decrease of $9 million for lump sum entitlements. This is largely due a reduction in the adopted ultimate number of RTW Act claims being paid a lump sum. This was partly offset by an increase in the basis for transitional claims, where a large number of claims are still commencing WPI assessment activity.
  - An increase of $5 million for medical benefits due to a combination of the flow-on to extra medical costs from the increases in Income Support claims, higher medical device costs following the increase in hearing loss claims, and high medico-legal costs for transitional WPI assessment and dispute activity.
  - An increase of $6 million for legal costs, as new disputes continue and disputes increasingly move into the later (and more expensive) stages of the dispute resolution process.

    - A decrease of $3 million in hospital entitlements reflecting the favourable emerging experience and a reduction in the number of pending future surgeries.
    - A decrease of $2 million for the remaining entitlements, mostly reflecting the reduction in ultimate claim numbers.
    - A $12 million increase in the claims handling expenses, as a result of the additional activity required to manage the slower than expected run-off of short term claims.
- For **Serious Injury claims**, there was an overall release of $7 million, due to:
    - The net movement in claim numbers (including IBNR assumptions) resulted in a strengthening of $31 million, in response to the continued late emergence of Other Serious Injury claims for 2017 and prior accident periods, partially offset by low Severe Traumatic Injury reports.

      We caution that even after this strengthening we are still only allowing for a very small percentage of ongoing claims to ultimately reach the Serious Injury boundary. Further, we continue to interpret the higher numbers of Serious Injury claims being identified at early durations for recent accident years as a speed up in the identification pattern, meaning we have not allowed for the continued late identifications for more recent accident years. If either of these assumptions do not hold, there will be material implications for both the outstanding claims liability and average premium rate.
    - A number of claims ceased being valued, due to either signing a deed of release or the claimant's death, which lead to a release of $15 million.
    - Other valuation changes resulted in a $5 million release, with some larger offsetting impacts behind this. There were releases on older accident periods, as a result of lowering the IBNER allowance for Severe Traumatic Injury claims and savings on care costs for a number of claims, while Other Serious Injury claims saw a strengthening due to a combination of some claims receiving large backpays (and now ongoing income support) and a small number of claims with higher than normal medical costs.
    - A reduction in the claims handling expense loading for Serious Injury claims, from 8.5% to 8.0%, which reduced the liability by $9 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 net central estimate by $7.3 million.

There are two key factors that act in offsetting directions that led to this result:

- Discount rates have fallen dramatically over the last six months, particularly for short to mid durations, and reductions in inflation expectations have not been sufficient to offset this; at longer durations the gap between our selected long term inflation and discount rates remains unchanged. The impact of these changes is an increase in the liability of $57 million.
- A reduction in the superimposed inflation assumption for Serious Injury care benefits, from 2.0% to 1.5%, reduces the liability by $49 million. To add context to this change, we note that the other elements of the care liability basis that allow for future cost escalation – that is, the allowances for increases in the level of Care required as claimants age and for gratuitous care to transition to paid

care over time – have not been changed, so the change in the superimposed inflation component is essentially in relation to the unit cost of services. In the current economic environment we believe it is unlikely a premium of 2% above inflation will continue over the lifetime of these claims, and this view is further supported by recent re-negotiations in care rates on some high cost claims.

The current assumptions imply a negative real yield (i.e. projected wage inflation exceeds the discount rate) out to nearly 15 years into the future.

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 2020.

