Scheme Actuarial Valuation as at 31 December 2016

ReturnToWorkSA

March 2017

At ReturnToWorkSA's request we have consented to the release of this report to the public, subject to the reliances and limitations noted in the report.

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

Actuarial and Insurance Consultants

17 March 2017

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

Dear Ms Yuile

Scheme Actuarial Valuation as at 31 December 2016

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

While we are beginning to see signs of stabilisation in the Short Term Claims segment of the Scheme, there is still considerable uncertainty about the ultimate cost of Serious Injury claims, particularly in relation to the number of such claims that will eventuate each year. Further, while legal precedent is beginning to emerge in relation to the RTW Act provisions, it is likely to be another one to two years before the real-world operation of the Act is known with more confidence.

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

Yours sincerely

A McInerney

Andrew McInerney | Gae Robinson | Geoff Atkins

Fellows of the Institute of Actuaries of Australia

Scheme Actuarial Valuation as at 31 December 2016

Glossary

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

Part I Executive Summary

1 Introduction

Finity Consulting Pty Limited ("Finity") has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme ("RTW Scheme") as at 31 December 2016.

Our previous actuarial review was as at 30 June 2016, and was documented in a report dated 30 August 2016.

2 Scope of the Review

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

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

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

3 Valuation Approach

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

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

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

4 Scheme Environment

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

- **Legal precedent**: sections of the RTW Act are now being tested through the Scheme's dispute resolution processes, although as yet relatively few of these cases have gone to judgement or completed the various appeal processes and so it is likely to still take one to two years before key precedent is established. To date it appears the RTW Act is largely operating as anticipated.

- **Transition related activities**: a number of specific strategies to streamline the transition to the RTW Act have been completed, and the focus is now on the RTW Act management model.
- **Early intervention and RTW focus**: refinements continue to be made to focus on initial claims acceptance and improving early claim management following the introduction of mobile case managers. It appears that claim numbers have stabilised over the last 12-18 months, following a number of years of strong improvement.
- **Dispute resolution and appeals**: following significant reductions in the count of open disputes in 2015 and early-2016, the number of open disputes again began to rise in the second half of 2016. We also understand that more claims are appealing dispute decisions, following changes in the RTW Act that mean legal costs are no longer at risk on an appeal.
- **South Australia's economy**: wages growth in 2016 was at the lowest level in nearly 25 years, and forecasts for 2017 and 2018 are similarly low; at the same time unemployment rates remain relatively high. This is a challenging set of conditions and means claim expenses and scheme costs will need to be tightly controlled in order for there not to be pressure on premium rates.

The last six months saw the first cohort of claims (namely old Act medical only claims) move through one of the RTW Act's time capped boundaries, which we understand worked as expected.

5 Recent Claim Experience

The key features of the claims experience in the six months to 31 December 2016 were:

- New claim numbers – both for All Claims and the more expensive Income Support claims – have been stable or marginally higher in the last 18 months, having previously been on favourable reduction trends.
- The number of new Serious Injury claims in the six months was again higher than expected. This is not surprising given the approaching hard boundary for Income Support on old Act clams will be focusing attention on this aspect of the scheme, although if it continues then there will be longer term cost increases.
- Total net claim payments in the six months were $12 million (6%) lower than the previous valuation projections, and 27% lower than the previous six months, as the various transition related strategies came to an end and fewer old Act claims remain on ongoing benefits.

6 Liability Valuation Results

Summary of Results

Our central estimate of the Scheme's outstanding claims liability for registered employers as at 31 December 2016 is $2,013 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 7.0% to produce a provision with a 65% probability of sufficiency, consistent with ReturnToWorkSA's reserving policy, gives an outstanding claims provision of $2,154 million, as shown in Table 1.

Table 1 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,287		
Gross Claims Cost - Short Term Claims	586		
Claims Handling Expenses	201		
Gross Outstanding Claims Liability	2,074	145	2,219
Recoveries	-60	-4	-65
Net Outstanding Claims Liability	2,013	141	2,154

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

The provision includes an allowance for future claims handling expenses equivalent to 11% of gross claim costs (reduced from 12% previously), which is a higher proportionate loading than normal in recognition of the transition related costs which ReturnToWorkSA faces in running off existing claims.

Movement in Liability

Our central estimate is $173 million lower than projected at the previous valuation. We have attributed the change in central estimate into two components to show:

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

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

Table 2 – December 2016 Central Estimate and Determination of Actuarial Release

	Central Estimate		
	Projected Dec-16 Liability[1]	AvE Payments in 6 mths to Dec 16	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-16 Valuation	2,176		
Projected Liability at Dec-16 (from Jun-16 valuation)	2,186		
Movement in liability due to claims performance	-26	-12	38
Impact of Change in economic assumptions	-147		
Recommended Liability at Dec-16	2,013		

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

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

There is an actuarial release of $38 million for the period, which is a favourable result for the Scheme. Changes to economic assumptions decrease the central estimate liability by $147 million. Each of these items is discussed briefly below.

Components of the Actuarial Release

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

Table 3 – Actuarial Release by Entitlement Group

Entitlement Group	Short Term Claims[3]	Serious Injury Claims[3]	Total Actuarial Release [3]	Release as %
			$m	%
Income & Related	9	-6	4	1%
Lump Sums	3	5	8	3%
Legals	-4	-1	-5	-7%
Treatment Related [1]	1	33	34	3%
Rehabilitation	-2	11	9	11%
Other Costs [2]	1	0	1	8%
Recoveries	1	-16	-15	-19%
Total Claim Costs	9	26	35	2%
Expenses	-1	4	3	1%
Net Central Estimate	8	30	38	2%

[1] Medical, hospital, physical therapy, travel, other
[2] Investigation, common law , commutation, LOEC
[3] Includes change in OSC and Act vs Exp payments.

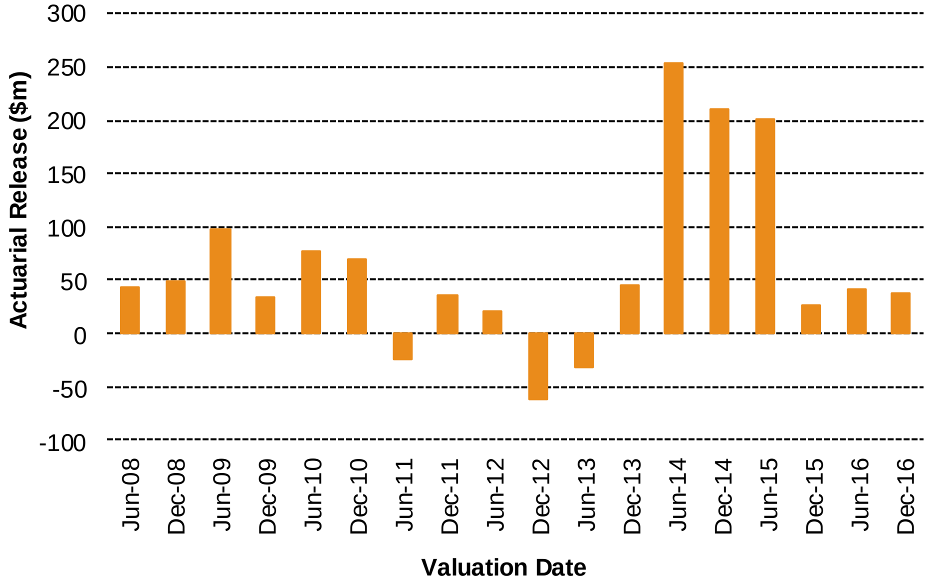
The major contributors to the $38 million actuarial release are:

- For **Short Term Claims**, the $8 million actuarial release comprises:
  - A net release of $9 million for income support and redemptions, which is primarily due to lower than expected payments across both post-reform claims (claims post 1 July 2015), and transitional claims. This was primarily due to the amount each ‘active’ claim received being lower than expected.
  - A release of $3 million for lump sum payments, driven by favourable claim numbers experience for “First Paid” lump sums (excluding Death and Deafness claims, for non-economic loss only) and “Death” and funeral lump sums.
  - A net increase of $4 million for legal costs, comprising a release of $6 million for worker legal payments where legacy disputes have been quickly resolved, and a $10 million increase to corporation legals as a result of higher revised contract costs.
- For **Serious Injury claims**, there was an overall release of $30 million, due to:
  - Higher numbers of newly identified SI claims than expected producing a net strengthening of $30 million – this combines fewer than expected ‘high care’ serious injuries (saving $43 million) and more other serious injuries (adding $73 million of liability).
  - Changes in entitlement levels and valuation basis changes releasing $57 million – this combines claims no longer valued ($22 million saving), changes to claimant level valuation assumptions (saving $11 million on high care claims and $10 million on other serious injuries) and methodology changes (saving $14 million).

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

Figure 1 shows the actuarial release at each valuation over the last eight years. As this shows, the current result is similar to those over the previous 12 months. The significantly reduced scheme liabilities make it much harder now to achieve savings like those seen between June 2014 and June 2015.

Figure 1 – History of Actuarial Releases



Impacts of Economic Assumption Changes

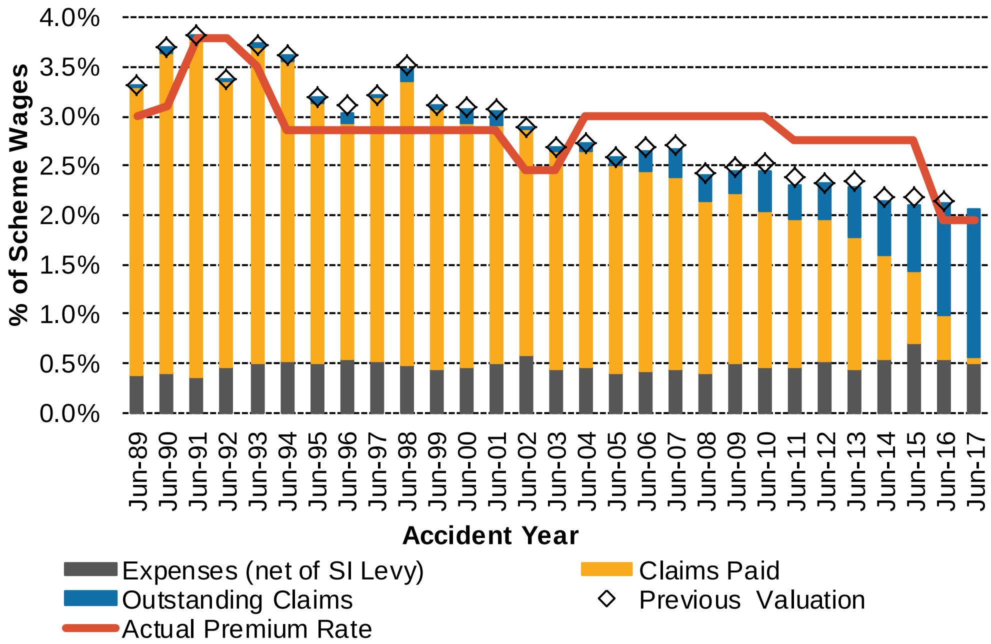
Changes to inflation and discount rate assumptions decrease the central estimate by $147 million. As discussed in Section 10.1 there have been increases in discount rates at all durations, an event which is outside ReturnToWorkSA's control, which has led to this decrease in the OSC liability.

7 Historical Scheme Costs

We have estimated the 'historical premium rate', otherwise known as the Break Even Premium rate (BEP), for each past accident year; this is the amount that would have been sufficient to fully cover claim costs, expenses and recoveries, assuming the Scheme achieved risk free investment returns each year and that the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (discounted to the start of that year at risk free rates) by the total Scheme leviable remuneration in that year. We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

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

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



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

The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2010 to below 2.5% of wages
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2017 accident year is 2.05%. Favourable economic conditions have reduced the BEP by more than the increase due to higher claim numbers, to produce a net decrease of 0.07% compared to our previous estimate.
- Scheme expenses were relatively high from 2014 to 2016, and particularly high in 2015, as a result of additional transition related costs. 2017 scheme expenses are lower than this, and ReturnToWorkSA expects that these will continue to reduce over the next few years as transition related activities are completed.

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

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2017 still involves a degree of estimation.

8 Key Uncertainties

There are considerable uncertainties in the projected future claim costs. In particular, the continuing uncertainty surrounding the impacts of the RTW Act mean there is a higher than usual level of uncertainty in our central estimates. 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:

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

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

- **Serious Injury**

  - **Life expectancy** – with benefits payable for life, the future life expectancy for Serious Injury claims has a significant impact on future cost projections.

  - **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. One example is the extent to which care costs which are currently not compensated by the Scheme may become compensable in future, as family-based carers age and claimants increasingly require paid attendant care and/or residential care facilities. Another example is the potential increase in costs for care related specialists and facilities, due to the Fair Work wage decision and/or as demand for these specialists outstrips supply (for example as the NDIS scales up in the next few years).

  - **Ultimate number of claims** – there are several areas of uncertainty in relation to claim numbers, including: the ultimate number of top-ups that are yet to emerge due to legislation changes, the impact the removal of top-ups will have on ultimate claim numbers and the number of claims from the 'potential' group that ultimately meet the 30% WPI threshold.

- **Legal precedent risk** – risks here include the possibility of decisions which are unfavourable to the Scheme or the cultures and behaviours of its participants. On current timing, this risk is likely to remain for at least another one to two years.

- **Return To Work** – the potential improvements to Scheme culture as a result of the new hard boundaries and Mobile Case Managers may encourage earlier RTW for Short Term Claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worse RTW experience leading up to the two-year boundary.

- **Compensability and claim acceptance** – there is potential for further reductions in new claim numbers following changes to compensability rules. However, it will be crucial to ensure that past closed claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances do not start new claims or 'restart the clock' following a short return to work.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the Scheme, as well as the risk that settlements paid to finalise disputed claims may exceed the claims costs which would otherwise be incurred.

- **Management actions** – management's actions will determine the extent to which redemptions and other types of exit act to reduce the number of claims that remain on ongoing benefits.

- **Labour market pressures** – the combination of higher than desired unemployment and low wages growth present a challenging environment, and could place additional pressures on achieving RTW outcomes and holding the BEP at current levels.

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

9 Reliances and Limitations

Our results and advice are subject to a number of important limitations, reliances and assumptions. This executive summary must be read in conjunction with the full report and with reference to the reliances and limitations set out in Section 13 thereof.

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

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

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

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

Part II Detailed Findings

1 Introduction and Scope

1.1 Introduction

Finity Consulting Pty Limited ("Finity") has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 31 December 2016.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 30 June 2016, as documented in a report dated 30 August 2016.

1.2 Scope of the Review

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

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

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

1.3 Compliance with Standards

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

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

1.4 Control Processes and Review

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

- ***Technical review*** focuses on the technical work involved in the project. The technical reviewer reviews the data, models, calculations and results, and also reviews our written advice from a technical perspective.
- ***Peer review*** is the professional review of a piece of work. The peer reviewer reviews the approach, assumptions and judgements, results and advice.

1.5 Structure of this Report

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

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

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

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

2 Approach and Information

2.1 Approach

2.1.1 Allowance for the Return to Work Act 2014

The Return to Work Act 2014 ("RTW Act") made significant changes to entitlements and to the Scheme operations, with all of the new features having commenced on or before 1 July 2015. Our estimates of the outstanding claims liabilities allow fully for the expected impacts of the RTW Act, and for the emerging experience to date.

2.1.2 Modelling of Different Claim Cohorts

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'. 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)			

Our valuation projects costs separately for Serious Injury claims and Short Term claims:

- Serious Injury claims are valued using an individual claim based approach by payment type (see Section 9).
- Short Term Claims are valued using aggregate methods, by payment type (Sections 5 to 8).

2.1.3 Basis of the Valuation

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

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

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete Scheme history to 31 December 2016. 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.

For the current valuation a number of changes were made as a consequence of ReturnToWorkSA making a change to their database from “WIRE” to “BURST”. As part of this change ReturnToWorkSA identified and implemented an improved definition of the date of payment on individual transactions, with the date of payment now based on the actual bank payment date rather than the date the accounts department is instructed to make a payment.

This has pushed most payment records to a slightly later date (e.g. most IS payments are recorded as being four days later they were recorded as previously) and has been considered in our review of the valuation basis. The historical differences are summarised in the appendices of the report.

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

The appendices show summaries of the claims data, including data reconciliations.

2.2.2 Qualitative and Additional Information

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

- Briefing sessions on 16 December 2016
- Information on disputes and dispute outcomes
- Other operational information.

3 Scheme Environment

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

3.1 Legislation

There have been no changes to the Scheme's legislation or Regulations which impact on our valuation since the June 2016 valuation.

3.1.1 Legal Precedent under the RTW Act

Sections of the RTW Act are now being tested through the Scheme's dispute resolution processes, although as yet relatively few of these cases have gone to judgement or completed the various appeal processes.

One case that has now been delivered is *Martin*, where the Full Bench of SAET found against ReturnToWorkSA's approach to the treatment of surgery related impairments when undertaking WPI assessments. While relatively few claims will be impacted by the decision, those who are covered by these issues will now get slightly higher WPI assessments, leading to higher lump sum payments and potentially some claims meeting the threshold for serious injuries that otherwise would not have.

While at this stage it appears that the key provisions of the RTW Act are operating as expected, more precedent is still to emerge. It is likely that in the next 12 months there will be more decisions that give clarity as to the application of the various RTW Act legislative provisions, although for some areas of the Act it may take longer for precedent to emerge.

3.2 Scheme Transition

3.2.1 Applications under Transitional Regulations

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

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

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

3.2.2 Management of Transitional Claims

Over the period mid-2015 to late 2016, ReturnToWorkSA undertook a number of specific strategies which were intended to streamline the transition to RTW Act operations; these are now largely complete. The strategies applied for some Serious Injury claims, as well as other claims, and included:

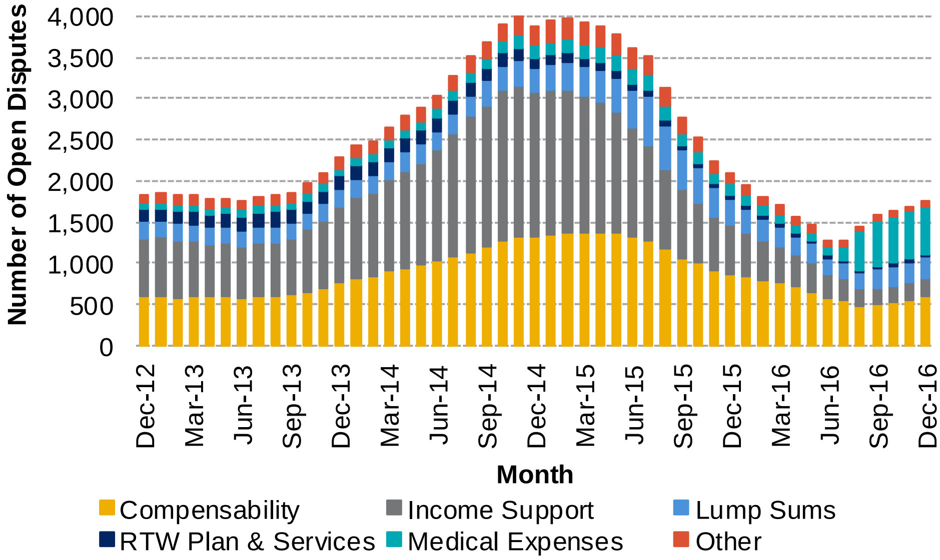
Dispute Settlement

In order to reduce the number of open disputes, and free up claim management resources, ReturnToWorkSA undertook targeted settlement activity in relation to some disputes. Settlements only proceeded where it was assessed as being in the interests of the Scheme to do so.

The dispute settlement activity saw significant increases in a range of payment types, including IS backpays, IS redemptions, retraining allowances and medical redemptions. This was largely complete by 1 July 2016, with nearly all payments being finalised in the September 2016 quarter.

Figure 3.1 shows the number of open disputes over time, which shows the considerable reductions achieved in the last 18 months. As this shows, the number of disputes relating to Medical Expenses has increased significantly since June 2016, as a result of the Transitional Regulation applications for future surgery as noted above. Many of these disputes have been held, pending the outcome on a number of key precedent cases.

Figure 3.1 – Open Dispute Count



Redemption of IS Entitlements

ReturnToWorkSA identified pre-RTW Act claimants who were expected to be entitled to IS payments until the cut-off date of 30 June 2017, and offered them the opportunity to redeem future IS payments. The redemption amount was calculated as the IS amount that would have been paid to 30 June 2017.

Because the redemptions represented a bringing forward of payments, not extra payments, the overall financial impact on the scheme was minor.

Redemption of Medical Entitlements

Similarly, a large number of Claims on medical only benefits were redeemed, where acceptable terms could be agreed. The value of these redemptions was generally much lower than an IS redemption.

Closure of Medical-only Claims

At 30 June 2016 the first of the hard boundaries under the RTW Act was reached, with transitional claims receiving medical only benefits no longer eligible after 30 June 2016 (i.e. the earlier of one year after the latest income support payment or one year from 1 July 2015).

Strategies for Remaining Transition Claims

At 30 June 2017 the first group of claims will reach the income support two year boundary under the RTW Act. The management focus for this cohort has been on providing any rehabilitation and RTW support and ensuring WPI assessments have been undertaken to identify potential serious injury claims.

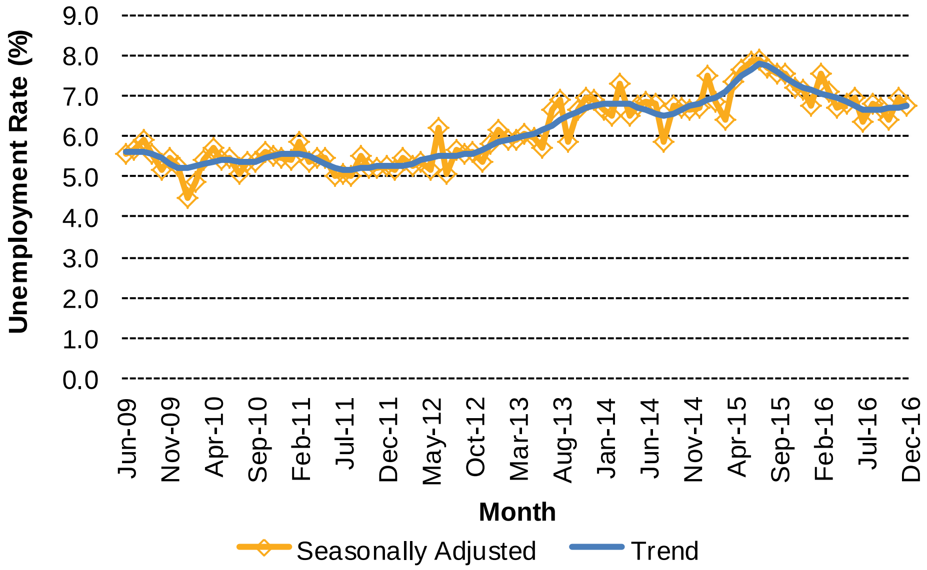
3.3 Operational and Environmental Changes

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

3.3.1 South Australian Economic Conditions

Unemployment rates in South Australia have been reasonably high for about two and a half years now (although there has been a slight reduction over the last 12 months), increasing from near 5.5% in 2012 to around 7% currently, as shown in Figure 3.2. The unemployment rate is now higher than that seen in the GFC environment in late 2008 to mid-2009.

Figure 3.2 – South Australia Unemployment Rate



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

3.3.2 Faster Claim Reporting and Payment Activity

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

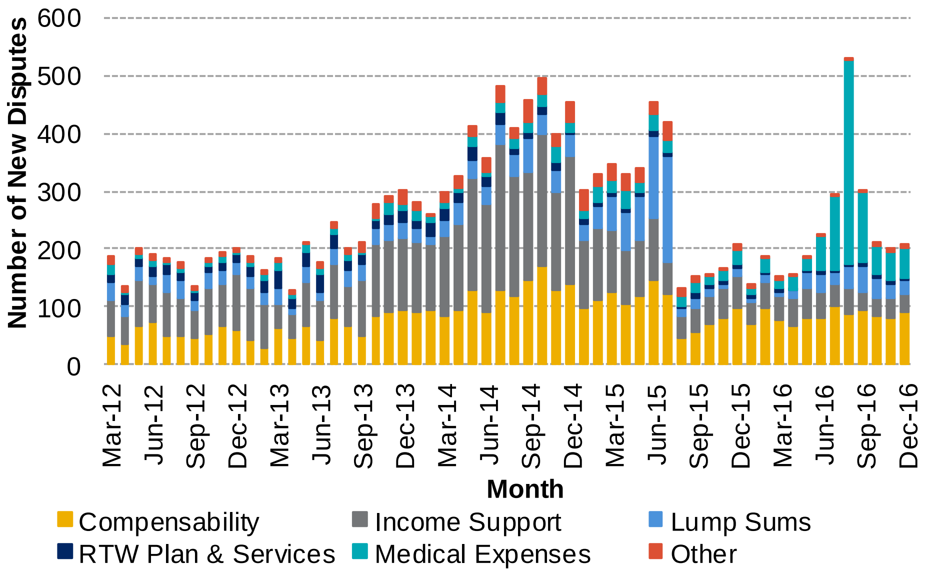
Additionally, the RTW Act imposes a three month time limit on employers requesting wage reimbursements where they have made income support payments to injured workers. While the majority of these requests have always been made within three months, a material share often took longer than this, often much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

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

3.3.3 Dispute Numbers

Dispute numbers were high during 2013, 2014, and the first part of 2015, due to greater numbers of claim rejections and WCA decisions. Dispute numbers fell dramatically post 1 July 2015 under the RTW Act. Medical Expenses disputes spiked after June 2016, which was due to a significant number of disputes around future surgery applications.

Figure 3.3 – Disputes by Type



The December 2016 quarter has averaged just over 200 disputes per month, which is similar to the 'Old Act' experience prior to 2013. As such, it appears that current dispute numbers are more or less in line with 'normal' historical levels, despite the significant reduction in ongoing claim numbers seen in recent years.

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

4 Recent Claims Experience

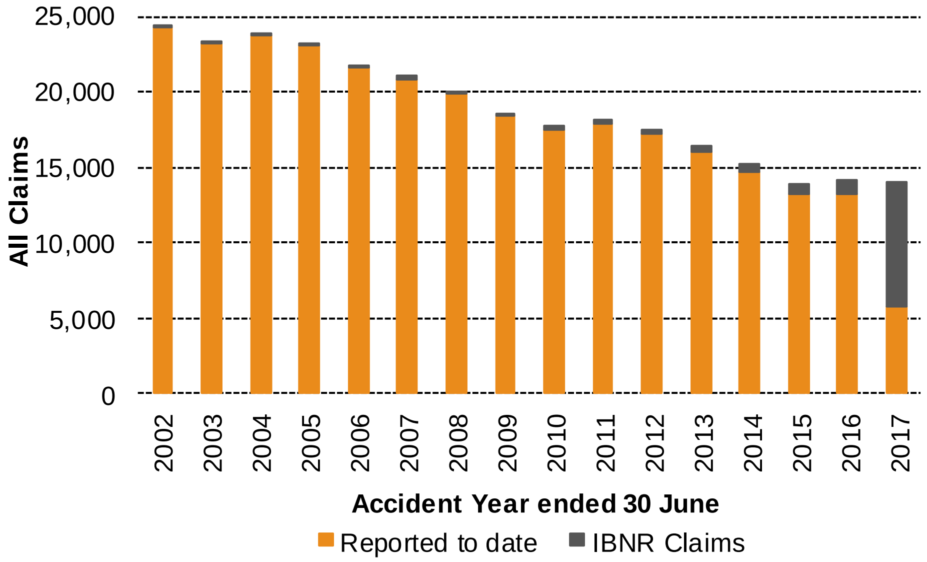
This section provides a high level analysis of Scheme experience, including the numbers of new claims and overall payment trends.

