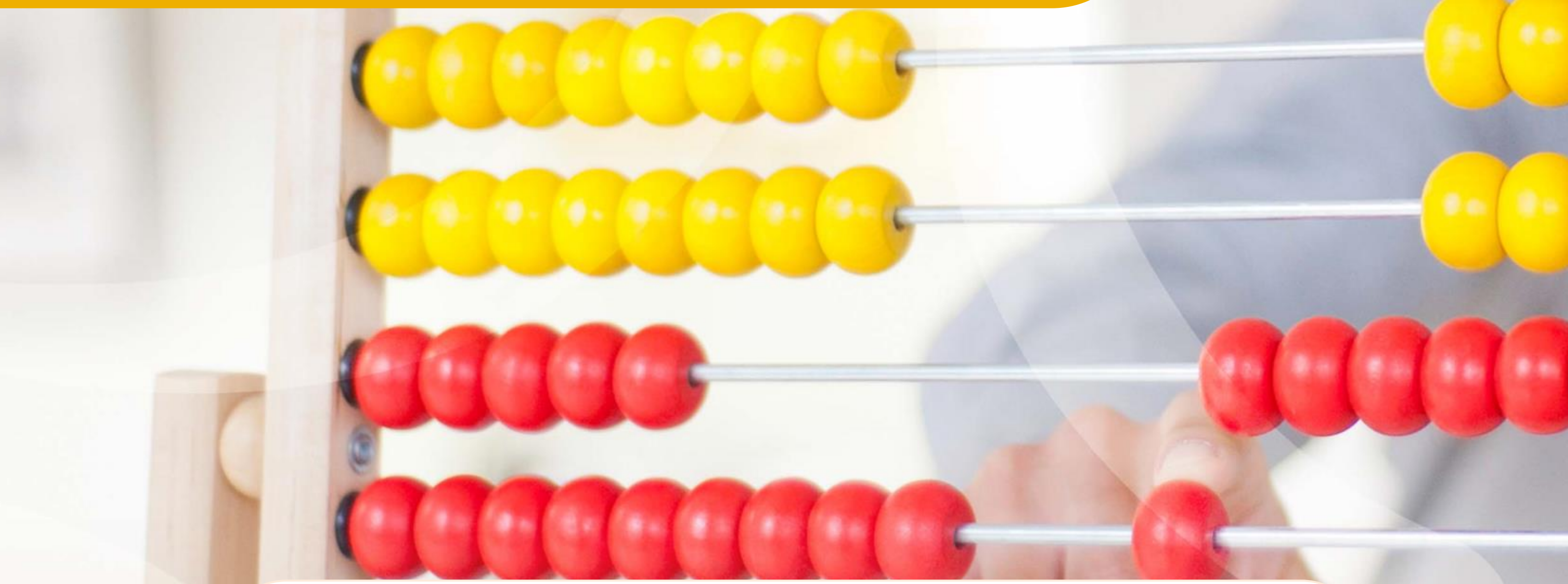
Scheme Actuarial Valuation as at 30 June 2016

ReturnToWorkSA

October 2016



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.

30 August 2016

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

Dear Ms Yuile

Scheme Actuarial Valuation as at 30 June 2016

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

The first year of the RTW Act has seen considerable change in the scheme. While it is not yet clear how all aspects of the scheme will operate in future, at an overall level the provisions of the RTW Act generally seem to be operating consistently with their intention at the current time (or at least with our understanding of their intention).

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 30 June 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 11.3 for additional information.
APR	Average Premium Rate – the premium charged by ReturnToWorkSA to registered employers, on average, as a percentage of leviable wages.
BEP	Break Even Premium– the estimated cost of running the scheme for a year, including all future payments for claims incurred in the year after allowing for risk free 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 30 June 2016.

Our previous actuarial review was as at 31 December 2015, and was documented in a report dated 21 March 2016.

2 Scope of the Review

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

The primary purpose of the annual review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA in determining the provision for outstanding claims in its annual financial statements.

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

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 estimate of the outstanding claims liabilities allows for the expected impacts of the Return to Work Act 2014 ("RTW Act") which governs the scheme. It separately projects 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 precedents**: 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. At this stage it appears that the key provisions of the RTW Act are operating as expected, although key precedent is still to emerge.

- **Transition related activities**: a number of specific strategies are being undertaken to streamline the transition to the RTW Act. This includes offering redemptions to claims expected to remain on longer term benefits and to those with ongoing medical entitlements, and a focus on resolving legacy disputes. 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 thereafter.
- **Faster Claim Reporting and Payment Activity**: changes to encourage claim reporting over the phone have reduced the time until claim management activities commence. Combined with more prompt employer reimbursement requests, information is now available earlier in the life of a claim.
- **Early intervention and RTW focus**: mobile case managers continue to be utilised to focus on initial claims acceptance and improving early claim management.
- **Dispute numbers**: the number of new disputes has reduced after commencement of the RTW Act. While this presents as a significant reduction from recent dispute levels, new dispute numbers are still broadly consistent with longer term levels despite the recent reduction in ongoing claim numbers. With the combined impact of fewer new disputes and the focus on resolving legacy disputes as part of transition activities, the count of open disputes has reduced significantly.
- **SA economic conditions**: Unemployment rates in South Australia have increased over the last few years, to around 7% currently. At the same time employer wages growth is low. All else being equal, this may make it more difficult to achieve RTW outcomes, although to date we are not aware of any direct evidence to suggest this is occurring.

5 Recent Claim Experience

The key features of the claims experience in the six months to 30 June 2016 were:

- New Income Support claim numbers were higher than projected in the six months, with the change most apparent in the historically more severe injury types such as psychological injuries. The result is that new IS claim numbers are not expected to reduce for the latest accident year, which follows reductions of 11% and 12% in the two prior injury years.
- Significant numbers of claims have been redeemed or settled as part of the transition management activities noted above. This has led to an increase in claim payments, as periodic benefits are replaced by a capital payment. In some cases the costs of these settlements have been higher than anticipated in our previous valuation basis.
- The number of new Serious Injury claims in the six months was higher than expected, although the valuation for Serious Injury claims was also favourably impacted by a number of previously commenced redemptions and confirmation that some claims did not meet the Serious Injury threshold. A material share of the claims valued as Serious Injuries are still subject to confirmation of their impairment level, and as such it is likely that further ‘ins’ and ‘outs’ will occur over the next 12 to 18 months.
- Under the scheme’s transitional Regulations, applications for (1) additional Whole Person Impairment (WPI) assessments and (2) approval for future surgeries beyond the normal boundaries were able to be made up to 30 June 2016. As only limited information from these applications was available for the current valuation, our valuation allowances for these additional benefits are largely unchanged for now.
- Total net claim payments in the six months were $27 million (12%) higher than the previous valuation projections, primarily as a result of the various transition related strategies.

6 Liability Valuation Results

Summary of Results

Our central estimate of the Scheme's outstanding claims liability for registered employers as at 30 June 2016 is $2,176 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 7.0% (up from 6.5% previously) to produce a provision with a 65% probability of sufficiency, consistent with ReturnToWorkSA's reserving policy, gives an outstanding claims provision of $2,328 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	1,408		
Gross Claims Cost - Short Term Claims	609		
Claims Handling Expenses	235		
Gross Outstanding Claims Liability	2,251	158	2,409
Recoveries	-76	-5	-81
Net Outstanding Claims Liability	2,176	152	2,328

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 12% of gross claim costs, down from 14% 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 $73 million higher 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, a $69 million reduction – 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, a $142 million increase – the component which is mandated by accounting standards (and therefore outside ReturnToWorkSA's control).

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

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

	Central Estimate		
	Projected Jun-16 Liability[1]	AvE Payments in 6 mths to Jun 16	Actuarial Release [2]
	$m	$m	$m
Liability at Dec-15 Valuation	2,143		
Projected Liability at Jun-16 (from Dec-15 valuation)	2,103		
Movement in liability due to claims performance	-69	27	42
Impact of Change in economic assumptions	142		
Recommended Liability at Jun-16	2,176		

[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 $42 million for the period, which is a favourable result for the Scheme. 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	-29	-18	-47	-11%
Lump Sums	3	-3	1	0%
Legals	16	1	17	17%
Treatment Related [1]	-8	58	50	4%
Rehabilitation	2	3	5	7%
Other Costs [2]	2	0	2	19%
Recoveries	-6	4	-2	-2%
Total Claim Costs	-21	46	25	1%
Expenses	13	4	17	7%
Net Central Estimate	-8	50	42	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 factors contributing to the $42 million actuarial release at the current valuation are:

- For **Short Term Claims**, the $8 million strengthening (negative actuarial release) comprises:
  - A net strengthening of nearly $30 million for income support and redemptions. For the most recent accident year (2015/16), the first cohort of post-reform clams, the numbers of claims receiving IS payments are higher than modelled at our December 2015 valuation. For transitional claims where there are currently high levels of redemption activity (notably for 2014/15), the rates of discontinuance by other means have recently been lower than expected.
  - Legal costs (both worker and corporation) have large reductions, recognising the speed at which legacy disputes have been resolved and the lower number of new disputes.

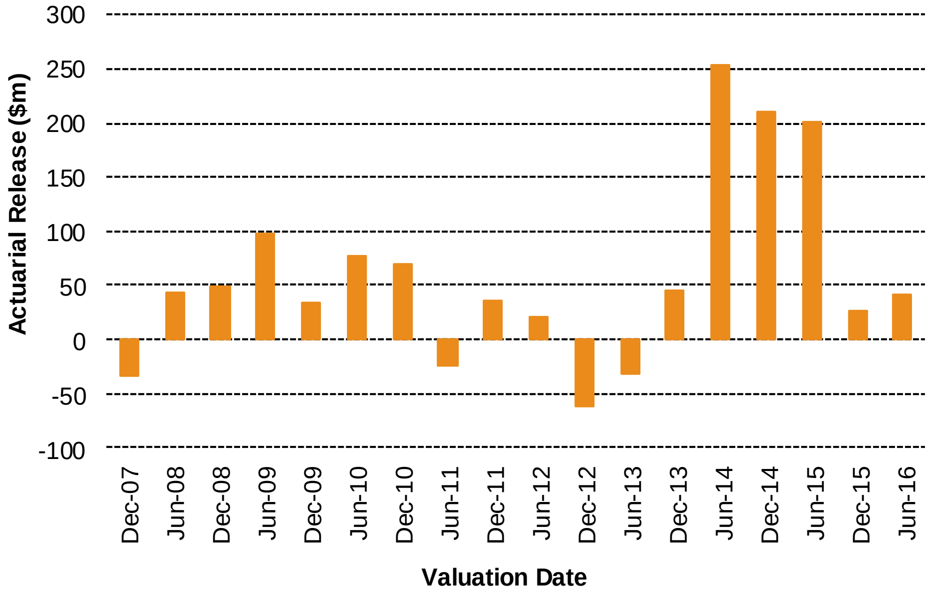
- Small increases on some treatment related expenditure (medical and hospital in particular).
- Reduced allowances for future recoveries, following the reductions in gross scheme costs and speeding up of recoveries (which means fewer recoveries remain outstanding for collection in future).
- A reduction in the claims handling expense loading, releasing $13 million.

- For **Serious Injury claims**, there was an overall release of $50 million, due to:
  - Higher numbers of newly identified SI claims than expected being offset by positive outcomes from redemption activity and confirmation that a small number of claims are not Serious Injuries; this produced a net saving of $15 million
  - Changes in entitlement levels and the valuation basis releasing $34 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 nine years. As this shows, the current result is similar to that seen in the previous six months, but lower than those over the 18 months prior which were achieved when the scheme had a significantly longer tail of claim liabilities (i.e. before the RTW Act was introduced).

Figure 1 – History of Actuarial Releases



Impacts of Economic Assumption Changes

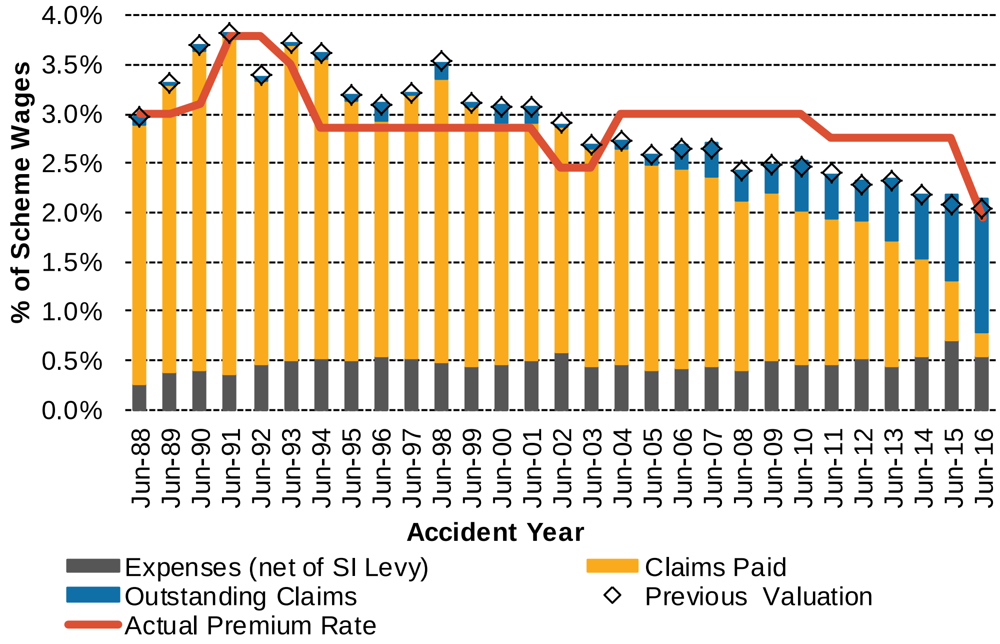
Changes to inflation and discount rate assumptions increase the central estimate by $142 million. As discussed in Section 10.1, there have been decreases in discount rates for all durations, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

7 Historical Scheme Costs

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

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

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



The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2016 accident year is 2.14%, up from 2.03% at the December 2015 valuation; there has been a similar increase for the 2015 accident year. Changes in economic assumptions explain just over half of this increase, with the remainder due to increases in the cost of Short Term Claims.
- Scheme expenses were relatively high in 2014 and 2016 and particularly high in 2015, as a result of additional transition related expenses. ReturnToWorkSA expects that scheme expenses will 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 the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2016 still involves a degree of estimation.

8 Key Uncertainties

There are considerable uncertainties in the projected future claim costs. 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. 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. Another factor is the new lump sum for future economic loss payable to Short Term Claims. With these changes 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 a key 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 for claimants applying prior to 30 June 2016; while we are now past this deadline, given most applications came in just prior to 30 June only limited information was available at the time of our work on how this will impact Serious Injury claim numbers. 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 previous Fair Work wage decisions 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 SI claim numbers. These include: the ultimate number of top-ups that are yet to emerge due to legislation changes, the impact the removal of top-ups will have on ultimate claim numbers and the number of claims from the 'potential' group that ultimately meet the 30% WPI threshold.
- **Return To Work** – the potential improvements to Scheme culture as a result of the new hard boundaries may encourage earlier RTW for Short Term Claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worse RTW experience leading up to the two-year boundary.
- **Compensability and claim acceptance** – there is potential for further reductions in new claim numbers following changes to compensability rules. However, it will be crucial to ensure that past closed claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances do not start new claims or 'restart the clock' following a short return to work.

- **Legal precedent risk** – risks here include the possibility of decisions which are unfavourable to the Scheme or the cultures and behaviours of its participants. This risk is likely to remain for at least another year or two.
- **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** – unemployment rates are relatively high and there is particularly low wages growth at the moment. While there is no direct evidence to suggest this is causing problems, it is possible these factors could be contributing to the recently higher claim numbers and/or deterioration in RTW outcomes.

With the RTW Act provisions having commenced only on 1 July 2015, there is only one year of post-reform experience – and within this year, the experience has not yet 'settled'. The current valuation basis reflects our best estimate of how the post-reform 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 30 June 2016.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 31 December 2015, as documented in a report dated 21 March 2016.

1.2 Scope of the Review

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

The primary purpose of the annual review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA in determining the provision for outstanding claims in its annual financial statements.

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

1.3 ReturnToWorkSA and Predecessor

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

1.4 Compliance with Standards

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

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

1.5 Control Processes and Review

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

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

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

1.6 Structure of this Report

Section 2	Describes the approach we have taken to the valuation, and provides a brief overview of the information provided to us.
Section 3	Sets out a summary of the operational landscape impacting on the Scheme.
Section 4	Summarises high level recent claims experience.
Sections 5 to 9	Detail our analysis of Scheme experience and valuation assumptions.
Section 10	Sets out other valuation assumptions, including the economic assumptions of inflation and discount rates, and the risk margins and claim handling expenses adopted in setting accounting provisions.
Section 11	Shows detailed tabulations of the outstanding claims valuation results.
Section 12	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.

2 Approach and Information

2.1 Approach

2.1.1 Allowance for the Return to Work Act 2014

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

2.1.2 Modelling of Different Claim Cohorts

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

Table 2.1 – Report Structure by Claim Cohort

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

To summarise:

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

2.1.3 Basis of the Valuation

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

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

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete Scheme history to 30 June 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.

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

Appendix B shows summaries of the claims data, including further details on the items described above and data reconciliations.

2.2.2 Qualitative and Additional Information

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

- Briefing sessions on 11 July 2016
- Access to internal monitoring and dashboard reports
- Information on disputes and dispute outcomes
- Information on recent and agreed but yet to be paid redemptions and dispute settlements
- Other operational information.

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

3 The Scheme Environment

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

3.1 Legislation

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

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 six to twelve 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 these two transitional regulations:

- 262 claims have applied for additional permanent impairment assessments
- Approximately 1,300 claims have lodged applications for the approval of future surgeries under the transitional rules.

Given the timelines for our work, only limited information from these applications was available for use in the current valuation. We expect that by the next valuation, at December 2016, more detailed information will be available on these applications. Our valuation allowances for these additional benefits will be reviewed, and if necessary revised, as this additional information becomes available.

3.2.2 Management of Transitional Claims

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

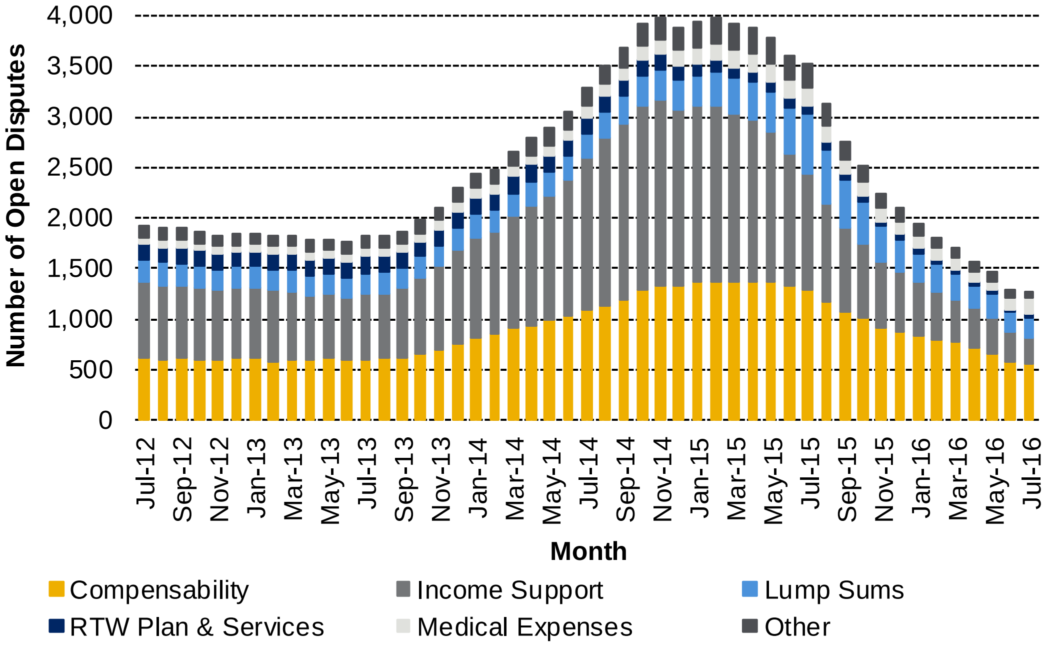
Dispute Settlement

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

The dispute settlement activity has seen significant increases in a range of payment types, including IS backpays and redemptions (IS and medical). In addition to settlements which have been paid out prior to June 2016, as at June there are claims with in principle agreements in place that are yet to be paid, and settlement offers which have been made but are not yet agreed.

Figure 3.1 shows the number of open disputes over time, which shows the considerable reductions achieved in the last 12 months.

Figure 3.1 – Open Dispute Count



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

Redemption of IS Entitlements

Since late 2014 ReturnToWorkSA has been actively identifying long duration claimants who were expected to be entitled to IS payments until the cut-off date of 30 June 2017; these claimants have been offered the opportunity to redeem future IS payments, with the redemption amount calculated as the IS benefit that would have been paid to 30 June 2017. The redemption therefore represented a bringing forward of payments that would have been received in future, and the overall financial impact on the Scheme is minor.

As at December 2015, redemption offers had been made only to claims with accident dates up to 31 December 2014, but during the last six months the group has been expanded to include claims with accident dates from 1 January to 30 June 2015. The general principles of who could be offered a redemption, and at what quantum, remained similar.

Over 850 of these redemptions have been paid in the six months to June 2016, and further redemption payments (though at much lower numbers) are expected over the next six months. ReturnToWorkSA have advised us that redemptions are not expected to be used in managing claims wholly covered by the RTW Act.