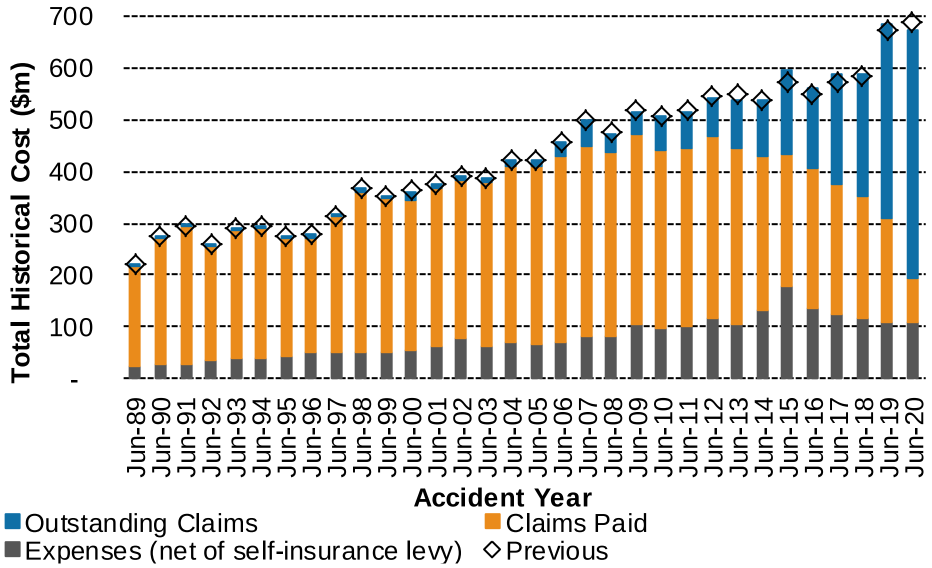
Figure 11.1 summarises the currently estimated historical costs for each year since the scheme began. As this shows, commencement of the RTW Act had initially acted to contain the cost for accident years up to 2017 at around $550 million, breaking the strong upward trend seen in the lead up to 2009. Scheme expenses were particularly high in 2015 as a result of additional transition related costs. In general the hindsight cost estimates are similar to the previous valuation estimates, other than for the latest two accident years.

For recent accident years the costs are projected to be higher than the pre-2017 level as a result of:

- Higher claim numbers, particularly for Income Support claims, as explained in Section 4.1.2
- Lower discount rates applying for the whole of the projection, as explained in Section 10.1
- The impact of higher active income support claim numbers, as explained in Section 5; this is particularly so for the 2018/19 and 2019/20 years
- For 2019 there were a number of very high cost claims in the Severe Traumatic Injury cohort. This dynamic makes the increase from 2018 to 2019 more pronounced than it would otherwise be and is not an indication of deterioration in experience; rather it is just a reflection of the volatile nature of severe traumatic claim numbers given the low volume. 2020 currently has no Severe Traumatic injury claims, which is part of the reason its costs are lower than for 2019.

The 2020 year also benefits from the reduction in work as a result of COVID-19 that has meant fewer injuries are being reported than under a business as usual scenario.

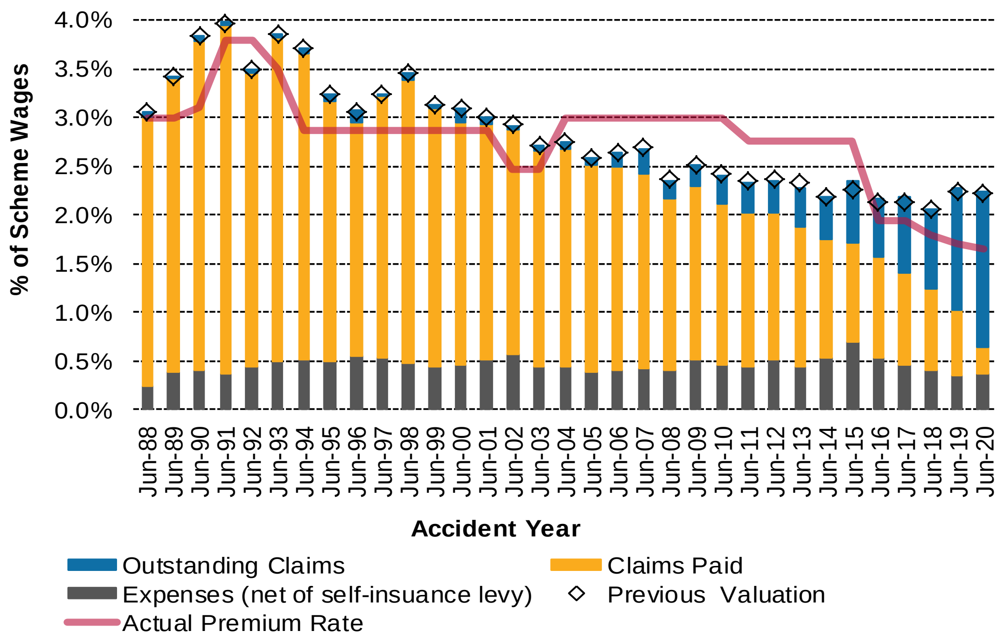
Figure 11.1 – Historical Cost Discounted to Accident Year