4.1 Claim Incidence

4.1.1 All Claims

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

Figure 4.1 – Ultimate Number of Claims (All Claims)



The main feature of the experience is a general downwards trend, which began in the 1990s. After an increase in claim numbers in 2011, there have been reductions every year up to 2014/15, before levelling out in 2015/16. Our current estimate of 13,838 claims for the 2014/15 accident year is 9% lower than the projected number for 2013/14. Our current estimates for the 2014/15, 2015/16 and 2016/17 accident years are at a similar level (2% increase from 2014/15 to 2015/16 and a 0.3% decrease from 2015/16 to 2016/17).

4.1.2 Income Support Claims

Income Support (IS) claims are those who receive more than 10 days of lost time benefits. In addition to the early RTW focus which aims to stop claims getting to 10 days of lost time, the change in operational policy to focus on tighter claim acceptance, which began in late 2013, also reduced the number of IS claims between 2013 and 2015. Since 2015, the claims acceptance rate has been slightly higher under the RTW Act.

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

Figure 4.2 – Ultimate IS Claim Numbers

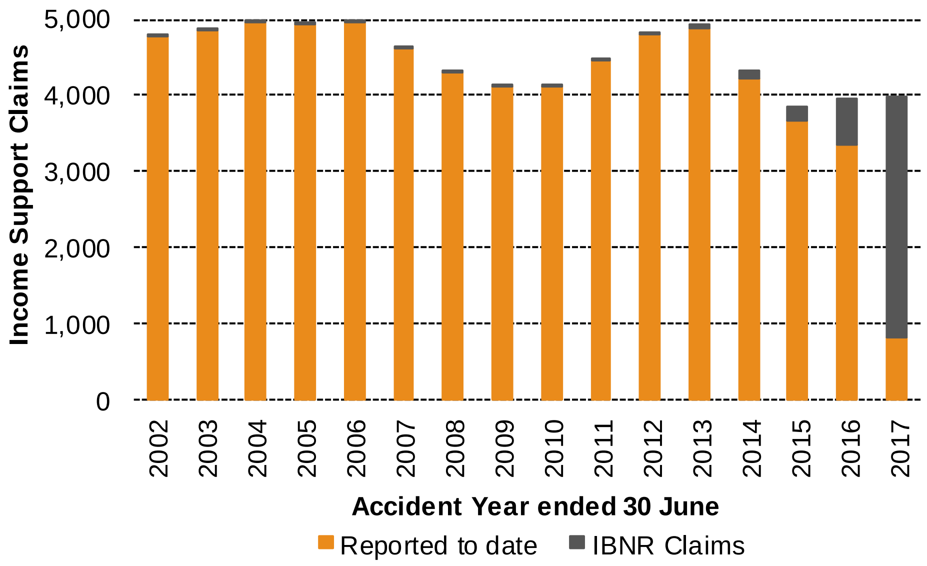


Figure 4.2 shows:

- Prior to 2007 IS claim numbers were reasonably stable, with around 5,000 claims per annum
- IS claim numbers dropped by 16% between 2005/06 and 2009/10, and then rose over the next three years to again reach nearly 5,000 claims per annum in 2012/13
- Our current projection shows IS claim numbers are expected to reduce materially in 2013/14 (a 12% reduction) and again in 2014/15 (a 12% reduction). Our projection of IS claims for the 2014/15 (3,895), 2015/16 (3,969) and 2016/17 (3,992) accident years are all below 4,000, which is the lowest since the scheme commenced.
- The current projections for the 2015/16 and 2016/17 accident years are around 3% higher than the current projection for 2014/15; and 2% higher than the projections for the same years at the previous valuation. The increase from 2014/15 to the last two years is a result of a relaxing of claim acceptance criteria, which has led to a higher number of claims being accepted.

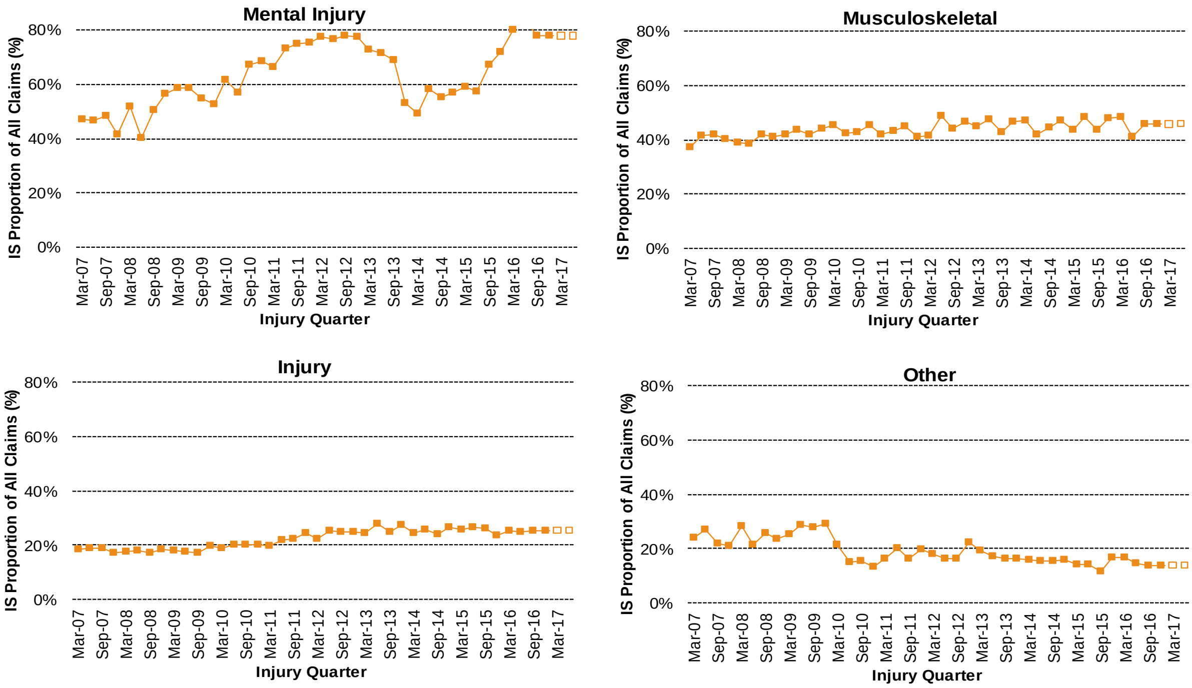
As shown in the graph, considerable development of claim numbers is still expected for the latest accident year, and there is therefore significant uncertainty around the ultimate outcomes in this year.

In order to better understand the reduction in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.3 below shows the proportion of claims that go on to receive 10 days of lost time (and thus are classified as an IS claim), as a proportion of all claims with that type of injury.

The biggest change was the decrease in mental injury claims receiving IS by around 20% from 2013 to 2014 and the gradual increase since then back to 2013 levels. This increase was the result of a simultaneous increase in mental injury IS claim reports (although not to 2013 levels) and a decrease in total (IS and non-IS) mental injury claim reports.

Musculoskeletal, injury and 'Other' claims have been relatively stable over the same period. This mix has important implications for long term IS claim costs as mental injury claims tend to have longer average durations than the 'typical' IS claim; which implies that IS claim costs should grow by at least as much as the increase in numbers (for years 2014 onwards).

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



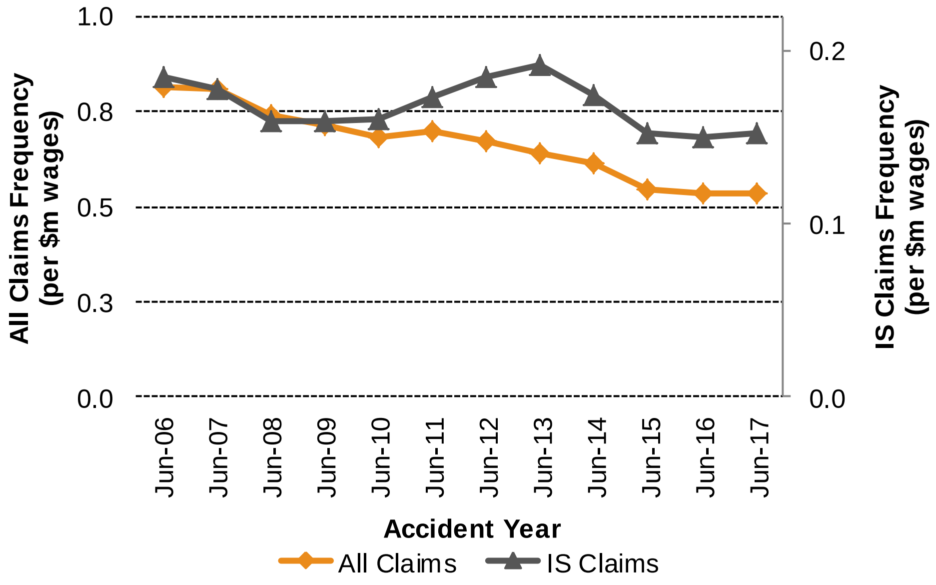
In the last six months our estimate of total mental injury claims has increased by 4% and 8% for the 2015/16 and 2016/17 accident years respectively compared to the previous valuation. Combined with a higher proportion of claims receiving Income Support, these changes have led to a 10% and 19% increase in our projection of mental injury IS claims for the same years.

An increase in our projection of total musculoskeletal claims for the 2015/16 and 2016/17 accident years has also resulted in an increase in our IS claims projection for this injury group; despite the proportion of claims receiving IS in this group remaining relatively stable.

4.1.3 Claims Frequency – All Claims and IS Claims

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

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

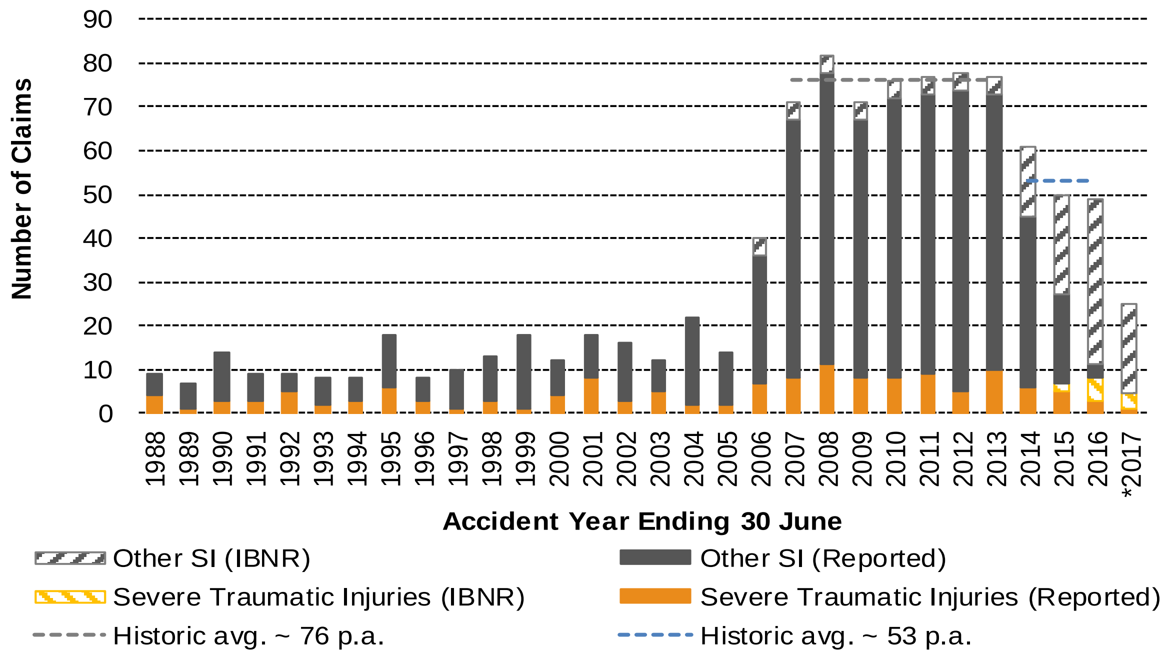


The IS claim frequency was on a similar trend to the all claims frequency until 2008, before diverging between 2008 and 2013. Following the improvement in IS claim numbers between 2013 and 2015, the estimated frequencies of claims are again moving in line for IS claims and all claims (indeed the gap between the two lines closed somewhat). Claim frequencies then appear to have stabilised in the last three accident years.

4.2 Serious Injury Claims

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

Figure 4.5 – Serious Injury Claim Numbers by Accident Year



* 6 months to Dec-16 only

The key features we note from this are:

- The number of Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- In the period from 2007 to 2013 the average is just over 75 Serious Injury claims per year.
    - However, this includes 10 - 20 ‘top-up’ claims (i.e. deteriorations or aggravations) per year which are no longer expected under the RTW Act due to the requirement for ‘once and for all’ WPI assessments.
    - A significant number of the claims that make up this cohort are still in the ‘potential’ Serious Injury category (i.e. they have not yet had an assessment to confirm that they meet the Serious Injury threshold), and it is possible that some of these claims will not ultimately meet the Serious Injury threshold. That said, there are still many other claims yet to have assessments that could ultimately lead to higher claims numbers than our IBNR allowances.
- From 2014 to 2016 the number of Serious Injury claims is lower, at around 53 claims per year, as to date there has been limited ‘topping up’ of WPI scores on these claims; these periods also include a material level of IBNR claims, as assessments have typically not occurred until a number of years after the injury occurred, and so the ultimate number of claims is still uncertain.

Assuming the new WPI assessment provisions work as intended, we expect there to be around 50 Serious Injury claims per year under the RTW Act (of which 9 are expected to be Severe Traumatic Injuries), and have allowed for 141 IBNR claims in the 2006/07 to 2016/17 (to December 2016 only) accident years based on this ultimate view.

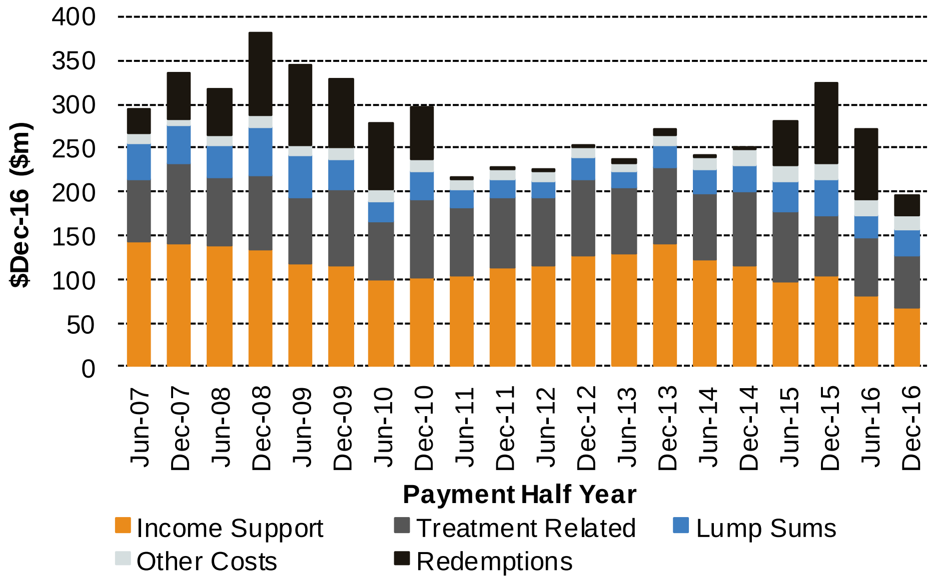
As discussed in Section 3.2.1, the Transition Regulations mean that claimants with multiple injuries could apply for subsequent WPI assessments up until 30 June 2016. Despite the deadline for applications ending six months ago, the final WPI score for the majority of these claims has not been finalised leaving significant uncertainty around the contribution these claims will have to ultimate numbers and the outstanding claims liability. In particular, given the high value of Serious Injury benefits, higher than expected top up claims could materially increase the liability.

Similarly, any adverse legal precedent that led to claims getting higher WPI scores would have material consequences for the claims liabilities.

4.3 Overall Payment Experience

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

Figure 4.6 – Gross Claim Payments ($Dec16)



Gross payments of $194 million were 27% lower in real terms (i.e. after adjusting for inflation to current values) than the previous six months. This reflects some mixed experience by payment type:

- Redemption activity peaked in the December 2015 and June 2016 half years as part of the transition strategies targeting claims that occurred prior to 1 July 2015. Most redemptions had been agreed by 30 June 2016 and were paid shortly after 1 July 2016. The reduction in redemption payments explains the majority of the reduction in gross payments.
- IS payments have steadily reduced since 2013 reflecting the success of the Tail Project and use of WCA under the WRC Act, reductions in new IS claim numbers and, over the last 18 months, the commutation of IS payments via redemptions.
- Treatment costs have decreased in the last six months due to lower hospital and care costs.
- Lump sum payments have been lower since 2009, after the transition to the new assessment basis. We expect lump sums will soon increase under the RTW Act provisions.

After allowing for recoveries of $7 million in the last six months, net claim payments of $188 million were $12 million (6%) lower than projected at the previous valuation. Table 4.1 shows the breakdown.

Table 4.1 – Payments: Actual vs Expected vs Prior Period

Entitlement Group	Six Months to Dec-16 Actual	Expected	Act - Exp	Act/Exp	Split by Category Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	67.3	72.3	-4.9	93%	-5.0	0.1
Redemptions	23.4	25.0	-1.6	94%	-5.8	4.2
Lump sums	28.5	31.0	-2.5	92%	-1.7	-0.9
Worker legal	7.0	7.6	-0.6	92%	-1.3	0.7
Corporation legal	7.9	6.5	1.3	120%	1.6	-0.3
Medical	31.2	31.3	-0.2	99%	0.2	-0.3
Hospital	7.2	8.5	-1.3	85%	-1.5	0.1
Travel	3.1	2.7	0.3	113%	0.0	0.3
Rehabilitation	6.8	5.8	1.0	118%	1.3	-0.3
Physical therapy	4.4	5.0	-0.5	89%	-0.4	-0.1
Investigation	0.9	1.3	-0.3	73%	-0.2	-0.1
Other	6.4	7.4	-1.0	86%	0.0	-1.0
Common law	0.0	0.1	-0.1	0%	-0.1	0.0
LOEC	0.0	0.1	0.0	98%	0.0	0.0
Commutation	0.1	0.2	-0.1	51%	-0.1	0.0
Gross Payments	194.4	204.9	-10.5	95%	-13.0	2.5
Recoveries	-6.9	-5.2	-1.7	133%	-0.5	-1.2
Net Payments	187.5	199.7	-12.2	94%	-13.5	1.3

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

- IS payments were $5 million (7%) lower than expected, due to fewer than expected active claims, together with a small reduction in the average amount of IS paid to each claim.
- Redemptions were $1.6 million (6%) lower than expected overall. While STC redemptions were lower than expected, SIC redemption payments were higher than expected.
- Corporation legals were $1 million (20%) higher than expected due to higher revised contract costs.
- Treatment costs were collectively very close to expected (1% lower).
- Recoveries were $2 million (33%) higher than expected.
- Payments on STCs largely explained the $12 million aggregate difference described above, with actual payments being $13 million lower than expected payments. For SICs, most of the higher than expected payments relate to greater redemptions than expected, which were offset by higher than normal recoveries and low Lump sum and Other payments.

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

5 Income Support and Redemptions – Short Term Claims

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

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments and Redemptions since the June 2016 valuation. This includes Medical redemptions.

Table 5.1 – Valuation Results: IS and Redemption

Jun-16 Valuation	$m	$m	$m
Estimated Liab at Jun-16	190.4		
Projected Liab at Dec-16	158.7		
Dec-16 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	1.5	(10.8)	9.3
Estimated Liab at Dec-16 (Jun-16 eco assumptions)	**160.2**		
Impact of change in eco assumptions	(1.1)		
Estimated Liab at Dec-16 (Dec-16 eco assumptions)	**159.1**		

At December 2016 there is an actuarial release of $9.3 million, reflecting the claims experience since June 2016 and our valuation response. The release comprises a strengthening of $1.5 million in the liability estimate, offset by claim payments in the six months being $10.8 million lower than expected.

The impact of economic assumptions is a release of $1.1 million; the impact of the economic assumptions is discussed in Section 11.3.2.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the **combined IS and Redemption** payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection. The payments here include:

- Ongoing IS payments, including backpay amounts
- IS redemptions, whether they relate to the redemption of IS entitlements to 30 June 2017 ("transitional redemptions"), or redemptions paid to claimants as part of the settlement of a dispute (see Section 3.2.2).
- Medical redemptions

Table 5.2 – Actual vs Expected Payments: IS and RED

Accident Period	Payments in Six Months to Dec 16 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
By Accident Period				
To 30 Jun 05	1.6	3.9	(2.4)	40%
2005/06 - 2012/13	17.0	20.4	(3.4)	83%
2013/14 - 2014/15	24.3	26.2	(4.0)	93%
2015/16 - 2016/17 [1]	33.5	36.6	(1.0)	92%
Total	76.3	87.1	(10.8)	88%
By Payment Type				
IS payments	60.3	65.3	(5.0)	92%
Redemptions	16.1	21.9	(5.8)	73%
Total	76.3	87.1	(10.8)	88%

[1] Six months to Dec-16

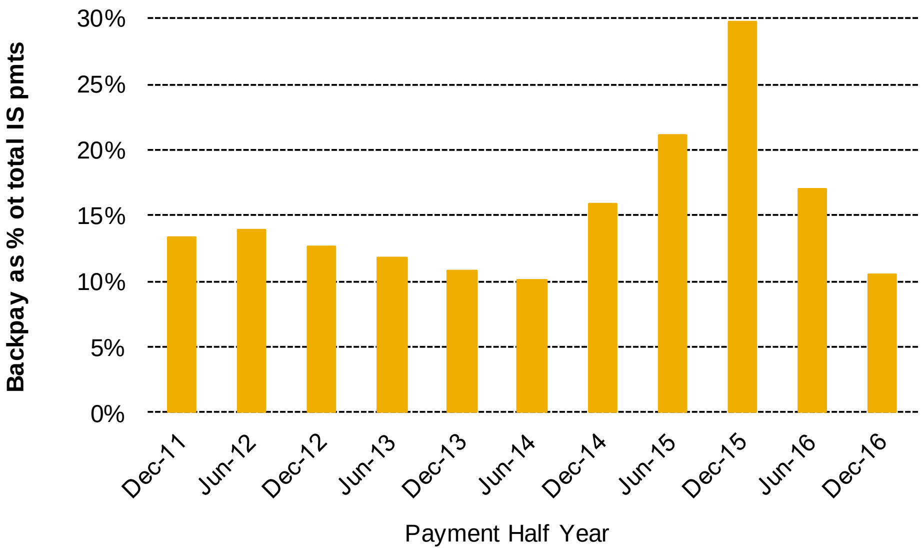
Our comments on this experience are:

- **By accident period**: combined IS and Redemption payments were lower than expected across all accident periods, but particularly so for the older periods.
- **By payment type**: Both IS and redemption payments were lower than expectations.

Backpay Amounts

In the six months to December 2015, backpay payments were very high, which was associated with large numbers of dispute settlements, and backpay represented almost 30% of total IS payments. The backpay proportion was much lower in the six months to June 2016, and has reduced again; backpay payments were just over 10% of total IS payments in the six months to December 2016. This is consistent with the historical levels of backpay; see Figure 5.1.

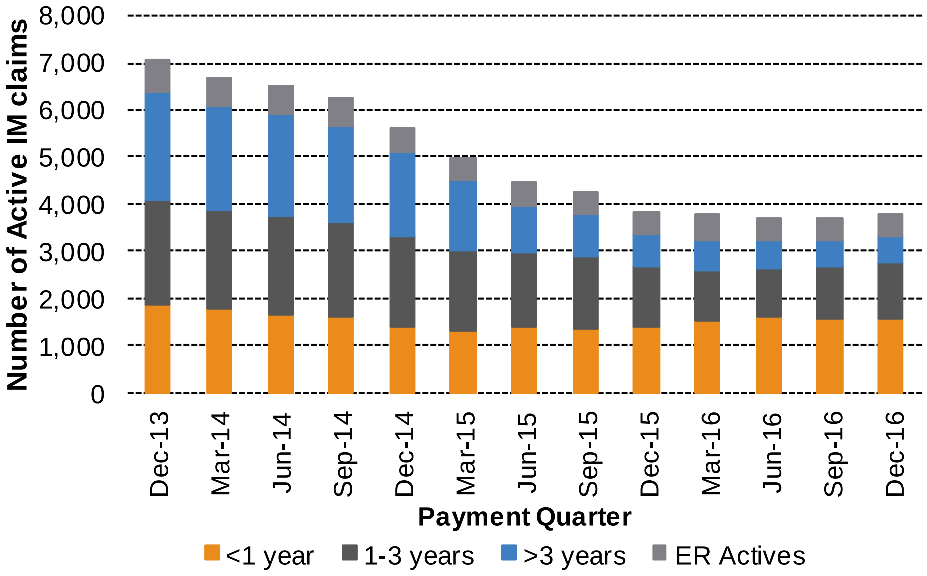
Figure 5.1 – History of IS Backpay Payments



5.2.2 Active Claims and Exits

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

Figure 5.2 – Numbers of Active IS Claims



Active claim numbers have fallen by nearly 50% since late 2013, as a result of ReturnToWorkSA's operational claim strategies. Total actives grew by 3% in the December 2016 quarter. Short duration actives (<1 year) were low during the 2015 calendar year (average 1,350 per quarter) and increased during 2016 (averaging 1,550 per quarter).

In Table 5.3 we compare the numbers of active IS claims at December 2016 and exits by redemption in the last six months with our June 2016 valuation projection.[1]

Table 5.3 – AvE Active Claims and Exits

	Active Claims				Redemptions		
Accident Period	Proj from Jun-16 Val	Actual Actives	Act *less* Proj	Diff as % Proj	Proj Jun-16 Val	Actual Reds	Additional Reds
Jun-06	20	18	-2	-8%	1	4	3
Jun-07	36	36	0	0%	9	6	-3
Jun-08	33	31	-2	-7%	8	9	1
Jun-09	47	43	-4	-9%	17	11	-6
Jun-10	55	44	-11	-20%	13	8	-5
Jun-11	73	63	-10	-13%	18	18	0
Jun-12	81	61	-20	-24%	15	19	4
Jun-13	143	123	-20	-14%	26	35	9
Jun-14	216	197	-19	-9%	60	63	3
Jun-15	557	542	-15	-3%	92	91	-1
Jun-16	1,300	1,354	54	4%	8	2	-6
Dec-16	814	745	-69	-8%	0	0	0
Total	3,374	3,257	-117	-3%	267	266	-1

Overall, active claim numbers at December 2016 were 3% below expectations; they were lower than expected for all accident years except 2015/16.