Redemption of Medical Entitlements

In addition to the redemption of income support claims, some claims on medical only benefits are also being redeemed if acceptable terms can be agreed. While the value of these redemptions tends to be much lower than for those on income support benefits, there the level of medical redemption activity has been above normal levels.

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).

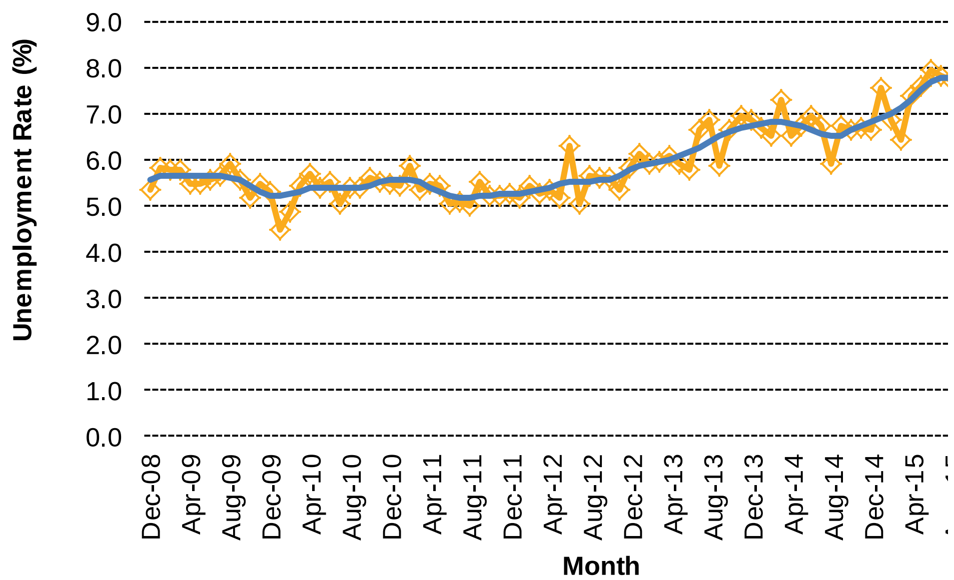
3.3 Operational and Environmental Changes

This section describes recent trends in the Scheme environment. Section 14 includes 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 increased steadily over the last few years, increasing from near 5% in 2012 to around 7% currently (having peaked at nearly 8% in the last 12 months), as shown in Figure 3.2.

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 Front End Claims

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

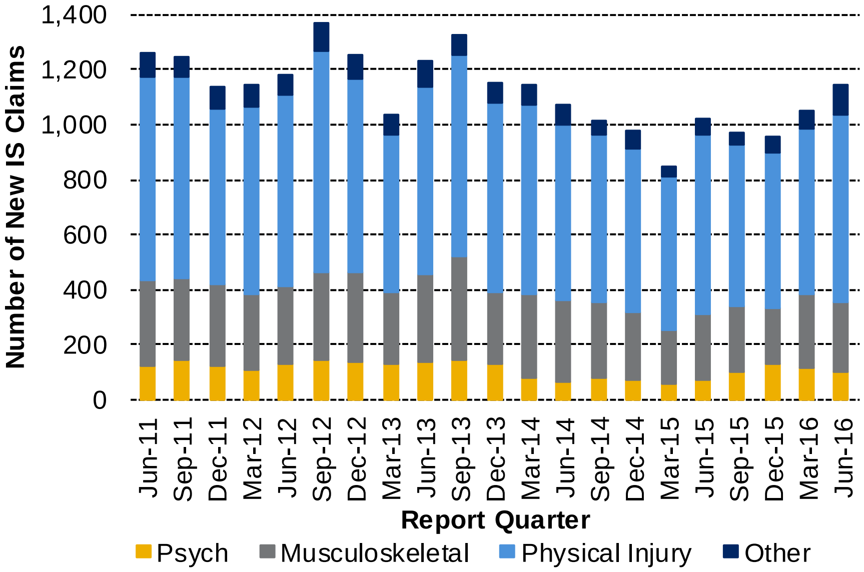
The impact of these changes was a notable reduction in IS claim numbers in the six months to December 2015. In the six months to June 2016, IS claim numbers have moved upward, which is likely the result of a number of factors, including:

- A shift towards greater acceptance of some claims
- Speeding up of IS payments on new claims, due to:
  - faster wage reimbursement to employers (faster WPRR process)
  - a slightly higher proportion of Direct IS payments
- Faster reporting of claims, where claims are initially reported by phone rather than claim form.

ReturnToWorkSA and the claim agents also said there is anecdotal evidence that the new employer premium model is leading to an increase in claim numbers, as there is now no incentive to under-report claims. While there is no direct evidence to support this view, it is possible that this could also be a contributor to changes in claim numbers.

Figure 3.3 shows IS claim reports by quarter of report, split by injury type.

Figure 3.3 – New Income Support Claim Reports by Type of Injury

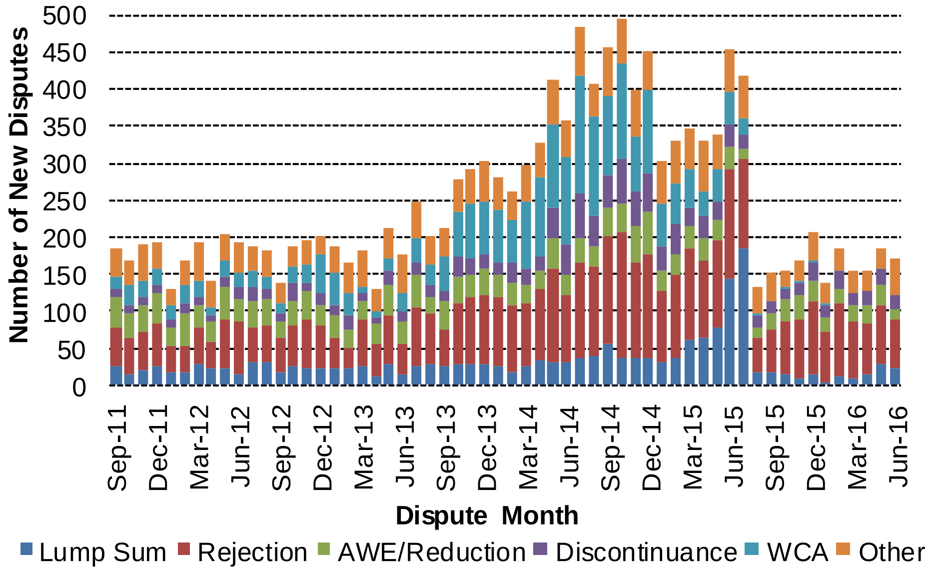


After consistent reductions from late-2013 through to mid-2015, new IS claim numbers then flattened before increasing in the last six months. The proportionate increases in the last six to twelve months are highest for mental injury claims.

3.3.4 Dispute Numbers

Following increased numbers of claim rejections and WCA decisions, the number of disputes rose from around 150 per month historically to over 400 per month in July 2015; this increase was driven by an increase in the number of decisions being made by ReturnToWorkSA, that is, they were the response to a deliberate operational strategy to speed up decision making. Dispute numbers have since dropped off significantly, returning to around 150 per month over the last year as demonstrated in Figure 3.4

Figure 3.4 – Disputes by Type



The reduction in disputes is a result of the removal of WCA (which no longer exists under the RTW Act) and reduced activity around rejections and lump sums . While the reduction in new dispute numbers is likely to be favourable for scheme culture, 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.

4 Recent Claims Experience

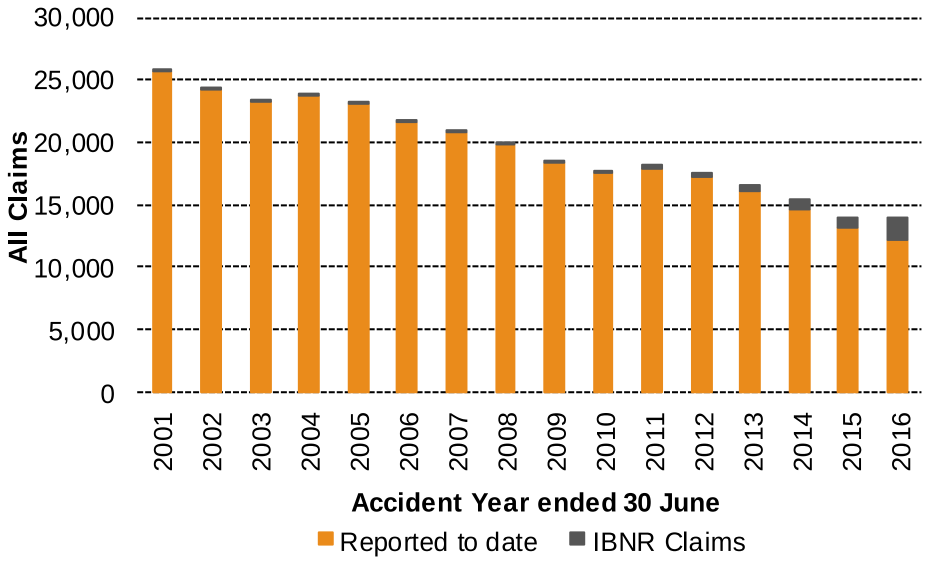
This section provides a high level analysis of Scheme experience, including the numbers of new claims and overall payment trends.

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 13,894 claims for the 2014/15 accident year is 9% lower than the projected number for 2013/14. Our current estimate for the 2015/16 year is 13,999 claims, which is 0.8% higher than the 2014/15 year.

4.1.2 Income Support Claims

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

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

Figure 4.2 – Ultimate IS Claim Numbers

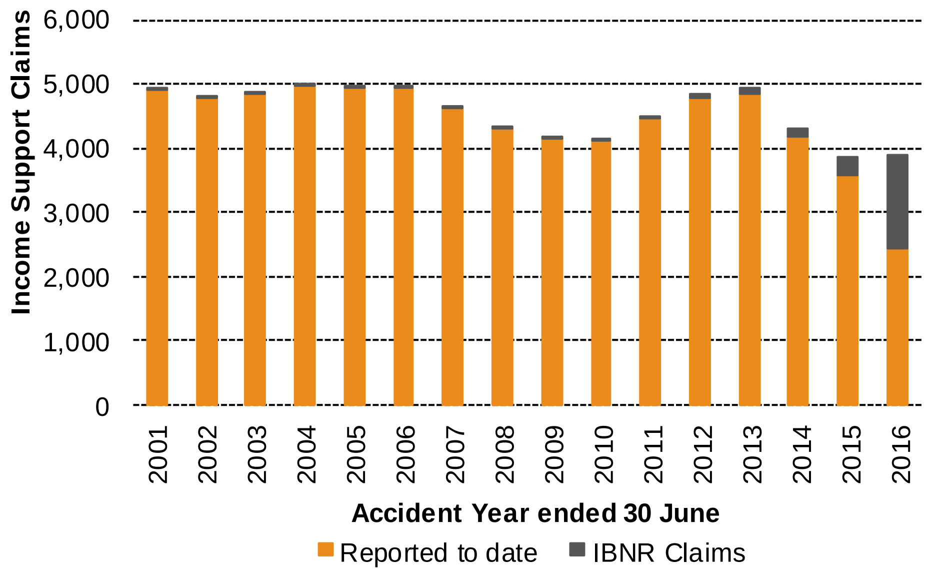


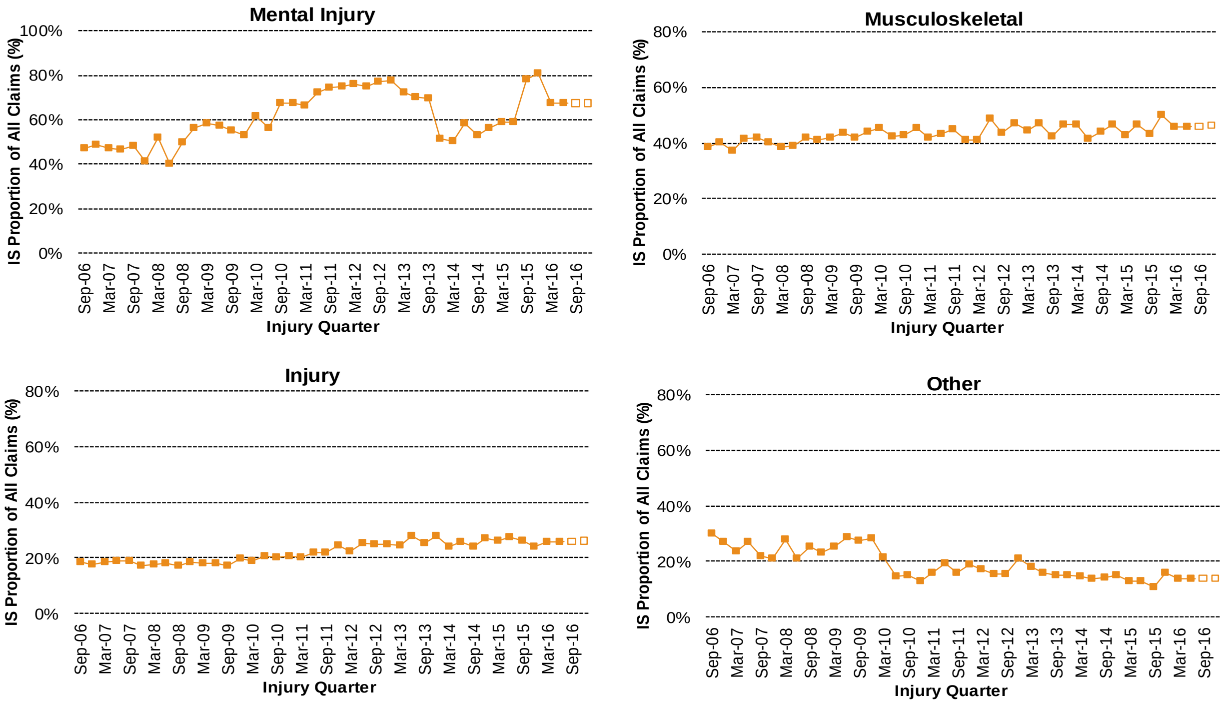
Figure 4.2 shows:

- Prior to 2007 IS claim numbers were reasonably stable, with around 5,000 claims per annum
- IS claim numbers dropped by 16% between 2005/06 and 2009/10, and then rose over the next three years to again reach nearly 5,000 claims per annum
- Our current projection shows IS claim numbers are expected to reduce materially in 2013/14 (a 12% reduction) and again in 2014/15 (an 11% reduction). Our projection of 3,858 IS claims for the 2014/15 year and 3,893 for the 2015/16 year are the lowest since the scheme commenced. This is slightly higher than the projection for the same years at the previous valuation (2% and 4% higher respectively).

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

In order to better understand the reduction in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.3 below shows the proportion of claims that go on to receive 10 days of lost time (and thus are classified as an IS claim). The biggest change was the decrease in mental injury IS claims by around 20% from 2013 to 2014 and the gradual increase since then back to 2013 levels, albeit on much lower levels of initial claim reports now (i.e. the increase in the proportion of mental injury claims receiving IS in the last 12 months is due to an increase in the number of IS claims and a simultaneous reduction in the reported number of mental injury claims compared to previous years). 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

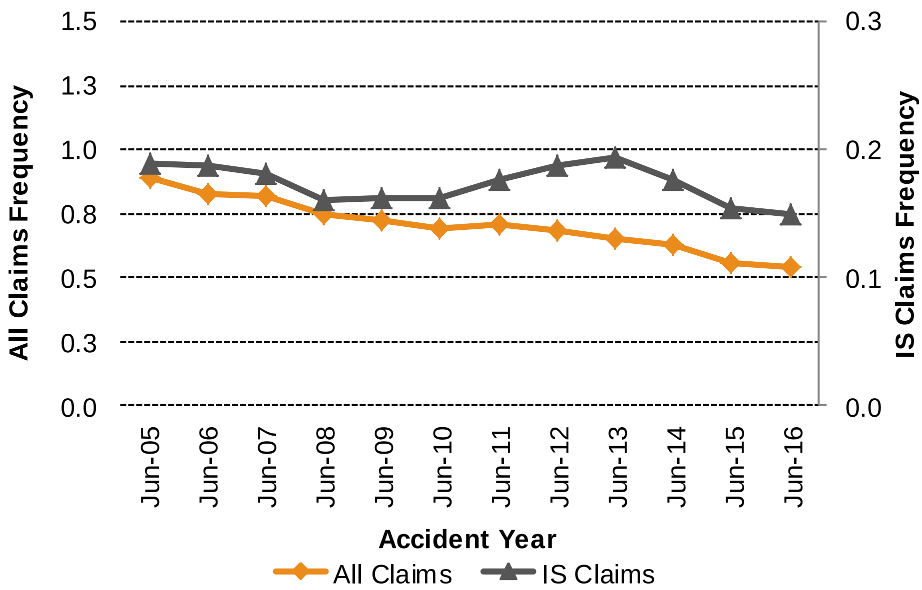


Due to the experience in the last six months, our estimate of mental injury claims has increased by 5% and 4% for the 2014/15 and 2015/16 accident years respectively compared to the previous valuation. Our estimate of mental injury claims receiving IS for these years has increased by 16% and 30% respectively.

4.1.3 Claims Frequency – All Claims and IS Claims

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

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

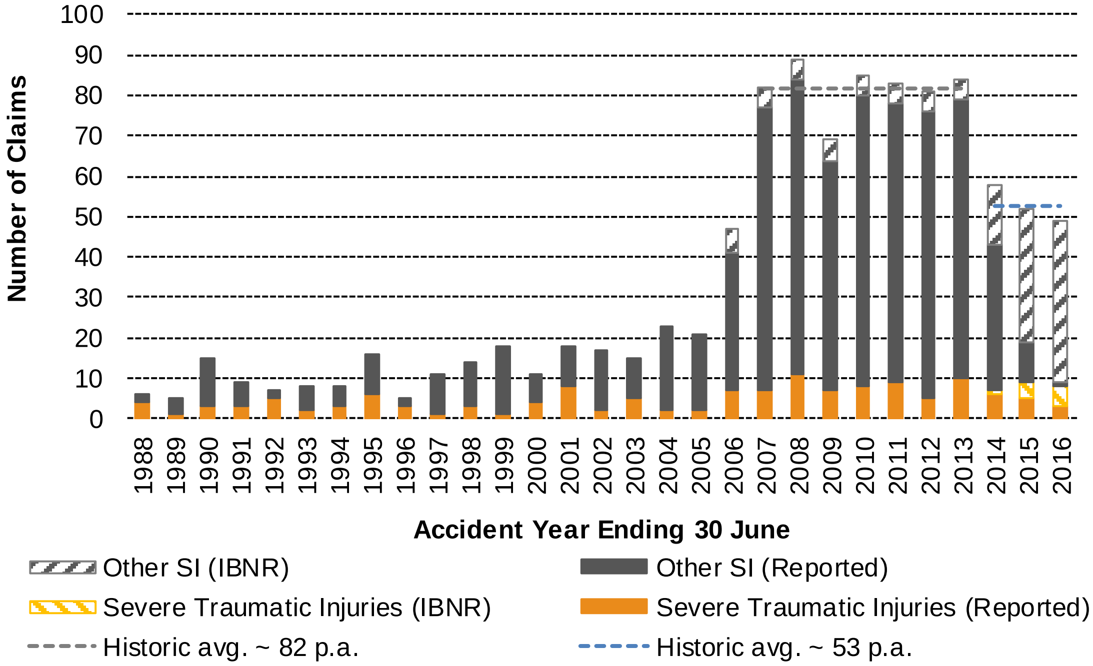


The IS claim frequency was on a similar trend to the all claims frequency until 2008, before diverging between 2008 and 2013. Following the improvement in IS claim numbers in the last three years the estimated frequencies for accidents between 2013/14 and 2015/16 are again moving in line for IS claims and all claims (indeed the gap between the two lines has closed somewhat).

4.2 Serious Injury Claims

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

Figure 4.5 – Serious Injury Claim Numbers by Accident Year



The key features we note from this are:

- The number of Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- In the period from 2007 to 2013 the average is just over 80 Serious Injury claims per year.
  - However, this includes 10 - 20 ‘top-up’ claims (i.e. deteriorations or aggravations) per year which are no longer expected under the RTW Act due to the requirement for ‘once and for all’ WPI assessments.
  - 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 52 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 less certain.

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

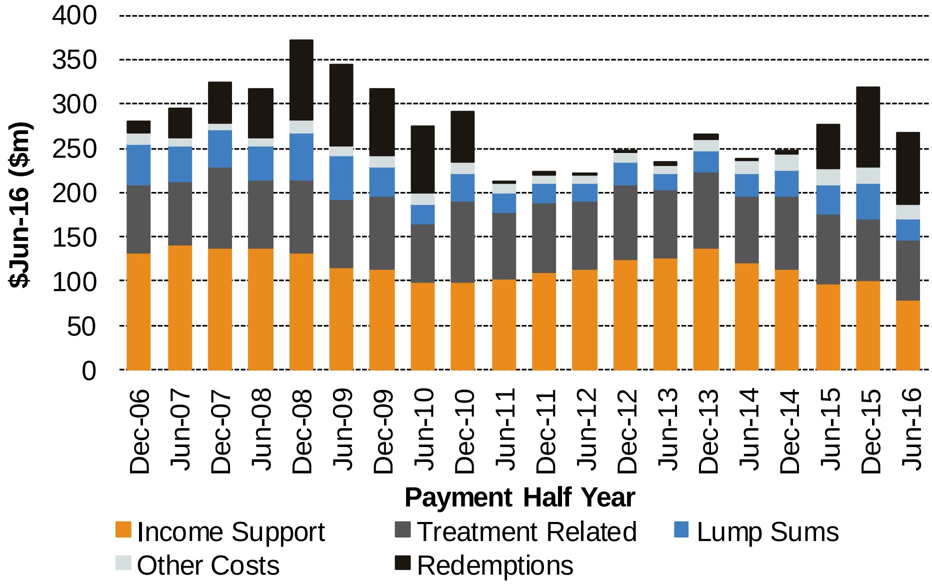
Injuries), and have allowed for 139 IBNR claims in the 2006/07 to 2015/16 accident years based on this ultimate view.