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 leviable 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:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to just under 2.5% of wages
- For accident years between 2011 and 2018 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits
- The BEP estimates for 2019 and 2020 are higher than the 2018 BEP, reversing the downward trend
- The current estimate of the BEP for the 2020 accident year is 2.25% of wages, up from 2.22% at the December 2019 valuation. The majority of this increase is attributable to changes in the underlying claims performance:
  - Short Term claim costs are projected to be 0.06% higher than at the previous valuation
  - Serious Injury costs and Scheme expenses both reduced slightly, by 0.02% and 0.01% of wages respectively.
- Scheme expenses have reduced year-on-year since 2015, when they were particularly high as a result of additional transition related costs. Expenses for the 2020 year are forecast to be 0.36% of wages, which is below the targeted post-reform rate of 0.40% of wages.

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 2020 still involves a degree of estimation.

11.5 Future Cash Flows

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

Table 11.8 – Projected Cash Flows

Entitlement Group	Projected Cashflows for Period			
	Jun-20 to Dec-20	Dec-20 to Jun-21	Jun-21 to Dec-21	Dec-21 to Jun-22
	$m	$m	$m	$m
Income Support	88.6	90.7	91.4	91.4
Medical	40.9	40.4	42.2	42.2
Lump sums	52.9	55.9	64.8	62.6
Rehabilitation	7.1	7.1	7.2	7.2
Physical Therapy	5.3	5.3	5.5	5.5
Hospital	9.9	9.9	10.4	10.4
Legal - Non-Contract	7.3	7.3	7.3	7.4
Other	7.6	7.7	8.5	8.6
Legal Contract	11.0	11.0	10.4	9.7
Travel	3.1	3.2	3.3	3.3
Investigation	1.0	1.0	1.0	1.0
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	-6.7	-14.9	-5.4	-5.6
Net Claims Cost - Total	228.4	225.3	247.0	244.3
Serious Injuries (net)	34.1	30.2	50.0	48.0
Short Term Claims (net)	194.2	195.1	197.1	196.3

Cash flows for Short Term claims over the next two years are expected to remain fairly stable, while the shape to the Serious Injury cashflows is a result of assumptions around the timing of one-off lump sums and recoveries.

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 31 December 2020 and 30 June 2021. We note the payments shown here are based on those 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 (31 December 2020 and 30 June 2021)

	Half year ending	
	Dec-20	Jun-21
	$m	$m
Provision at Period Start	3,365	3,439
Less Risk Margin	421	430
Central Estimate at Period Start	2,944	3,009
Plus Additional Liability Incurred in Period	320	327
Less Expected Payments in Period	-259	-256
Plus Interest (unwind of discount)	4	4
Projected Central Estimate at Period End	3,009	3,083
Plus Risk Margin	430	441
Projected Provision at Period End	3,439	3,524

We project the central estimate for the net outstanding claims liability at 31 December 2020 to be $3,009 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 2020 to 31 December 2020. The corresponding provision at a 75% probability of sufficiency is $3,439 million.

The projected increase to 31 December 2020 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; for Short Term claims the half-yearly ins and outs are now broadly offsetting.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 31 December 2019 valuation we projected an additional claim cost liability of $290 million would be incurred from claims arising in the half-year to 31 June 2020. Our current projection for the ultimate value of this liability is $278 million, a reduction of 3.9% or $11 million consisting of:

- A reduction of $4.7 million from Short Term Claims primarily due to lower than expected claim numbers and reductions in lump sum entitlements.
- A reduction of $8.5 million from Serious Injury claims, where there has also been a reduction in the expected number of new claims following the COVID-19 reductions in work. There have also been no Severe Traumatic Injury claims reported as yet for the 2020 year, which has been partially allowed to flow through to lower claim costs.
- Changes to economic assumptions add $2.0 million.