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

Redemption numbers were in line with expectations; our expected number represented redemptions agreed but unpaid as at June 2016. Only eight redemptions were paid in the December 2016 quarter, which reflects the fact that ReturnToWorkSA has now ceased to use redemptions.

5.3 December 2016 Valuation – IS Payments

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

5.3.1 Pre-June 2005 Claims

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

Table 5.4 shows the movements between the numbers of claims valued at June 2016 and at December 2016, as well as the outstanding claims liability as at December 2016. The liability figures shown here include ongoing IS payments to June 2017 or earlier retirement, with no allowance for non-mortality discontinuance.

Table 5.4 – Valuation of Pre-June 2005 Claims

Status at Dec-16	Jun-16 Val	Serious Injury	Transitional Reds Paid	Other Exits	Dec-16 Val	OSC Dec-16[1]
						$m
Claims valued at Jun-16	98	8	2	9	79	1.8
Reopened in six months	3	1	0	0	2	0.0
Claims valued Dec-16					81	1.82
IBNR allowance [2]						0.7
Total OSC Dec-16						2.47

[1] Excludes allowance for post-surgery IS payments and dependant pmts; uses Jun-16 ecos

[2] Rolled forward from Jun-16 allowance.

Of the 98 claims valued at June 2016, eight are now valued as Serious Injury claims (Section 9), two have exited via a two-year redemption and nine (9%) have exited by other means. In addition, three claims which were not valued at June 2016 have reopened, and two of these are valued at December 2016.

In total we have valued 81 claims at December 2016, at an average value of $22,500 (the June 2016 average was $35,000). The average value has reduced because it is now just six months to 30 June 2017, when payments will cease for these claimants.

5.3.2 Accident Years 2005/06 to 2014/15

Claims Management

The claims management strategies which have applied to these claim cohorts in the past are summarised in Table 5.5.

Table 5.5 – Claim Cohorts and Strategies

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

The different strategies mean the characteristics of each group are different. Our valuation basis is essentially the same for all of these claims, as they will all be subject to the hard boundary cut-off at June 2017, but the numbers of active claims that remain open for each period will be partly related to the historical claims management strategies.

Basis – Claim Numbers and Payments

At this valuation we made no adjustments to the numbers of active IS claims at December 2016. In recent valuations, we had adjusted the numbers of 'payment actives' in order to better reflect the expectations of the numbers of claims which will receive ongoing benefits. At December 2016, with redemptions completed and dispute activity reducing to 'normal' levels, we assessed that no such adjustment was warranted.

Our basis continues to allow for some IS exits, such as return to work. These are separately identified in Table 5.6, along with the expected number of claims expected to reach the June 2017 boundary.

Table 5.6 – Claims Valued and Projected Outcomes

		Dec-16 Projection		Jun-16 Projection	
Accident Year	Actives at Dec-16	Actives at Jun-17	Implied Exits	Actives at Jun-17	Diff.
2006	18	18	0	19	-1
2007	36	35	1	35	0
2008	31	30	1	33	-2
2009	43	42	1	47	-4
2010	44	43	1	54	-11
2011	63	62	1	72	-10
2012	61	60	1	79	-19
2013	123	120	3	139	-19
2014	197	186	11	204	-18
2015	542	481	61	495	-14
Total	1,158	1,078	80	1,177	-99

Our basis implies that, of the 1,158 transitional claims that received an IS payment during the December 2016 quarter, 80 will exit in the next six months (by returning to work or similar), and the remainder will receive IS entitlements to June 2017. This is 99 fewer claims than we expected to reach June 2017 at the previous valuation.

For accidents to 30 June 2015, our projection of future IS payments at December 2016 has used the same Payments per Active Claim (PPAC) assumptions as our June 2016 valuation. This is an average of around $25,000 for each claim expected to receive benefits to June 2017.

5.3.3 Accident Years 2015/16 and 2016/17

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

The experience over the six months to December 2016 for these claims varied by accident quarter, but was overall favourable relative to expectations:

- Active IS claims at December 2016 were 4% higher than expected for the 2015/16 accident year, and 8% lower for the December 2016 accident half-year (see Table 5.3).
- IS payments were 8% lower than expected for accidents post 1 July 2015 (Table 5.2).

Projection of Active Claims

Active claims for the December 2016 accident quarter were relatively low, which could be due to seasonality in reporting and payment patterns. We have assumed that future active claim numbers for this quarter will be consistent with the June 2016 and September 2016 accident quarters.

We made minor changes to our adopted continuance rate assumptions at early durations, which allowed for the change in payment timing definition (see Section 2.2.2) as well as taking into account the recent experience; see Table 5.7 below.

Payments Projection

We have assessed that the lower than expected payments for post-RTW Act claims are not due to a ‘slow down’ or delays in making payments. Our observations are:

1. **Faster employer reimbursement** via WPRRs. The average lag between the end of the IS entitlement period and payment date was 56 days at December 2015, and has reduced to 36 days at December 2016. The number of forms lodged after 40 days has also reduced from 20-30 per month at the beginning of calendar 2016, to 3-7 per month by the end. This element of speeding up is expected, with introduction of a three-month limit on WPRR lodgement as part of the RTW Act changes and more active employer engagement by the Mobile Claims Managers.
2. The **change in payment date definition** (see Section 2.2) means that some payments are now recorded as being made a few days later than they would have at the previous valuation. When selecting our basis we reviewed actual experience on the **new** definition, but the expected payments from the previous valuation were based on the **old** definition; this means that (all other things being equal) we would observe slightly lower payments than expected, particularly at earlier claim durations. However, we do not believe this would explain all of the difference between actual and expected payments.

On balance we have reflected some of the lower than expected payment experience in our adopted basis (Table 5.7).

As noted at the previous valuation, there is still uncertainty in our estimate of the IS cost for the post 1 July 2015 accident periods (and hence the outstanding claims estimate), because it is possible that the experience for RTW Act claims has not yet ‘settled’ to its ultimate pattern.

Selected Basis

Our projection **assumptions** are shown in Table 5.7, along with a comparison to our previous assumptions.

Table 5.7 – Changes in Adopted Basis: 2015/16 Accidents

	Dev Qtr 1	2	3	4	5	6	7	8
Discontinuance rate								
Jun-16 valn		-170%	25%	23%	20%	20%	9%	9%
Dec-16 valn		-185%	22%	23%	20%	20%	9%	9%
PPAC ($)								
Jun-16 valn	5,800	7,900	9,200	10,200	10,793	11,074	11,653	10,936
Dec-16 valn	5,800	7,800	9,000	10,200	10,793	11,074	11,653	10,936

5.3.4 Other IS Elements

We revised our valuation basis for dependant benefits, giving more weight to the payment experience observed over the past two years. This led to a small increase in the outstanding claims liability.

We reviewed our estimates of post-surgery IS claim payments beyond the two-year hard boundary, in light of the number of applications for future surgeries that have been made. At this valuation we updated the timing of cashflows, but left the overall liability unchanged from June 2016.

5.3.5 Redemptions

With ReturnToWorkSA having ceased to use redemptions as a claims management strategy, we have made no allowance for any future redemption of IS payments.

Medical only redemptions could continue for some time owing to a number of open claims with ongoing medical payments. Medical redemption payments were $2.4 million lower than expected in the last six months. We expect these will be paid eventually and have increased the outstanding claims liability by $2.4 million as a result. In addition, we have revised our size assumptions upwards to reflect the emerging experience adding another $2.1 million into the basis.

5.4 Valuation Results and Actuarial Release

Table 5.8 sets out the components of the actuarial release for IS payments and Redemptions.

Table 5.8 – Components of Actuarial Release: IS and Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		10.8
Difference from projected liability		
Clams no longer valued	0.6	
IS + Redemption basis	(2.1)	
		(1.5)
Total		9.3

The actuarial release of $9.3 million is made up of payments in the six months being $10.8 million better than expected and a $1.5 million increase in the projected liability from June 2016, which is composed of:

- A reduction of $0.6 million due to movements to self-insurance and the Serious Injury portfolio (claims no longer valued)
- An increase of $2.1 million due to the experience and actuarial assumption changes. This amount comprises a small reduction in IS, no change in IS Redemptions, offset by a $4.5 million increase in Medical Redemptions.

Table 5.9 sets out these movements by accident period.

Table 5.9 – Actuarial Release for IS and Redemptions

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	6.5	6.3	(0.3)	(2.4)	2.6	40%
2005/06 - 2012/13	27.6	27.2	(0.5)	(3.4)	3.9	14%
2013/14 - 2014/15	27.8	28.9	1.1	(2.0)	0.8	3%
2015/16 - 2016/17	96.8	97.9	1.1	(3.1)	2.0	2%
Total	158.7	160.2	1.5	(10.8)	9.3	6%

6 Lump Sums – Short Term Claims

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

Introduction

We value lump sums in five segments:

- "Death" and funeral claims.
- "Deafness" claims.
- "First Paid" lump sums – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Deafness claims); this is for non-economic loss only.
- "Top Up" lump sums – where a claimant receives an additional payment in a half-year after they received their first lump sum payment (excluding Death and Deafness claims). These are only allowable for claimants with injury dates prior to 1 July 2015 who have lodged an application prior to 30 June 2016.
- "Economic Loss" lump sums – Short Term Claims may receive an additional payment for loss of future earning capacity. This is a new benefit under the RTW Act and is available to new injuries from 1 July 2015.

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

6.1 Summary of Results

Table 6.1 summarises the movements in our liability estimates for lump sum payments since the June 2016 valuation.

Table 6.1 – Valuation Results: Lump Sums

Jun16 Valuation	$m	$m	$m
Estimated Liab at Jun-16	176.9		
Projected Liab at Dec-16	196.0		
Dec-16 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	(1.1)	(1.7)	2.8
Estimated Liab at Dec-16 (Jun-16 eco assumptions)	**194.9**		
Impact of change in eco assumptions	(2.6)		
Estimated Liab at Dec-16 (Dec-16 eco assumptions)	**192.3**		

The December 2016 liability shows an actuarial release of $2.8 million since June 2016, reflecting a decrease of $1.1 million in the liability, and $1.7 million of lower claims payments. The remainder of this section deals with this impact while the impact of the change in economic assumptions is discussed in Section 11.3.2.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident Period	Payments in Six Months to Dec 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.4	0.8	0.6	174%
2005/06 - 2012/13	8.2	7.4	0.7	110%
2013/14 - 2014/15	7.8	10.1	(2.3)	77%
2015/16 - 2016/17 [1]	4.5	5.2	(0.7)	87%
Total	21.9	23.5	(1.7)	93%

[1] Accidents to Dec16

Payments were 7% lower than expected in the six months to 31 December 2016. This was driven by:

- Lower number of First Paid lump sum payments than expected in the more recent accident periods
- Lower number of Top Up lump sum payments than expected across all accident periods
- Significantly lower than expected Economic Loss lump sum payments
- Offset by higher number of Deafness lump sum payments than expected across most accident periods.

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

6.3 Valuation Basis

Valuation Basis for First Paid Lump Sums

Our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency based approach for more recent accident periods where there is less experience. Table 6.3 below compares the actual and expected number of First Paid lump sums paid in the six months to December 2016.

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

Accident Period	Number of Payments in Six Months to Dec 16			
	Actual	Expected	Act - Exp	Act/Exp
To 30 Jun 05	40	9	31	451%
2005/06 - 2012/13	189	183	6	103%
2013/14 - 2014/15	274	346	-72	79%
2015/16 - 2016/17 [1]	15	37	-22	41%
Total	518	576	-58	90%

[1] Accidents to Dec16

Payments for accident years up to 2012/13 were higher than expected particularly for accidents older than 10 years. We have maintained the chain ladder approach for accidents up to June 2013 with our selected ultimate numbers reflecting the higher payment experience in the last six months. For periods after June 2013 we continue to adopt a frequency based approach. This is the second consecutive valuation where payments have been lower than expected for these accident periods and in response, we have revised our selected ultimate numbers downwards by around 40 claims per year.

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

Figure 6.1 – Ultimate Number of First Paid Lump Sums

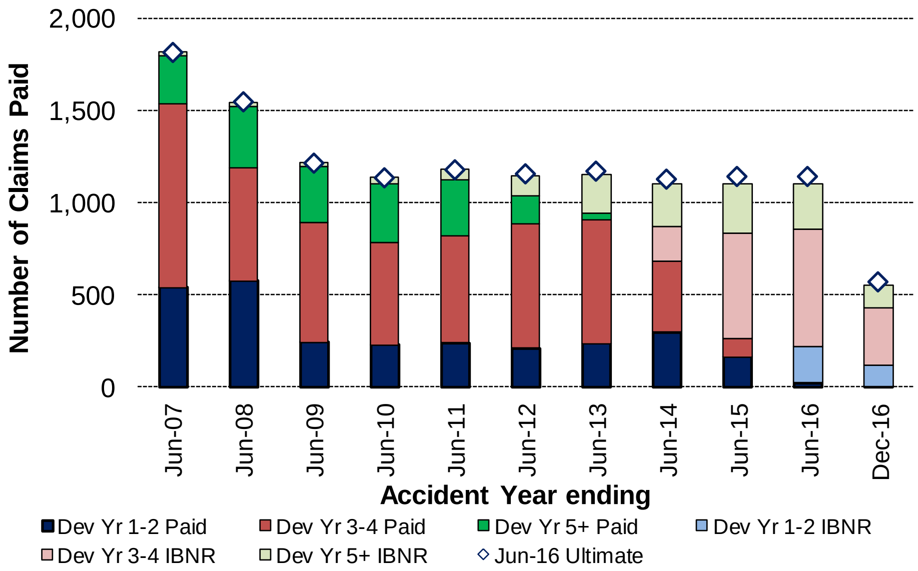
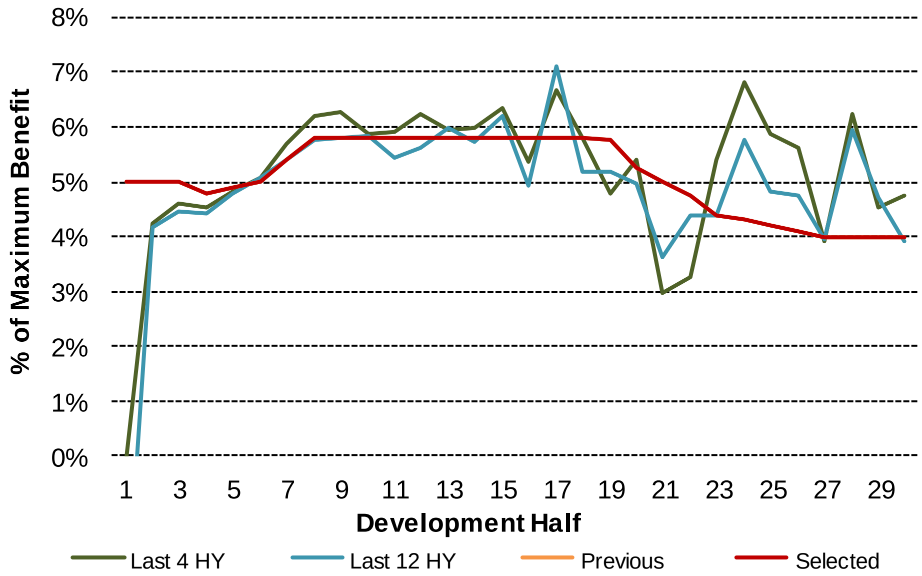


Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

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



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

Valuation Basis for Top Up Lump Sums

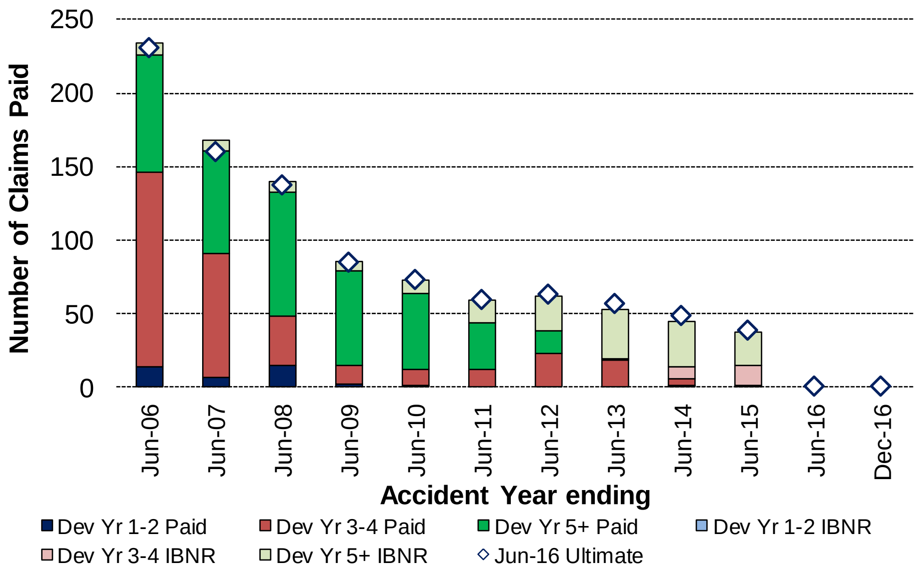
The number of Top Up lump sums is projected as a percentage of the ultimate number of First Paid lump sums. Top Up lump sum payments were initially removed under the RTW Act changes, but following a Regulation change in December 2015, they were added back in a restricted form, with a requirement that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

Top Up lump sums payments were significantly lower than expected in the last six months across all accident periods. Under the RTW Act, applications for Top Up lump sums needed to be submitted by 30 June 2016. Of the 260 applications received by 30 June 2016, 150 remain outstanding at December 2016. At the current valuation, we have reduced our Top Up lump sums allowance to around 260 payments, down from 300 in our previous basis. Our selected basis reflects the reduced number of outstanding applications along with an implicit allowance for the *Martin* decision as discussed in Section 3.1.1.

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

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

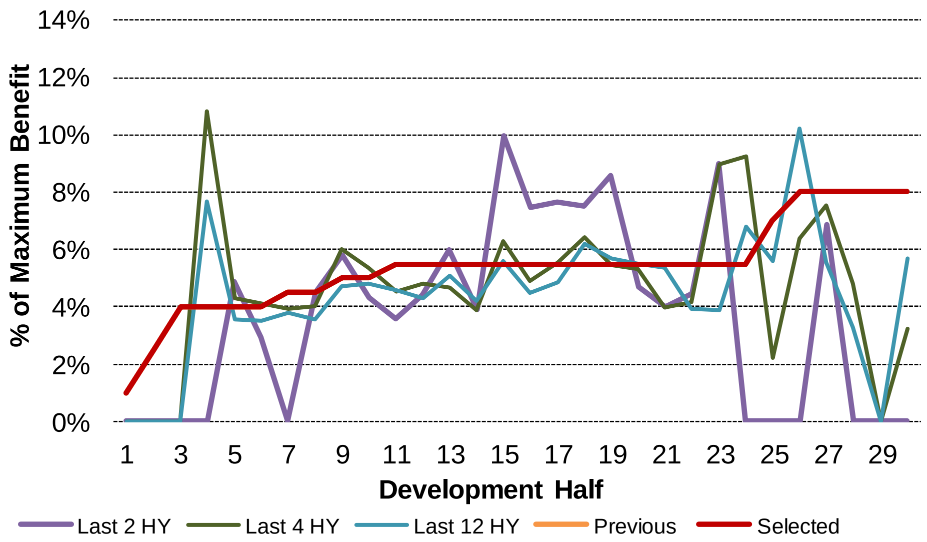
Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims



Other than 2006 and 2007, the ultimate numbers have reduced across all accident years compared to our previous basis.

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

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

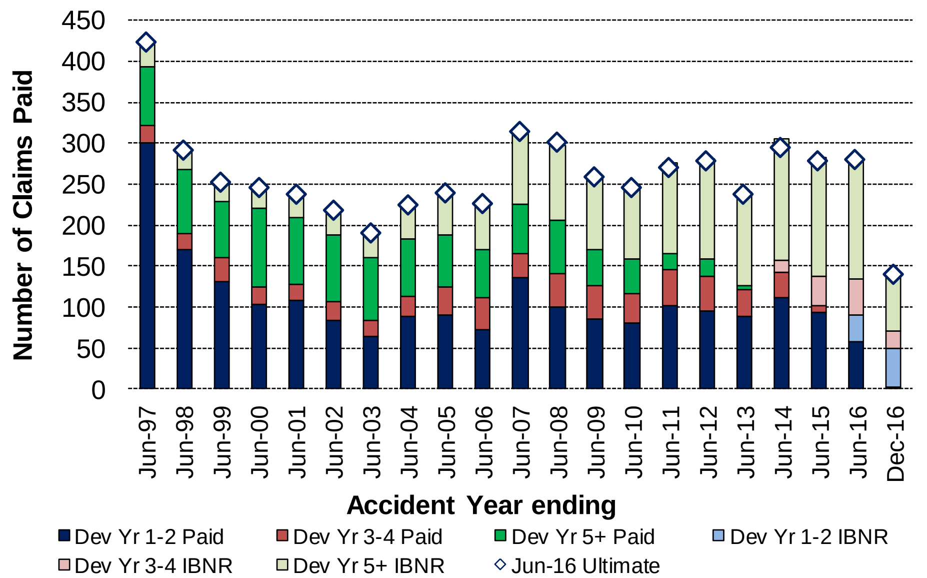


Our selected average size is unchanged from our previous valuation and consistent with the recent experience.

Valuation Basis for Deafness Lump Sums

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

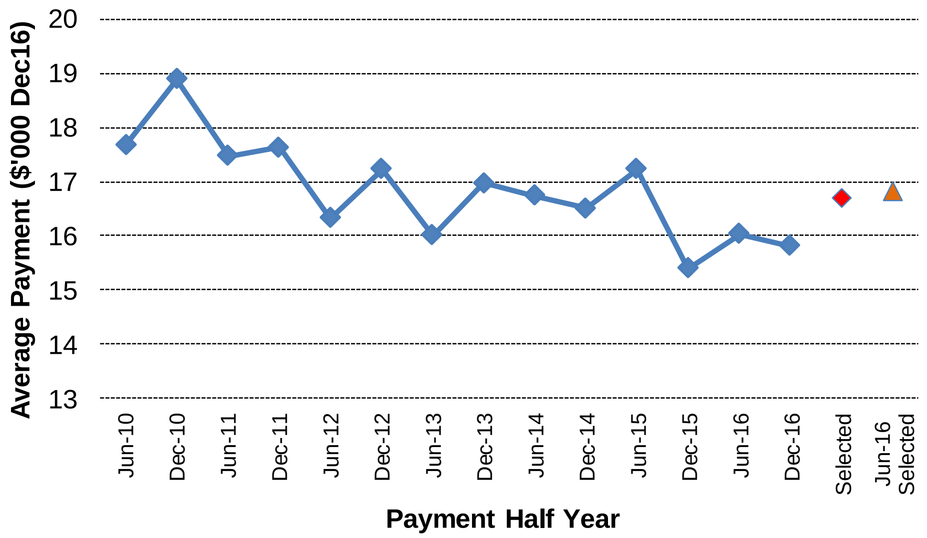
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Deafness lump sum payments over the last six months were higher than expected following a period of lower than expected payments in the prior 12 months. We interpret the recent experience as a catch-up of payments. We have maintained a frequency approach for accident periods after December 2014 to better allow for changes in the payment speed. Our selected ultimates for these periods are unchanged compared to the previous valuation basis. Periods prior to December 2014 retain a chain ladder approach with the same claim reporting pattern as our previous valuation.

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

Figure 6.6 – Average Lump Sum Deafness Payment



Valuation Basis for Death Lump Sums

Following a period of favourable experience over the last several years, experience for Death (and funeral) lump sums were in line with expectations in the last six months. This was driven by lower than expected payments in more recent accident periods offset by higher payments in older accident periods. We have put through a minor reduction in the underlying projection basis for recent accident periods to reflect the underlying experience.

In addition to the underlying projection, we have allowed for one-off ex-gratia dependent benefit payments to occur in line with the RTW Act changes. There has been very little activity so far and at the current valuation, we have further reduced the IBNR allowance by one half-year to recognise that not all potentially entitled dependents will claim this benefit.

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

Figure 6.7 – Ultimate Number of Death Lump Sums

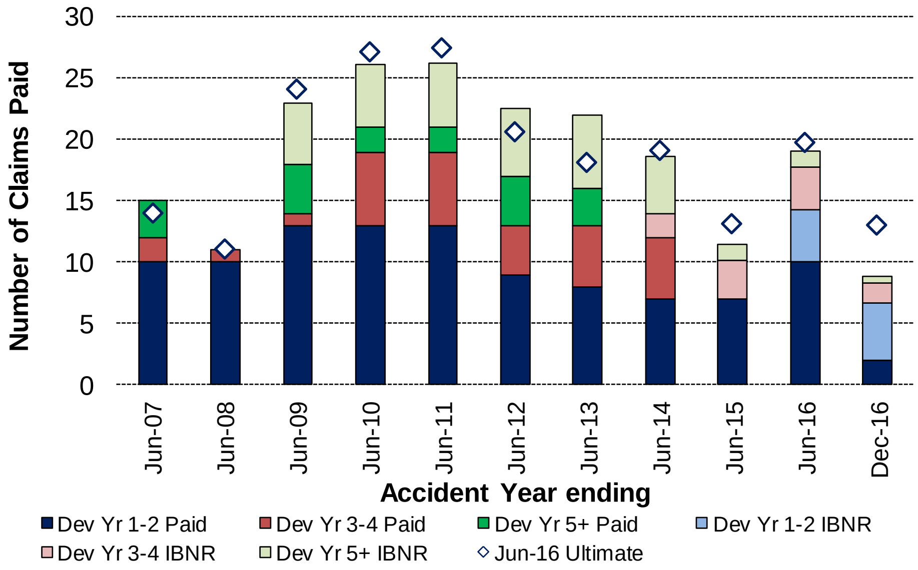
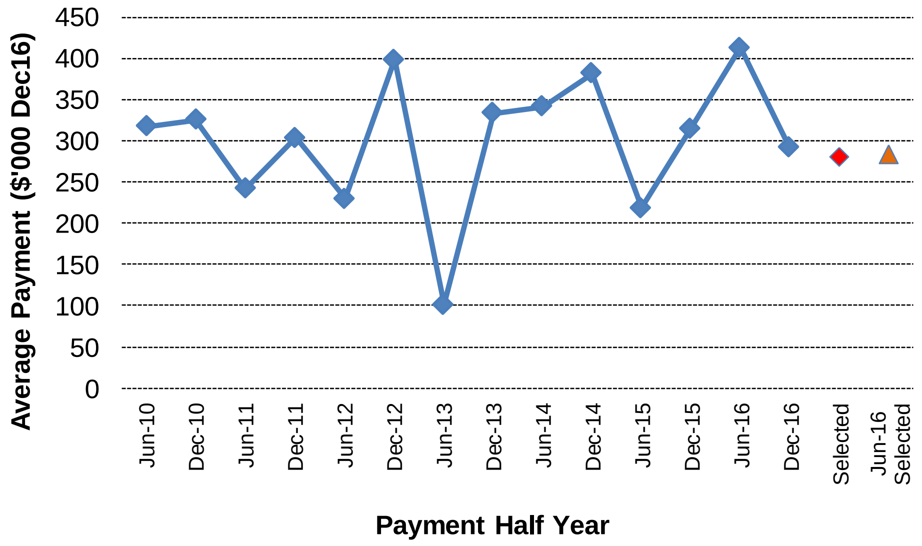


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to December 2016 is in line with the recent experience. Our adopted size is unchanged and consistent with the long term average given the volatility of the experience.