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. For the current valuation it is too early to tell how this will impact our allowances for Serious Injury claim numbers, and the valuation basis will be reviewed as additional information emerges. In particular, given the high value of Serious Injury benefits, higher than expected top up claims could materially increase the liability.

4.3 Overall Payment Experience

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

Figure 4.6 – Gross Claim Payments ($Jun16)



Gross payments of $267 million were 16% 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:

- There continues to be strong redemption activity which is essentially a bringing forward of payments that would have occurred in the next 12 months for STC and settlement of future lifetime liabilities for Serious Injuries.
- 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 been fairly stable since 2008.
- Lump sum payments have been lower since 2009, after the transition to the new assessment basis.

After allowing for recoveries of $14 million in the last six months, net claim payments of $253 million were $27 million (12%) higher 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 Jun-16 Actual	Expected	Act - Exp	Act/Exp	Split by Category Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	79.1	67.6	11.5	117%	10.2	1.3
Redemptions	80.2	58.1	22.1	138%	11.9	10.3
Lump sums	24.2	28.6	-4.4	85%	-4.8	0.4
Worker legal	7.8	8.4	-0.6	93%	-1.2	0.6
Corporation legal	7.3	6.3	1.0	116%	1.5	-0.4
Medical	35.5	30.5	5.1	117%	6.2	-1.2
Hospital	9.4	7.4	2.0	127%	2.2	-0.3
Travel	3.0	3.1	-0.1	97%	-0.4	0.3
Rehabilitation	4.7	6.5	-1.8	72%	-1.5	-0.3
Physical therapy	5.1	5.0	0.2	104%	0.3	-0.1
Investigation	1.0	1.7	-0.7	61%	-0.5	-0.2
Other	9.2	8.9	0.3	103%	1.3	-1.0
Common law	0.0	0.1	-0.1	0%	-0.1	0.0
LOEC	0.2	0.2	0.0	88%	0.0	0.0
Commutation	0.3	0.2	0.1	153%	0.1	0.0
Gross Payments	267.1	232.5	34.6	115%	25.1	9.4
Recoveries	-13.7	-6.1	-7.6	225%	-0.9	-6.7
Net Payments	253.4	226.4	27.0	112%	24.2	2.7

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

- IS payments, which were $12 million (17%) higher than expected, reflected continued higher than normal levels of back pay payments related to redemption activity and an increase in new claims. A speeding up of the payment pattern also appears to have impacted IS payments.
- Redemptions were $22 million higher than expected, mostly driven by high levels of settlement and redemption activity over the last six months.
- Treatment costs were $6 million (9%) higher than expected, which is largely unexplained by the other features of the experience.
- Recoveries were $8 million (125%) higher than expected.
- Payments on STCs largely explained the aggregate difference described above, accounting for $24 million of the higher payments. For SICs, most of the higher than expected payments relate to greater redemptions than expected, which were offset by higher than normal recoveries.

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

5 Income Support and Redemptions – Short Term Claims

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

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments and Redemptions since the December 2015 valuation.

Table 5.1 – Valuation Results: IS and Redemption

Dec-15 Valuation	$m	$m	$m
Estimated Liab at Dec-15	247.0		
Projected Liab at Jun-16	181.5		
Jun-16 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	7.5	22.0	(29.5)
Estimated Liab at Jun-16 (Dec-15 eco assumptions)	**189.0**		
Impact of change in eco assumptions	1.4		
Estimated Liab at Jun-16 (Jun-16 eco assumptions)	**190.4**		

At June 2016 there is an actuarial strengthening (negative release) of $29.5 million, reflecting the claims experience since December 2015 and our valuation response. The strengthening comprises an increase of $7.5 million in the liability estimate, and $22.0 million of higher claim payments.

The impact of economic assumptions is a strengthening of $1.4 million; the impact of the economic assumptions is discussed in Section 11.3.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the **combined IS and Redemption** payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection. The payments here include:

- Ongoing IS payments, including backpay amounts
- IS redemptions of two types:
  - Redemption of IS entitlements to 30 June 2017 – “transitional redemptions”, paid to claimants who have been assessed as entitled to IS until the hard boundary. This represents bringing forward of payments.
  - IS redemptions paid to claimants who have been in dispute; redemptions continue to be used as a tool to settle ongoing IS disputes and to extinguish future IS liability (see Section 3.2.2).

Table 5.2 – Actual vs Expected Payments: IS and RED

Accident Period	Payments in Six Months to Jun 16 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
By Accident Period				
To 30 Jun 05	2.8	3.5	(0.7)	80%
2005/06 - 2012/13	43.0	40.8	2.2	105%
2013/14 - 2014/15	65.9	45.5	20.4	145%
2015/16	23.5	20.9	2.6	113%
Total	135.2	110.6	24.6	122%
By Payment Type				
IS payments	71.3	61.2	10.2	117%
IS redemptions	63.9	49.5	14.4	129%
Total	135.2	110.6	24.6	122%

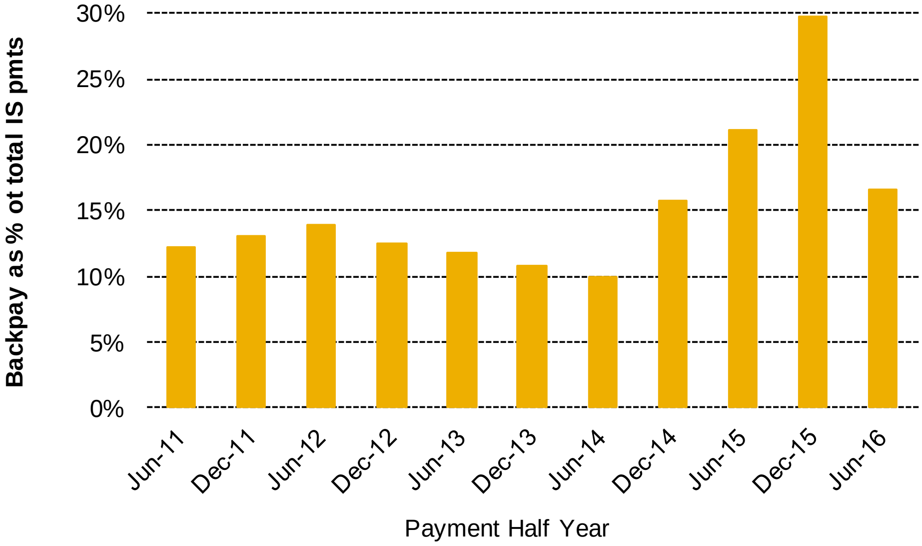
Our comments on this experience are:

- **By accident period**: combined IS and Redemption payments were above expectations for accident years 2005/06 and later; more than 80% of the higher payments related to 2014/15. Total payments were slightly below expectations for pre 1 July 2005 claims.
- **By payment type**: Both IS and redemption payments were well above expectations.

Backpay Amounts

In the six months to December 2015, backpay payments were very high – which was associated with dispute settlements – and backpay represented almost 30% of total IS payments. The backpay proportion was much lower in the latest six months (17%), but remained above longer term levels. This is shown in Figure 5.1.

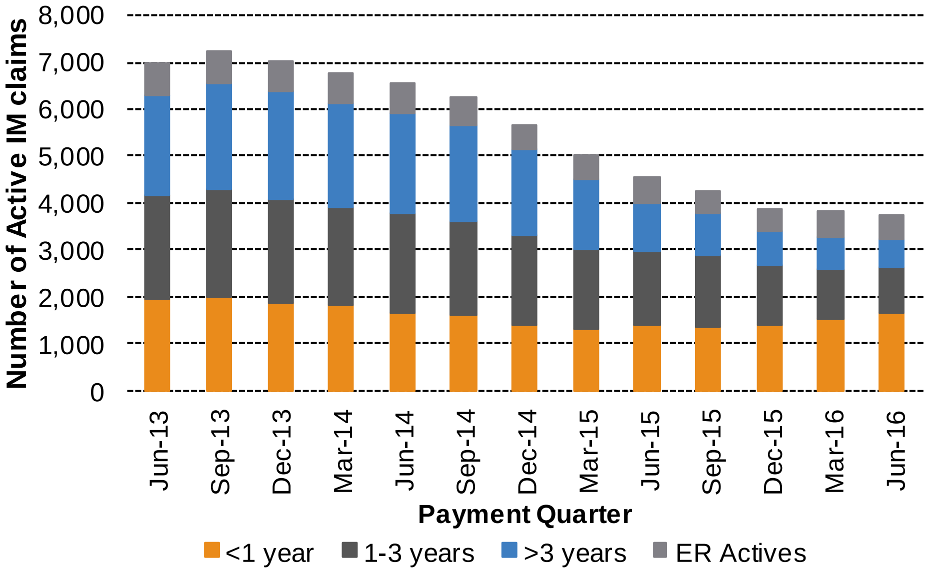
Figure 5.1 – Backpay as % of Total IS Payments



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. The rate of reduction slowed in the last six months; total IS actives fell by only 1% in the March 2016 quarter and by 2% in the June quarter. Over the six months, ER actives and actives of durations less than one year increased, while active numbers at durations beyond a year reduced by 20% overall – driven by redemption activity.

In Table 5.3 we compare the numbers of active IS claims at June 2016 and exits by redemption in the last six months with our December 2015 valuation projection[1].

Table 5.3 – AvE Active Claims and Exits

	Active Claims				Redemptions		
Accident Period	Proj from Dec-15 Val	Actual Actives	Act *less* Proj	Diff as % Actual	Proj Dec-15 Val	Actual Reds	Additional Reds
Jun-06	19	17	-2	-12%	13	9	-4
Jun-07	44	41	-3	-7%	24	12	-12
Jun-08	40	34	-6	-16%	21	24	3
Jun-09	56	50	-6	-11%	42	23	-19
Jun-10	71	58	-13	-18%	37	36	-1
Jun-11	97	80	-17	-18%	54	38	-16
Jun-12	109	84	-25	-23%	68	67	-1
Jun-13	231	156	-75	-32%	149	204	56
Jun-14	460	258	-202	-44%	186	343	157
Jun-15	741	730	-11	-1%	159	283	124
Jun-16	1,431	1,635	204	14%	17	2	-15
Total	3,299	3,143	-156	-5%	769	1,041	272

Overall, active claim numbers at June 2016 were 5% below expectations. Active claims were lower than expected for all years except 2015/16.

Redemption numbers were 35% above expectations, reflecting the focus on paying out IS entitlements in advance (where appropriate) and settling disputes. The additional redemptions were concentrated in

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

accident years 2012/13 to 2014/15; for these three years combined, redemption numbers were nearly 80% higher than expectations.

As for the December 2015 valuation, we did not rely solely on active claim numbers as the base for projecting future IS-related payments. With the current claim strategies and a number of claims still in dispute, significant payments have been made – and are expected to be made – to claimants who are not currently in receipt of regular IS payments, and/or be paid in different ways to the past. Our approach is discussed further in Section 5.3.

5.2.3 Redemptions by Type

Table 5.4 breaks the redemption experience during the six months to June 2016 by redemption type.

Table 5.4 – Redemptions Paid in Six Months to Dec-15

Accident Period	Transitional Reds	Dispute Reds	Total
To 30 Jun 05	11	2	13
2005/06 - 2011/12	166	62	228
2013/14 - 2014/15	739	128	867
2015/16	2	0	2
Total	918	192	1,108
Avg payment	$58,000	$56,700	$57,800

The average redemption amounts for the two types of redemptions were very similar in the last six months. With the reduced timeframe until the June 2017 boundary for transitional claims, the size of these redemptions is reducing (and will continue to do so).

5.3 June 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 5.5 shows the movements between the numbers of claims valued at December 2015 and at June 2016, as well as the estimated liability as at June 2016. The liability figures shown here include ongoing IS payments to June 2017 or earlier retirement, with no allowance for non-mortality discontinuance other than agreed dispute settlements and transitional redemptions.

Table 5.5 – Valuation of Pre-June 2005 Claims

Status at Jun-16	Dec-15 Val	Serious Injury	Transitional Reds Paid	Total Net Exits	Jun-16 Val	OSC Jun-16[1] $m
Claims valued at Dec-15	104	1	5	11	87	3.2
Reopened in six months	17	0	0	6	11	0.16
Claims valued Jun-16					98	3.41
IBNR allowance [2]						1.1
Total OSC Jun-16						4.53

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

[2] Rolled forward from Dec-15 allowance.

Of the 104 claims valued at December 2015, one is now valued as a Serious Injury claims, five have exited via transitional redemption and 11 (11%) have exited by other means. In addition, 17 claims which were not valued at December 2015 have reopened, and 11 of these are valued at June 2016.

In total we have valued 98 claims at June 2016, at an average value of $35,000 (the December 2015 average was $46,000).

5.3.2 Accident Years 2005/06 to 2014/15

Claims Management

The claims management strategies which have applied to these claim cohorts (accidents to 30 June 2015) in the past are summarised in Table 5.6.

Table 5.6 – 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. Transitional redemptions.
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 31 December 2015.	Dispute settlement strategy – since early 2015. Transitional redemptions.
2013/14 and 2014/15	No WCA activity for these periods.	Dispute settlement strategy. Transitional redemptions – extended to accident dates between 1 Jan 15 and 30 Jun 15 during the last six months.

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

Basis – Claim Numbers

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

- **Redemptions and settlements agreed** at June 2016 – we assumed all of these claims will exit in the next six months, in accordance with the terms of the agreements.
- **Redemptions and settlements proposed** at June 2016 – we assumed all claims with offers made within the last three months will exit in the next six months, with payment equal to the offer amount.
- We assumed **outcomes on current disputes**, other than those with agreements or offers as noted above, will be:
  - Where there is a legal assessment of:

- *50% or less chance of ReturnToWorkSA winning*: claim will continue to receive ongoing IS payments (74 claims in total)
- *>50% chance of ReturnToWorkSA winning*: claim will exit in the next six months without further IS payment (13 claims)

- For the claims where there is no legal assessment, we assumed a mix of outcomes consistent with the mix for claims that do have assessments.

- Importantly, for claims projected to receive ongoing IS payments, we also allowed for **future IS exits by other means** ('no-cost' exits), such as RTW; for more recent accident periods, we expect that claims will exit IS at rates similar to those observed in the Scheme's recent history.

The projected future redemptions are summarised in Table 5.7.

Table 5.7 – Projected Future Redemptions as at June 2016

Acc Year	Transitional Reds	Dispute Reds	Total
2006	0	1	1
2007	2	7	9
2008	0	8	8
2009	6	11	17
2010	4	9	13
2011	6	12	18
2012	5	10	15
2013	9	17	26
2014	22	38	60
2015	20	72	92
Total	74	185	259
Avg pmt	$53,081	$68,794	$64,305

The projected number of transitional redemptions is much lower than the number paid in the last six months.

The projected exits by type, and the resulting numbers of claims projected to receive IS up to the hard boundary at June 2017, are set out in Table 5.8.

Table 5.8 – Claims Valued and Projected Outcomes

		Projected Outcomes			
Accident Year	No. IS claims valued	Reds	Other exits prior to Jun-17	Jun-17 Actives	% Other exits
2006	21	1	1	19	4%
2007	46	9	2	35	4%
2008	42	8	1	33	3%
2009	65	17	1	47	2%
2010	69	13	2	54	2%
2011	92	18	2	72	2%
2012	97	15	2	79	3%
2013	176	26	10	139	6%
2014	293	60	29	204	10%
2015	779	92	192	495	25%
Total	1,678	259	242	1,177	14%

We emphasise that our basis implies that 25% of current IS claims for 2014/15 will exit without any lump sum payment (e.g. by returning to work or similar), and there are smaller proportions of such exits projected for older accident years as well. This demonstrates the importance of achieving 'normal' exits going forward, even while other claim management approaches are being undertaken – if these no-cost exits cannot be achieved, for example if they are substituted with additional redemptions, the Scheme's ultimate liability is likely to increase beyond our current estimates.

Change in Outcomes from December 2015 Valuation

The key driver of the estimated IS liability is the numbers of claims which are expected to receive ongoing IS payments until the hard boundary at June 2017. Because a transitional redemption payment has the same cost as continuing on IS payments to June 2017, when we look at the numbers of claims projected to receive IS payments to June 2017 we include the numbers of transitional redemptions for comparison.

Table 5.9 compares our current and previous estimates of the numbers of claims that will receive IS from December 2015 to June 2017 (including transitional redemptions). The June 2016 figures take into account actual outcomes during the six months.

Table 5.9 – Projected No. of Claims Receiving IS from Dec-15 to Jun-17

	Projected Jun-17 Actives		Projected Transitional Reds post Dec15 [1]		Projected Total Receiving IS to Jun-17		
Accident Year	Jun-16	Dec-15	Jun-16	Dec-15	Jun-16	Dec-15	Change
2006	19	18	4	8	23	26	**(3)**
2007	35	42	7	6	42	48	**(5)**
2008	33	39	19	5	52	44	**8**
2009	47	54	22	14	69	68	**1**
2010	54	68	29	13	83	81	**2**
2011	72	94	36	22	108	116	**(8)**
2012	79	105	54	17	133	122	**11**
2013	139	210	180	59	319	269	**51**
2014	204	395	316	71	520	466	**54**
2015	495	537	255	30	750	567	**183**
Total	1,177	1,561	922	245	2,099	1,806	**293**

[1] Jun-16 figure includes 2-yr reds paid in 6 mths to Jun-16

The far right column indicates that, at the current valuation, an additional 293 claims are now going to or are expected to receive IS payments until June 2017. This increase implies additional IS costs, and therefore an increase in the estimated IS liability.

More than 60% of the additional claims projected to reach the hard boundary are from accident year 2014/15, where the transitional redemption strategy was extended to include claims from the second half of this accident year during the last six months. In effect, for 2014/15 fewer IS discontinuances are now projected than at December 2015.

Payments per Active Claim

For accidents to 30 June 2015, our projection of future IS payments at June 2016 has used the same Payments per Active Claim (PPAC) assumptions as our December 2015 valuation. After allowing for the current somewhat unusual payment patterns – with settlement of many claims via lump sum payments – there was insufficient evidence to make changes to the PPACs.

5.3.3 Accident Year 2015/16

The 2015/16 claims represent the first post-RTW Act cohort. These claims have significantly different entitlements (not just for IS), and our basis for these claims reflects this.

The early experience of these claims is variable by accident quarter, but overall the experience is unfavourable relative to expectations:

- IS claim numbers reported are above our December 2015 projections, and our estimate of ultimate IS claim numbers is 4% higher than at December 2015 (see Section 4.1.2)
- The 'mix' of claims by type is weighted more towards Mental Injury and Musculoskeletal claims – which have higher average durations than other types (see Section 3.3.3)
- IS payments in the six months to June 2016 were 13% above expectations (see Table 5.2)
- Active IS claims at June 2016 are 14% above the December 2015 projection (Table 5.3).

We also observe that there has been a notable speeding up of IS payments, due to two factors:

1. An **increase in the proportion of Direct IS payments**. For the 2015/16 accident year to date, 35% of total IS payments have been Direct; this compares to an average of 25% at the same stage for the previous three accident years.
2. **Faster employer reimbursement** via WPRRs. The average lag between the end of the IS entitlement period and payment date has reduced from 58 working days a year ago to 33 working days in the month of June 2016 (seen in the valuation monitoring reports). This element of speeding up is expected, with introduction of a three-month limit on WPRR lodgement as part of the RTW Act changes.

Faster IS payments will have 'inflated' the amount of payments to date, as well as the current active IS claim numbers; this means that the faster payments will account for some part of the apparently unfavourable experience described above. To the extent that payments have sped up, **future** payments will be expected to be lower. Taking the faster payments into account, therefore, will offset some of the implications of the observed experience.

Given all of the changes in the experience for this year, there is greater uncertainty in our estimate of the IS cost for the year (and hence in the outstanding claims estimate). Overall we assess that – from both operational and valuation perspectives – the experience for RTW Act claims has not yet 'settled' to a consistent pattern.

Considering all of the considerations above, we have adopted a revised basis at the current valuation which increases the ultimate cost for 2015/16 accidents by 10%. The changes made to our projection **assumptions –** which, taken on their own, reduce the estimated liability for 2015/16 by $2.3 million – are shown in Table 5.10.

Table 5.10 – Changes in Adopted Basis: 2015/16 Accidents

	Dev Qtr 1	2	3	4	5	6	7	8
Discontinuance rate								
Dec-15 valn		-170%	23%	23%	17%	18%	9%	9%
Jun-16 valn		-170%	25%	23%	20%	20%	9%	9%
PPAC ($)								
Dec-15 valn	5,582	7,559	8,488	9,503	10,793	11,074	11,653	10,936
Jun-16 valn	5,800	7,900	9,200	10,200	10,793	11,074	11,653	10,936

5.3.4 Other Elements

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

5.4 Valuation Results and Actuarial Release

Table 5.11 sets out the components of the actuarial strengthening (negative release) for IS payments and Redemptions.