Table 11.10 – Comparison of December 2019 Projections to Current Valuation

For period 1 Jan 2020 to 30 Jun 2020		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-19 Valuation	290	
Incurred (current valuation)	278	-3.9%

12 Uncertainty and Sensitivity Analysis

12.1 Risk and Uncertainty

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, particularly on the unfavourable side, 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, 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 some 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; as summarised below.

Table 12.1 – Economic Scenarios

	Stronger	Weaker
Unemployment	Down to 5%	Up to 9%
Wage inflation[1]	2.25% pa	2.0% pa
Investment earnings	3.25% pa	0.25% to 1.0% pa
Real Long-term 'Gap'[2]	1%	-1%

[1] Wage Price Index (WPI) inflation
[2] Difference between WPI 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 'short term claims' 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	OSC Impact %
30 Jun 20 OSC estimate (Including risk margin at 75% POS)	3,365	
Stronger Economic Scenario (1% gap between inflation and discount rate)	-544	-16%
Weaker Economic Conditions (-1% gap)	+545	+16%

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, although there are no indications that economic conditions will change any time soon.

12.3 Legal Risk Scenarios

As discussed in Section 3, there are currently high numbers of disputes in the scheme and the duration of open disputes is high. Further, a number of key provisions of the RTW Act are still subject to new areas of legal challenge. The table below indicates the sensitivity of the results to two scenarios regarding disputes around WPI assessments. It is likely that if the legal environment is either better or worse than we have implicitly assumed, then several experience changes could happen together.

Table 12.3 - Legal Sensitivities

	OSC Impact $m	OSC Impact %
30 Jun 20 OSC estimate (Including risk margin at 75% POS)	3,365	
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.	+285	+8%
Restrictions on multiple assessments ('top ups') do not work as expected.	+265	+8%

As indicated in the sensitivities above, if the WPI assessment provisions in the RTW Act do not work as intended it is possible, indeed likely, that the impacts could be measured in hundreds of millions of dollars.

12.4 Expenses Scenario

We have reviewed the claims handling expenses at this valuation and have selected a loading allowing for the current level of expenses to be maintained over the lifetime of the projection. If this is not the case, then the loading could be tens of million higher as shown below.

Table 12.4 – Expenses Sensitivities

	OSC Impact $m	OSC Impact %
30 Jun 20 OSC estimate (Including risk margin at 75% POS)	3,365	
Scheme expenses are higher than allowed (16% for STC and 8.5% for Serious Injuries)	+29	+1%

12.5 Short Term Claim Scenarios

The implementation of the RTW Act has brought significant change to the scheme and areas of change in the scheme's culture. In the last one to two years we have seen signs that these improvements might not be being maintained, and 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 could outperform current projections if the changes in claims management and behaviour of scheme participants is more favourable than has been anticipated.

Table 12.5 summarises a number of sensitivities that help demonstrate the potential for variability in the Short Term Claim cohort.

Table 12.5 – Short Term Claim Sensitivities

	OSC Impact	
	$m	%
30 Jun 20 OSC estimate (Including risk margin at 75% POS)	3,365	
Claim Numbers		
Numbers emerge at recent average levels instead of reducing for the June 2020 quarter	+10	+0%
Income Support		
Deterioration in Continuance rates by 5% points at each development quarter and associated percentage change in PPACs	+47	+1%
IS continuance rates return to 2018 levels	-17	-1%
Treatment Costs		
Late surgery costs emerge more than expected, approximately double the current allowance	+27	+1%
Medical costs emerge similar to recent experience due to higher medico legal costs for RTW Act injuries	+31	+1%
Legal Fees		
Reductions in dispute costs under the RTW Act are lower than allowed for	+31	+1%
Higher average cost of legal fees for all claims due to disputes progressing further in the disputation process	+48	+1%
Lump Sums		
First Paid and Economic Loss lump sum numbers reduce to 2015 levels for RTW Act claims	-18	-1%
Economic Loss lump sum sizes emerge 10% lower than expected	-19	-1%
Transitional lump sum disputes and pending assessments all resolve in favour of claimant	+14	+0%