Valuation Basis for Economic Loss Lump Sums

Economic Loss lump sums are paid to a worker for loss of future earning capacity. This is a new benefit under the RTW Act and is available to injuries from 1 July 2015. Very few payments have been made to date reflecting the historically long time required for injuries to stabilise and assessments to take place.

We have revised our valuation methodology at this valuation by aligning the projected number of Economic Loss lump sum payments with First Paid lump sums. This approach assumes all relevant workers entitled to a First Paid lump sum will also receive an Economic Loss lump sum. We have adopted a size consistent with the average WPI of First Paid lump sums and the average time off work per worker. We will continue to monitor the experience as claims are paid and revise our assumptions as necessary.

6.4 Valuation Results and Actuarial Release

Table 6.4 sets out the actuarial release resulting from our valuation of lump sum payments. The first column represents our projection from the June 2016 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	8.3	8.3	0.0	0.6	(0.6)	-7%
2005/06 - 2012/13	30.8	30.9	0.1	0.7	(0.8)	-3%
2013/14 - 2014/15	41.0	41.6	0.6	(2.3)	1.7	4%
2015/16 - 2016/17 [1]	116.0	114.2	(1.8)	(0.7)	2.5	2%
Total	196.0	194.9	(1.1)	(1.7)	2.8	1%

[1] Accidents to Dec16

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

The $1.1 million decrease in projected liability combined with actual payments being $1.7 million less than expected results in an actuarial release of $2.8 million.

Table 6.5 breaks down the actuarial release by source.

Table 6.5 – Components of Actuarial Release: Lump Sums

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.7
Changes to Valuation Basis		
Lower First Paid IBNR numbers	1.1	
Lower Death IBNR numbers	0.8	
Economic Loss Lump Sum basis changes	(0.7)	
Subtotal		1.1
Total		2.8

Reductions in the number of First Paid and Death lump sums to reflect the emerging experience results in a release of $1.9 million. This is offset by changes to the Economic Loss lump sum basis resulting in an increase of $0.7 million.

7 Treatment and Related Costs – Short Term Claims

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

7.1 Summary of Results

Table 7.1 summarises the movements in our liability estimates for treatment and related cost payments since the June 2016 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Jun16 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-16	111.8	16.2	6.2	14.2	9.1	10.7	168.2
Projected Liab at Dec-16	107.6	16.0	5.9	14.6	8.4	9.0	161.7
Dec-16 Valuation							
Impact of experience/OSC - Movement in liab	0.9	1.2	(0.6)	0.4	(0.5)	(0.3)	1.1
Estimated Liab at Dec-16 (Jun-16 eco assumptions)	**108.5**	**17.2**	**5.3**	**15.1**	**7.9**	**8.8**	**162.8**
Impact of change in eco assumptions	(2.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(2.3)
Estimated Liab at Dec-16 (Dec-16 eco assumptions)	**106.4**	**17.0**	**5.3**	**15.0**	**7.9**	**8.8**	**160.5**
AvE Payments - six months to Jun-16	0.2	(1.5)	0.0	1.3	(0.4)	(0.0)	(0.4)
Actuarial Release at Jun-16	(1.0)	0.3	0.6	(1.7)	0.9	0.3	(0.7)

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

- An increase of $1.1 million in the liability, reflecting the claims experience since June 2016 and our valuation response. This produces an actuarial increase (strengthening) of $0.7 million when offset by actual payments in the period being $0.4 million lower than expected.
- Movements in economic assumptions, decreasing the treatment related liabilities by $2.3 million.

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

7.2 Valuation Approach

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

- Long term active claim model (LTPPAC) – this is used for the valuation of medical liabilities (excluding Aids and Appliances) for claims that are also receiving Income Support (IS) payments; historically the number of claims on IS payments has been a strong driver of long term medical costs and so we have maintained this feature of the modelling while legacy claims move through the two year runoff.
- Long term model (LTPPCI) – this is a quarterly model used for the valuation of all other treatment related liabilities.
  - For Medical (excluding Aids and Appliances): this is a quarterly model used for the valuation of claims that are not receiving IS payments.

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

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

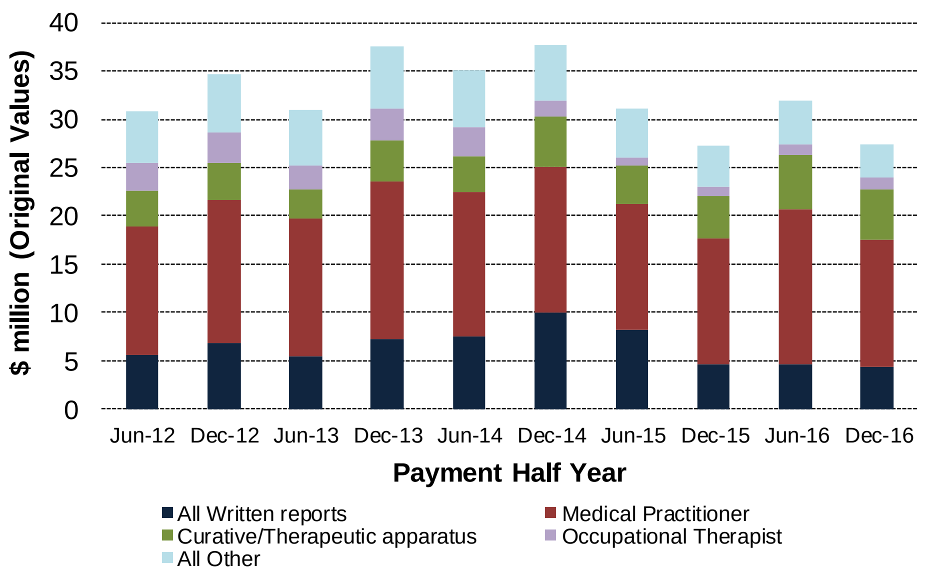
7.3 Medical

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

Payments vs Expectations

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

Figure 7.1 – Medical Half-Yearly Payments



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

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

- Offset by higher medical apparatus costs.

Table 7.2 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

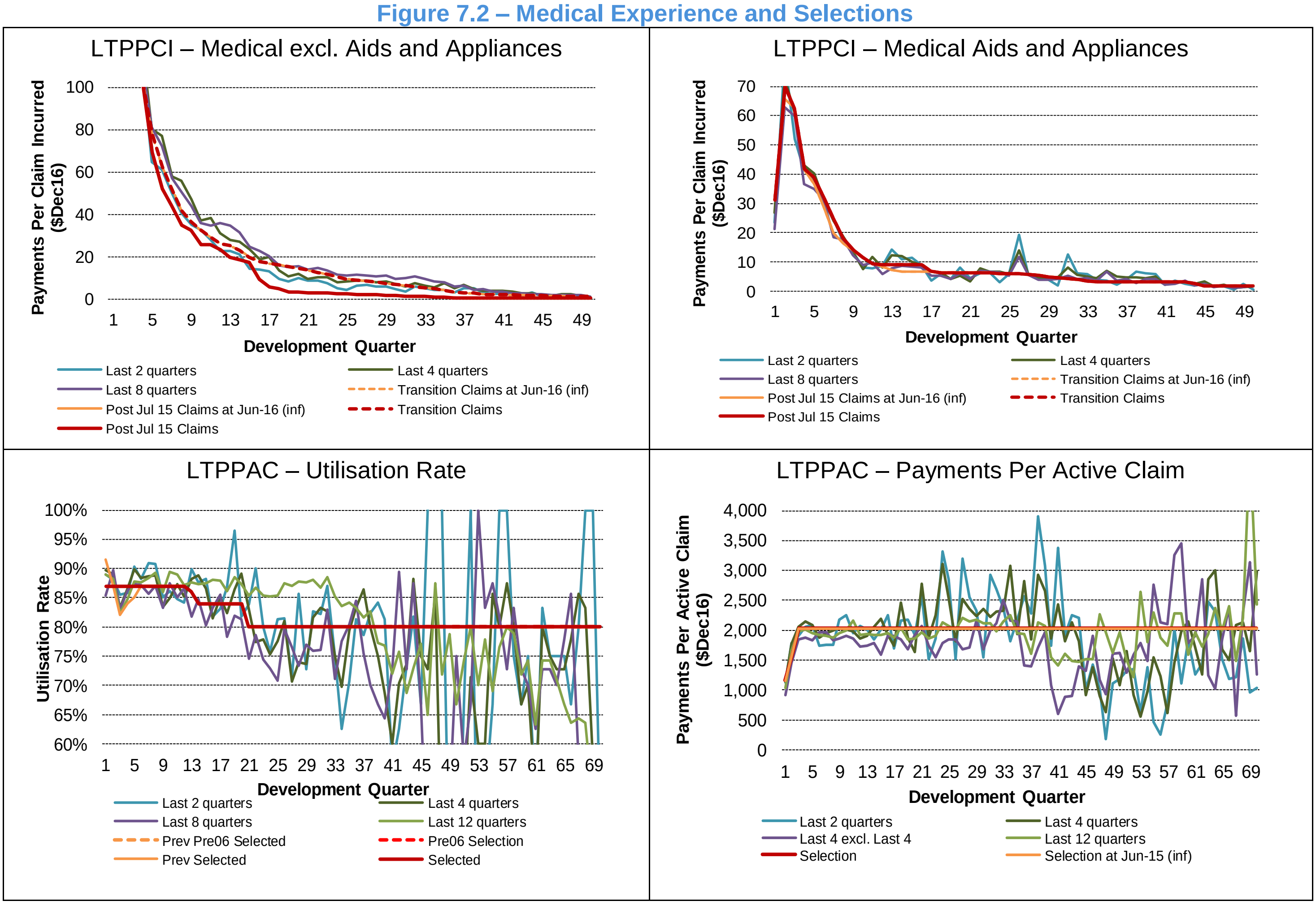
Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.6	2.1	(0.5)	74%
2005/06 - 2012/13	4.9	5.3	(0.4)	93%
2013/14 - 2014/15	5.4	5.6	(0.2)	96%
2015/16 - 2016/17 [1]	15.6	14.3	1.3	109%
Total	27.5	27.3	0.2	101%

While overall payments were in line with expected, there were offsetting movements with higher than expected payments for post RTW Act accidents offset by lower payments in older accident periods.

Valuation Basis

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

Figure 7.2 – Medical Experience and Selections



Our comments on the experience and selected assumptions are:

- LTPPCI (excl. aids and appliances):
  - We have retained our previous valuation basis which is in line with the short-term experience. The longer-term experience is higher than our basis as a result of high levels of written report activity. We do not expect this to be a feature of the experience going forward following the removal of WCA under the RTW Act.
  - From 1 July 2015 the capping of benefits under the RTW Act commences, and our selected PPCIs reduce significantly by 4.5 years duration.
- LTPPAC:
  - Utilisation has stabilised over the last six months following a period of reductions due to ongoing redemption activity. We have reshaped the utilisation pattern at earlier durations reflecting the emerging experience.
  - Payments per active claim are very volatile in the short term and broadly in line with our previous basis. Our selections are unchanged at the current valuation.
- Medical aids and appliances payments have been higher than expected over the last six months particularly for early duration payments. We have increased our adopted PPCI for early development periods at this valuation to reflect this.

Medical Fee Increases

The medical fee rate paid to General Practitioners (GP) is set to increase by around 9% above inflation over the next year. This increase is part of a longer term plan which started in July 2015 to better align fee rates with AMA rates in order to improve the engagement of medical practitioners. GP fees currently account for around 10% of all Medical payments which implies the overall medical costs are set to increase by around 2%. This is within the superimposed inflation allowances already adopted in the valuation, and in the context of recent cost control we have not made an additional adjustment for the medical fee increase.

Valuation Results and Actuarial Release

Table 7.3 sets out the actuarial release resulting from our valuation of medical payments. The first column represents our projection from the June 2016 valuation.

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	17.5	17.5	(0.1)	(0.5)	0.6	3%
2005/06 - 2012/13	34.1	33.7	(0.4)	(0.4)	0.7	2%
2013/14 - 2014/15	18.7	18.7	0.0	(0.2)	0.2	1%
2015/16 - 2016/17 [1]	37.3	38.6	1.3	1.3	(2.6)	-7%
Total	107.6	108.5	0.9	0.2	(1.0)	-1%

[1] Accidents to Dec16

[2] 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 more than expected results in an actuarial increase (strengthening) of $1.0 million.

Table 7.4 breaks down the actuarial release by source.

Table 7.4 – Components of Actuarial Release: Medical

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.2)
Changes to Valuation Basis		
IS active projection being lower	0.2	
Higher ultimate claims	(0.1)	
Long term assumption changes	(0.9)	
Subtotal		(0.9)
Total		(1.0)

The reduction in IS active claim numbers reduces the Medical liability by $0.2 million. An increase in the medical aids and appliances basis combined with a small claim number increase for more recent accident periods result in an increase of $1.0 million.

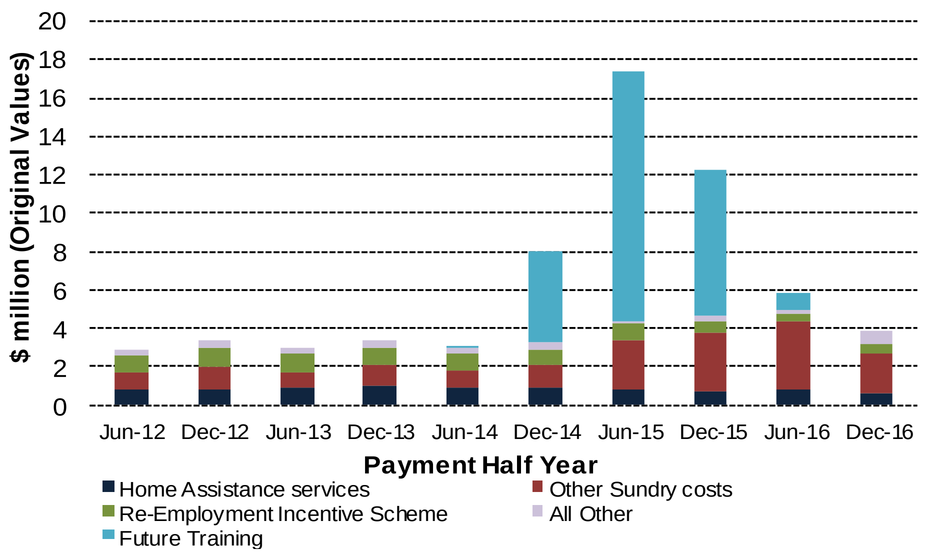
7.4 Other

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

Payments vs Expectations

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

Figure 7.3 – Other Half-Yearly Payments



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

Table 7.5 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

Accident Period	Payments in Six Months to Dec 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	0.0	160%
2005/06 - 2012/13	0.8	1.6	(0.8)	53%
2013/14 - 2014/15	1.3	1.4	(0.1)	93%
2015/16 - 2016/17 [1]	1.5	0.8	0.8	200%
Total	3.8	3.9	(0.0)	99%

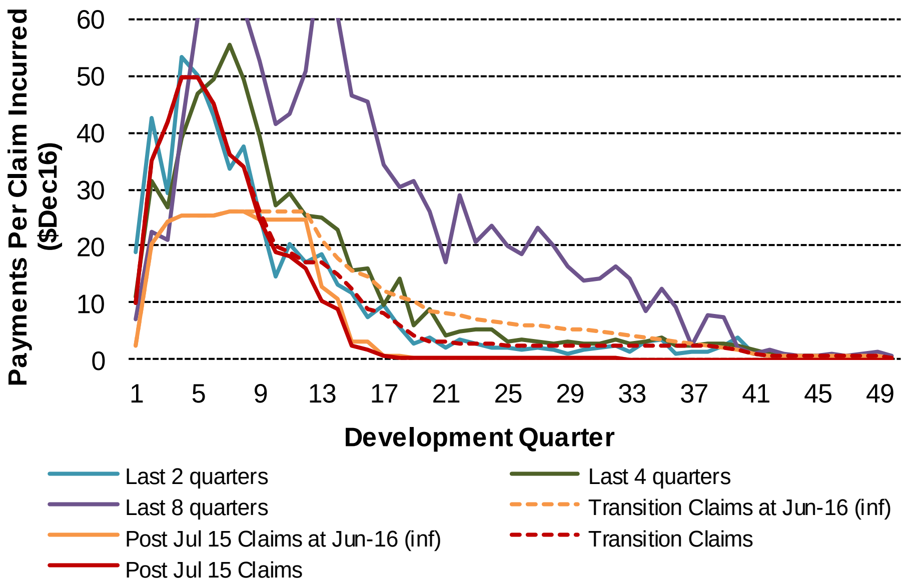
[1] Accidents to Dec16

Overall, payments were in line with expectations. This was driven by a combination of higher payments in RTW Act accident periods offset by lower payments in older accident periods. We have interpreted the higher payments after July 2015 as a speeding up of payments.

Valuation Basis

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

Figure 7.4 – PPCI Experience and Selections: Other



At the current valuation, we have reshaped the PPCI pattern for post July 2015 accidents to reflect the faster payment pattern emerging in the experience. The PPCI pattern for transition claims has been reduced in line with the recent experience.

Valuation Results and Actuarial Release

Table 7.6 sets out the actuarial release resulting from our valuation of 'other' payments. The first column represents our projection from the June 2016 valuation.

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	0.0	(0.0)	-69%
2005/06 - 2012/13	1.4	0.7	(0.7)	(0.8)	1.4	104%
2013/14 - 2014/15	2.4	1.9	(0.6)	(0.1)	0.7	27%
2015/16 - 2016/17 [1]	5.2	6.2	1.0	0.8	(1.7)	-33%
Total	9.0	8.8	(0.3)	(0.0)	0.3	3%

[1] Accidents to Dec16

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

The actuarial release of $0.3 million is driven entirely by a decrease in the projected liability.

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		0.0
Changes to Valuation Basis		
Ultimate claims	(0.0)	
Long term assumptions	0.3	
Subtotal		0.3
Total		0.3

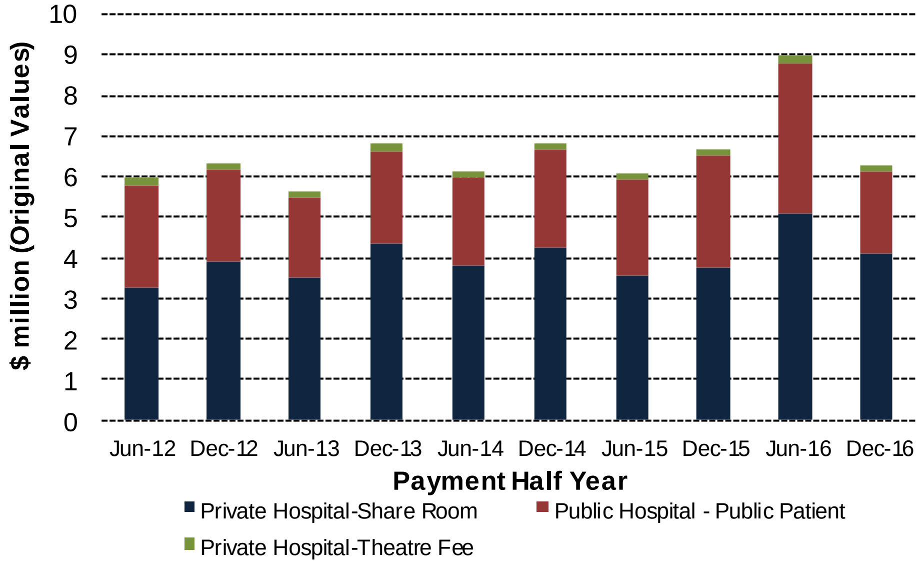
7.5 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs Expectations

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

Figure 7.5 – Hospital Half-Yearly Payments



Hospital payments have returned to normal levels in the six months to December 2016 after a large spike in payments in the June 2016 half-year which we are treating as a one-off feature of the experience.

Table 7.8 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	0.0	100%
2005/06 - 2012/13	0.6	0.8	(0.2)	80%
2013/14 - 2014/15	0.9	1.1	(0.2)	83%
2015/16 - 2016/17 [1]	4.6	5.7	(1.1)	80%
Total	6.3	7.7	(1.5)	81%

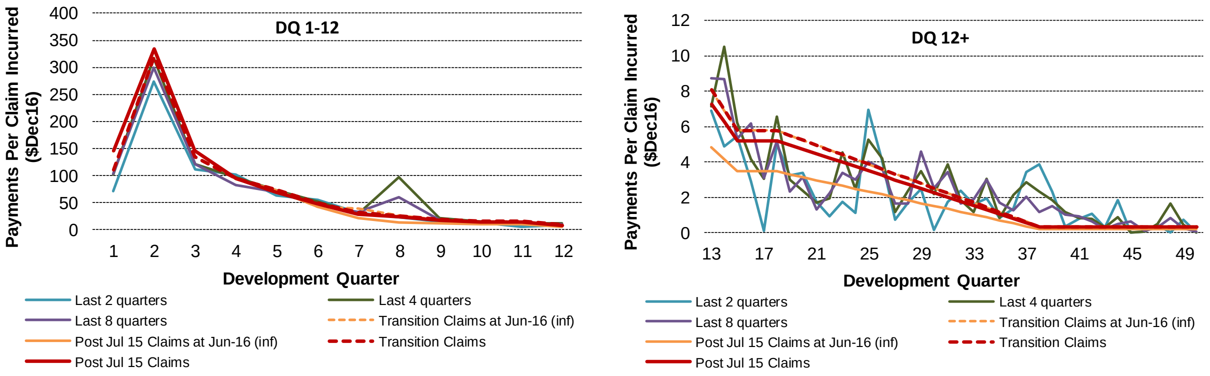
[1] Accidents to Dec16

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

Valuation Basis

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

Figure 7.6 – Hospital Experience and Selections



At the current valuation, we have increased our PPCI pattern for early durations to reflect higher expected surgery payments going forward. This is due to claims management changes where work specialists will attend medical reviews going forward resulting in better on the spot decision making and faster approval for surgeries. We expect the net impact of this to be neutral with the higher surgery costs offset by lower medical costs due to delayed surgeries.

The basis for transitional claims is unchanged at this valuation as the changes to claims management and therefore higher surgery costs do not impact transition claims. Payments in the tail, the majority of which are made up of pre-approved surgery related costs are not subject to the boundary cap on benefits.

Valuation Results and Actuarial Release

Table 7.9 sets out the actuarial release resulting from our valuation of hospital payments. The first column represents our projection from the June 2016 valuation.

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.1	1.1	(0.0)	0.0	0.0	0%
2005/06 - 2012/13	3.5	3.5	(0.0)	(0.2)	0.2	5%
2013/14 - 2014/15	2.8	2.8	(0.0)	(0.2)	0.2	7%
2015/16 - 2016/17 [1]	8.6	9.8	1.2	(1.1)	(0.1)	-1%
Total	16.0	17.2	1.2	(1.5)	0.3	2%

[1] Accidents to Dec16

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

The $1.2 million increase in the projected liability is offset by actual payments being $1.5 million lower than expected resulting in an actuarial release of $0.3 million.

Table 7.10 breaks down the actuarial release by source.

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.5
Changes to Valuation Basis		
Ultimate claims	(0.5)	
Long term assumptions	(0.7)	
Subtotal		(1.2)
Total		0.3

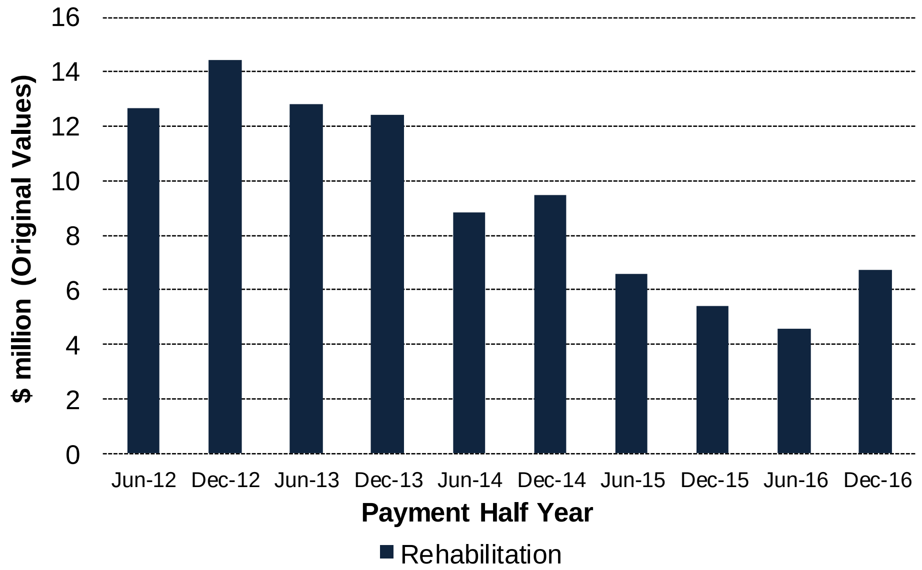
7.6 Rehabilitation

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



Over the last couple of years rehabilitation payments reduced, particularly as WCA ended. Since June 2016 there has been an increase in rehabilitation spending by agents as part of new strategies to achieve better return to work outcomes.

Table 7.11 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

Accident Period	Payments in Six Months to Dec 16 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	2156%
2005/06 - 2012/13	0.4	0.5	(0.0)	91%
2013/14 - 2014/15	2.0	1.8	0.2	109%
2015/16 - 2016/17 [1]	4.3	3.1	1.2	137%
Total	6.7	5.4	1.3	124%

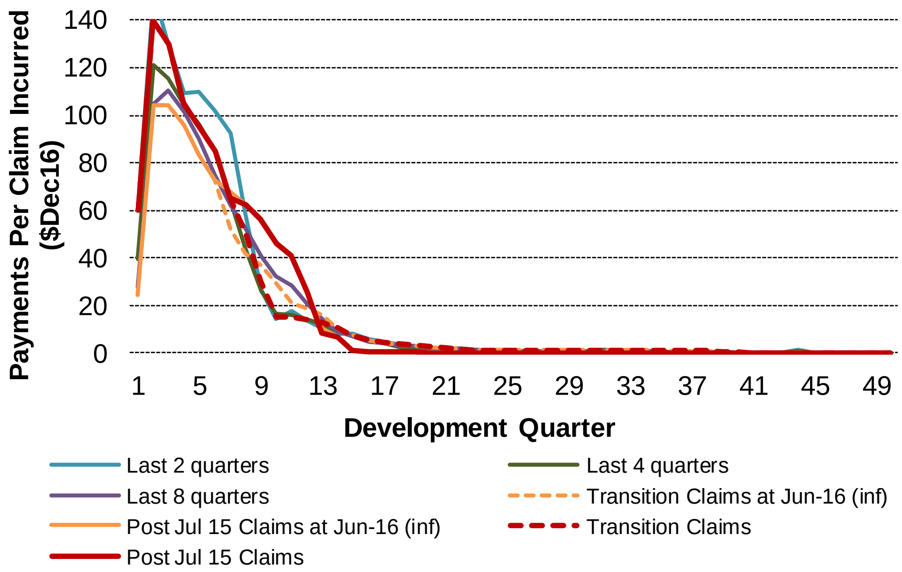
[1] Accidents to Dec16

Overall, payments were $1.3 million (24%) higher than expected driven by accident periods after 2013.