Table 5.11 – Components of Actuarial Release: IS and Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(22.0)
Difference from projected liability		
Clams no longer valued	2.2	
IS + Redemption basis	(9.7)	
		(7.5)
Total		(29.5)

The actuarial strengthening of $29.5 million is made up of $22.0 million in additional payments in the six months, and a $7.5 million increase in the projected liability from December 2015, which is composed of:

- A reduction of $2.2 million due to movements to self-insurance and the Serious Injury portfolio
- An increase of $9.7 million due to changes in the IS and Redemptions bases.

Table 5.12 sets out these movements by accident period.

Table 5.12 – Actuarial Release for IS and Redemptions

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation[1]	Jun 16 Estimate on Dec 15 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	8.5	10.3	1.7	(0.3)	(1.4)	-16%
2005/06 - 2012/13	46.8	47.2	0.3	0.6	(0.9)	-2%
2013/14 - 2014/15	54.9	53.3	(1.6)	19.1	(17.6)	-32%
2015/16	71.2	78.2	7.0	2.6	(9.6)	-13%
Total	181.5	189.0	7.5	22.0	(29.5)	-16%

60% of the strengthening sits in accident years 2013/14 and 2014/15, where much of the current redemption activity is targeted, and a further 33% relates to the post-reform accidents of 2015/16.

6 Lump Sums – Short Term Claims

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

Introduction

We value lump sums in five segments:

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

Appendix A specifies the complete definitions for the lump sum valuation.

6.1 Summary of Results

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

Table 6.1 – Valuation Results: Lump Sums

Dec15 Valuation	$m	$m	$m
Estimated Liab at Dec-15	151.1		
Projected Liab at Jun-16	172.0		
Jun-16 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	1.5	(4.8)	3.3
Estimated Liab at Jun-16 (Dec-15 eco assumptions)	**173.5**		
Impact of change in eco assumptions	3.3		
Estimated Liab at Jun-16 (Jun-16 eco assumptions)	**176.9**		

The June 2016 liability shows an actuarial release of $3.3 million since December 2015, reflecting an increase of $1.5 million in the liability, and $4.8 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.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident Period	Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.7	0.9	(0.2)	77%
2005/06 - 2012/13	8.3	8.1	0.1	102%
2013/14 - 2014/15	6.0	9.6	(3.6)	63%
2015/16	1.6	2.8	(1.1)	59%
Total	16.6	21.4	(4.8)	78%

Payments were 22% lower than expected in the six months to 30 June 2016. This was mainly driven by:

- Lower number of First Paid lump sum payments than expected in the more recent accident periods
- Expected ex-gratia dependent benefit payments that did not eventuate
- Lower number of Deafness lump sum payments than expected across most accident periods.

We have interpreted the lower number of First Paid and Deafness lump sums as largely being a slowdown in payments that previously would have been paid already.

6.3 Valuation Basis

Valuation Basis for First Paid Lump Sums

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

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

Accident Period	Number of Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
To 30 Jun 05	19	13	6	148%
2005/06 - 2012/13	228	200	28	114%
2013/14 - 2014/15	205	279	-74	73%
2015/16	0	5	-5	0%
Total	452	497	-45	91%

Payments for accident years up to 2012/13 were higher than expected. In light of this experience, with lump sums continuing for more long duration claims than expected, we have extended the periods where the chain ladder approach is adopted up to June 2013 (previously June 2010). For periods after June 2013 where we have interpreted the lower number of payments as a slowdown, we continue to adopt a frequency based approach, as this approach better allows for changes in the payment speed and impact of a 5% threshold (introduced in 2008); for recent years we have maintained the previously selected ultimate numbers of First Paid lump sums.

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

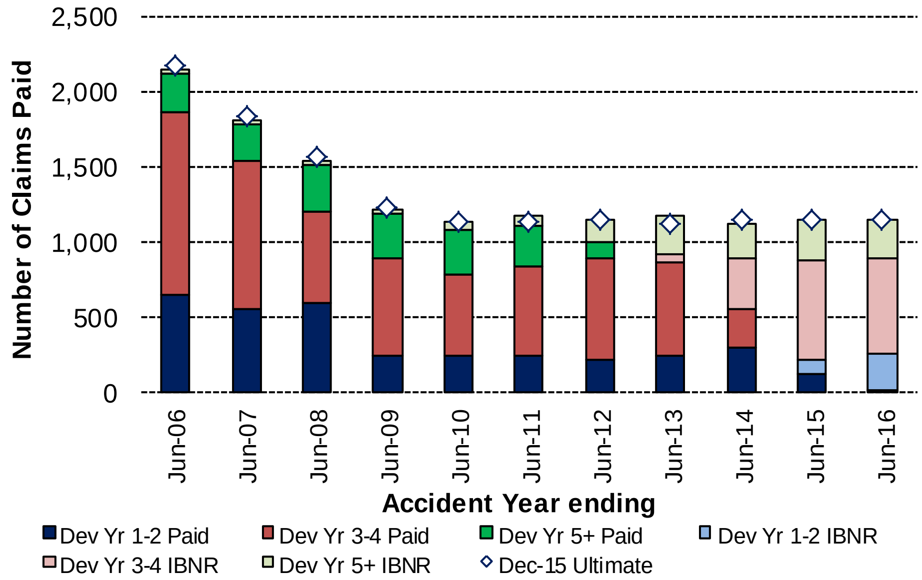
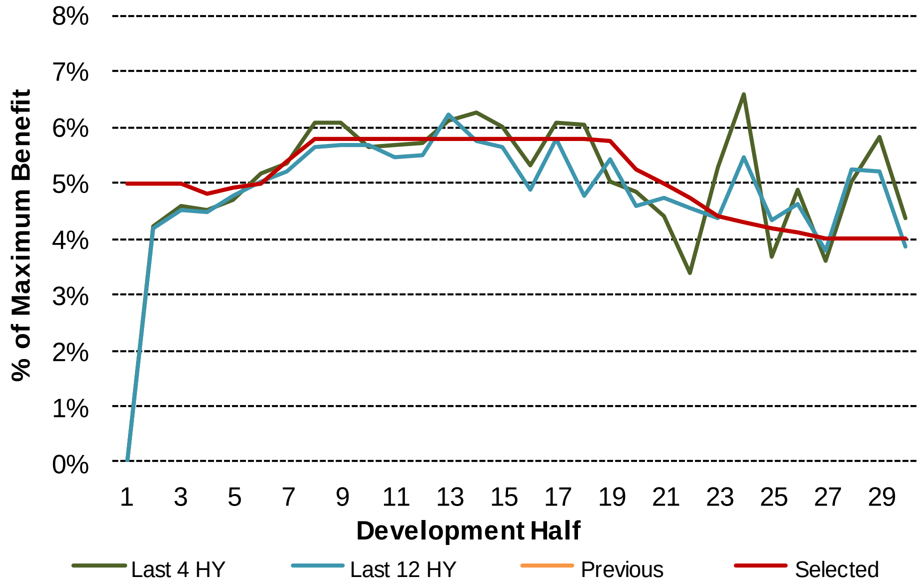


Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

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 $24,000.

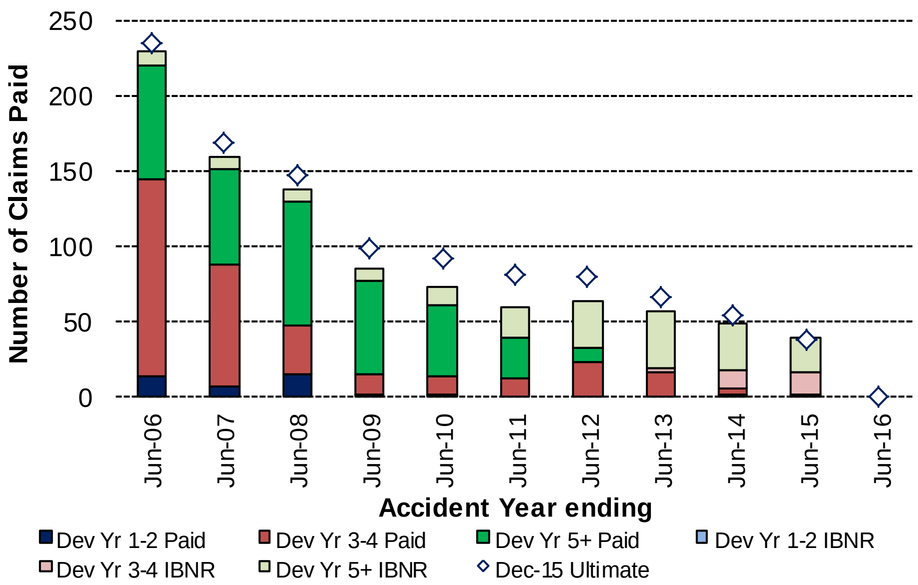
Valuation Basis for Top Up Lump Sums

The number of Top Up lump sums is projected as a percentage of the ultimate number of First Paid lump sums. Top Up lump sum payments were initially removed under the RTW Act changes, but following a Regulation change in 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 lower than expected in the last six months across all accident periods. As discussed in Section 3.2.1 we understand there are around 260 applications for Top Up lump sums, which is lower than the allowance of around 500 claims in our previous valuation basis. We have reduced the number of future Top Up lump sums in our valuation basis to around 300 future payments, noting that some of the upcoming payments will already have been assessed and therefore did not need to apply under the transitional rules (lump sums can often take a number of months to complete, particularly with top ups). As there is only limited information on the 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. If for any reason the requirement that applications needed to be submitted by 30 June 2016 is not maintained, then our basis would likely need to be increased in response.

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.

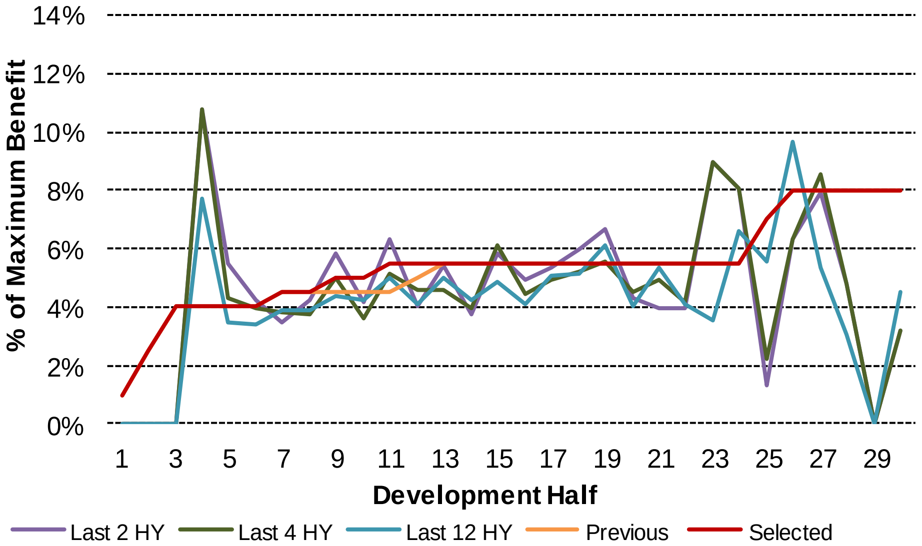
Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims



Other than 2015, 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)

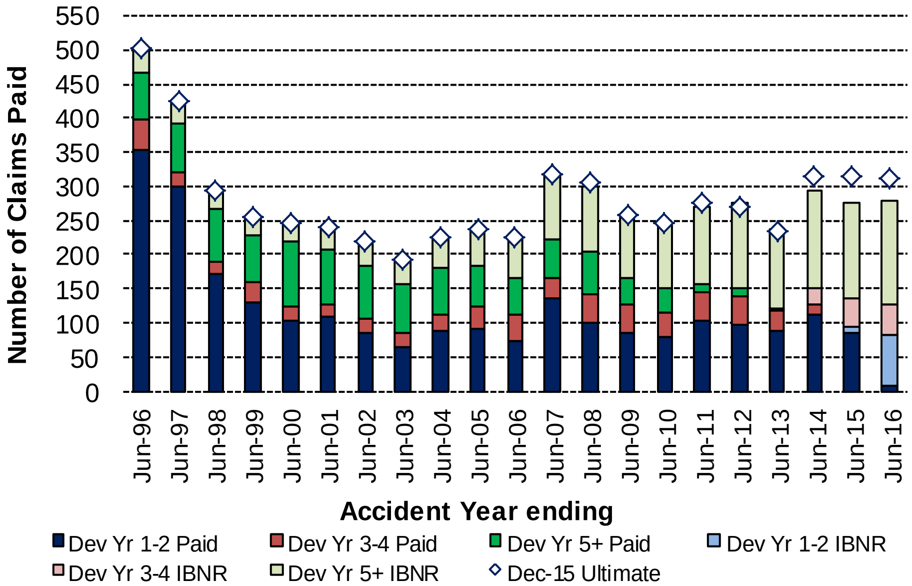


We have increased the selected average size at the 4 to 6 year development period to reflect the emerging experience.

Valuation Basis for Deafness Lump Sums

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

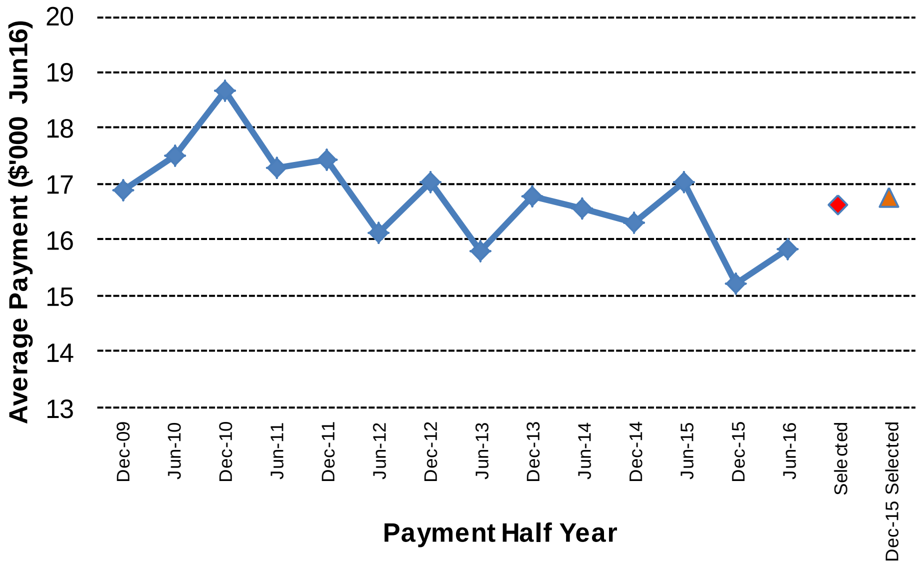
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Experience over the last twelve months shows Deafness lump sum payments were made for around 200 claims, which is notably lower than previous periods which were on average 300 per year. Our inquiries and analysis have not identified any reason for this reduction, and for now we have interpreted it as largely a slowdown in payments. At this valuation, we have adopted a frequency approach for accident periods after December 2014 to better allow for changes in the payment speed. Our selected ultimates for these periods have reduced 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

Our projection of Death (and funeral) lump sums is based on recent experience which has been lower than expected in the last six months. Given the low level of payments in this group, there is a high degree of volatility in the experience and we have maintained the underlying projection basis from our previous valuation.

In addition to the underlying projection, we have allowed for one-off ex-gratia dependent benefit payments to occur in line with the RTW Act changes – we had previously assumed these would occur over an 18 month time period, but there has been very little activity so far. 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

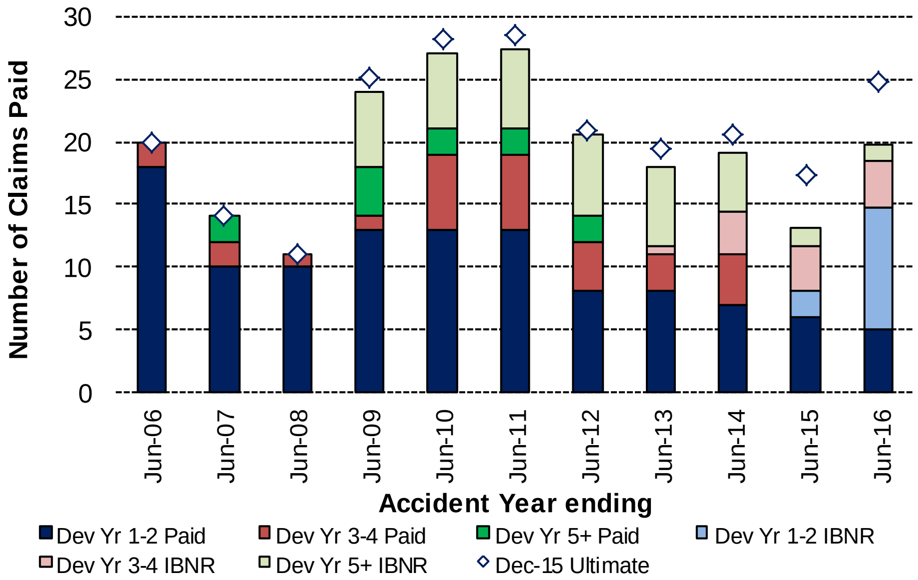
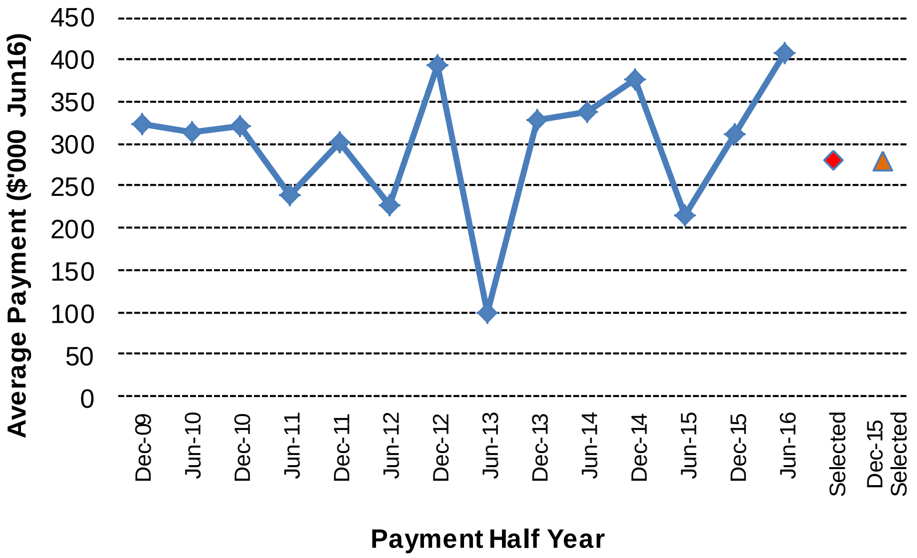


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to June 2016 is higher than the recent experience driven by a high proportion of Death lump sum payments which are higher in size compared to funeral lump sum payments. We have adopted a size consistent with the long term average given the volatility of the experience.

Valuation Basis for Economic Loss Lump Sums

Economic Loss Lump Sums are paid to a worker for loss of future earning capacity. This is a new benefit under the RTW Act and is available to injuries from 1 July 2015. No payments have been made to date, which is not greatly surprising given the time required for injuries to stabilise and assessments to take place, although we would expect payments to soon begin.

Our valuation basis is unchanged from the previous valuation, and 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 December 2015 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	9.7	8.6	(1.0)	(0.2)	1.3	13%
2005/06 - 2012/13	35.7	37.1	1.4	0.1	(1.5)	-4%
2013/14 - 2014/15	48.6	50.0	1.4	(3.6)	2.2	4%
2015/16	78.0	77.8	(0.2)	(1.1)	1.4	2%
Total	172.0	173.5	1.5	(4.8)	3.3	2%

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

The $1.5 million increase in projected liability is offset by actual payments being $4.8 million less than expected, resulting in an actuarial release of $3.3 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		4.8
Changes to Valuation Basis		
First Paid IBNR numbers	(5.2)	
Top Up numbers	2.5	
Top Up claim size	(0.3)	
Death IBNR numbers	1.5	
Subtotal		(1.5)
Total		3.3

Changes to the valuation basis to recognise the slower lump sum payments in the six months and higher number of payments in older accident years increase future IBNR numbers for First Paid lump sums. This is partially offset by reductions to IBNR numbers in the Top Up basis. Reductions in ex-gratia death benefits reduce the liability by a further $1.5 million.

7 Treatment and Related Costs – Short Term Claims

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

7.1 Summary of Results

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

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Dec15 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-15	117.1	16.2	6.8	15.5	9.3	13.1	178.1
Projected Liab at Jun-16	112.7	16.0	6.1	15.0	8.5	10.5	168.7
Jun-16 Valuation							
Impact of experience/OSC - Movement in liab	(2.5)	0.1	0.2	(0.7)	0.6	0.2	(2.0)
Estimated Liab at Jun-16 (Dec-15 eco assumptions)	**110.2**	**16.2**	**6.2**	**14.3**	**9.1**	**10.7**	**166.8**
Impact of change in eco assumptions	1.6	0.1	(0.0)	(0.1)	(0.1)	(0.0)	1.5
Estimated Liab at Jun-16 (Jun-16 eco assumptions)	**111.8**	**16.2**	**6.2**	**14.2**	**9.1**	**10.7**	**168.2**
AvE Payments - six months to Jun-16	6.2	2.2	(0.4)	(1.5)	0.3	1.3	8.2
Actuarial Release at Jun-16	(3.8)	(2.4)	0.2	2.1	(0.9)	(1.5)	(6.2)

The main movements from our December 2015 projection of the June 2016 liability are:

- A decrease of $2.0 million in the liability, reflecting the claims experience since December 2015 and our valuation response. This produces an actuarial increase (strengthening) of $6.2 million when combined with actual payments in the period being $8.2 million higher than expected.
- Movements in economic assumptions, increasing the treatment related liabilities by $1.5 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.