These scenarios illustrate some of the key areas of uncertainty for Short Term Claim costs including:

- If claims numbers did not reduce in line with wages for the June 2020 quarter, as we believe has happened following the COVID-19 disruptions, then this would add around $10 million to the provision (there would also be around $7 million extra for Serious Injury claims that is not included in this table).
- Further deterioration in RTW performance would increase Income Support and flow-on costs by tens of millions of dollars – examples of how this could occur are:
  - Significant deterioration in RTW rates for all durations that results in increasing continuance rates and average payment sizes
  - A more severe COVID-19 impact on claims, for example if the economic environment was much more adverse and/or ReturnToWorkSA was unable to cease income support payments upon medical recovery
- An improvement in RTW rates to be in line with the FY2018 exit rate experience in the first development year would reduce the liability by around $20 million; improvements beyond this

would also be possible if the proportion of claimants who commence income support benefits (noting that our count only starts at 10 days of lost time) could also be reduced back to 2018 levels.

- Treatment costs
  - Higher numbers of late surgeries – for example, if there was a behaviour change whereby claimants seek to have more surgeries covered by the workers compensation system, this could add $27 million to the provision.
  - High levels of medico-legal costs continue on for RTW Act claims due to longer and more complex disputes could add $48 million to the provision. We had previously viewed this as a risk mostly related to transition claims, but on current trends it appears that the slow rate of resolution is now also being experienced in RTW Act claims.
- Higher dispute and claims administration related costs could also impact on the provision. If disputes continue to progress through the disputation process then it could add up to $48 million to the provision due to the high costs in the later stages of dispute.
- Lump sums:
  - Are currently tracking lower than expected levels, which we continue to interpret as mainly being a 'slowdown' rather than a 'reduction' in lump sums. If this is not the case, and there is in fact improvement in lump sum experience, this could result in a release of up to $18 million in the provision.
  - On the other side, if transition related lump sum disputes were to resolve in favour of the claimants, then this would add around $18 million to the provision.

12.6 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 12.6 – Serious Injury Sensitivities

30 Jun 20 OSC estimate (Including risk margin at 75% POS)	3,365	
20 additional Serious Injury IBNR claims emerge for 2016 and 2017 with higher numbers continue for all RTW Act periods	+255	+8%
Late emergence pattern for 2016 and 2017 is in line with older years, and continues for all RTW Act periods	+222	+7%
Unpaid care on EnABLE cohort ceases immediately and is replaced with paid care	+149	+4%
Uncertainty around mortality - impact of all EnABLE claims with mortality in line with standard population life expectancy	+443	+13%
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.	+446	+13%
Superimposed inflation is 1% p.a. lower than assumed for medical and	-324	-10%
No increase in utilisation of Care benefits after age 65	-87	-3%
Twice the additional allowance for utilisation of Care benefits after age 65	+74	+2%

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 outstanding claims liability.

We emphasise that there is significant uncertainty around ultimate claim numbers, as indicated by the following scenarios:

- If an additional 20 IBNR claims emerge for the 2016 and following accident years (i.e. the RTW Act years), there will be an increase of around $255 million in the OSC provision. With a high number of claims remaining open beyond the two and three year benefit caps, continued emergence of new Serious Injury claims from transition periods, and many areas of the RTW Act still being tested in the courts, it is possible that Serious Injury numbers end up materially higher than our current estimates.
- If the increase in Serious Injury claim numbers being identified at early durations for more recent accident years does not result in fewer claims being identified post development year three, then the increase to the provision would be around $220 million. The current interpretation that the increase in numbers at earlier durations is a speed up in the identification pattern is very important in the context of both outstanding claims liability and average premium rate.