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 increased the RTW Act claim PPCI pattern at early durations to reflect higher utilisation of rehabilitation services going forward. The pattern is higher than the experience at development quarters 8 to 12 as RTW Act claims are not impacted by the recent redemption activity.

The adopted transition claim PPCIs for rehabilitation has been reduced to reflect the emerging experience.

Valuation Results and Actuarial Release

Table 7.12 sets out the actuarial release resulting from our valuation of rehabilitation payments. The first column represents our projection from the June 2016 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	0.0	(0.0)	-674%
2005/06 - 2012/13	0.8	0.8	(0.0)	(0.0)	0.1	7%
2013/14 - 2014/15	2.4	2.0	(0.4)	0.2	0.2	10%
2015/16 - 2016/17 [1]	11.5	12.3	0.8	1.2	(2.0)	-17%
Total	14.6	15.1	0.4	1.3	(1.7)	-12%

[1] Accidents to Dec16

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

The $0.4 million increase in the projected liability combined with actual payments being $1.3 million more than expected results in an actuarial increase (strengthening) of $1.7 million. The increase falls primarily in RTW Act accident periods.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of Actuarial Release: Rehabilitation

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(1.3)
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	(0.3)	
Subtotal		(0.4)
Total		(1.7)

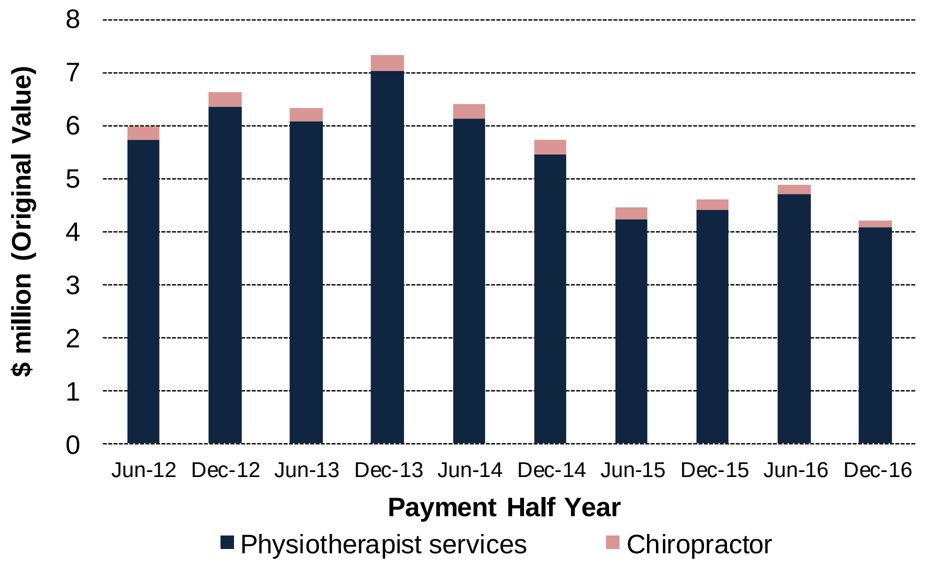
7.7 Physical Therapy

Physical therapy payments include payments made to physiotherapists and chiropractors.

Payments vs Expectations

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

Figure 7.9 – Physical Therapy Half-Yearly Payments



Physical therapy payments reduced in the last six months, following increases over the previous 12 months.

Table 7.14 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	54%
2005/06 - 2012/13	0.3	0.5	(0.3)	52%
2013/14 - 2014/15	0.8	0.9	(0.2)	83%
2015/16 - 2016/17 [1]	3.1	3.1	0.0	101%
Total	4.2	4.6	(0.4)	91%

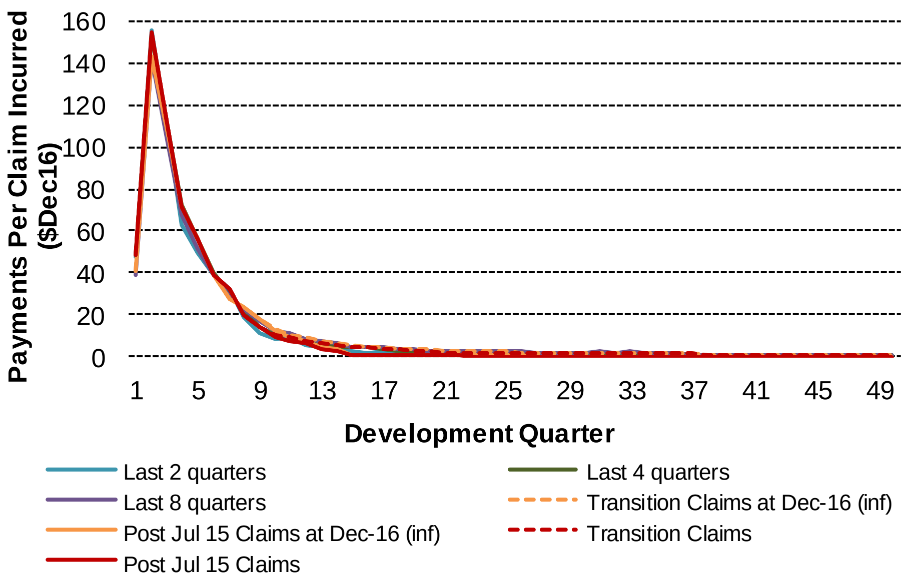
[1] Accidents to Dec16

Overall, payments were $0.4 million (9%) lower than expected driven by the more mature accident periods.

Valuation Basis

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

Figure 7.10 – Physical Therapy Experience and Selections



We have continued to reshape the adopted PPCIs for physical therapy at this valuation by moving payments earlier to reflect 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 June 2016 valuation.

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.2	(0.0)	0.0	(0.0)	0.0	18%
2005/06 - 2012/13	1.2	0.9	(0.3)	0.0	(0.3)	0.5	44%
2013/14 - 2014/15	1.3	1.1	(0.2)	0.0	(0.2)	0.4	28%
2015/16 - 2016/17 [1]	5.7	5.6	(0.0)	0.0	0.0	0.0	0%
Total	8.4	7.9	(0.5)	0.0	(0.4)	0.9	11%

[1] Accidents to Dec16

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

The $0.5 million decrease in the projected liability combined with actual payments being $0.4 million lower than expected results in an actuarial release of $0.9 million. The actuarial release falls in more mature accident periods.

Table 7.16 breaks down the actuarial release by source.

Table 7.16 – Components of Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.4
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	0.6	
Subtotal		0.5
Total		0.9

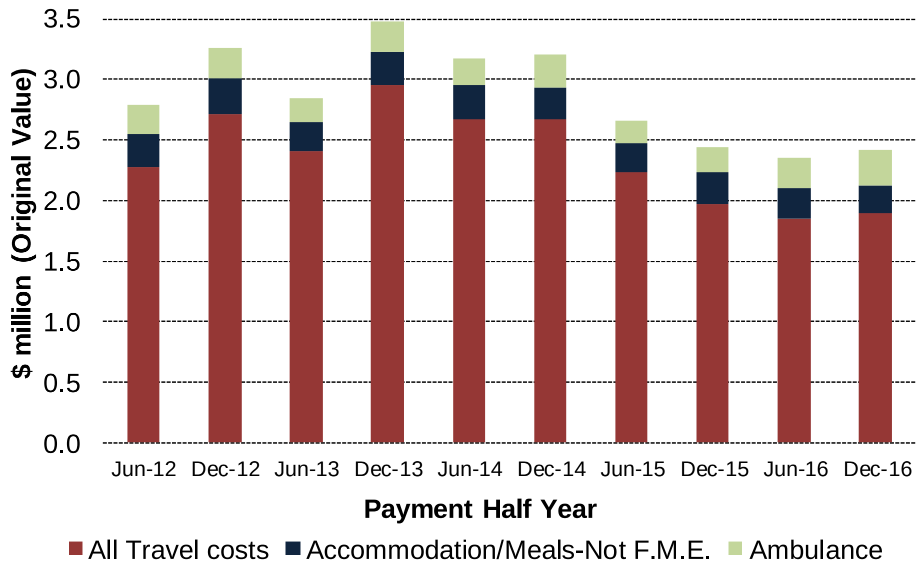
7.8 Travel

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

Payments vs Expectations

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

Figure 7.11 – Travel Half-Yearly Payments



Travel payments overall have remained low in the last six months with slightly higher Ambulance costs.

Table 7.17 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.1	0.1	152%
2005/06 - 2012/13	0.3	0.4	(0.2)	66%
2013/14 - 2014/15	0.5	0.6	(0.1)	81%
2015/16 - 2016/17 [1]	1.5	1.3	0.2	119%
Total	2.4	2.4	0.0	102%

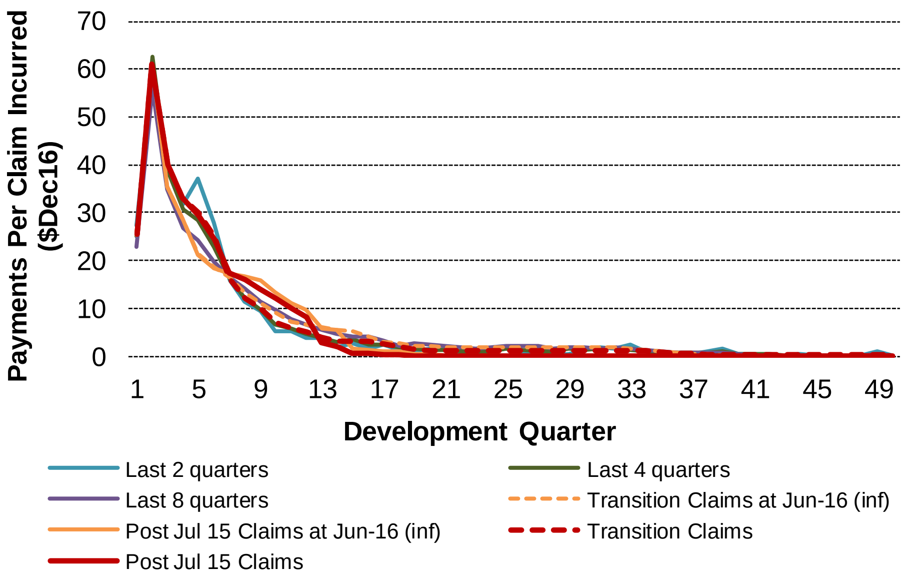
[1] Accidents to Dec16

Payments in the last six months were in line with expectations driven by higher than expected payments for RTW Act claims offset by lower than expected payments for more mature periods.

Valuation Basis

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

Figure 7.12 – Travel Experience and Selections



We have reduced the adopted PPCIs for transitional claims in the tail to reflect the emerging experience. The PPCIs for RTW Act claims have been reshaped to reflect higher payments in the front end and lower payments in the tail.

Valuation Results and Actuarial Release

Table 7.18 sets out the actuarial release resulting from our valuation of travel payments. The first column represents our projection from the June 2016 valuation.

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.3	0.3	(0.0)	0.1	(0.1)	-20%
2005/06 - 2012/13	1.0	0.7	(0.2)	(0.2)	0.4	40%
2013/14 - 2014/15	1.1	0.8	(0.4)	(0.1)	0.5	42%
2015/16 - 2016/17 [1]	3.6	3.5	(0.0)	0.2	(0.2)	-6%
Total	5.9	5.3	(0.6)	0.0	0.6	9%

[1] Accidents to Dec16
[2] Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The actuarial release of $0.6 million is driven entirely by a decrease in the projected liability. The release falls in mid-duration accident periods, and represents a sizeable reduction in the travel liability for short term claims.

Table 7.19 breaks down the actuarial release by source.

Table 7.19 – Components of Actuarial Release: Travel

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

8 Other Entitlements – Short Term Claims

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

8.1 Summary of Results

Table 8.1 summarises the movements in our liability estimates for the remaining entitlement groups since the June 2016 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Jun16 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-16	38.9	26.1	2.4	2.3	1.3	2.2	(34.0)	39.2
Projected Liab at Dec-16	37.1	26.0	2.2	2.2	1.2	2.2	(34.0)	37.0
Dec-16 Valuation								
Impact of experience/OSC - Movement in liab	(4.2)	8.2	(0.1)	0.0	(0.0)	0.0	(0.5)	3.4
Estimated Liab at Dec-16 (Jun-16 eco assumptions)	**32.9**	**34.2**	**2.1**	**2.4**	**1.2**	**2.2**	**(34.5)**	**40.5**
Impact of change in eco assumptions	(0.2)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	0.2	(0.3)
Estimated Liab at Dec-16 (Dec-16 eco assumptions)	**32.7**	**34.0**	**2.1**	**2.3**	**1.2**	**2.2**	**(34.3)**	**40.2**
AvE Payments - six months to Jun-15	(1.3)	1.6	(0.2)	(0.1)	(0.0)	(0.1)	(0.5)	(0.7)
Actuarial Release at Jun-15	5.5	(9.8)	0.4	0.1	0.0	0.1	1.0	(2.7)

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

1. An increase of $3.4 million in the liability, reflecting the claims experience since June 2016 and our valuation response. Combining this with payments being $0.7 million lower than expected produces an actuarial increase (strengthening) of $2.7 million.
2. The change in economic assumptions at the current valuation reduces the estimated liability by $0.3 million (see Section 11.3.2).

8.2 Worker Legal

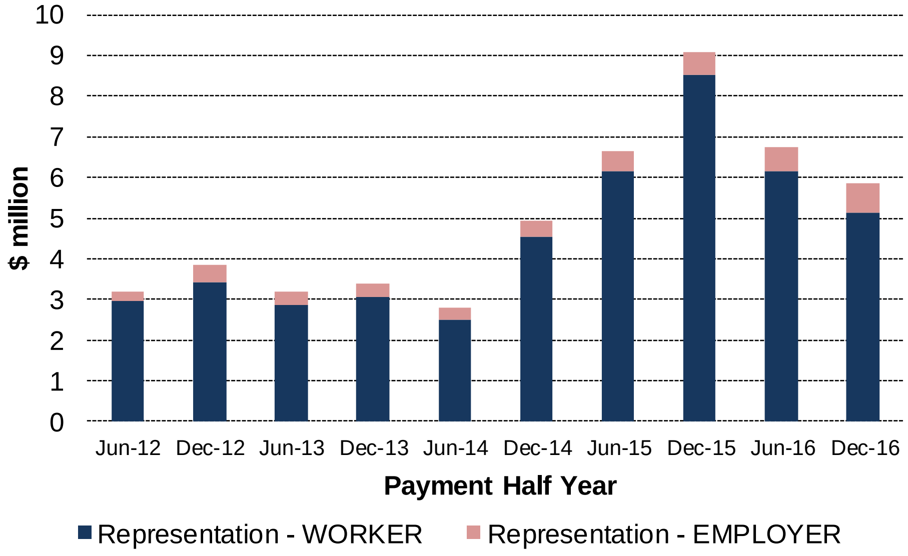
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the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

Disputes are the main driver of expenditure for both worker and corporation legal fees, and were discussed in Section 3.3.3. Worker legal accounts are generally only submitted upon completion of the dispute and therefore any changes in dispute numbers will usually involve a delay before they are translated into changes in worker legal costs. Corporation legal fees on the other hand are paid at commencement of the dispute and will usually reflect changes in underlying dispute numbers without delay.

8.2.1 Experience

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

Figure 8.1 – Worker Legal Half Yearly Payments



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

Table 8.2 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	0.1	148%
2005/06 - 2012/13	3.0	3.9	(1.0)	75%
2013/14 - 2014/15	2.0	2.4	(0.3)	85%
2015/16 - 2016/17 [1]	0.6	0.7	(0.1)	90%
Total	5.8	7.1	(1.3)	82%

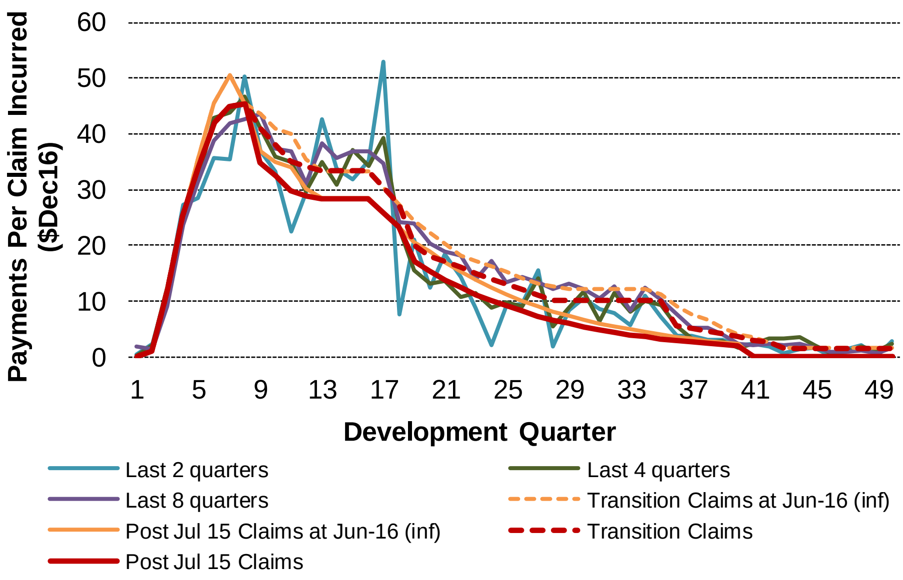
[1] Accidents to Dec16

Overall, payments were $1.3 million (18%) lower than expected over the last six months due to a faster reduction in payments than our basis had allowed.

8.2.2 Valuation Basis

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

Figure 8.2 – Worker Legal Experience and Selections



We have continued to reduce our valuation basis at the current valuation reflecting the faster rate of reduction in payments emerging in the experience.

8.2.3 Valuation Results and Actuarial Release

Table 8.3 sets out the actuarial release resulting from our valuation of worker legal payments. The first column represents our projection from the June 2016 valuation.

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation¹	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release²	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	0.1	(0.1)	-61%
2005/06 - 2012/13	10.6	8.7	(1.9)	(1.0)	2.8	27%
2013/14 - 2014/15	12.2	10.9	(1.3)	(0.3)	1.6	13%
2015/16 - 2016/17 ¹	14.2	13.1	(1.1)	(0.1)	1.1	8%
Total	37.1	32.9	(4.2)	(1.3)	5.5	15%

¹ Accidents to Dec16

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

The $4.2 million decrease in the projected liability combined with actual payments being $1.3 million lower than expected results in an actuarial release of $5.5 million. The release falls across all accident periods after June 2015.

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

Table 8.4 – Components of Actuarial Release: Worker Legal

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.3
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	4.2	
Subtotal		4.2
Total		5.5

8.3 Corporation Legal

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

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

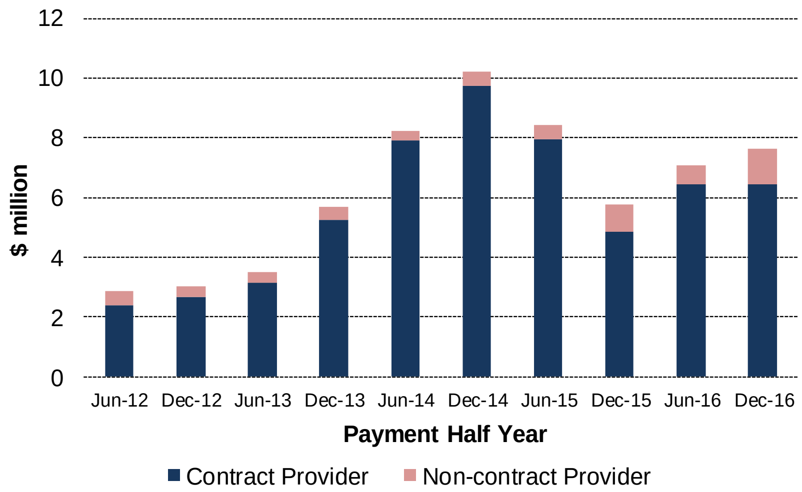
A performance fee is also payable at the end of each year based on the achievement of certain performance outcomes. Under the new contract in 2016, this fee has been reduced significantly.

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

8.3.1 Experience

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

Figure 8.3 – Corporation Legal Half Yearly Payments



Corporation Legal fees have increased in the six months to December as a result of higher payments for "non-contract" providers.

Table 8.5 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 8.5 – Actual vs Expected Payments: Corporation Legal

	Payments in Six Months to Dec 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
Total	7.6	6.0	1.6	126%

Overall, actual payments were $1.6 million (26%) higher than expected as expected fee reductions under the new legal contract did not eventuate. 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 compared to the previous categories.

Table 8.6 – Corporation Legal Contract Comparison

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

To project the future costs of Corporation Legal we have:

- Adopted the fixed monthly fees payable to each provider under the contract
  - Our previous basis allowed for a reduction in the fixed fee per month starting from July 2016 in line with the terms of the contract at the time. At this valuation, we have been advised by ReturnToWorkSA that the contract has been renegotiated with fees to remain the same to allow for additional legal fees associated with Serious Injury applications. Beyond 2016, the fees are estimated to remain at a similar level reflecting the recent stability in the number of new disputes in the scheme.
- Estimated the number of complex matters that will be referred each year for the duration of the contract and multiplied this by the relevant fees as specified in the contract terms
  - We have made an allowance for payment of two complex matters per year, unchanged from our previous valuation basis
- Allowed for payment of additional performance fees as specified in the terms of the contract as well as outstanding performance fees payable under the previous contract
- Allocated the cash flows in each payment year across accident periods
- Estimated a separate allowance for matters handled by “non-contract” providers.
  - An allowance of $1 million per half-year for “non-contract” legal fees unchanged from our previous basis.

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.

8.3.3 Valuation Results and Actuarial Release

Table 8.7 sets out the actuarial release resulting from our valuation of corporation legal payments. The first column represents our projection from the June 2016 valuation.

Table 8.7 – Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
Total	26.0	34.2	8.2	1.6	(9.8)	-38%

[1] Accidents to Dec16

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

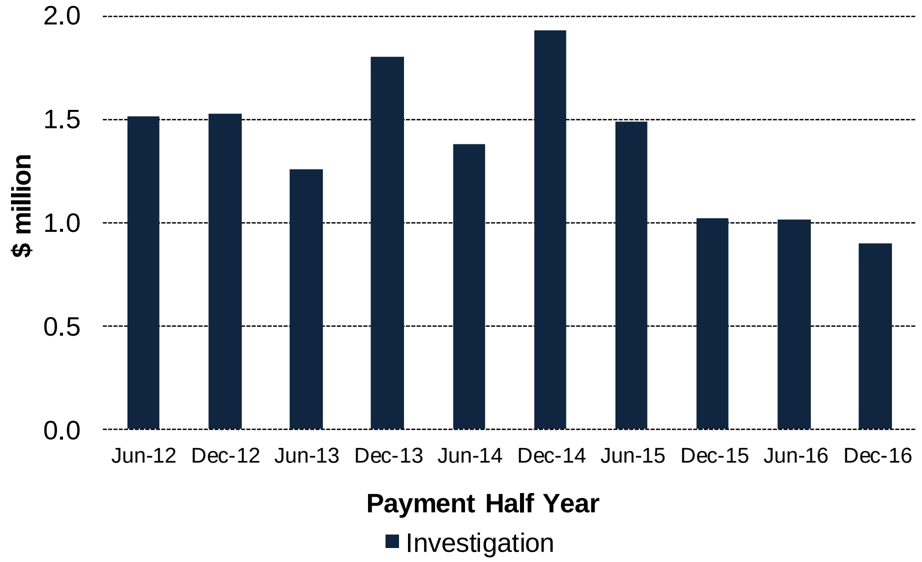
The $8.2 million increase in the projected liability combined with actual payments being $1.6 million more than expected results in an actuarial increase (strengthening) of $9.8 million.

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 has reduced further in the last six months with under $1 million of payments being made. The reduction in investigation payments is consistent with ReturnToWorkSA utilising claims agent staff as 'Mobile Insurance Loss Adjusters' which replaces some of the work that was previously done as part of investigation costs.

Table 8.8 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	5%
2005/06 - 2012/13	0.1	0.1	(0.1)	44%
2013/14 - 2014/15	0.3	0.3	(0.0)	86%
2015/16 - 2016/17 [1]	0.6	0.6	(0.1)	92%
Total	0.9	1.1	(0.2)	81%

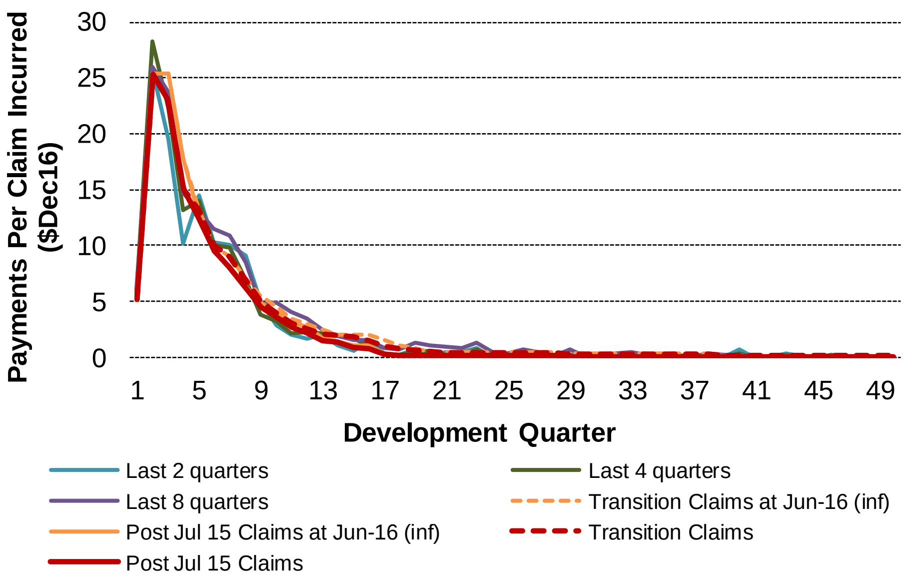
[1] Accidents to Dec16

Overall, actual payments were $0.2 million (19%) less than expected across all accident periods, and there were almost no investigation payments on longer duration claims.