7.2 Valuation Approach

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

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

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

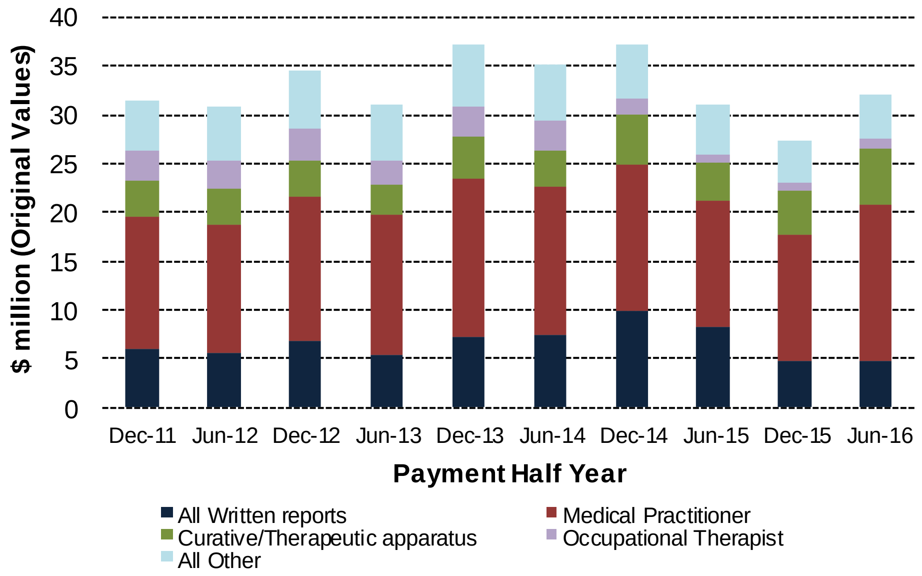
7.3 Medical

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

Payments vs Expectations

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

Figure 7.1 – Medical Half-Yearly Payments



Following 12 months of declining payments, medical payments increased in the last six months to June 2016; it appears that some of this change may be a slowdown in invoice processing in December 2015 which has now been caught up in the June 2016 half-year. The higher payments were driven by increases in medical practitioner payments as well as higher payments for curative and therapeutic apparatuses. Written report activity remains low post-June 2015 following the removal of WCA under the RTW Act.

Table 7.2 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

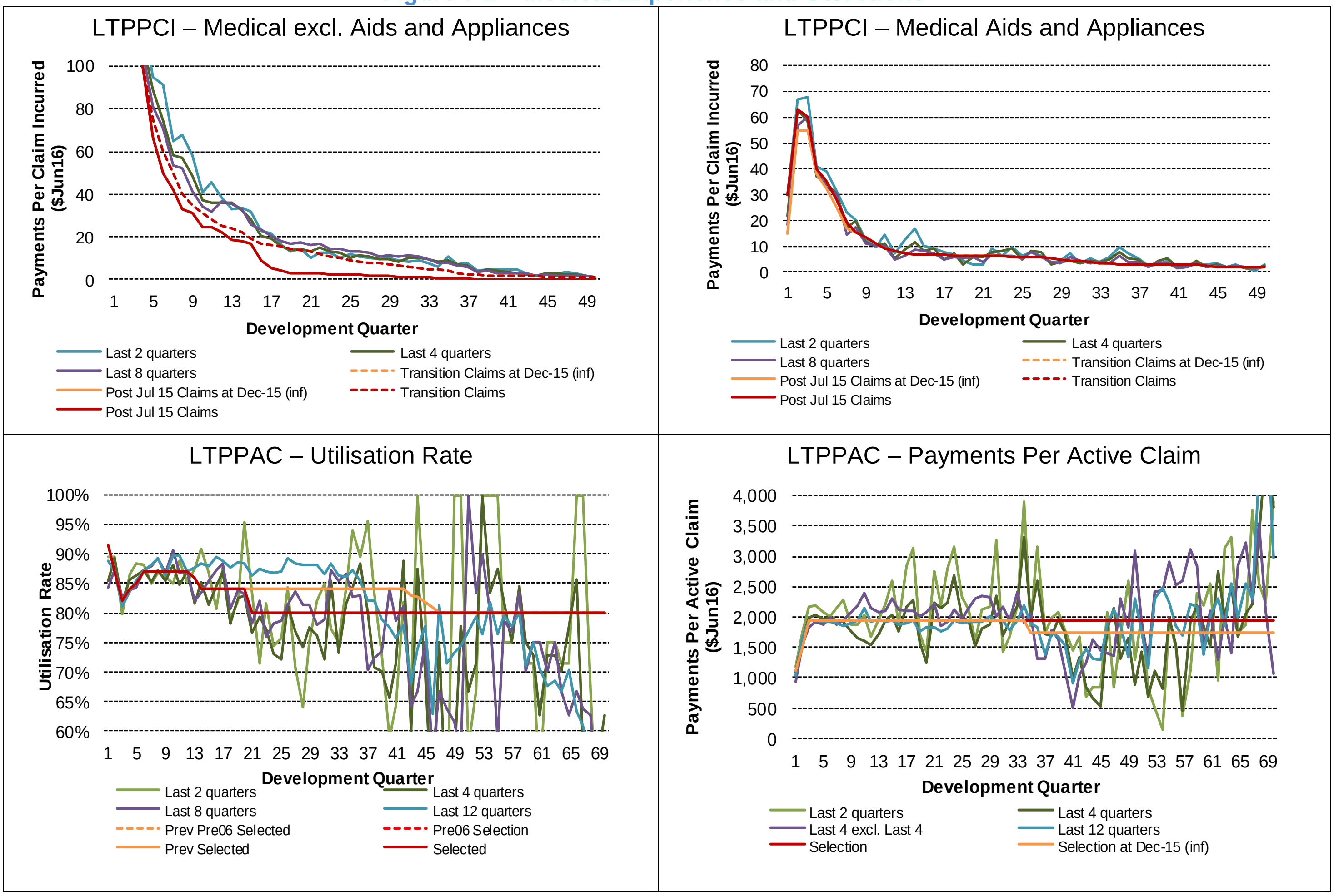
Accident Period	Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	2.6	2.1	0.4	120%
2005/06 - 2012/13	7.5	6.2	1.3	121%
2013/14 - 2014/15	9.7	8.1	1.6	120%
2015/16	12.4	9.5	2.9	130%
Total	32.2	26.0	6.2	124%

Overall, payments were $6.2 million (24%) higher than expected driven by payments across all accident periods.

Valuation Basis

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

Figure 7.2 – Medical Experience and Selections



Our comments on the experience and selected assumptions are:

- LTPPCI (excl. aids and appliances):

- ▸ The short-term experience is higher than our previous valuation basis. We have interpreted the higher level of payments in this segment as being linked to the temporarily high levels of redemption activity recently - as IS-medical claims are redeemed, medical payments made in the period of redemption are allocated to the LTPPCI model instead of the LTPPAC model resulting in an artificially high level of payments in the short term. As a result, we have retained our previous valuation basis
- ▸ From 1 July 2015 the capping of benefits under the RTW Act commences, and our selected PPCIs reduce significantly by 4.5 years duration.

- LTPPAC: this model represents a large part of the medical liability.
  - ▸ Utilisation continued to reduce in the last six months, which appears to be a result of ongoing redemptions of IS-medical claims. We have reduced the adopted utilisation assumption accordingly in the short to medium term development periods.
  - ▸ Payments per active claim are very volatile in the short term and broadly in line with our previous basis. For development quarter 34 and beyond, we have increased the PPAC to reflect the underlying experience. This increase only affects transition period claims as medical benefits for claims incurred after July 2015 are subject to a three year hard boundary cut-off.
- Medical aids and appliances payments have been higher than expected over the last six months. We have increased our adopted PPCI for early development periods at this valuation to reflect this.

Valuation Results and Actuarial Release

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

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	19.3	19.3	(0.0)	0.4	(0.4)	-2%
2005/06 - 2012/13	39.9	38.1	(1.8)	1.3	0.5	1%
2013/14 - 2014/15	26.2	23.9	(2.4)	1.6	0.7	3%
2015/16	27.3	29.0	1.7	2.9	(4.6)	-17%
Total	112.7	110.2	(2.5)	6.2	(3.8)	-3%

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

The $2.5 million decrease in the projected liability offset by actual payments being $6.2 million more than expected results in an actuarial increase (strengthening) of $3.8 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		(6.2)
Changes to Valuation Basis		
IM active proj	2.9	
Ultimate claims	(0.1)	
Long term assumptions	(0.3)	
Subtotal		2.5
Total		(3.8)

The reduction in IS active claim numbers reduces the Medical liability by $2.9 million. Reductions in the medical utilisation offset increases in the medical aids and appliances basis, resulting in a small overall increase of $0.3 million for other changes.

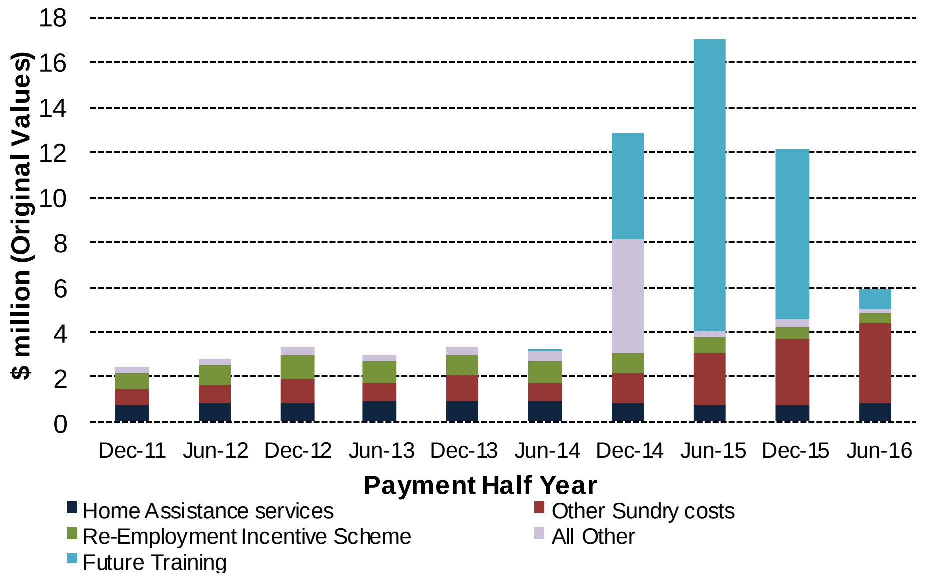
7.4 Other

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

Payments vs Expectations

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

Figure 7.3 – Other Half-Yearly Payments



Other payments have reduced significantly in the last six months, driven by reductions in 'future training and education' benefits paid to workers. We projected these payments to reduce in line with declining dispute settlement activity, although more payments were made than we had anticipated in our previous valuation basis.

After excluding the future training and education payments, 'other' payments are higher than previous half-years due to increases in Other Sundry Costs, which relate to professional financial advice fees that are a part of recent redemption activity.

Table 7.5 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

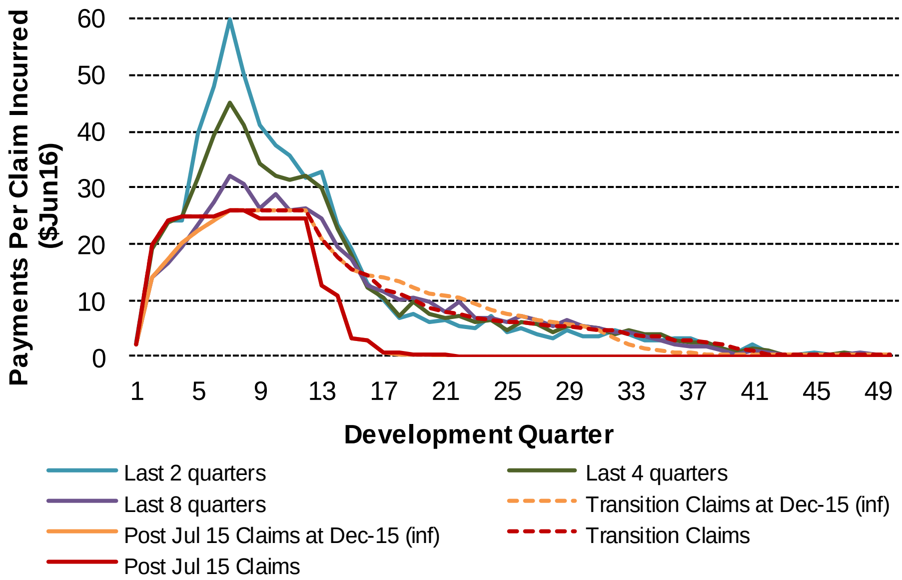
Accident Period	Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.3	0.1	0.2	354%
2005/06 - 2012/13	2.4	2.4	(0.0)	99%
2013/14 - 2014/15	2.8	1.9	0.9	150%
2015/16	0.4	0.3	0.1	136%
Total	5.9	4.7	1.3	127%

Overall, payments were $1.3 million (27%) greater than expected. This was driven by more recent accident periods where redemption and settlement activity was highest.

Valuation Basis

Figure 7.4 below shows the recent experience and selected basis for 'other' payments; this excludes 'future training and education' payments which have been modelled separately given their distorting impact on the recent experience as shown in Figure 7.3 above.

Figure 7.4 – PPCI Experience and Selections: Other



The latest experience is significantly higher than our previously adopted basis. As the higher payments are linked to redemption activity which is expected to reduce significantly going forward, we have not responded to the experience at this stage. For payments in the tail beyond the redemption activity period, we have reshaped in the PPCI pattern to reflect the underlying experience.

There is no allowance for 'future training and development' payments at this valuation, as we understand ReturnToWorkSA will not be using this type of benefit for settlements going forward.

Valuation Results and Actuarial Release

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

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	0.2	(0.2)	-157%
2005/06 - 2012/13	3.0	2.9	(0.1)	(0.0)	0.1	3%
2013/14 - 2014/15	3.8	3.8	(0.0)	0.9	(0.9)	-25%
2015/16	3.5	3.8	0.3	0.1	(0.4)	-12%
Total	10.5	10.7	0.2	1.3	(1.5)	-14%

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

The $0.2 million increase in the projected liability combined with actual payments being $1.3 million more than expected results in an actuarial increase (strengthening) of $1.5 million.

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(1.3)
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	(0.2)	
Subtotal		(0.2)
Total		(1.5)

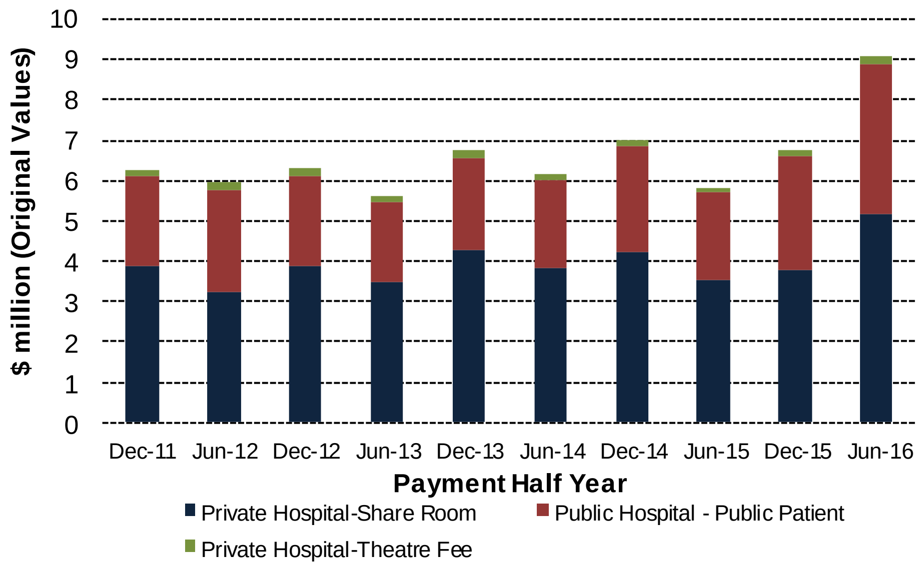
7.5 Hospital

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 increased in the six months to June 2016 driven by higher payments in both private and public hospital fees. It is unclear why hospital costs increased in the six months, given they have previously been contained in a relatively stable band.

Table 7.8 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

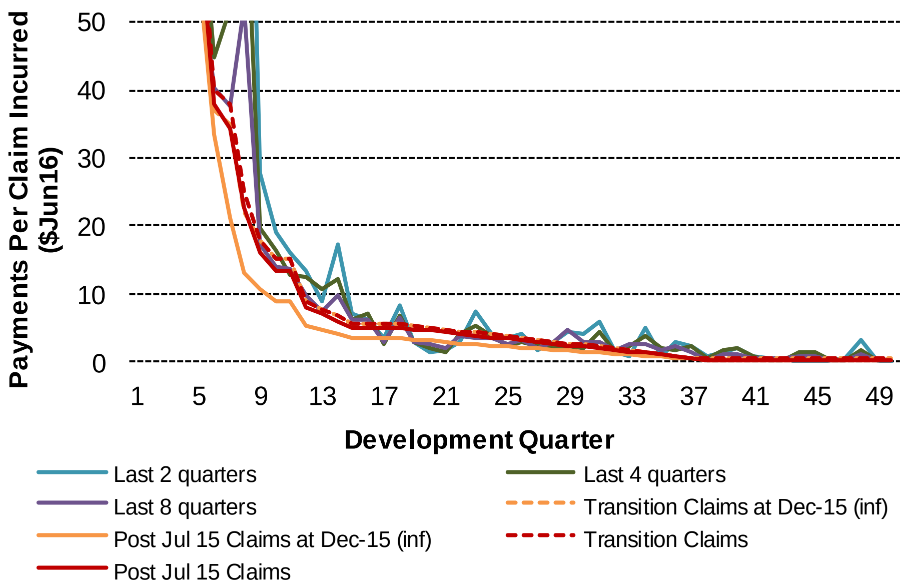
Accident Period	Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	0.1	147%
2005/06 - 2012/13	1.1	0.9	0.2	128%
2013/14 - 2014/15	3.1	1.8	1.3	168%
2015/16	4.6	4.0	0.7	117%
Total	9.1	6.8	2.2	133%

Payments in the last six months were above expected ($2.2 million higher) driven by higher payments in all 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



The adopted PPCIs for RTW Act claims have been increased for earlier durations at this valuation to partially reflect the latest experience. The basis for transitional claims is unchanged at this valuation as the recent redemption activity is expected to offset any underlying increases in hospital payments. Payments in the tail, the majority of which are made up of surgery related costs that are not subject to the boundary cap on benefits, remain unchanged from our previous basis.

Valuation Results and Actuarial Release

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

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.2	1.2	(0.0)	0.1	(0.1)	-5%
2005/06 - 2012/13	4.2	4.2	(0.0)	0.2	(0.2)	-5%
2013/14 - 2014/15	3.9	3.9	0.0	1.3	(1.3)	-33%
2015/16	6.7	6.8	0.2	0.7	(0.8)	-12%
Total	16.0	16.2	0.1	2.2	(2.4)	-15%

[1] 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 increase in the projected liability combines with actual payments being $2.2 million more than expected resulting in an actuarial increase (strengthening) of $2.4 million.

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

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(2.2)
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	(0.1)	
Subtotal		(0.1)
Total		(2.4)

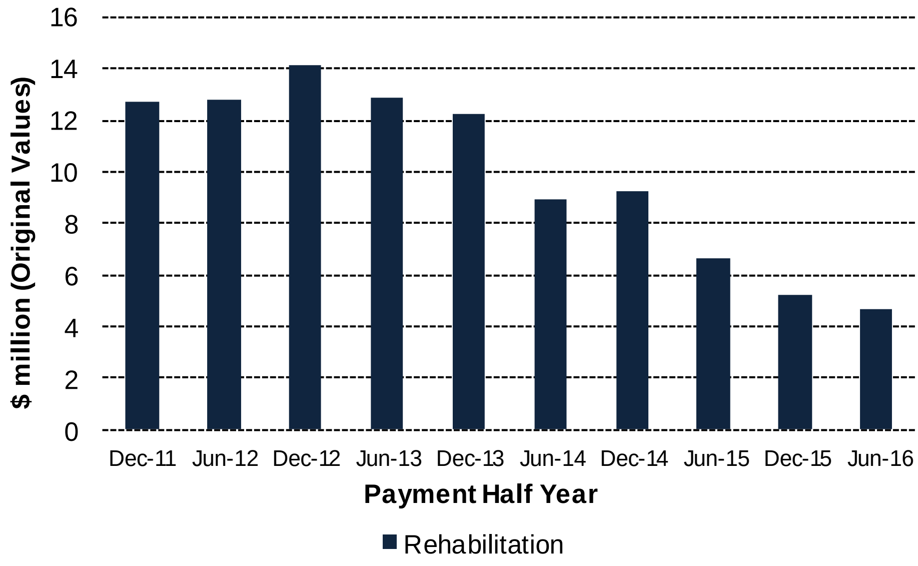
7.6 Rehabilitation

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

Payments vs Expectations

Figure 7.7 below shows rehabilitation payments by six month period.