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

12.7 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.

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

- **Legal precedent risk** – risks here relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. In particular, there are still many claims in dispute seeking to access higher levels of benefits than ReturnToWorkSA has determined. Despite a number of apparently 'key cases' having resolved over the last two to three years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge.

  The case of *Summerfield* is the latest where an appeal to the Full Court will be heard; if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). On current timing, this risk is likely to remain for at least another two years, and perhaps longer.
- **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 lump sum for future economic loss payable to Short Term claims, means there is pressure on WPI assessments. The scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold or 'WPI creep'. The robustness of the 'once and for all' WPI assessment rules under the RTW Act is an important area of risk.
- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, and deviations from our assumptions that compound across multiple years. For the current valuation the key uncertainties are:

  - **Ultimate numbers of claims** – there are several areas of uncertainty in relation to claim numbers. These include the impact of claimants delaying their WPI assessments, as well as the number of outstanding Serious Injury application disputes and other WPI disputes that could see claims ultimately meet the 30% WPI threshold.
  - **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections. There is some evidence emerging that life expectancy for this group could be shorter than is allowed, and we will continue to monitor this.
  - **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 that 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 wage pressures and/or market demand pressures for these specialists as the National Disability Insurance Scheme continues to scale up.

- **Claim durations for Short Term Claims** – over the last two years there has been an increase in claim numbers and slippage in return to work outcomes (relative to the much improved RTW rates seen over the preceding few years); this deterioration continued in the last six months, particularly for claims at 3-12 months duration. Compounding this, the COVID-19 situation has created a poorer and more uncertain economic environment that has the potential to impact on claim outcomes.

  Further, we emphasise that no allowance has been made for the increasing numbers of longer duration claims to impact on WPI assessments – that is, we have not anticipated any slippage in WPI scores, nor any increase in the numbers of Serious Injury claims, as a result of the increasing claim durations.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has again impacted adversely on the discount rates that are used to determine the valuation results.
- **COVID-19 allowances** – our valuation work makes some allowances for COVID-19 impacts, but as previously noted the level of uncertainty about this is much higher than is normally the case. Any increase in infections, as is currently occurring in Victoria, or a further disruption to the workforce similar to what has already occurred would likely lead to material disruption to claim outcomes beyond what has been allowed in the valuation basis. This situation continues to evolve rapidly and could lead to materially different outcomes than projected.

Even though the RTW Act provisions commenced five years ago, there are still key areas of the Act being tested in the courts, and there is as yet only limited information on the numbers of Serious Injury claims which will ultimately emerge. 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 will differ 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

13.2.1 Emergence of Key Legal Precedent

Realising the expected long term financial savings from introducing the RTW Act depends on the effectiveness of maintaining the boundaries in practice. Any legal precedent that causes ‘slippage’ in the application of the boundaries will have an unfavourable impact on scheme costs.

There continues to be an unusually high number of cases on appeal to the Supreme Court and until these cases are resolved there will be uncertainty as to the financial costs which eventuate under the RTW Act benefit package.

13.2.2 Other 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. While its key features came into effect back in July 2015, legal testing of its implementation is still occurring and likely to take a number of years to complete, as noted above.

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.

13.2.3 COVID-19 Impacts

The uncertainty at this valuation is heightened by the impact of COVID-19 and the associated shutdowns. While our valuation analysis has highlighted impacts in the short term, there is considerable uncertainty around the potential impacts over the next few years, and potentially even longer. The actual impacts of COVID-19 may be materially different from what we have assumed.

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.

There has been a lot of focus on potential new sources of silicosis claims recently, but at this time it does not appear that ReturnToWorkSA is impacted anywhere near as much as some of the Eastern states. While there are negligible claims to date, information from the recent external screening program has identified a group of just over 20 workers with evidence of silicosis or other lung diseases. As such, it now seems more likely that silicosis claims could emergence over time, and we will continue to monitor developments regarding this area of risk.

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 since major reforms in 2007.

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': 104 weeks for weekly benefits and 52 weeks 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.