8.4.2 Valuation Basis

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

Figure 8.5 – PPCI Experience and Selections: Investigation



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

8.4.3 Valuation Results and Actuarial Release

Table 8.9 sets out the actuarial release resulting from our valuation of investigation payments. The first column represents our projection from the June 2016 valuation.

Table 8.9 – Actuarial Release for Investigation

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	(0.0)	0.0	103%
2005/06 - 2012/13	0.2	0.2	(0.0)	(0.1)	0.1	40%
2013/14 - 2014/15	0.4	0.4	(0.1)	(0.0)	0.1	21%
2015/16 - 2016/17 [1]	1.5	1.5	(0.1)	(0.1)	0.1	9%
Total	2.2	2.1	(0.1)	(0.2)	0.4	16%

[1] Accidents to Dec16

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

The $0.1 million decrease in the projected liability combined with actual payments being $0.2 million less than expected results in an actuarial release of $0.4 million. The release falls in accident periods after 2005 where the bulk of the investigation liability lies.

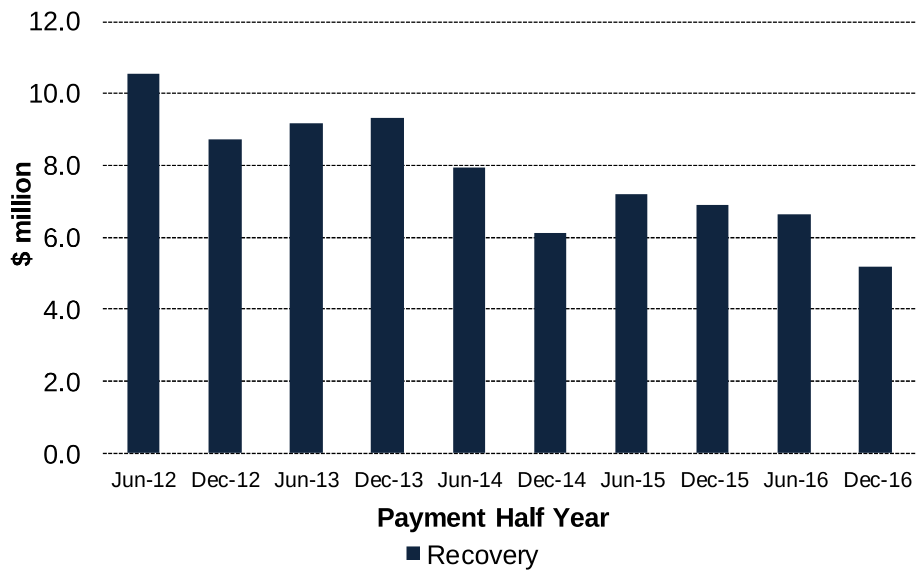
8.5 Recoveries

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

8.5.1 Experience

Figure 8.6 below shows recovery payments in each six month period over the last five years.

Figure 8.6 – Recovery Half Yearly Payments



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

Table 8.10 compares the payments in the six months to 31 December 2016 with the expected payments from our June 2016 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

Accident	Payments in Six Months to Dec 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.0)	0.0	(0.0)	n/a
2005/06 - 2012/13	(4.1)	(3.5)	(0.5)	115%
2013/14 - 2014/15	(0.8)	(1.0)	0.2	84%
2015/16 - 2016/17 [1]	(0.3)	(0.2)	(0.1)	139%
Total	(5.2)	(4.7)	(0.5)	111%

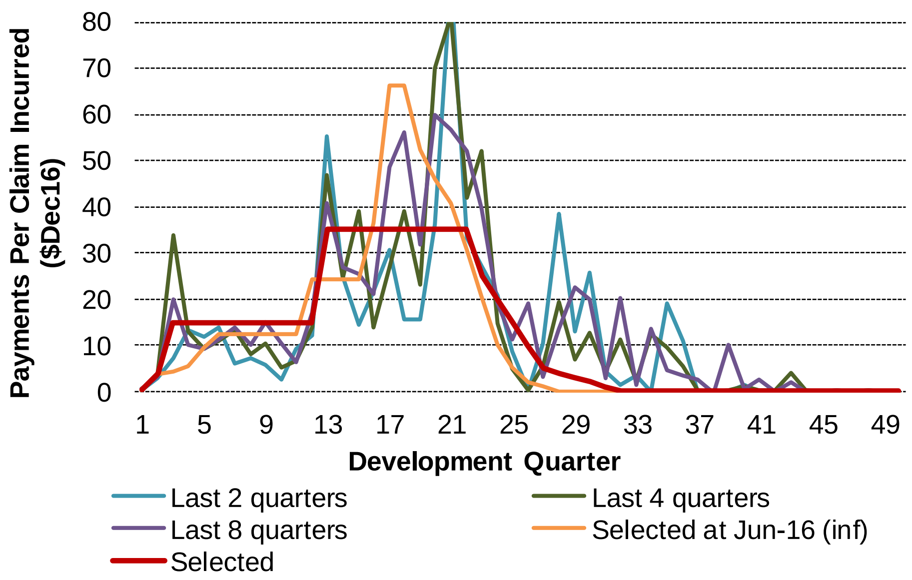
[1] Accidents to Dec16

Overall, actual recovery payments received were $0.5 million greater than expected.

8.5.2 Valuation Basis

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

Figure 8.7 – PPCI Experience and Selections: Recoveries



We have reshaped the recovery PPCI pattern at this valuation to reflect the expected experience.

8.5.3 Valuation Results and Actuarial Release

Table 8.11 sets out the actuarial release resulting from our valuation of recovery payments. The first column represents our projection from the June 2016 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Dec 16 from Jun 16 Valuation[1]	Dec 16 Estimate on Jun 16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	(0.0)	0.0	0%
2005/06 - 2012/13	(6.8)	(7.8)	(1.0)	(0.5)	1.6	-23%
2013/14 - 2014/15	(14.4)	(13.7)	0.7	0.2	(0.8)	6%
2015/16 - 2016/17 [1]	(12.8)	(12.9)	(0.2)	(0.1)	0.3	-2%
Total	(34.0)	(34.5)	(0.5)	(0.5)	1.0	-3%

[1] Accidents to Dec16

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

The increase in recoveries asset of $0.5 million combined with actual recoveries being $0.5 million above expectations results in an overall actuarial release of $1.0 million. (i.e. an increase in expected recoveries).

8.6 LOEC, Commutations, and Common Law

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

8.6.1 LOEC

LOEC claims are valued together with Short Term Claims. At 31 December 16, there are only six remaining claims. The basis is unchanged from our previous valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependant benefits. Payments in the last six months were around 50% lower than expected.

The basis is unchanged from our previous valuation.

8.6.3 Common Law

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

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

9 Serious Injury Claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 31 December 2016, and the movement in our liability estimates since the June 2016 valuation.

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

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabilitation	Physical Therapy	Investigation	Legal - Non-Contract	Legal Contract	Lump sums	Redemptions	Recoveries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Jun-16 Valuation														
Estimated Liab at Jun-16	278	468	379	77	44	59	43	1	8	9	39	3	-42	1,366
Projected Liab at Dec-16	288	487	397	81	47	62	45	1	8	8	36	0	-43	1,417
Dec16 Valuation														
Impact of experience/basis change	1	-5	-31	10	1	-10	-7	0	0	1	-4	0	17	-28
Estimated Liab at Dec16 (Jun16 ecos)	**289**	**482**	**366**	**91**	**47**	**52**	**38**	**1**	**8**	**9**	**31**	**0**	**-26**	**1,390**
Impact of change in ecos	-16	-53	-34	-10	-5	-6	-4	0	0	0	0	0	0	-129
Estimated Liab at Dec16 (Dec16 ecos)	**273**	**429**	**333**	**81**	**42**	**46**	**34**	**1**	**8**	**9**	**31**	**0**	**-26**	**1,261**
AvE Payments - six months to Dec-16	0	0	-1	0	0	0	0	0	1	0	-1	4	-1	1
Actuarial Release at Dec-16	-2	6	31	-10	-1	11	7	0	-1	0	5	-4	-16	27

The outstanding claims cost for Serious Injury claims, excluding CHE, is $1,261 million at 31 December 2016. The main movements from our June 2016 projection of the December 2016 liability are:

- Claims experience and basis changes reducing the liability by $28 million, as a result of:
  - Net changes to claim numbers (including IBNR claims) increasing the liability by $30 million
  - Changes to entitlement (including redemptions) and half-yearly payment levels reducing the liability by $43 million
  - Changes to methodology leading to a reduction of $14 million
- The change in economic assumptions at the current valuation – principally the increase in the discount rate – which reduces the estimated liability by $129 million. The impact of the change in economic assumptions is discussed in Section 11.3.2.

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

9.2 Background

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

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

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

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

As noted in Section 3.2.1, transitional claims were able to apply for additional WPI assessments up to 30 June 2016, which will likely see some claims move into the Serious Injury group where the additional assessment increases the WPI to 30% or more. Given the limited information available at the time of the valuation work, we have not adjusted our allowances for additional top up lump sums to emerge at this time. We will consider this information as it becomes available over the next 6 to 12 months, and if required will adjust the valuation basis accordingly.

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

9.3 Valuation Approach

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

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

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

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a.. Mortality loadings for claims with high care needs (reducing life expectancy by 18 years) and for moderate care needs (reducing life expectancy by 8 years).	Mortality improvement of 1.5% p.a..
Income Support	To retirement age on all operationally active claims. Based on historical experience and estimates provided by ReturnToWorkSA.	To retirement age on all operationally active claims. Based on historical experience.
Treatment Related Costs and Other[2]	Paid for life. Based on historical experience and estimates provided by ReturnToWorkSA. Allowed for IBNER on Other and Medical costs above identified costs.	Paid for life. Based on historical experience with an allowance for a reduction in medical and treatment utilisation on claims at early durations (i.e. as they move from the generally more intensive treatment and recovery phase to a maintenance phase)

<table>
<tr><th></th><th>Severe Traumatic Injuries</th><th>Other Serious Injury</th></tr>
<tr><td>Lump sums[3]</td><td colspan="2">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.</td></tr>
<tr><td>Legal and Investigation</td><td colspan="2">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.</td></tr>
<tr><td>Recoveries</td><td>Projected on claims identified by ReturnToWorkSA as having recovery potential.</td><td>Applied an ultimate recovery proportion net of recoveries to date.</td></tr>
<tr><td>Common Law</td><td colspan="2">Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.</td></tr>
<tr><td>Future cost escalation</td><td>WCI: IS

AWE: Recoveries, Treatment and Other, Legal and Investigation

Superimposed: 2% p.a. on Treatment and Other

Needs Utilisation: 75% loading applied at age 65 on Treatment and Other.</td><td>WCI: IS

AWE: Recoveries, Treatment and Other, Legal and Investigation

Superimposed: 2% p.a. on Treatment and Other</td></tr>
<tr><td>IBNR Assumptions</td><td>IBNR claims in the latest three accident years only.

Claim size based on historical experience on current claims.</td><td>IBNR claims in the latest ten accident years, reflecting the impact of Regulation changes (allowing ‘top-ups’ for secondary injuries) and potential Serious Injury claims with assessments of over 30% which are not yet included in the Serious Injury list.

Claim size based on historical experience on current known and potential claims.</td></tr>
</table>

[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.

Two changes to the approach for Severe Traumatic Injuries have been made at the current valuation:

1. The Medical IBNER loading has been restricted to claims that are more than five years old, an increase from two years at the previous valuation. Medical and Treatment costs are generally higher at early durations (up to five years) and we have therefore observed that the long-term level of spend is unlikely to be initially under-estimated for these periods. In addition to this, the level of claims that have individual estimates provided by ReturnToWorkSA’s internal management team is far more comprehensive than at the first few valuations where Serious Injury claims were separated, and this has reduced the need for an additional loading at an aggregate level.

2. The superimposed inflation allowance for Severe Traumatic Injuries has been altered at the current valuation to more explicitly differentiate between escalation in claims costs as a result of increased needs as claimants age and increases in Treatment and Other costs beyond normal levels of inflation. Both of these effects were previously captured in an overall superimposed rate of 3%. This has been replaced with a 75% escalation at age 65 to account for increased needs, while the cost of services is assumed to increase at a rate 2% higher than normal inflation (consistent with Other Serious Injury claims).

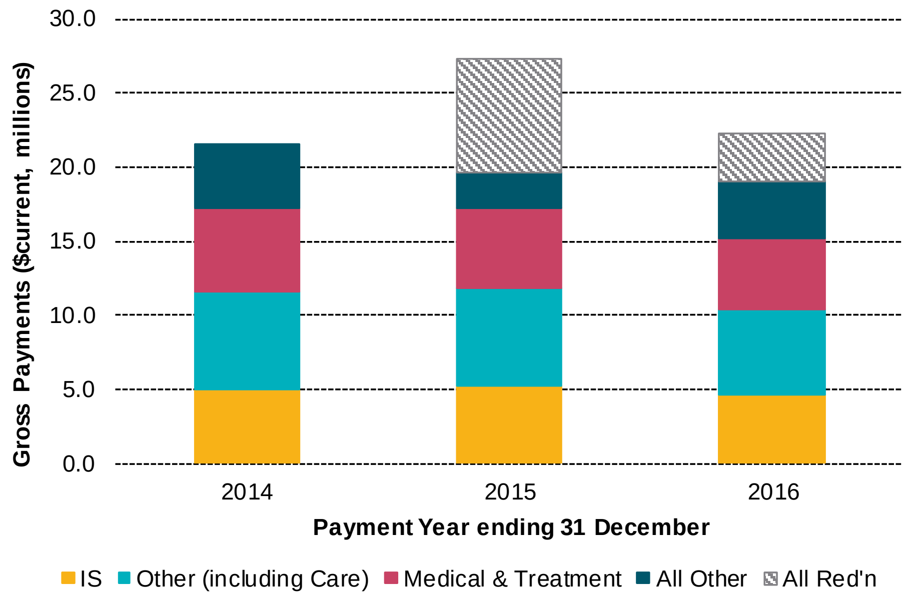
One of the key determinants of very long term costs will be how much, if any, of the costs associated with ageing are compensated out of the compensation scheme. For example, whether ReturnToWorkSA will fund the full costs of living in a nursing home for an elderly claimant, or just the additional care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

9.4 Valuation of Severe Traumatic Injury claims

9.4.1 Payments by Type

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

Figure 9.1 – Severe Traumatic Injury Claim Payments ($Dec-16)



Around $71 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of almost $16 million over this same period and excluding redemptions, this equates to an average of around $15 million per annum in net claim payments (inflated to 31 December 2016 values), comprising around:

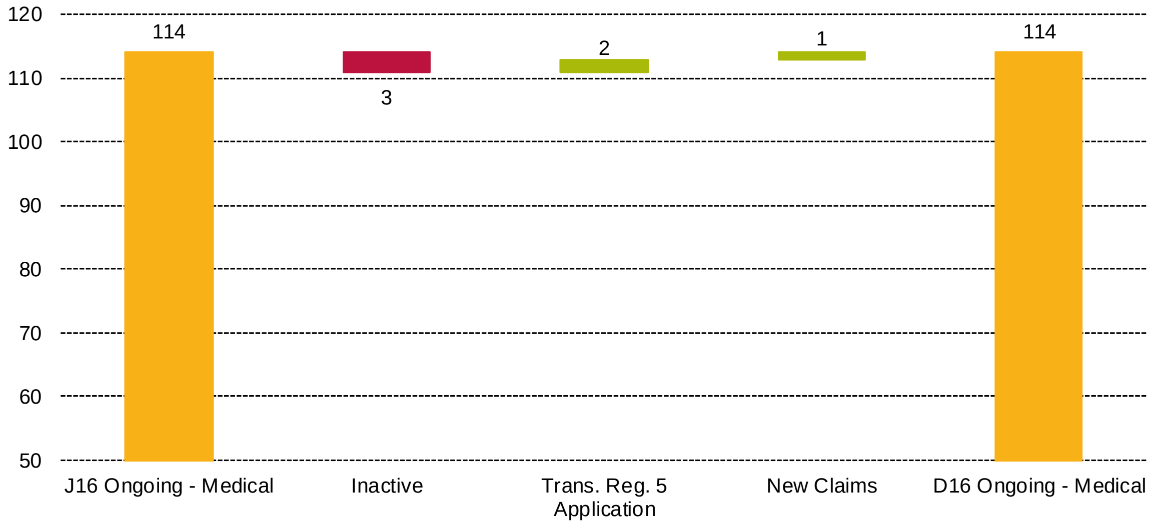
- $6 million per annum in care and other costs
- $5 million per annum in medical, treatment and related benefits
- $5 million per annum in Income Support
- $3 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.4 million per annum)
- $5 million per annum in recoveries.

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

9.4.2 Claimant Profile

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

Figure 9.2 – Movement in Severe Traumatic Injury Claim Numbers

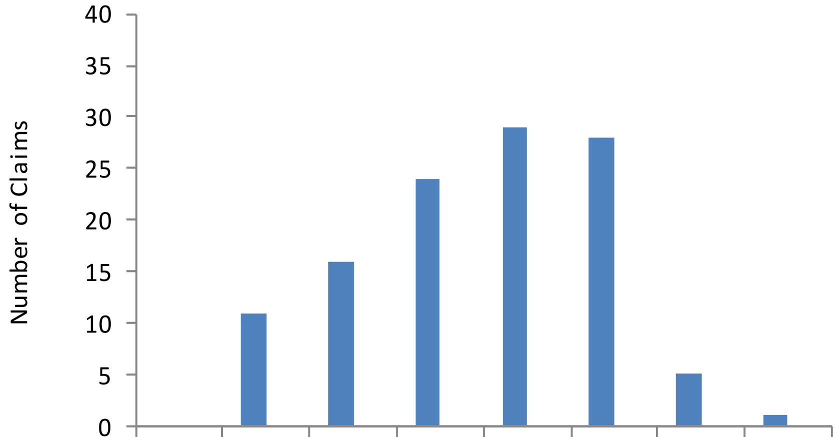


There are 114 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at December 2016, compared to 114 at the previous valuation. The movements are:

- 2 claims signed a deed of release, removing their entitlement to ongoing benefits
- 1 claimant is now deceased
- 2 claims had an application for a top up assessment of WPI under Transitional Regulation 5, so have been valued as receiving ongoing benefits
- 1 new claim was identified since the previous valuation and is entitled to medical benefits.

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

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



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	11	16	24	29	28	5	1
Loaded Life Expectancy	0	59	44	32	23	18	6	1

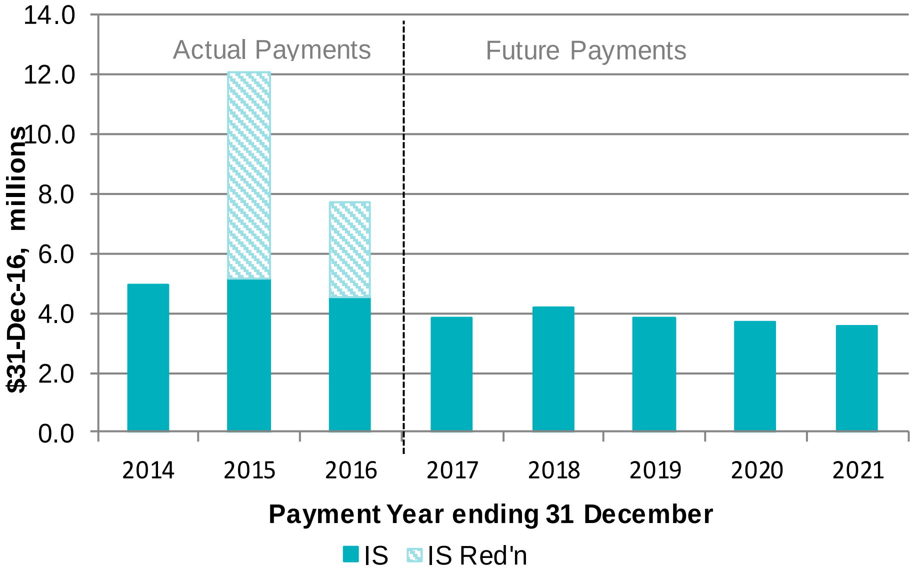
Severe Traumatic Injury claimants are currently around 52 years old on average, with an expected future life expectancy of around 32 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 40 years.

Only around half the current Severe Traumatic Injuries have a WPI assessment, averaging around 54%, although this is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. Somewhat surprisingly, 10 of these claims have been assessed as being less than 30% impaired. The average impairment level excluding these low assessments is around 62%, which is consistent with the high care needs for this group.

9.4.3 Income Support

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

Figure 9.4 – IS Payments – Severe Traumatic Injury claims ($Dec-16)

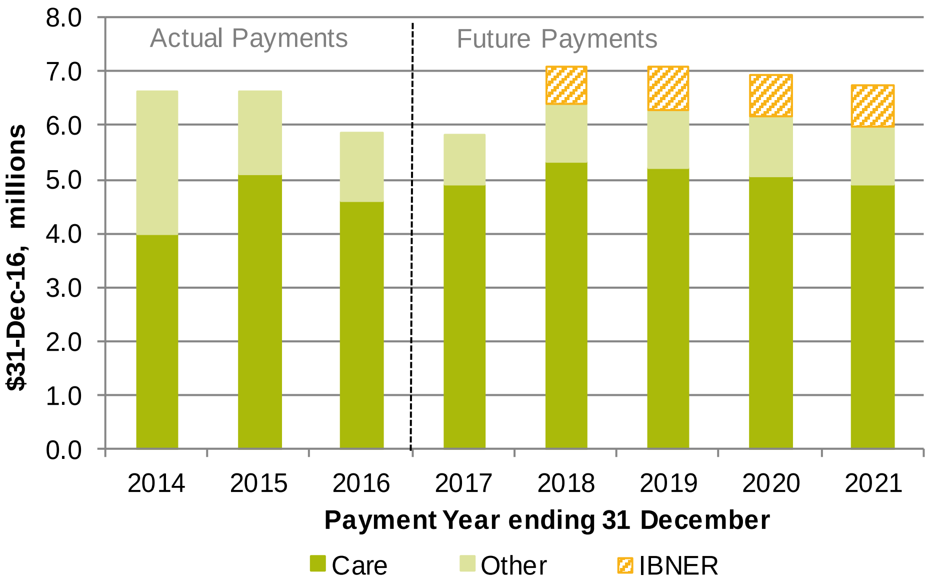


We estimate around $3.9 million will be paid in Income Support to Severe Traumatic Injury claims in 2017. There is a slight reduction from the recent payment levels due mainly to the impact of recent redemption activity (which has commuted future recurrent benefits). Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 17 years of the 2017 payments.

9.4.4 Care and Other Costs

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

Figure 9.5 – Other (incl. Care) Payments – Severe Traumatic Injury claims ($Dec-16)

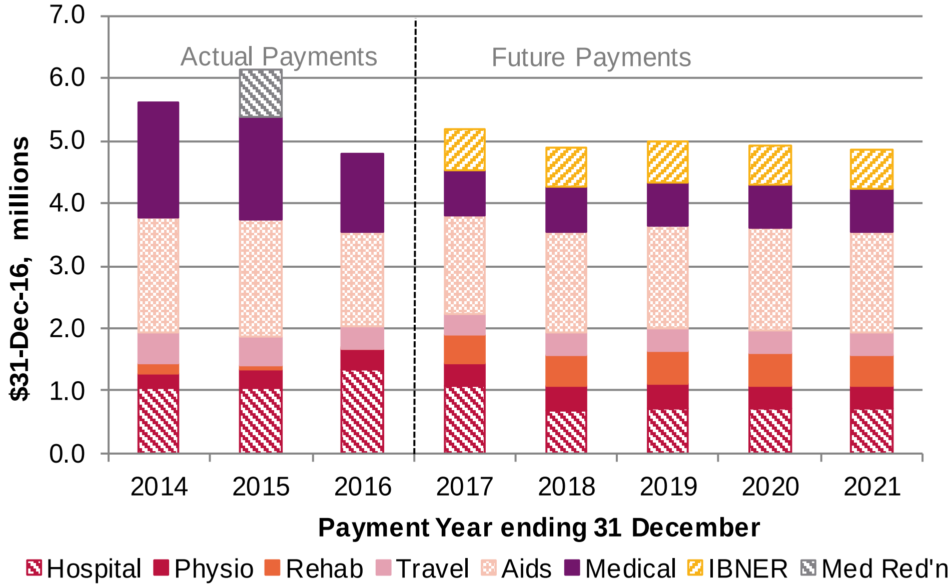


We expect just under $6.0 million of other and care payments in 2017, which is similar to the 2016 year. Payments then increase in the short term due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture an annualised contribution for other benefits (primarily modifications and transfers from initial hospital care into home care). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 35 years of the 2017 payments.

9.4.5 Treatment and Related Costs

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

Figure 9.6 – Treatment and Related Payments – Severe Traumatic Injury claims ($Dec-16)

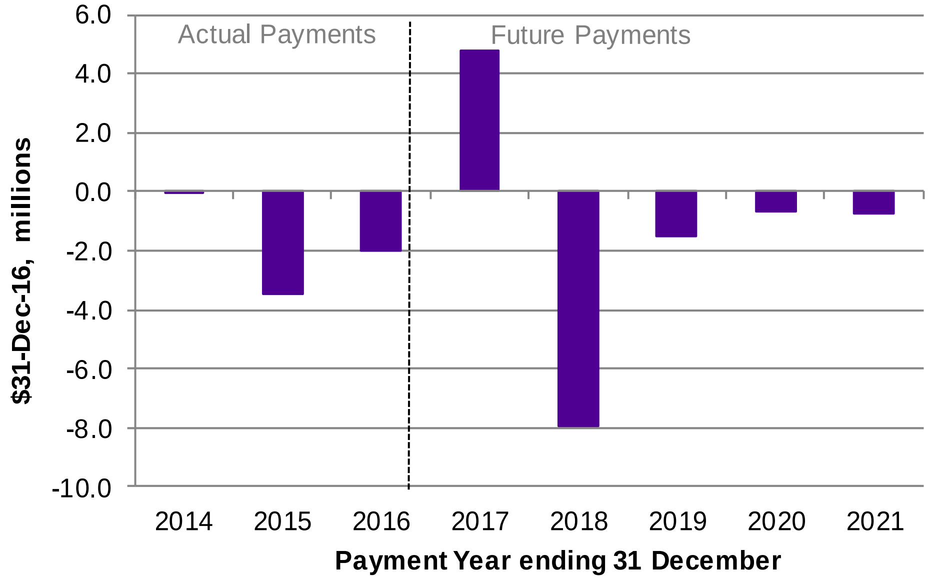


We expect future treatment and related payments of $5.2 million in 2017. The regular cost is slightly higher for 2017 to account for anticipated one-off aids and appliances costs and reduces to historical levels from 2018 onwards. The outstanding claims projection is equivalent to 43 years of the 2017 payments.