Figure 7.7 – Rehabilitation Half-Yearly Payments



Payment levels have continued to reduce further in the last six months, reflecting the impact of recent ReturnToWorkSA initiatives and redemption activity.

Table 7.11 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

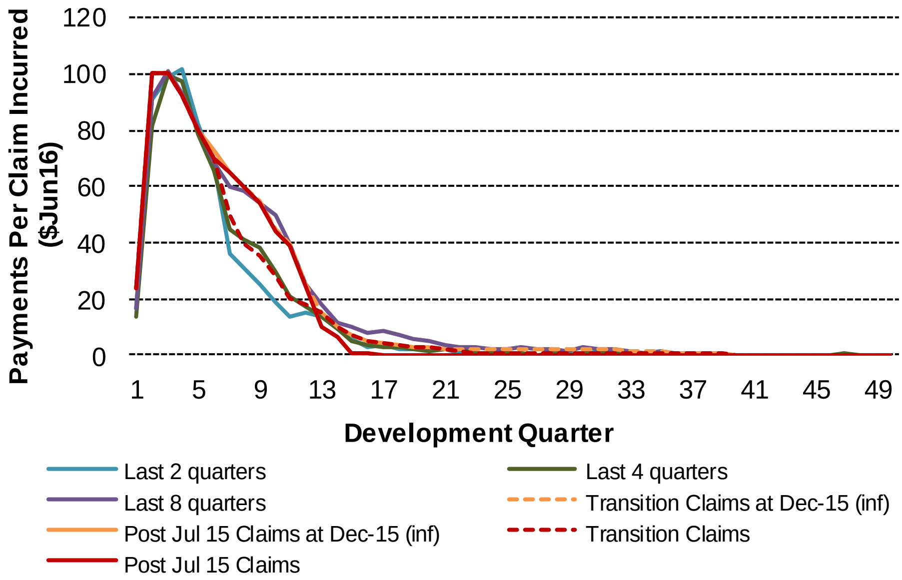
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	465%
2005/06 - 2012/13	0.5	0.8	(0.3)	60%
2013/14 - 2014/15	2.3	3.5	(1.1)	68%
2015/16	1.8	1.8	(0.0)	99%
Total	4.7	6.1	(1.5)	76%

Overall, payments were $1.5 million (24%) lower than expected driven by accident periods after 2005 which have had high redemption and settlement activity.

Valuation Basis

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

Figure 7.8 – Rehabilitation Experience and Selections



The adopted transition claim PPCIs for rehabilitation has been reduced to reflect the favourable experience. The RTW Act claim PPCIs which are not impacted by the recent redemption activity have been reshaped slightly to reflect the expected underlying 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 December 2015 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	-277%
2005/06 - 2012/13	1.0	1.2	0.2	(0.3)	0.1	14%
2013/14 - 2014/15	5.4	4.2	(1.2)	(1.1)	2.3	42%
2015/16	8.6	8.9	0.3	(0.0)	(0.3)	-3%
Total	15.0	14.3	(0.7)	(1.5)	2.1	14%

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

The $0.7 million decrease in the projected liability combined with actual payments being $1.5 million less than expected results in an actuarial release of $2.1 million. The release falls mainly in the accident periods after 2005.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of Actuarial Release: Rehabilitation

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.5
Changes to Valuation Basis		
Ultimate claims	(0.3)	
Long term assumptions	1.0	
Subtotal		0.7
Total		2.1

The release is driven by changes in long term assumptions, which reduce the rehabilitation liability by $1.0 million.

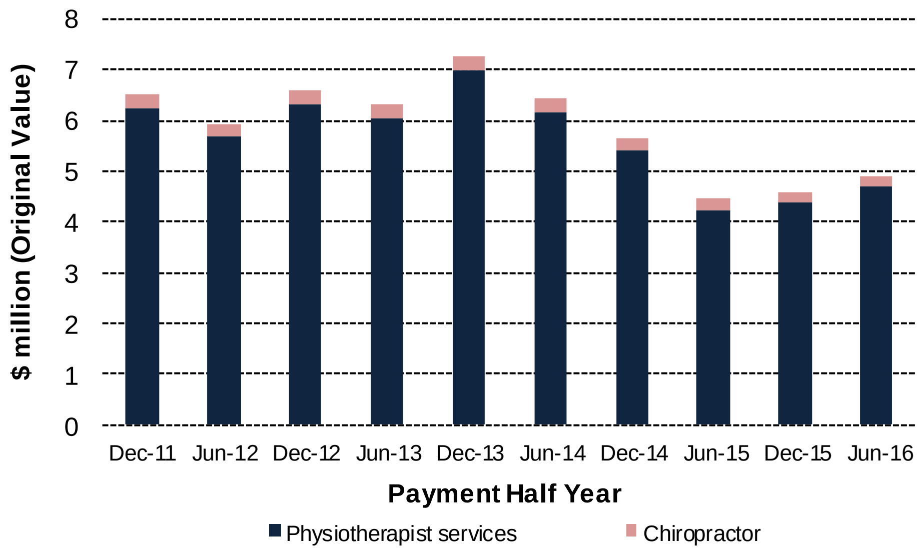
7.7 Physical Therapy

Physical therapy payments include payments made to physiotherapists and chiropractors.

Payments vs Expectations

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

Figure 7.9 – Physical Therapy Half-Yearly Payments



Physical therapy payments have increased in the last six months, off the back of a period of reductions from December 2013 to June 2015. These reductions followed ReturnToWorkSA initiatives targeting over-servicing.

Table 7.14 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

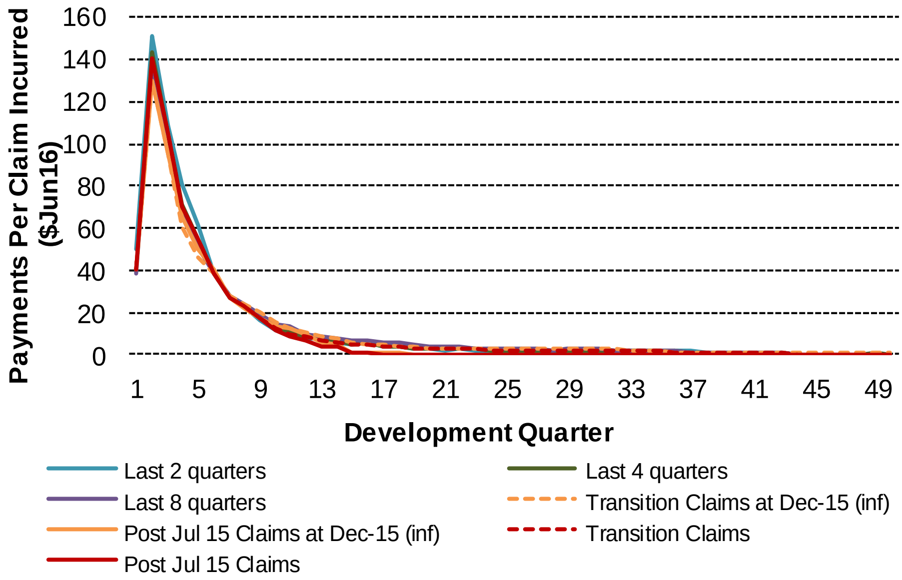
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.2	(0.0)	77%
2005/06 - 2012/13	0.7	0.8	(0.1)	83%
2013/14 - 2014/15	1.7	1.6	0.1	108%
2015/16	2.4	2.0	0.4	119%
Total	4.9	4.6	0.3	107%

Overall, payments were $0.3 million (7%) higher than expected driven by the recent 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 adjusted the adopted PPCIs for physical therapy at this valuation to reflect the higher level of payments in the front end and slightly lengthened tail.

Valuation Results and Actuarial Release

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

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.3	0.3	0.0	(0.0)	0.0	3%
2005/06 - 2012/13	1.3	1.7	0.5	(0.1)	(0.3)	-25%
2013/14 - 2014/15	2.3	2.2	(0.0)	0.1	(0.1)	-4%
2015/16	4.6	4.8	0.2	0.4	(0.6)	-12%
Total	8.5	9.1	0.6	0.3	(0.9)	-11%

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

The $0.6 million increase in the projected liability combined with actual payments being $0.3 million higher than expected results in an actuarial increase (strengthening) of $0.9 million. The actuarial increase falls in more recent accident periods where the bulk of the liability lies.

Table 7.16 breaks down the actuarial release by source.

Table 7.16 – Components of Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.3)
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	(0.5)	
Subtotal		(0.6)
Total		(0.9)

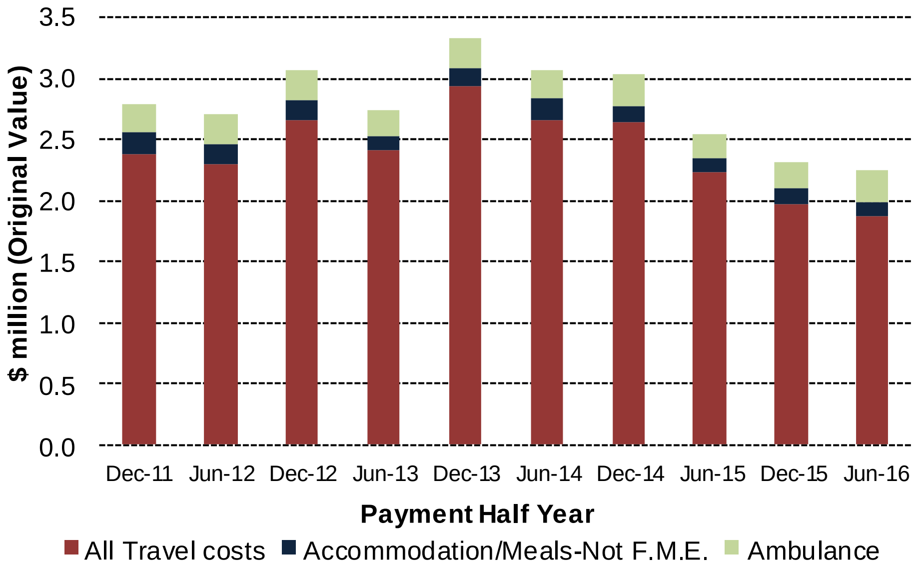
7.8 Travel

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 have continued to reduce over the last six months and are now at the lowest level of all payment years shown.

Table 7.17 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

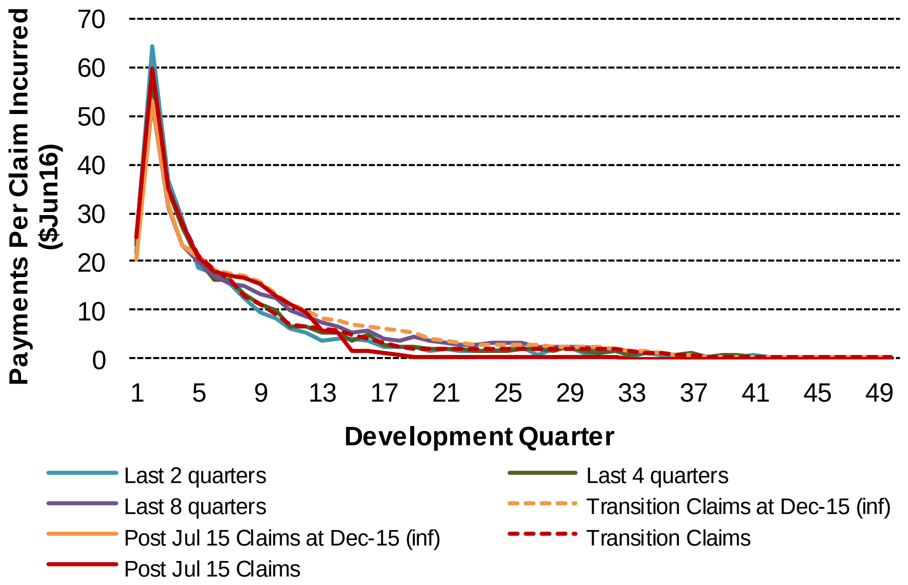
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.1)	56%
2005/06 - 2012/13	0.5	0.8	(0.4)	56%
2013/14 - 2014/15	0.7	0.9	(0.2)	78%
2015/16	1.0	0.8	0.2	125%
Total	2.2	2.7	(0.4)	84%

Payments in the last six months were $0.4 million (16%) lower than expected driven mainly by older accident periods.

Valuation Basis

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

Figure 7.12 – Travel Experience and Selections



We have adjusted the adopted PPCIs for transitional claims to reflect the emerging experience. The PPCIs for RTW Act claims, which are not impacted by the recent redemption activity, have been reshaped to reflect higher payments in the front end.

Valuation Results and Actuarial Release

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

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.4	0.2	(0.1)	(0.1)	-63%
2005/06 - 2012/13	1.3	1.4	0.1	(0.4)	0.3	21%
2013/14 - 2014/15	2.0	1.7	(0.3)	(0.2)	0.5	25%
2015/16	2.5	2.7	0.2	0.2	(0.4)	-15%
Total	6.1	6.2	0.2	(0.4)	0.2	4%

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

The $0.2 million increase in the projected liability is offset by actual payments being $0.4 million lower than expected results in an actuarial release of $0.2 million. The release falls in mid-duration accident periods, and represents a material reduction in the travel liability for short term claims.

8 Other Entitlements – Short Term Claims

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

8.1 Summary of Results

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

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Dec15 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-15	51.6	32.2	4.3	2.2	1.6	2.1	(42.5)	51.6
Projected Liab at Jun-16	48.8	32.1	3.8	2.3	1.4	2.1	(41.1)	49.4
Jun-16 Valuation								
Impact of experience/OSC - Movement in liab	(9.9)	(6.2)	(1.4)	0.0	(0.1)	0.0	7.1	(10.6)
Estimated Liab at Jun-16 (Dec-15 eco assumptions)	**38.9**	**25.9**	**2.4**	**2.3**	**1.2**	**2.2**	**(34.0)**	**38.8**
Impact of change in eco assumptions	0.0	0.2	0.0	0.0	0.0	0.1	0.0	0.4
Estimated Liab at Jun-16 (Jun-16 eco assumptions)	**38.9**	**26.1**	**2.4**	**2.3**	**1.3**	**2.2**	**(34.0)**	**39.2**
AvE Payments - six months to Jun-15	(1.2)	1.5	(0.5)	(0.1)	(0.0)	0.1	(0.9)	(1.2)
Actuarial Release at Jun-15	11.1	4.7	1.9	0.1	0.1	(0.1)	(6.2)	11.7

The movements from our December 2015 projection of the June 2016 liability are:

1. A decrease of $10.6 million in the liability, reflecting the claims experience since December 2015 and our valuation response. Combining this with payments being $1.2 million lower than expected produces an actuarial release of $11.7 million.
2. The change in economic assumptions at the current valuation increases the estimated liability by $0.4 million (see Section 11.3).

8.2 Worker Legal

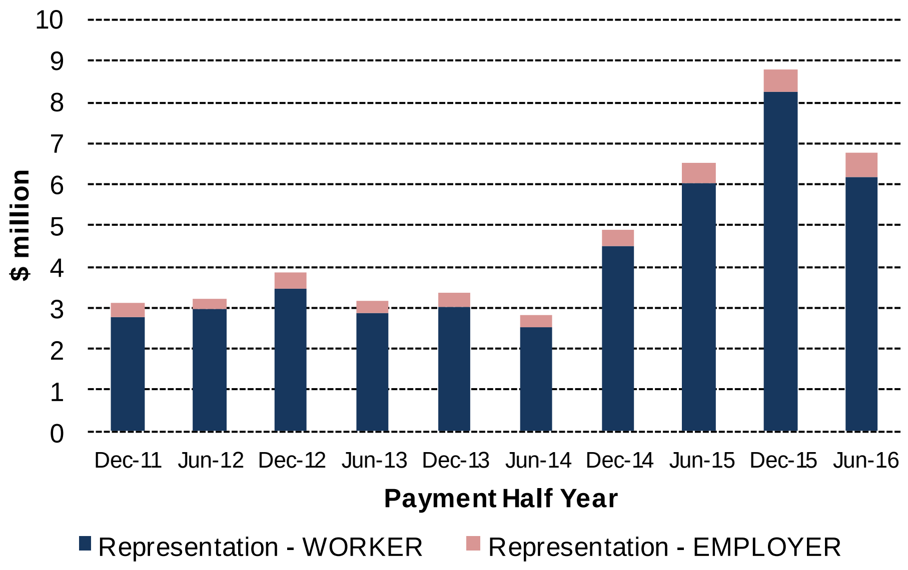
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the 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 3.3.4. 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 since December 2011.

Figure 8.1 – Worker Legal Half Yearly Payments



Worker legal payments peaked in the December 2015 half-year and have started to reduce in the last six months. The reduction in dispute numbers over the last 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 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

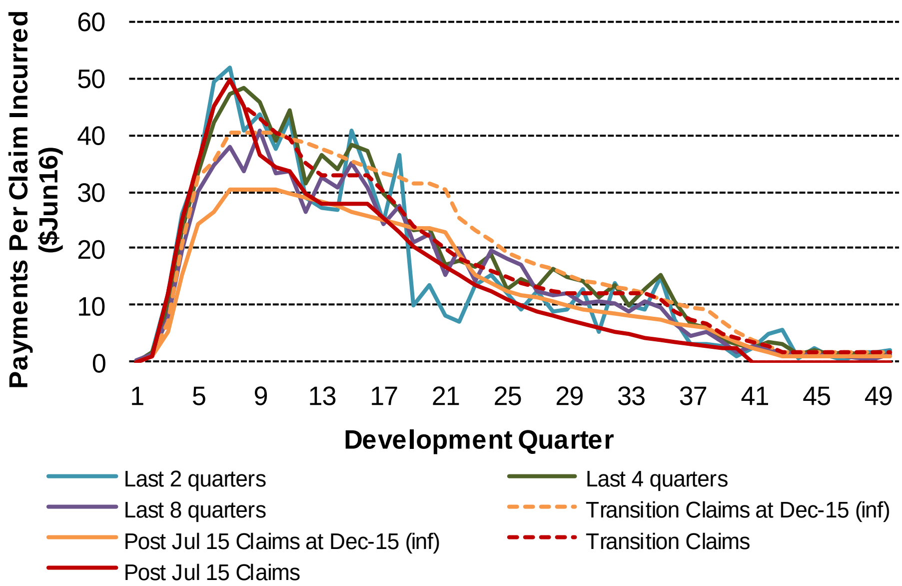
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.4	0.2	0.2	201%
2005/06 - 2012/13	3.7	5.4	(1.7)	69%
2013/14 - 2014/15	2.4	2.2	0.2	109%
2015/16	0.2	0.1	0.1	226%
Total	6.8	7.9	(1.2)	85%

Overall, payments were $1.2 million (15%) lower than expected over the last six months due to higher than expected number of redemptions and a faster reduction in payments than our basis had allowed for.

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



Our previous adopted PPCIs for transitional claims were above the long term experience in recognition of the expected additional payments as a result of the previously high number of open disputes in the system (see Figure 3.1). At the current valuation, we have reduced this allowance to reflect lower levels of remaining disputes and the reduced ongoing claim count as a result of high redemption and settlement activity.

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

8.2.3 Valuation Results and Actuarial Release

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

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.8	0.3	(0.5)	0.2	0.3	37%
2005/06 - 2012/13	21.9	14.4	(7.5)	(1.7)	9.2	42%
2013/14 - 2014/15	16.9	14.5	(2.4)	0.2	2.2	13%
2015/16	9.2	9.7	0.5	0.1	(0.6)	-7%
Total	48.8	38.9	(9.9)	(1.2)	11.1	23%

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

The $9.9 million decrease in the projected liability combined with actual payments being $1.2 million lower than expected results in an actuarial release of $11.1 million. The release falls across all but the latest accident periods shown.

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		1.2
Changes to Valuation Basis		
Ultimate claims	(0.1)	
Long term assumptions	10.0	
Subtotal		9.9
Total		11.1

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.

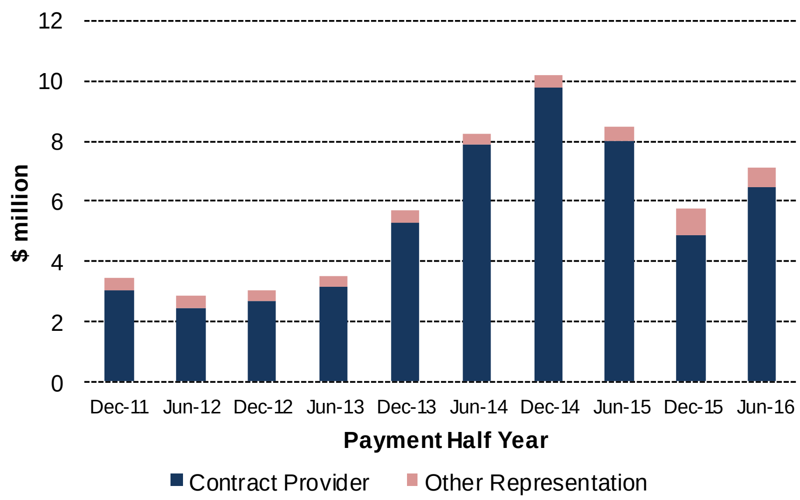
A performance fee is also payable at the end of each year based on the achievement of certain performance outcomes. Under the new contract in 2016, this fee has been reduced significantly.

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 since December 2011.

Figure 8.3 – Corporation Legal Half Yearly Payments



Corporation legal fees have increased in the six months to June compared to the previous half year reflecting the new fixed fee structure described above. Payments for "non-contract" providers have increased over the last year to around $1 million per half-year, consistent with the increase in recoveries received.