9.4.6 All Other Payments

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

Figure 9.7 – All Other Payments (net) – Severe Traumatic Injury claims ($Dec-16)



In the three years to 31 December 2016, a net amount of -$5.5 million of other benefits was received for Severe Traumatic Injury claims. Our future projections include:

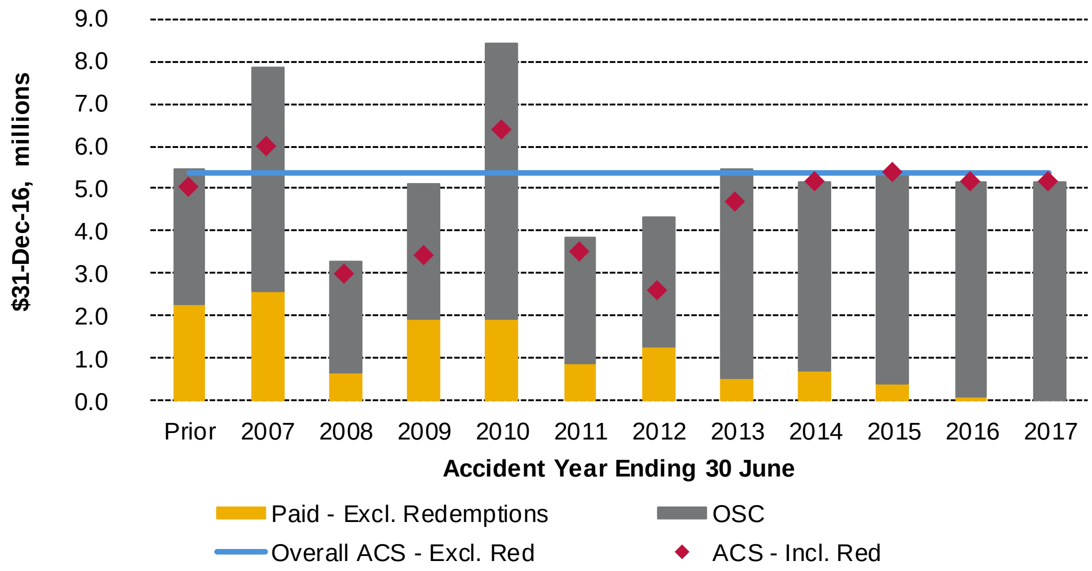
- Lump sum benefits of $10.8 million paid to current Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $2.0 million
- Recoveries of $18.3 million, for those claims where ReturnToWorkSA has identified recovery potential. The ultimate recovery rate on all Severe Traumatic Injury claims is 5%.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of 2017 expenditure.

9.4.7 Overall Results and Implications

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

Figure 9.8 – Average Claim Size – Reported Severe Traumatic Injury Claims ($Dec-16)



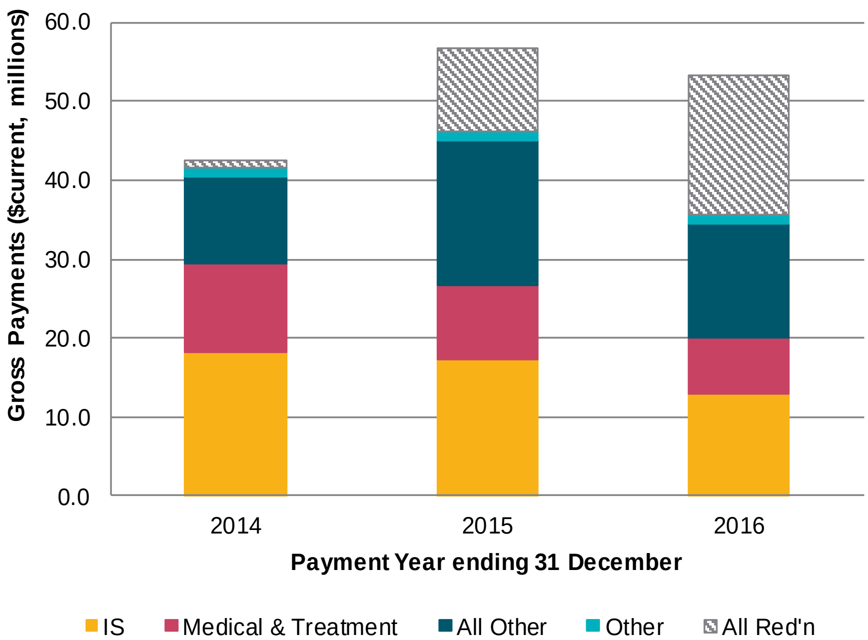
The average claim size across current Severe Traumatic Injury claims is around $4.7 million in current dollar values; however this includes claims that have been redeemed at less than the full lifetime value. Excluding redeemed claims the average claim size is $5.2 million, which is similar to the projected average size for recent accident years where injuries are yet to stabilise. This is slightly higher than the previous valuation and is largely a reflection of the change in approach to future cost escalation described in section 9.3.

9.5 Valuation of Other Serious Injury claims

9.5.1 Payments by Type

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

Figure 9.9 – Other Serious Injury Claim Payments ($Dec-16)



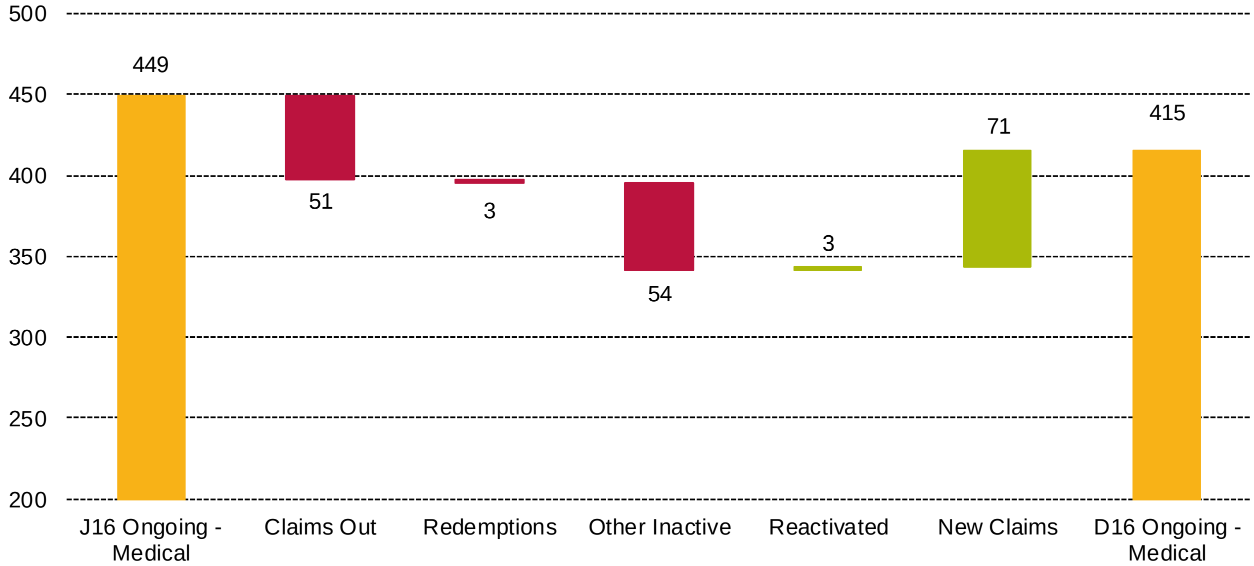
Around $153 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $7 million over this same period and removing redemptions, this equates to an average of around $41 million per annum in net claim payments (inflated to 31 December 2016 values), comprising:

- $16 million per annum in Income Support
- $9 million per annum in medical, treatment and related benefits
- $13 million per annum in lump sums
- Only small amounts of other benefits ($3.1 million).

9.5.2 Claimant Profile

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

Figure 9.10 – Movement in Other Serious Injury Claim Numbers

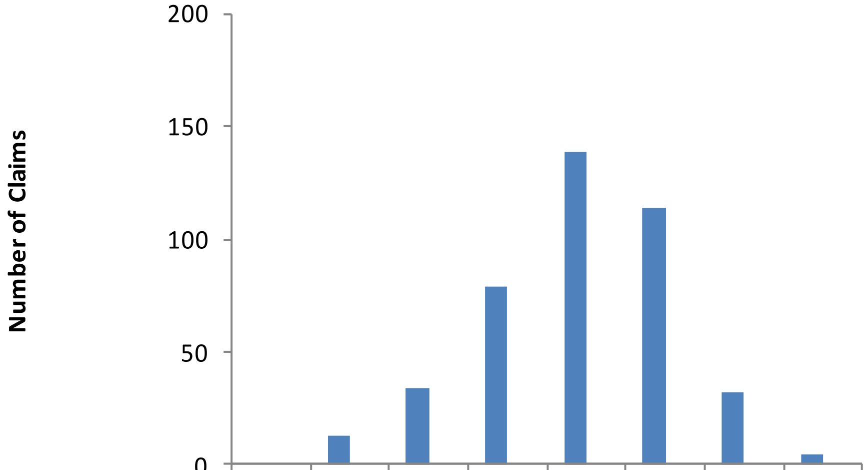


There are 415 active (i.e. with expected ongoing benefits) Other Serious Injury claims at December 2016, compared to 449 at the previous valuation. The major reasons for this change are:

- Claims Out – reduction of 51 claims. The criterion for including claims in the valuation was tightened to more accurately reflect the likelihood of older claims ultimately reaching the Serious Injury threshold. The removal of these claims had little impact on the outstanding claims amount as they did not have a recent payment profile similar to that of a typical Serious Injury claim (i.e. most of the 51 removed claims had a very low liability).
- Other Inactive – reduction of 54 claims. Similar to 'Claims Out' this reduction is attributable to consideration of whether claims that have been closed for a prolonged period are likely to continue to access benefits over their lifetime. As for 'Claims Out' these were generally low-value claims.
- New Claims – increase of 71 claims. Claims that were newly identified as Serious Injury over the last six months. Unlike claims removed in the 'Claims Out' and 'Other Inactive' cohorts, these claims have had a recent payment profile similar to that of a typical Serious Injury claim, leading to a meaningful impact (increase) on the outstanding claims liability.

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

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



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	13	34	79	139	114	32	5
Standard Life Expectancy	0	62	52	41	30	22	14	8

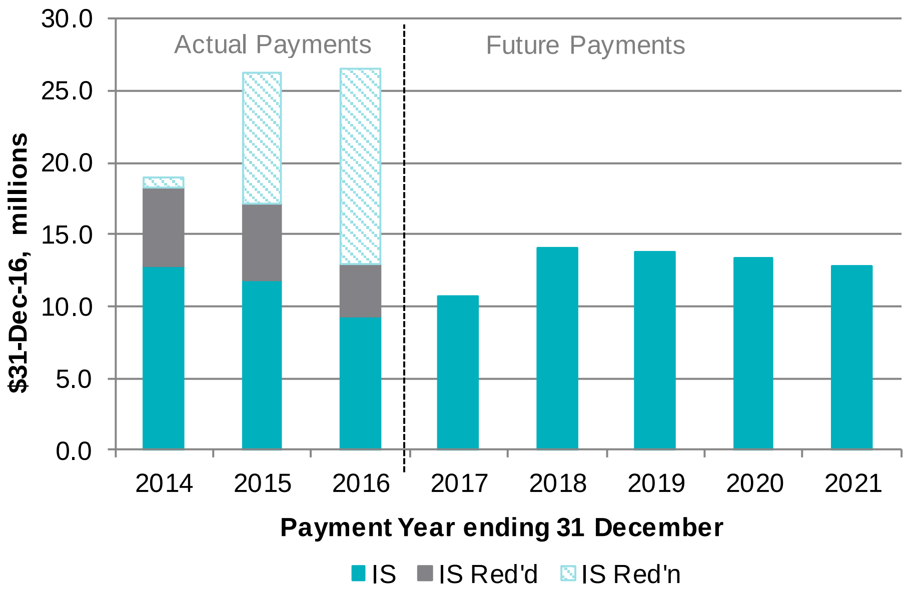
The Other Serious Injury claims are currently, on average, around 55 years old, with an expected future life expectancy of just over 30 years (after allowing for mortality, including mortality improvements). We note the average age at injury was around 46 years.

Around 65% of the current Other Serious Injuries have a WPI assessment, averaging around 35%. However a number of these claims have WPI assessments of less than 30% (noting that the current list includes some of those *potentially* reaching 30% WPI in future). The average impairment level excluding these low assessments is around 40%.

9.5.3 Income Support

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

Figure 9.12 – IS Payments – Other Serious Injury claims ($Dec-16)

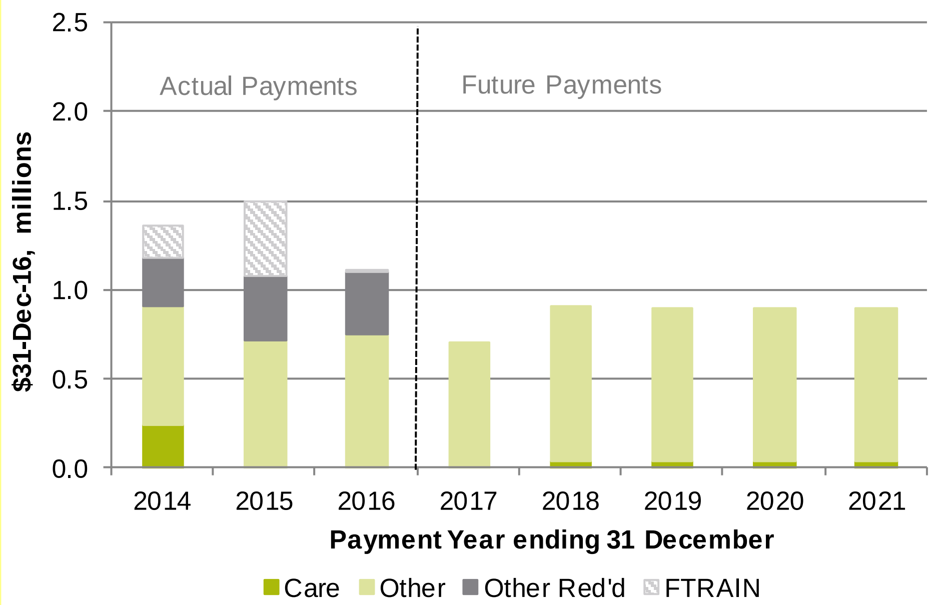


We estimate around $10.7 million will be paid in Income Support will be paid to Other Serious Injury claims in 2017. This is similar to recent levels as a result of the high recent redemption activity. Future payments will generally reduce over time in line with expected mortality and retirement, although there is a stepwise change between 2017 and 2018 as additional IBNR claims are all assumed to move into the serious injury group at one year's duration.

9.5.4 Care and Other Costs

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

Figure 9.13 – Other (incl. Care) Payments – Other Serious Injury claims ($Dec-16)



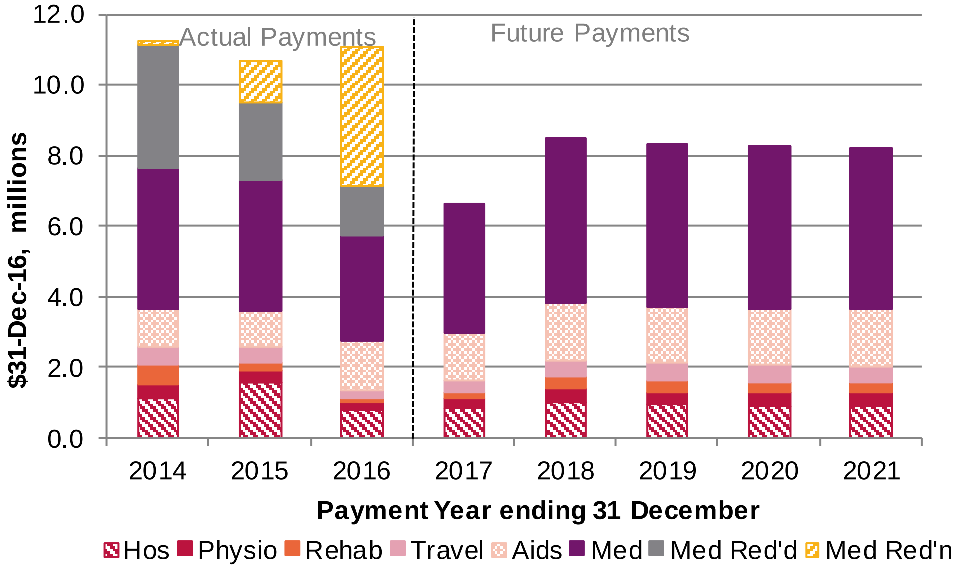
Other Serious Injury claims receive very little in care costs; almost all the care paid in the last three years related to a claimant who is now deceased or FTRAIN payments relating to dispute settlements.

We expect around $0.7 million in other payments in 2017, in line with the average across the last three years (excluding the deceased claimant and FTRAIN payments). Payments thereafter increase due to IBNR claims (in 2018) offset by reductions in line with mortality.

9.5.5 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 ($Dec-16)

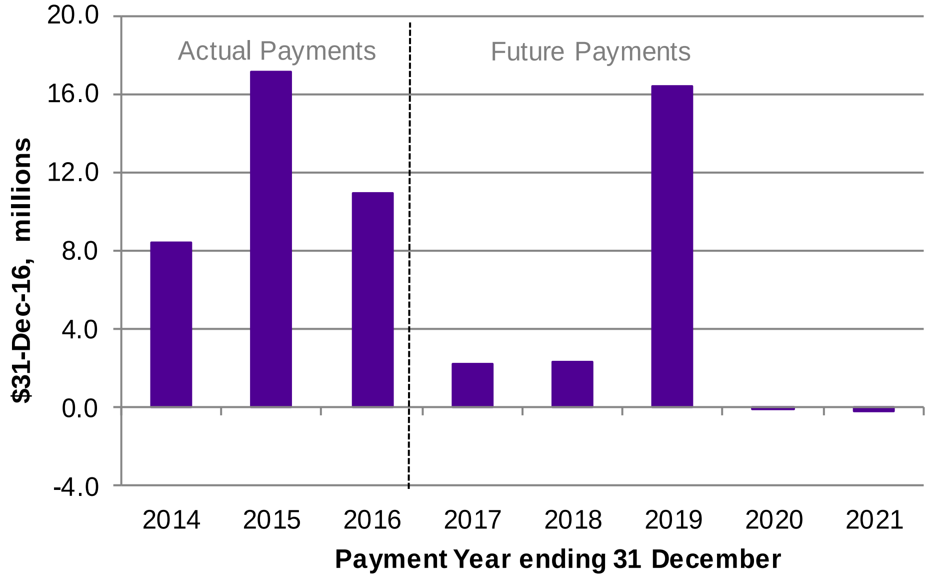


We expect treatment and related payments of $6.6 million in 2017 for ongoing claims. Payments thereafter increase due to IBNR (in 2018) claims offset by reductions in line with mortality.

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 ($Dec-16)



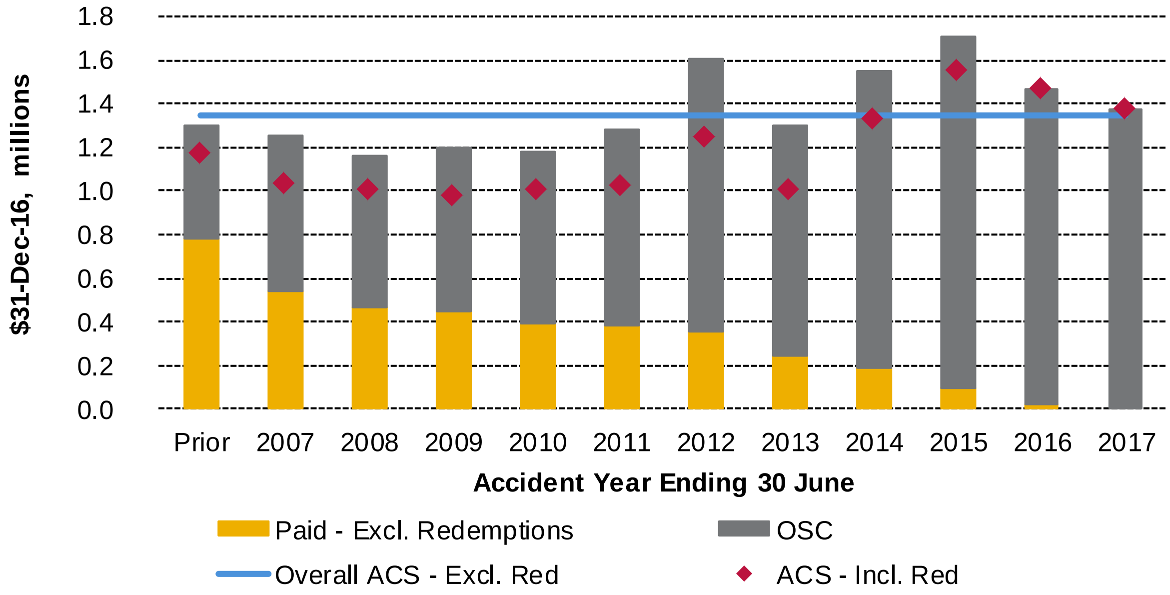
Our future projections include:

- Lump sum benefits of $20.3 million paid to current Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $16.1 million
- Recoveries of $7.9 million.

9.5.7 Overall Results and Implications

Figure 9.16 shows the net ultimate average claim size (inflated to 31 December 2016 values) across all Other Serious Injury claims.

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



The overall average size for current Other Serious Injury claims is around $1.2 million, however excluding claims that have been redeemed (a practice which is not expected to continue) the average size is $1.4 million.

9.6 Valuation Results and Actuarial Release

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

Table 9.3 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Dec-16 from Jun-16 Valuation	Dec-16 Estimate on Jun-16 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Dec-16	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	295.7	285.0	-10.7	-0.6	11.3	4%
2005/06 - 2012/13	685.5	656.6	-29.0	-0.1	29.1	4%
2013/14 - 2014/15	242.1	244.7	2.6	2.6	-5.2	-2%
2015/16 - 2016/17[1]	194.1	203.3	9.2	-0.6	-8.6	-4%
Total	1,417.5	1,389.6	-27.9	1.3	26.6	2%

[1] Accidents to Dec 16

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

Recent accident periods experienced a strengthening as a result of a number of newly identified high cost claims in the Other Serious Injury cohort, while releases on older periods reflect emerging experience being lower than expected combined with the commutation of liability for select claims via redemption or deed or release.

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

Table 9.4 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to	Severe Traumatic Injury	Other Serious Injury	Total	
	$m	$m	$m	$m
AvE payments in six months				(1)
Difference from projected liability				
Changes to Valuation Basis				
Claim Numbers[1]	43	(73)	(30)	
Entitlement Change	1	21	22	
Selection Changes	11	10	22	
Method Changes	5	9	14	
Subtotal				28
Total				27

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

These movements are driven by:

- Claim Numbers – strengthening of $30 million split by:
  - Severe Traumatic Injury claims – release of $43 million. Claim numbers continue to come in below expectations for recent accidents periods and ultimate numbers for recent periods have been adjusted accordingly. This includes a reduction in the IBNER allowance for more recent accident periods, where we had previously kept the average claim size high until it was clear that reductions were warranted.
  - Other Serious Injury claims – strengthening of $73 million. Newly identified claims continue to exceed expectations, particularly on older accident periods, while claims that were

removed (i.e. are no longer expected to be Serious Injury claims) had a low outstanding claim value at the previous valuation.

- Entitlement Changes – release of $22 million. This release is a combination of 'Claims Out' as described in section 9.5.2 along with some continued redemption activity.
- Selection Changes – release of $22 million. This describes the impact of changes to the assumed half-yearly payment for each claimant and can attributed to:
  - Severe Traumatic Injury claims – release of $11 million. This release is attributable to revisions made to ongoing cost estimates made by ReturnToWorkSA's internal claims management team. It is expected that as more becomes known about this cohort, and additional tools are developed to assist with estimation process, changes in the provision due to selections will reduce over time.
  - Other Serious Injury claims – release of $10 million. This is a reflection of payments in the last six months coming in lower than expected, particularly among Treatment Related Cost payment types.
- Method Changes – release of $14 million split by:
  - Severe Traumatic Injury claims – release of $5 million. This is a result of changes to the Medical IBNER application leading to a release of around $27 million largely offset by changes to cost escalation methodology. These changes are described in section 9.3.
  - Other Serious Injury claims – release of $9 million. The reduction in Treatment costs from early stages of duration has been given more credibility at the current valuation (i.e. long duration costs are being set below current levels for early duration claims).

10 Economic and Other Assumptions

10.1 Discount Rate

10.1.1 Approach

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

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

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

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

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

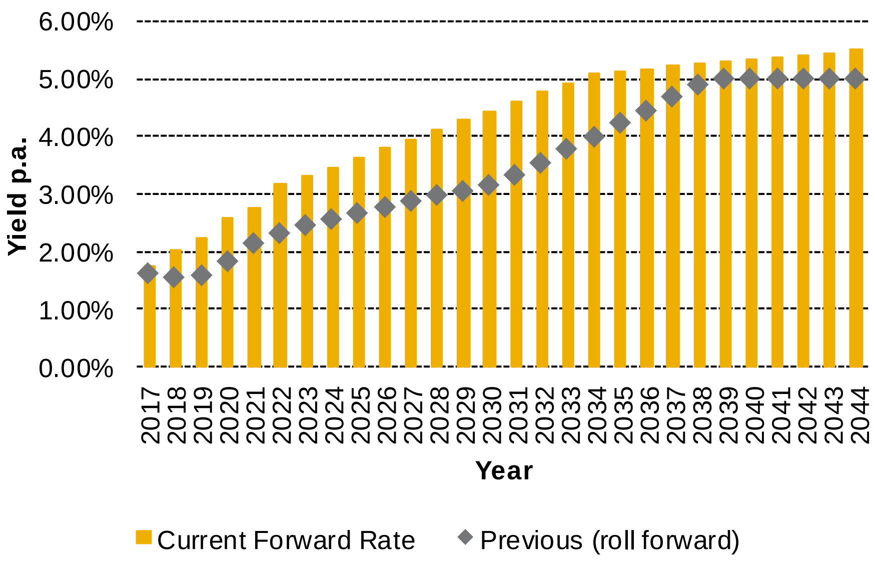
The resulting forward rates are applied to the projected cashflows for each future period. When discounting using forward rates, the relevant rates must be 'chained' together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

Government bond yields at December 2016 are higher than at June 2016 at all durations. Beyond this point we have assumed a long-term rate of 5.5%, an increase of 0.5% from our previous valuation.

Figure 10.1 shows the current forward rates, and compares these to the corresponding forward rates implied by the previous valuation (i.e. rolled forward to the current valuation date). This shows that the discount rates have increased for all durations with the equivalent single discount rate increasing from 3.3% p.a. at 30 June 2016 to 4.1% p.a. at 31 December 2016.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



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

10.2 Inflation

In setting our inflation assumptions we consider:

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

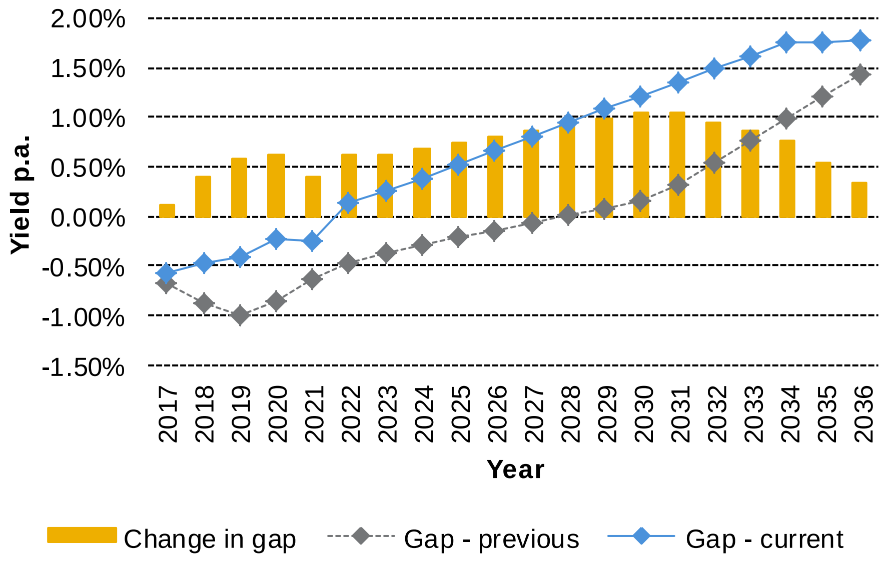
In summary, our assumptions at the current valuation are:

- Wage Price Inflation has been assumed to be 2.3% p.a. for the coming year, increasing to 3.0% after five years. This is a reflection of both current forecasts and the current low interest rate environment.
- Wage Price Inflation assumptions gradually increase from this level to 3.75% over the next 23 years, where a gap of 1.75% p.a. is maintained between Wage Price Inflation and forward discount rates. This gap is consistent with the June 2016 valuation.
- Average Weekly Earnings (AWE) is set to be equal to Wage Price Inflation for the coming year, steadily increasing to be 0.25% higher by 2021. This gap is maintained for all periods beyond this point and is consistent with the June 2016 valuation.
- CPI inflation has been set at 2.5% p.a. for all future durations. This is consistent with the mid-point of the Reserve Bank's targeted range of 2-3% p.a.

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

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

Figure 10.2 – Gap between Adopted AWE and Discount Rates



The impact of this change is to decrease the scheme liability, which is quantified in Section 11.3.2.

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

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

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

10.3 Expenses

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

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

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

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

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

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

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

The overall expense rate equates to 10.7% of gross outstanding claims, down from 11.7% at the previous valuation.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

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

In our June 2015 valuation, we undertook a partial review of the key components of the framework and made adjustments to our assumptions accordingly. We have reviewed the key assumptions at this valuation and in absence of any new information in the last six months believe that they still remain appropriate.

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

Table 10.1 – Coefficient of Variation

	Total CV	
Risk Margin Group	Dec-16	Jun-16
Serious Injury	26.5%	26.5%
Short Term Claims		
IS + Redemption	14.5%	14.5%
Lump Sums	23.0%	23.0%
Legal + Investigation	25.8%	25.8%
Medical and Other Treatment	17.0%	17.0%
Recoveries	22.4%	22.4%
Total (Undiversified)	24.4%	24.3%
Total (Diversified)	**20.7%**	**20.7%**
Diversification	15.3%	14.9%

Based on a coefficient of variation of 20.7% and our modelled distribution (which is a blend between a normal and lognormal distribution), we recommend the following risk margins:

- For a 65% probability of sufficiency – a risk margin of 7.0% (unchanged from previous).
- For a 75% probability of sufficiency – a risk margin of 13.0% (increased from 12.5%).

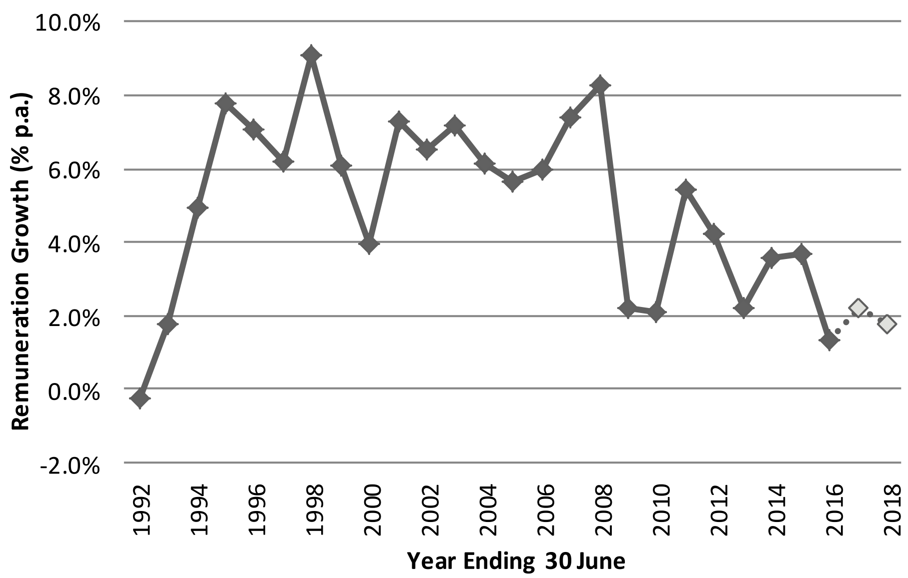
10.6 Non-Exempt Remuneration

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

The movement in the remuneration pool over time is the net result of a number of influences: (1) growth in average weekly earnings, (2) 'natural' growth in the number of employees and (3) movements of firms out of/into the Scheme due to 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 $26.2 billion for 2016/17, noting that it is still subject to estimation as premium returns are yet to be completed for the current year. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
  - The global financial crisis – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
  - A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.

- Despite remuneration growth briefly heading up to more 'normal' historical levels in 2011 and 2012, wage growth has since headed down towards levels seen during the GFC.
- ReturnToWorkSA is currently projecting 2017 remuneration growth to be low, at 2.2%, but higher than the 1.3% in 2016, which was a record low in 25 years (since the national recession in the early 1990's). We understand that these low remuneration growth figures are a result of low wage inflation expectations (see Section 10.2) and increased unemployment (see Section 3.3.1), along with increasing 'under employment' or reduced hours of work.

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

11 Valuation Results

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

- The central estimate of outstanding claims as at 30 December 2016
- Our recommended balance sheet provision under AASB1023
- Movement in the central estimate compared to what was projected at the previous valuation
- Estimated historical scheme costs
- Projected future cashflows for the current outstanding claims
- Projected outstanding claims as at 30 June 2017 and 31 December 2017
- Reconciliation of results with 30 June 2016 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 31 December 2016 is set out in Table 11.1. This liability relates to all claims which occurred on or before 31 December 2016 and includes the impact of updated economic assumptions.

Table 11.1 – Outstanding Claims by Entitlement Type

Entitlement	Estimate of Outstanding Liability			% of Net
Group	Short Term Claims	Serious Injuries	Total	Cent Est
	$m	$m	$m	
Income	150	273	423	21%
Redemptions	9	0	9	0%
Lump sums	192	31	223	11%
Worker legal	33	8	41	2%
Corporation legal	34	9	43	2%
Medical	106	429	536	27%
Hospital	17	81	98	5%
Travel	5	42	47	2%
Rehabilitation	15	46	61	3%
Physical Therapy	8	34	42	2%
Investigation	2	1	3	0%
Other (including Care)	9	333	341	17%
Common law	2	0	2	0%
LOEC	1	0	1	0%
Commutation	2	0	2	0%
Gross Liability	586	1,287	1,873	93%
Recoveries	-34	-26	-60	-3%
Expenses	91	109	201	10%
Net Central Estimate	643	1,370	2,013	

The outstanding claims liability before recoveries and expenses is estimated to be $1,873 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,013 million.

Table 11.2 details the outstanding claims result by accident year.

Table 11.2 – Outstanding Claims by Accident Year

Accident Year	Estimate of Outstanding Liability: Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m	
Pre Jun-05 Years	35	265	300	15%
Jun-06	5	45	51	3%
Jun-07	7	78	85	4%
Jun-08	8	71	79	4%
Jun-09	11	51	61	3%
Jun-10	12	95	107	5%
Jun-11	16	77	93	5%
Jun-12	21	81	102	5%
Jun-13	30	112	143	7%
Jun-14	46	108	154	8%
Jun-15	76	120	195	10%
Jun-16	186	122	308	15%
Jun-17	134	62	196	10%
Gross Liability	586	1,287	1,873	93%
Recoveries	-34	-26	-60	-3%
Expenses	91	109	201	10%
Net Central Estimate	643	1,370	2,013	100%

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

Table 11.3 – Impact of Discounting

	Serious Injuries	Short Term Claims	Total
	$m	$m	$m
Inflated	4,273	685	4,958
Inflated and Discounted	1,370	643	2,013
Ratio	32%	94%	41%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 65% probability of sufficiency, $2,154 million.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,287		
Gross Claims Cost - Short Term Claims	586		
Claims Handling Expenses	201		
Gross Outstanding Claims Liability	2,074	145	2,219
Recoveries	-60	-4	-65
Net Outstanding Claims Liability	2,013	141	2,154

If a 75% probability of sufficiency were to be adopted, the provision would increase by $121 million to $2,275 million.

11.3 Movement in Liability

Our central estimate is $173 million lower than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 – Movement from Previous Valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at Jun-16	2,016	-76	235	2,176
Plus liability for claims incurred in the period	220	-6	21	235
Less Expected Payments to Dec-16	205	-5	43	243
Plus Interest (unwinding of discount)	17	-1	2	18
Liability Projected from Previous Valuation	2,048	-77	215	2,186
Current Valuation	1,873	-60	201	2,013
Difference	-175	17	-14	-173

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

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

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

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

	Projected Dec-16 Liability[1]	AvE Payments in 6 mths to Dec 16	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-16 Valuation	2,176		
Projected Liability at Dec-16 (from Jun-16 valuation)	2,186		
Movement in liability due to claims performance	-26	-12	38
Impact of Change in economic assumptions	-147		
Recommended Liability at Dec-16	2,013		

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

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

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at December 2016

The actuarial release over the period is a release (favourable result) of $38 million. Table 11.7 shows the actuarial release (strengthening) by entitlement type.

Table 11.7 – Actuarial Release by Entitlement Type

Entitlement Group	Short Term Claims[1]	Serious Injury Claims[1]	Total Actuarial Release [1]	Release %
	$m	$m	$m	%
Income	6.1	-1.3	4.8	
Redemptions	3.2	-4.2	-1.0	
Combined	*9.3*	*-5.6*	*3.7*	*0.8%*
Lump Sums	2.8	5.3	8.1	3.5%
Worker legal	5.5	-0.7	4.8	10.5%
Corporation legal	-9.8	-0.4	-10.2	-29.7%
Investigation	0.4	0.2	0.5	15.1%
Medical	-1.0	5.6	4.6	0.8%
Other	0.3	31.5	31.8	7.8%
Hospital	0.3	-10.0	-9.7	-9.9%
Travel	0.6	-1.0	-0.4	-0.8%
Physical therapy	0.9	6.8	7.7	14.4%
Rehabilitation	-1.7	10.5	8.8	11.5%
Common Law	0.1	0.0	0.1	5.8%
LOEC	0.0	0.0	0.0	0.9%
Commutation	0.1	0.0	0.1	4.0%
Gross Liability	7.7	42.2	49.9	2.4%
Recoveries	1.0	-15.7	-14.6	19.0%
Expenses	-0.7	3.8	3.1	1.4%
Net Central Estimate	8.0	30.4	38.4	1.8%

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

The major factors contributing to the $38 million actuarial release at the current valuation are:

- For **Short Term Claims**, the $8 million actuarial release comprises:
  - A net release of $9.3 million for income support and redemptions, which is primarily due to lower than expected payments across both post-reform claims (claims post 1 July 2015), and transitional claims. This was primarily due to the amount each 'active' claim received being lower than expected.
  - A release of $2.8 million for lump sum payments, driven by favourable claim numbers experience for "First Paid" lump sums (excluding Death and Deafness claims, for non-economic loss only) and "Death" and funeral lump sums.
  - A release of $5.5 million for worker legal payments; recognising the speed at which legacy disputes have been resolved and the recently lower number of new disputes.
  - A significant increase to corporation legals ($9.8 million) as a result of higher revised contract costs.
- For **Serious Injury claims**, there was an overall release of $30 million, due to:
  - Higher numbers of newly identified SI claims than expected producing a strengthening of $30 million
  - Changes in entitlement levels and valuation basis changes releasing $57 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 decreased the central estimate by $147 million.

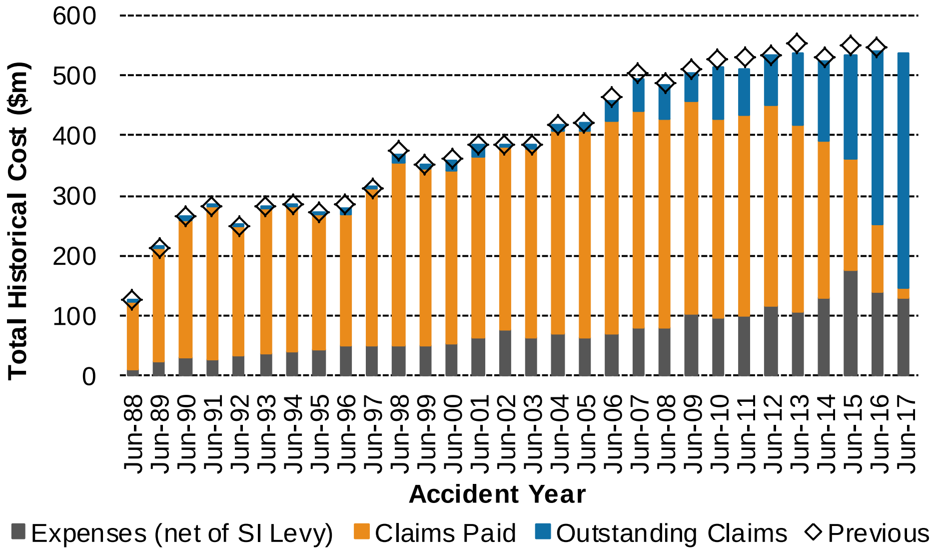
As discussed in Section 10.1 there have been increases in discount rates for all durations, an event which is outside ReturnToWorkSA's control, which has led to this decrease in the OSC liability.

11.4 Historical Scheme Costs

As part of our valuation we have estimated the 'historical cost' for each past accident year. This represents our estimate of total projected costs for the accident year, including expenses, and is discounted to the start of the accident year. Historical claims handling, operating expense and self-insurer levy figures are taken from ReturnToWorkSA's published annual accounts and the latest information from ReturnToWorkSA for 2017.

Figure 11.1 summarises the currently estimated historical costs for each year since the Scheme began. As this shows, commencement of the RTW Act has acted to contain the cost for recent accident years into the $500 million to $525 million range, breaking the strong upward trend seen in the lead up to 2010. Scheme expenses were particularly high in 2015 as a result of additional transition related expenses. In general the hindsight cost estimates are slightly lower than the previous valuation estimates for years between 2009 and 2016, primarily as a result of the increased discount rate.

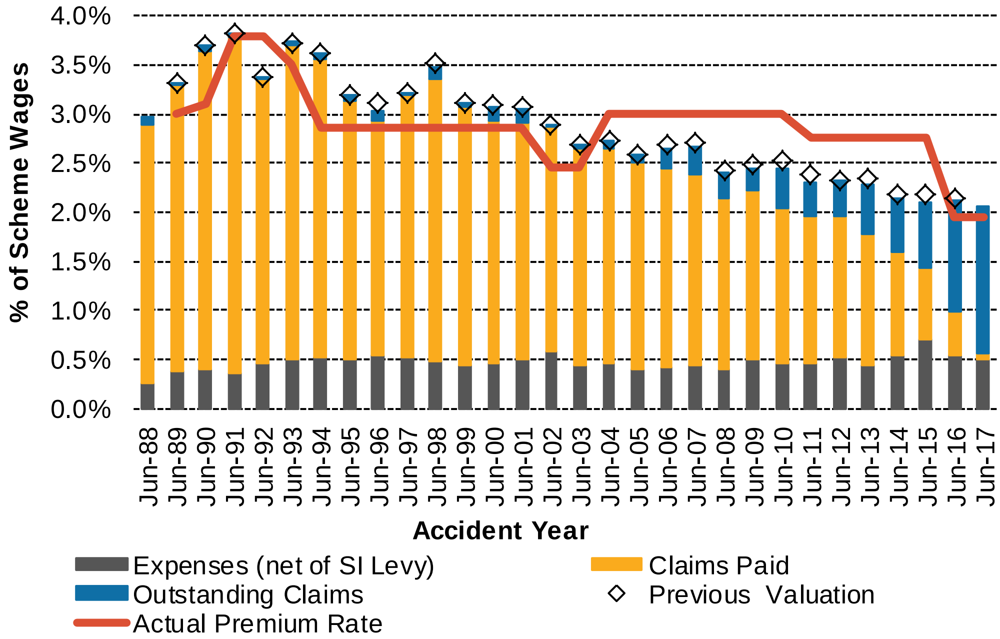
Figure 11.1 – Historical Cost Discounted to Accident Year



Using these costs we have estimated the 'historical premium rate', or the Break Even Premium (BEP) rate, for each past accident year; this is the amount that would have been sufficient to fully cover claim costs, including expenses and recoveries, assuming the scheme achieved risk free returns each year and the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (from Figure 11.1) by the total Scheme levyable remuneration in that year (discussed in Section 10.6). We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

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

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



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

The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2010 to around 2.5% of wages
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2017 accident year is 2.05%. The current estimate for the 2016 accident year is 2.11%, down from 2.14% at the June 2016 valuation. Based on previous economic assumptions, the BEP for the 2016 accident year would have increased to 2.18% (i.e. a 0.04% increase) at the current valuation, but favourable economic conditions have reduced the BEP by 0.07% for a net decrease compared to our previous estimate.
- Scheme expenses were relatively high from 2014 to 2016, and particularly high in 2015, as a result of additional transition related expenses. 2017 scheme expenses are lower than accident years 2014 to 2016 and ReturnToWorkSA expects that these will continue to reduce over the next few years as transition related activities are completed.

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

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2017 still involves a degree of estimation.

11.5 Future Cashflows

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

Table 11.8 – Projected Cashflows

Entitlement Group	Projected Cashflows for Period			
	Dec-16 to Jun-17	Jun-17 to Dec-17	Dec-17 to Jun-18	Jun-18 to Dec-18
	$m	$m	$m	$m
Income Support & Redemption	82.4	71.7	64.7	65.1
Medical	32.3	31.7	30.6	29.6
Lump sums	31.3	31.7	35.2	38.0
Rehabilitation	6.6	7.2	7.6	7.5
Physical Therapy	4.9	5.0	5.0	4.6
Hospital	8.7	8.4	8.3	8.6
Worker legal	6.9	5.4	5.5	5.5
Other	7.2	6.2	7.1	7.3
Corporation legal	8.0	8.1	8.2	8.4
Travel	2.8	2.8	3.0	2.7
Investigation	1.2	1.0	1.1	1.1
Commutation	0.2	0.2	0.2	0.2
LOEC	0.2	0.1	0.2	0.1
Common law	0.1	0.1	0.2	0.2
Recoveries	-5.5	-6.3	-7.8	-13.7
Net Claims Cost - Total	187.2	173.3	169.3	165.1
Serious Injuries (net)	22.4	18.1	21.0	14.7
Short Term Claims (net)	164.9	155.2	148.3	150.4

Cash flows over the next two years are expected to decline as a result of decreasing income support payments and redemptions (expected to be nil from January 2018 onwards) for STCs; and lower medical payments and higher recoveries for SI claims. These movements are offset by an increase in projected STC lump sum payments.

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 30 June 2017 and 31 December 2017. We note the payments shown here are based on that in Table 11.8, but also include an allowance for claims handling expenses for consistency with our liability estimate.

Table 11.9 – Projected Outstanding Claims[1] at 30 June 2017 and 31 December 2017

	Half year ending	
	Jun-17	Dec-17
	$m	$m
Central Estimate at Period Start	2,013	2,028
Plus Additional Liability Incurred in Period	228	230
Less Expected Payments in Period	-232	-194
Plus Interest (unwind of discount)	18	17
Projected Central Estimate at Period End	2,028	2,081

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

We project the central estimate for the net outstanding claims liability at 30 June 2017 to be $2,028 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 January 2017 to 30 June 2017.

The projected *increase* to 30 June 2017 in the liabilities relates to the fact that the additional liability incurred on new Serious Injury claims is more than the expected payments on existing Serious Injury claims.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 30 June 2016 valuation we projected an additional claim cost liability of $214 million would be incurred from claims arising in the July to December 2016 half-year. Our current projection for the ultimate value of this liability is $206 million, a decrease of 3.8%. This decrease is mainly driven by the impact of the recent improvement in discount rates on Serious Injury claims.

Table 11.10 – Comparison of June 2016 Projections to Current Valuation

For period 01 Jul 2016 to 31 Dec 2016		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Jun-16 Valuation	214	
Incurred (current valuation)	206	-3.8%

12 Uncertainty and Sensitivity Analysis

12.1 Risk and Uncertainty

Outstanding Claims

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

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

We have considered the uncertainty in four broad categories:

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

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

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

12.2 Economic Scenarios

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

Table 12.1 – Economic Scenarios

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

[1] Difference between inflation and discount rate

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

Table 12.2 – Economic Sensitivities

	OSC Impact	
	$m	%
31 Dec 16 OSC estimate (Including risk margin at 65% POS)	2,154	
Strong Economic Scenario (3% gap between inflation and discount rate)	-544	-25%
Weak Economic Conditions (0% gap)	+220	+10%
Economic assumptions return to pre-2008 levels over the next 5 years	-374	-17%

Despite the improvement in discount rates at the current valuation, economic conditions are still currently unfavourable for scheme performance relative to long term historical norms. If conditions do improve the implications for both funding and premiums are favourable.

12.3 Legal Risk Scenarios

As discussed in section 3, there have been high numbers of disputes in the Scheme at various times. The table below indicates the sensitivity of results to three scenarios around dispute rates and dispute outcomes. It is likely that if the legal environment is either better or worse than we have implicitly assumed, then several experience changes are likely to happen together.

Table 12.3 – Legal Sensitivities

	OSC Impact	
	$m	%
31 Dec 16 OSC estimate (Including risk margin at 65% POS)	2,154	
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.	+163	+8%
Restrictions on multiple assessments ('top ups') do not work as expected.	+140	+7%

Specific sensitivities on current legal issues are relatively minor, although we are aware of a number of areas of challenge to the provisions in the RTW Act – as indicated in the 'top up' sensitivity above, if the RTW Act provisions do not work as intended then it is possible that the impacts could be measured in hundreds of millions of dollars. If several adverse outcomes occur together then the impact could be well more than $100 million.

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

12.4 Short Term Claims Scenarios

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

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

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

Table 12.4 – STC Sensitivities

	OSC Impact $m	OSC Impact %
31 Dec 16 OSC estimate (Including risk margin at 65% POS)	2,154	
Post 1 July 15 Claims		
Reduced effectiveness by claims managers to return people to work	+42	+2%
Treatment Costs		
Surgery costs emerge more than expected, approximately double the current allowance	+28	+1%
Legal Fees		
Legal fees reduce by 30% from July 2017 reflecting lower volumes of ongoing disputes (NB: any improvement in claim outcomes would further reduce costs)	-16	-1%
Lump Sums		
Economic Lump Sums emerge 20% higher than expected	+15	+1%

12.5 Serious Injury Scenarios

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

Table 12.5 – Serious Injury Sensitivities

	OSC Impact $m	OSC Impact %
31 Dec 16 OSC estimate (Including risk margin at 65% POS)	2,154	
Ultimate claim numbers do not reduce from 2007-2013 levels	+133	+6%
Half of the pending "Other" Serious Injury claims identified through ReturnToWorkSA's original profiling work are assessed as not Seriously Injured	-81	-4%
Half of the remaining pre-2005 claims transition to SI claims due to either WPI assessments (for those that have not received one) or due to being deemed in	+30	+1%
25% of remaining old Act claims become classified as Serious Injury claims, capped at a total of 100 Serious Injury claims per accident year	+269	+12%
Uncertainty around mortality - impact of a 6 year increase in the life expectancy of the Catastrophic Injury claims (bringing them back in line with a standard population life expectancy).	+387	+18%
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.	+311	+14%
Superimposed inflation is 1% p.a. lower than assumed for medical and care.	-188	-9%
No increase in utilisation of Care benefits after age 65	-108	-5%
Twice the additional allowance for utilisation of Care benefits after age 65	+155	+7%

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

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

- If the removal of the ability to have subsequent WPI assessments (i.e. so called 'top ups') changes behaviour such that claimants either wait longer to have their WPI assessment (i.e. allowing the injury time to deteriorate after initial stabilisation, and potentially capturing subsequent non-compensable issues) or that claimants attempt to include more aspects of injury in their initial assessment than they otherwise would, then it is possible that the top-up restrictions will have no real impact on ultimate claim numbers. This would equate to around a $133 million strengthening on the OSC provision.
- Given the large number of claims that are still yet to be confirmed as having a WPI of 30% or over, if half of the 'potential' cohort remaining from ReturnToWorkSA's original profiling work are not ultimately confirmed in then the OSC provision would be around $80 million lower.
- If half of the pre-2005 active ST claims were to transition to SI claims, either through WPI assessments for those who have not had one or via being deemed in, there would be around a $30 million increase to the OSC provision.
- Similarly, if 25% of the remaining old Act active claims transition to SI claims (capped at 100 total SI claims for each accident year), this increases the provision by $270 million.

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

12.6 Key Uncertainties

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

The main areas of uncertainty in our estimates are:

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

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

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

- **Management actions** – management's actions will determine the extent to which redemptions and other types of exit act to reduce the number of claims that remain on ongoing benefits.
- **Labour market pressures** – the combination of higher than desired unemployment and low wages growth present a challenging environment, and could place additional pressures on achieving RTW outcomes and holding the BEP at current levels.

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

13 Reliances and Limitations

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

13.1 Reliance on Data and Other Information

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

13.2 Uncertainty

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

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

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

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the RTW Act. Its key features only came into effect from 1 July 2015, and legal testing of its implementation is still occurring and likely to take a number of years to complete.

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

13.3 Latent Claims

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

13.4 Reinsurance

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

13.5 Limitations on Use

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

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

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

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

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

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

14 Scheme History

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

2007-08

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

2008-09

Key components of the 2008 legislative changes commenced: earlier step-downs for IS claims; Work Capacity Assessment; changes to non economic loss payments; changes to the dispute resolution framework (including Medical Panels introduced); provisional liability.

2009-10

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

2010-11

- Bonus/Penalty Scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

- New employer payments scheme commenced 1 July 2012, with compulsory experience rating for medium and large employers, and optional 'retro paid loss' arrangement for large employers
- Second claims agent, Gallagher Bassett, commenced 1 January 2013 (Employers Mutual Limited had been the sole agent since 1 July 2006)
- Second legal service provider, Sparke Helmore, commenced 1 January 2013.

2014-15

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

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

- A tighter link between employment and injury before compensation is available
- For Seriously Injured workers: ongoing benefits, reduced emphasis on RTW, access to common law benefits for economic loss

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

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 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.