Table 8.5 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 8.5 – Actual vs Expected Payments: Worker Legal

	Payments in Six Months to Jun 16			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
Total	7.1	5.6	1.5	126%

Overall, actual payments were $1.5 million (26%) higher than expected due to the new legal contract having a higher fixed fee than the case based costs allowed for in our previous basis. A breakdown by accident period is not possible given the data constraints around contract legal payments.

8.3.2 Valuation Basis

Under the new contract, a fixed amount is paid to both legal providers each month regardless of the number of matters referred. We have updated our valuation approach to incorporate the new fee structure. Table 8.6 below compares the payments applicable under the current and previous contract.

Table 8.6 – Corporation Legal Contract Comparison

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

To project the future costs of Corporation Legal we have:

- Adopted the fixed monthly fees payable to each agent under the new contract
  - The adopted fixed fee per month is projected to decrease in line with the terms of the contract for the remaining six months in 2016. 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 consistent with the recent experience.

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

The allocation of cash flows across accident periods is based on the observed experience in Worker Legal costs, with an adjustment to reflect the quicker payment pattern of Corporation Legal costs.

8.3.3 Valuation Results and Actuarial Release

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

Table 8.7 – Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.0	(0.1)	0.3	(0.2)	-212%
2005/06 - 2012/13	6.7	3.0	(3.7)	1.5	2.3	33%
2013/14 - 2014/15	15.1	12.5	(2.6)	(0.2)	2.8	19%
2015/16	10.1	10.4	0.2	(0.1)	(0.1)	-1%
Total	32.1	25.9	(6.2)	1.5	4.7	15%

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

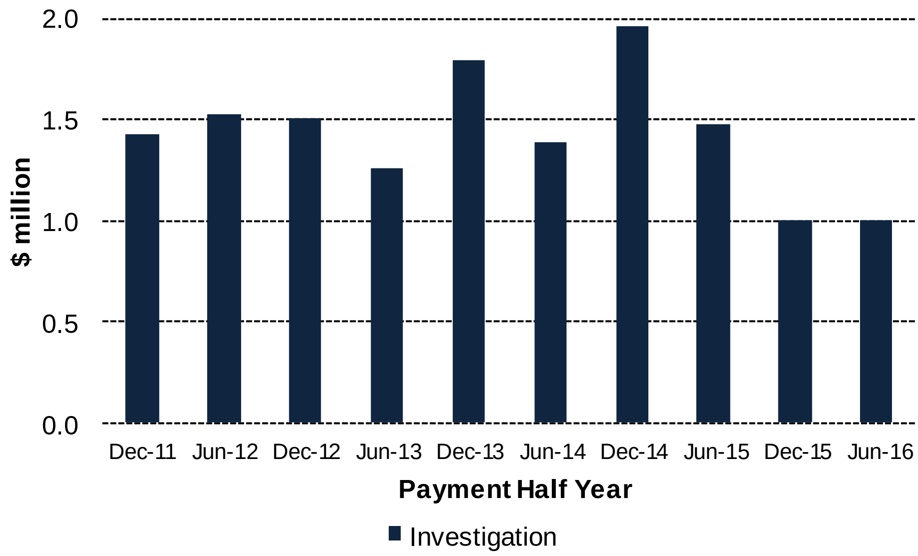
The $6.2 million decrease in the projected liability offset by actual payments being $1.5 million more than expected results in an actuarial release of $4.7 million.

8.4 Investigation

8.4.1 Experience

Figure 8.4 below shows investigation payments in each six month period since December 2011.

Figure 8.4 – Investigation Half Yearly Payments



Investigation spending has remained low in the last six months with around $1.0 million of payments. This follows on from a period of higher investigation costs tied to WCA activity. The reduction in investigation payments is also consistent with ReturnToWorkSA utilising claims agent staff as 'Mobile Insurance Loss Adjusters' which replaces some of the work that was previously done as part of investigation costs.

Table 8.8 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

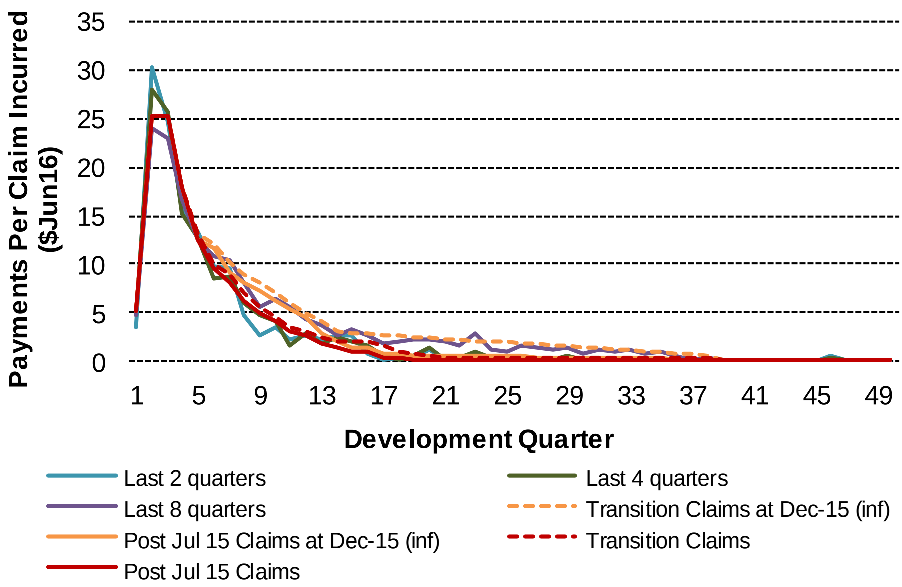
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	95%
2005/06 - 2012/13	0.1	0.5	(0.4)	25%
2013/14 - 2014/15	0.4	0.6	(0.2)	68%
2015/16	0.5	0.4	0.0	108%
Total	1.0	1.5	(0.5)	67%

Overall, actual payments were $0.5 million (33%) less than expected across most 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 further reduced from our previous basis, consistent with the emerging experience. Claims after 1 July 2015 will have a shorter payment pattern as the boundary on other entitlement groups comes into effect.

8.4.3 Valuation Results and Actuarial Release

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

Table 8.9 – Actuarial Release for Investigation

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	(0.0)	0.0	4%
2005/06 - 2012/13	1.1	0.4	(0.7)	(0.4)	1.1	100%
2013/14 - 2014/15	1.2	0.7	(0.5)	(0.2)	0.7	55%
2015/16	1.5	1.3	(0.2)	0.0	0.2	14%
Total	3.8	2.4	(1.4)	(0.5)	1.9	51%

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

The $1.4 million decrease in the projected liability combined with actual payments being $0.5 million less than expected results in an actuarial release of $1.9 million, or 51% of the previous liability estimate. The release falls in accident periods after 2005 where the bulk of the investigation liability lies.

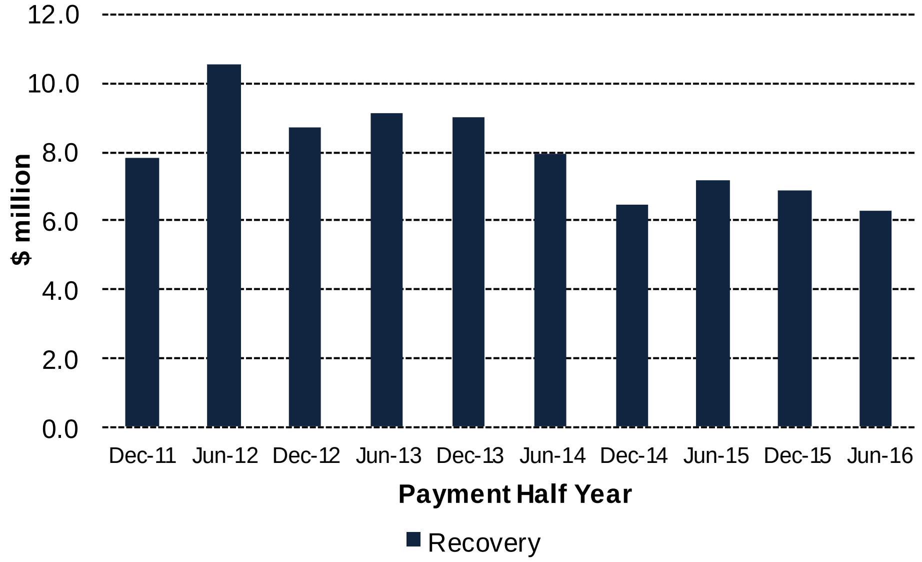
8.5 Recoveries

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

8.5.1 Experience

Figure 8.6 below shows recovery payments in each six month period since December 2011.

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 are at the lowest level of all periods shown.

Table 8.10 compares the payments in the six months to 30 June 2016 with the expected payments from our December 2015 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

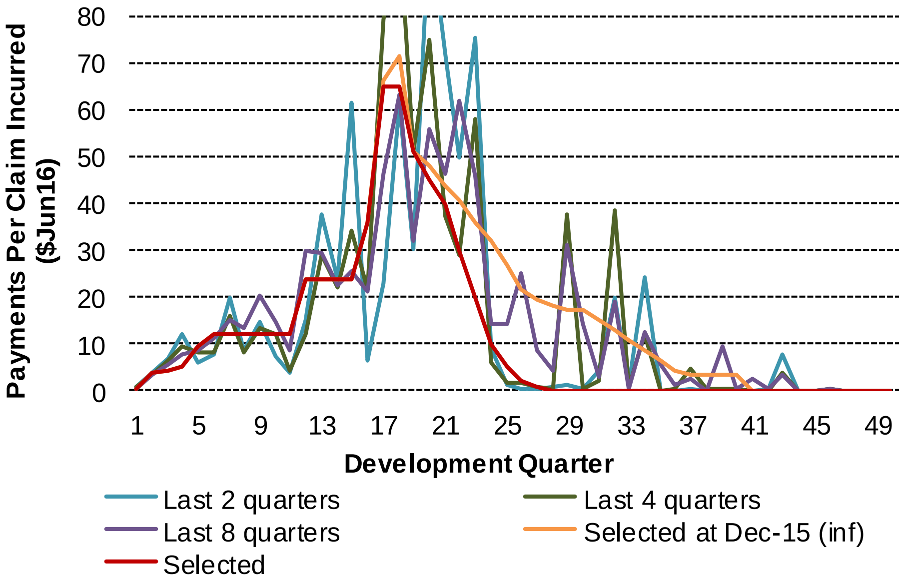
Accident	Payments in Six Months to Jun 16			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.0)	0.0	(0.0)	n/a
2005/06 - 2012/13	(5.6)	(4.9)	(0.6)	113%
2013/14 - 2014/15	(0.5)	(0.4)	(0.1)	124%
2015/16	(0.1)	(0.0)	(0.1)	339%
Total	(6.3)	(5.4)	(0.9)	117%

Overall, actual recovery payments received were $0.9 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



Given the reduced gross liability for Short Term Claims and apparent speeding up of recovery collection, we have continued to reduce the PPCIs at this valuation.

8.5.3 Valuation Results and Actuarial Release

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

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Jun 16 from Dec 15 Valuation	Jun 16 Estimate on Dec 15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Jun 16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	(0.0)	0.0	0%
2005/06 - 2012/13	(19.7)	(10.3)	9.4	(0.6)	(8.8)	45%
2013/14 - 2014/15	(14.2)	(15.3)	(1.1)	(0.1)	1.2	-8%
2015/16	(7.2)	(8.5)	(1.3)	(0.1)	1.4	-19%
Total	(41.1)	(34.0)	7.1	(0.9)	(6.2)	15%

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

The reduction in recoveries asset of $7.1 million offset by actual recoveries being $0.9 million above expectations results in an overall actuarial strengthening (increase) of $6.2 million. (i.e. a decrease in expected recoveries).

8.6 LOEC, Commutations, and Common Law

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

8.6.1 LOEC

LOEC claims are valued together with Short Term Claims. At 30 June 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. There was a higher than expected number of commutation payments ($0.35 million paid) during the last six months. This is offset by a period of low payments in the prior twelve months.

The basis is unchanged from our previous valuation.

8.6.3 Common Law

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

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

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9 Serious Injury Claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 30 June 2016, and the movement in our liability estimates since the December 2015 valuation.

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

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabi litation	Physical Therapy	Investi gation	Legal - Non-Contract	Legal Contract	Lump sums	Redemp-tions	Recov-eries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Dec-15 Valuation														
Estimated Liab at Dec-15	248	436	336	70	43	52	40	1	8	11	39	3	-42	1,245
Projected Liab at Jun-16	258	454	351	74	45	55	42	1	7	11	36	0	-44	1,290
Jun16 Valuation														
Impact of experience/basis change	3	-33	-9	-5	-6	-2	-4	0	1	-2	2	3	2	-48
Estimated Liab at Jun16 (Dec15 ecos)	**261**	**421**	**342**	**69**	**39**	**52**	**38**	**1**	**8**	**9**	**39**	**3**	**-42**	**1,242**
Impact of change in ecos	17	47	37	8	4	7	4	0	0	0	0	0	0	124
Estimated Liab at Jun16 (Jun16 ecos)	**278**	**468**	**379**	**77**	**44**	**59**	**43**	**1**	**8**	**9**	**39**	**3**	**-42**	**1,366**
AvE Payments - six months to Jun-16	1	-1	-1	0	0	0	0	0	1	0	0	10	-7	3
Actuarial Release at Jun-16	-4	34	10	5	6	3	4	0	-2	2	-3	-13	4	46

The outstanding claims cost for Serious Injury claims is $1,366 million at 30 June 2016. The main movements from our December 2015 projection of the June 2016 liability are:

- Newly identified Serious Injury claims increase the liability by $92 million. This is more than the impact of changes in IBNR numbers which reduce the liability by $38 million, indicating that new claims have cost more than the assumed long term valuation basis.
- This is partially offset by a $53 million decrease due to the use of redemptions to commute benefits at less than the lifetime amount and some entitlement changes.
- Reductions in IBNER allowances for existing Severe Traumatic Injuries reduce the liability by $19 million.
- Other impacts collectively decreased the projected liability by $31 million, including: a number of claims being confirmed as not Serious Injuries ($16 million decrease), changes in entitlement/payment levels ($9 million decrease) and reducing the development for medical costs ($6 million decrease).
- The change in economic assumptions at the current valuation – principally the decrease in the discount rate – increase the estimated liability by $125 million.

The remainder of this section deals with the first four impacts above. We note that these liability estimates use our December 2015 economic assumptions, with the impact of changes in economic assumptions discussed in Section 11.3.

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 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 in this group.

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 Appendix A.7 and summarised in the following table.

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

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a. Mortality loadings for claims with high care needs (reducing life expectancy by 18 years) and for moderate care needs (reducing life expectancy by 8 years).	Mortality improvement of 1.5% p.a.
Income Support	To retirement age on all operationally active claims. Weekly payments based on historical experience and estimates provided by RTWSA.	To retirement age on all operationally active claims. Weekly payments based on historical experience.
Treatment Related Costs	Paid for life. Based on historical experience and	Paid for life. Based on historical experience with an

	Severe Traumatic Injuries	Other Serious Injury
and Other[2]	estimates provided by RTWSA. Allowed for IBNER on Other and Medical costs above identified costs.	allowance for a reduction in medical and treatment utilisation on claims at early durations.
Lump sums[3]	Paid to claimants who have not already had a lump sum, based on assessed WPI, or an assumed average WPI if no assessment has been undertaken as yet.	
Legal and Investigation	Legal costs are modelled as a percentage of IS costs, net of payments to date. An average ultimate investigation cost is made per claim, net of payments to date.	
Recoveries	Projected on claims identified by RTWSA as having recovery potential.	Applied an ultimate recovery proportion net of recoveries to date.
Common Law	Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.	
Future cost escalation	WCI: IS AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 3% p.a. on Treatment and Other	WCI: IS AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment and Other
IBNR Assumptions	IBNR claims in the latest three accident years only. Claim size based on historical experience of current claims.	IBNR claims in the latest eleven 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 of current known and potential claims.

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

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

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

At the current valuation the approach for valuing Medical and Treatment benefits has been slightly modified. Previously the ongoing Medical and Treatment selections were based purely on the payment history of each claim. At the current valuation, claims at earlier durations (up to 7 years from the valuation) have had their ongoing payment level set slightly lower than their recent history, as early medical and treatment costs tend to be higher than ongoing longer term levels.

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

9.4 Claim Numbers

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

Table 9.3 – Serious Injury Claim Numbers

	Jun16 Valuation			Dec15 Valuation		
	Severe Traumatic	Other SI	Total	Severe Traumatic	Other SI	Total
Known Serious Injuries	159	320	479	143	298	441
plus Potential Serious Injury claims[1]	0	411	411	0	368	368
Total Identified Serious Injuries	159	731	890	143	666	809
less Claims not on ongoing benefit[2]	46	282	328	33	217	250
plus Future Serious Injury (IBNR)	10	129	139	9	123	132
Serious Injury Claims Valued	123	578	701	119	572	690

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

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

Our Serious Injury projection incorporates 890 claims identified by ReturnToWorkSA (noting 328 of these are excluded from our valuation as are deceased, rejected, or redeemed). In addition, we allow for a further 139 IBNR claims as at 30 June 2016.

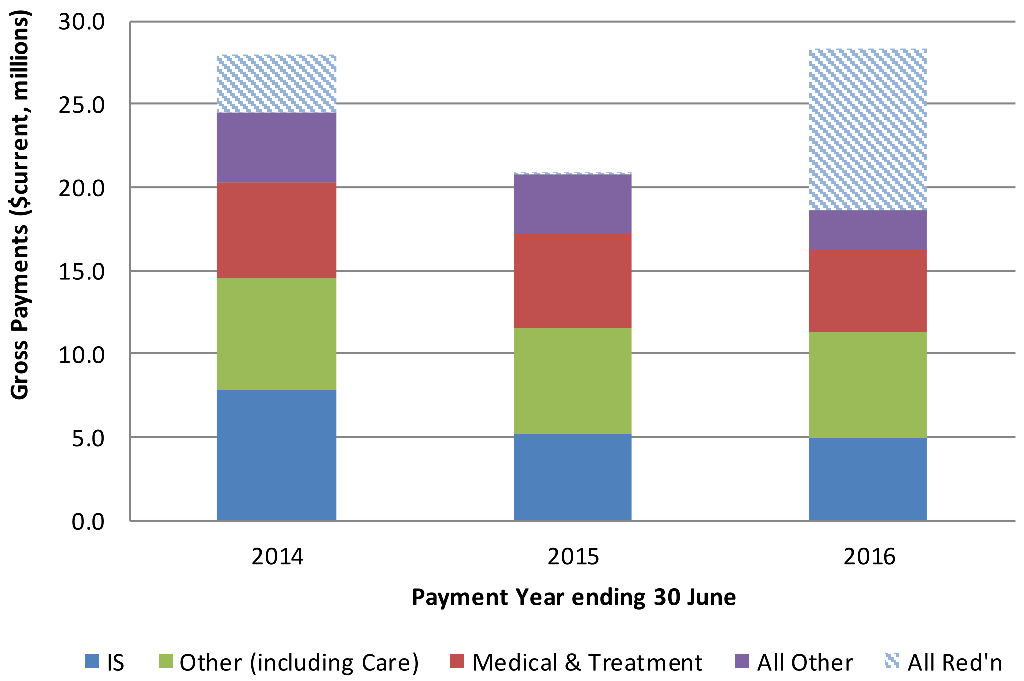
Section 4.2 included additional information on the number of Serious Injury claims.

9.5 Valuation of Severe Traumatic Injury claims

9.5.1 Payments by Type

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

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



Around $74 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of almost $15 million over this same period and excluding recoveries and redemptions, this equates to an average of around $15 million per annum in net claim payments to (inflated to 30 June 2016 values), comprising around:

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

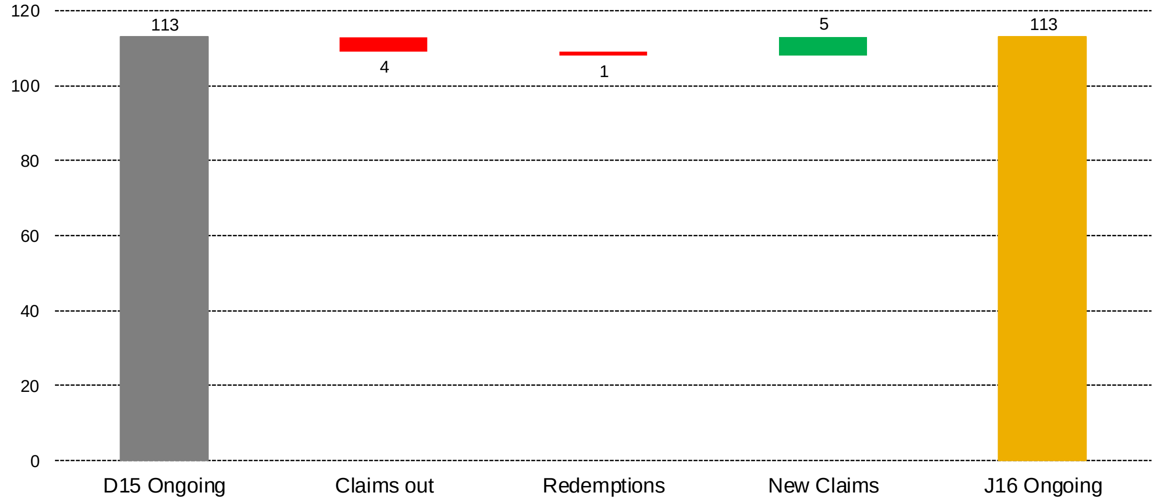
- $5 million per annum in Income Support
- $3 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.2 million per annum)
- $5 million per annum in recoveries.

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

9.5.2 Claimant Profile

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

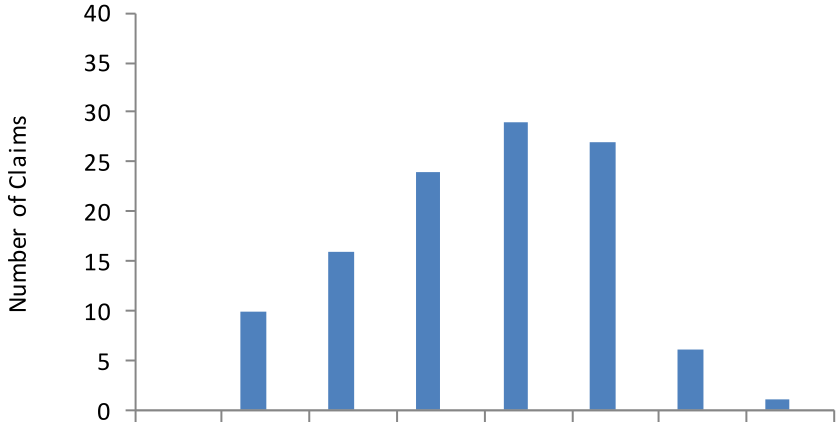
Figure 9.2 – Movement in Severe Traumatic Injury Claim Numbers



There are 113 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at June 2016, compared to 113 at the previous valuation. Of the additional five new Severe Traumatic Injury claims, one of these was already being valued for lifetime benefits in the Other Serious Injury claims cohort at December 2015.

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

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



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	10	16	24	29	27	6	1
Loaded Life Expectancy	0	59	46	34	24	18	7	1

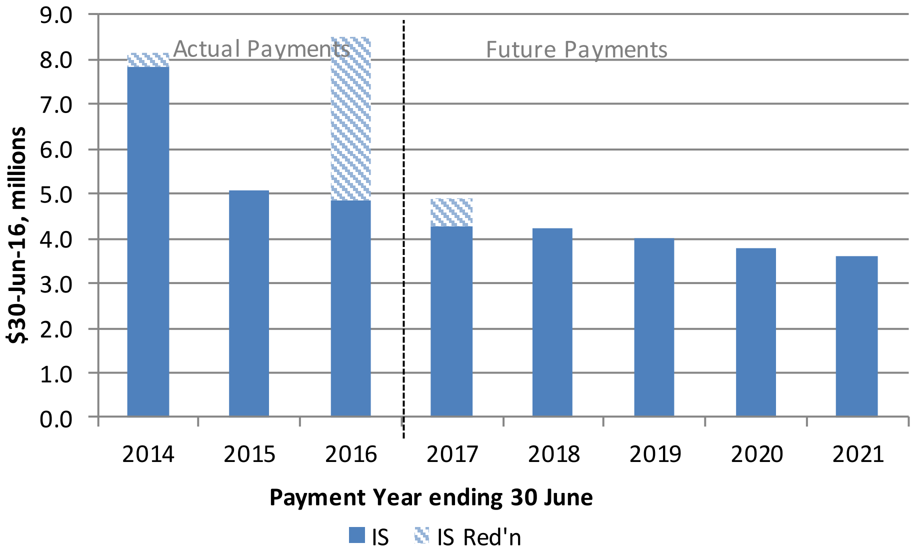
Severe Traumatic Injury claimants are currently around 50 years old on average, with an expected future life expectancy of around 30 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was 40 years.

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

9.5.3 Income Support

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

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

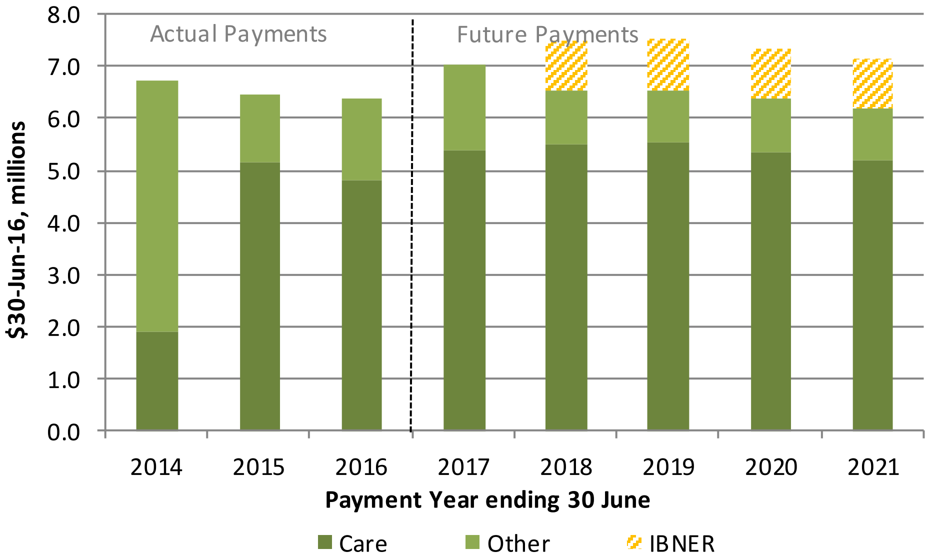


We estimate around $4.3 million will be paid in Income Support to Severe Traumatic Injury claims in 2017 and a small amount to be paid in Income Support redemptions. There is a slight reduction from the recent payment levels due mainly to the impact of recent redemption activity (which has commuted future 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 18 years of the 2016 payments (excluding redemptions).

9.5.4 Care and Other Costs

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

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

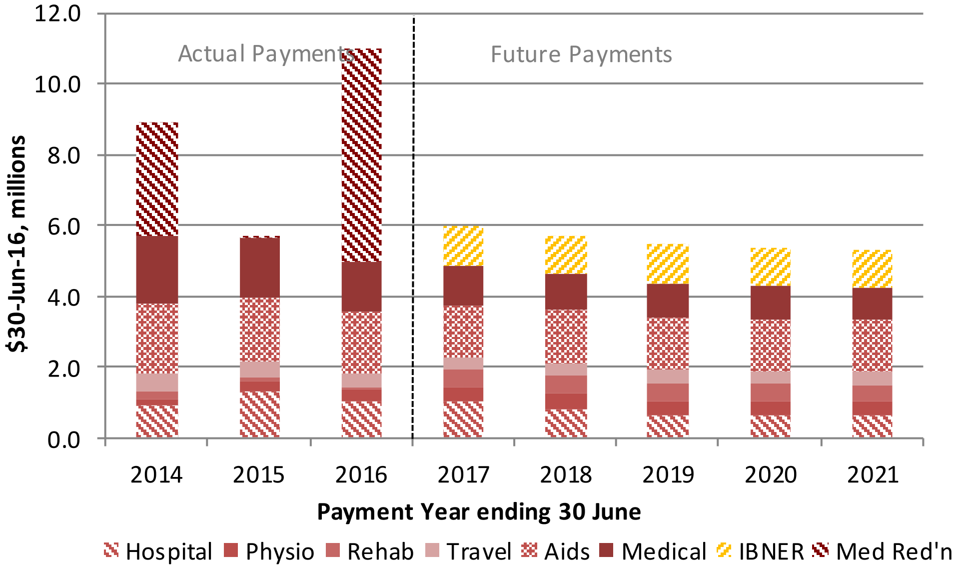


We expect $7.0 million of other and care payments in 2017, representing a slight increase on the 2016 year. Payments then increase in the short term due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture an annualised contribution for other benefits (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 28 years of the 2016 payments.

9.5.5 Treatment and Related Costs

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

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

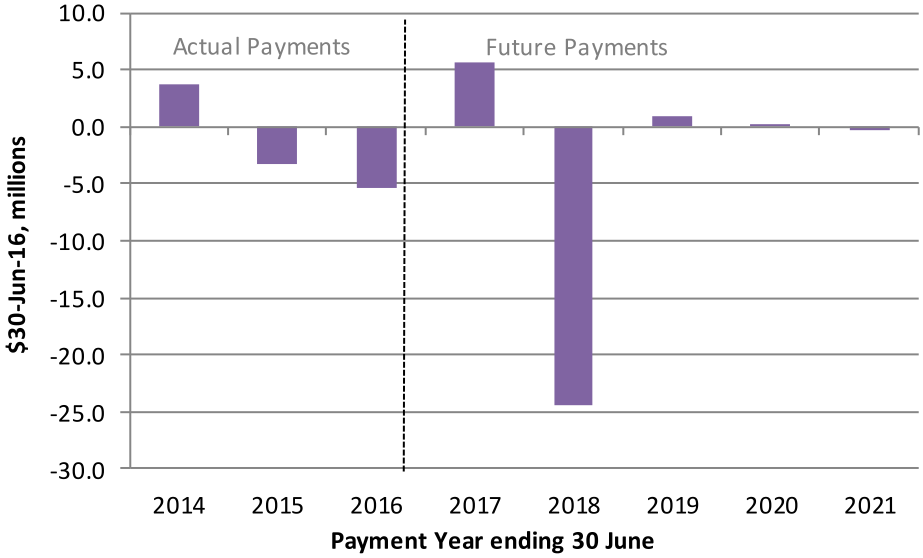


We expect future treatment and related payments of $6.0 million in 2017. The regular cost is slightly higher for 2017 to account for anticipated one-off aids and appliances costs and reduces to historical levels from 2018 onwards. The outstanding claims projection equivalent to 36 years of 2016 payments (excluding redemptions).

9.5.6 All Other Payments

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

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



In the three years to 30 June 2016, a net amount of -$4.9 million of other benefits was received for Severe Traumatic Injury claims. Our future projections include:

- Lump sum benefits of $11.4 million paid to current Serious Injury claims who have not yet had a lump sum paid

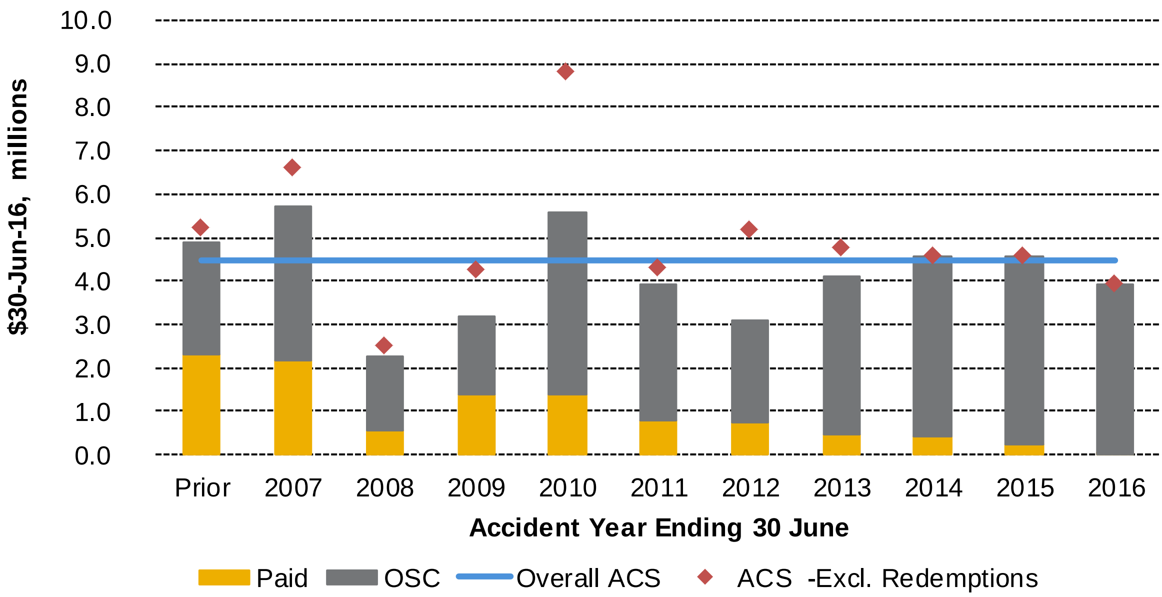
- Legal and investigation costs of $4.2 million
- Recoveries of $31.7 million, for those claims where ReturnToWorkSA has identified recovery potential. The majority ($22m) comes from four claims where ReturnToWorkSA have explicitly estimated recovery amounts. The ultimate recovery rate on all Severe Traumatic Injury claims is 4%.

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

9.5.7 Overall Results and Implications

Figure 9.8 shows the net ultimate average claim size across all 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 – All Severe Traumatic Injury Claims ($Jun-16)



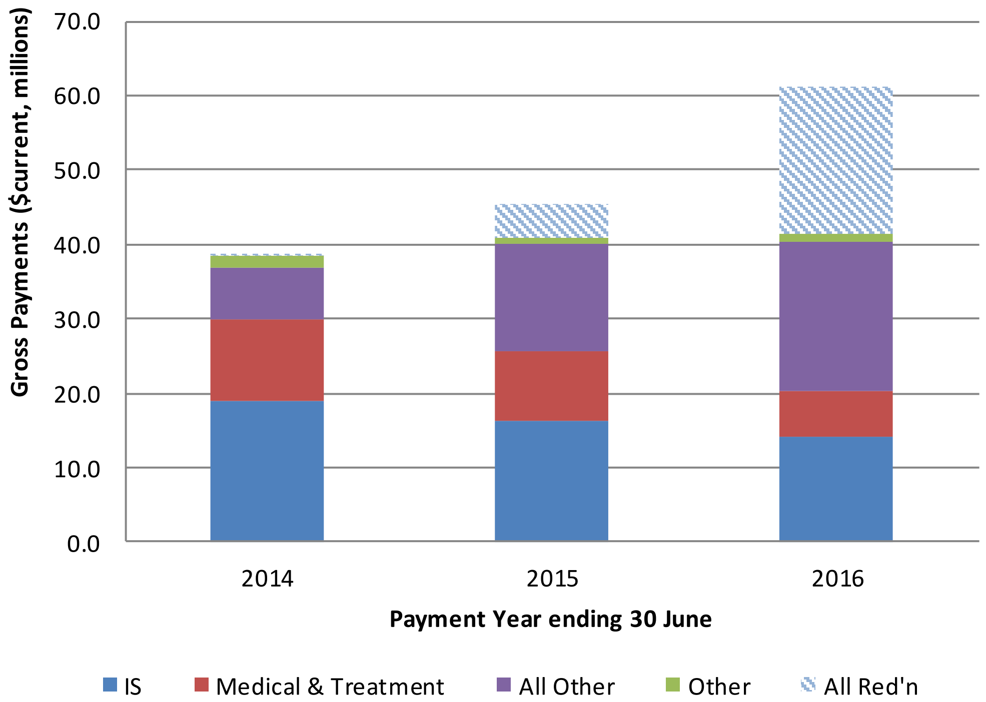
The average claim size across current Severe Traumatic Injury claims is around $4.4 million in current dollar values. This is essentially unchanged since the previous valuation. We observe that the average cost for ongoing claims is slightly higher than this amount, which is not surprising as claims that are closed or redeemed have generally been achieved at less than the full lifetime value.

9.6 Valuation of Other Serious Injury claims

9.6.1 Payments by Type

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

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



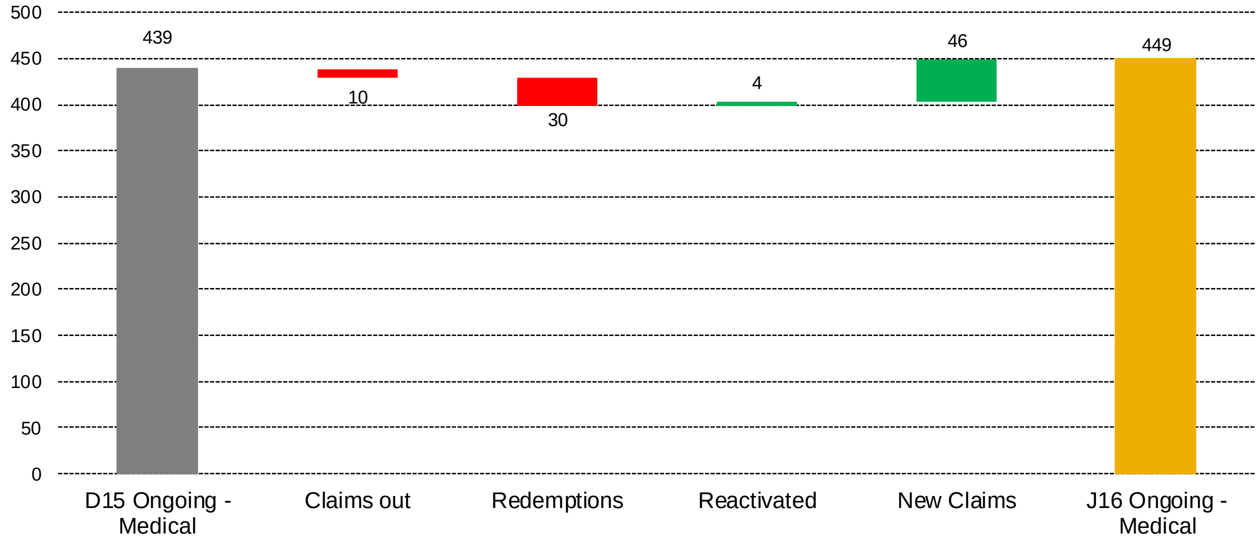
Around $145 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $7 million over this same period and removing redemptions, this equates to an average of around $40 million per annum in net claim payments (inflated to 30 June 2016 values), comprising:

- $16 million per annum in Income Support
- $10 million per annum in medical, treatment and related benefits
- $12 million per annum in lump sums
- Only small amounts of other benefits ($1.5 million).

9.6.2 Claimant Profile

Figure 9.10 shows the number of known Other Serious Injury ongoing claims at the current and previous valuations.

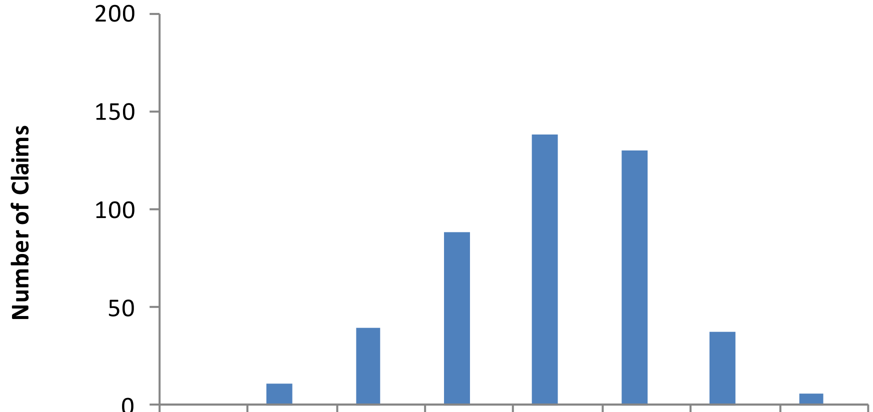
Figure 9.10 – Movement in Other Serious Injury Claim Numbers (Ongoing Entitlement)



There are 449 active (i.e. with expected ongoing benefits) Other Serious Injury claims at June 2016, compared to 439 at the previous valuation. The number of new claims was higher than expected, which was partially offset by the number of redemptions.

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

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



	<20	20s	30s	40s	50s	60s	70s	>80
Number of Claims	0	11	39	88	138	130	37	6
Standard Life Expectancy	0	61	52	41	31	22	14	8

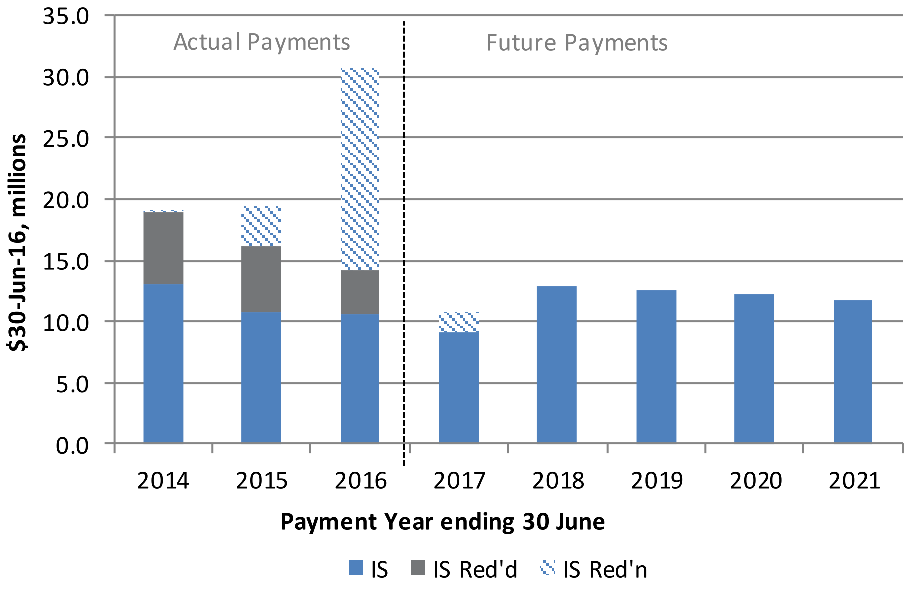
The Other Serious Injury claims are currently around 55 years old, with an expected future life expectancy of just over 30 years (after allowing for mortality, including mortality improvements). We note the average age at injury was around 46 years.

Around 68% of the current Other Serious Injuries have a WPI assessment, averaging just over 30%. However a number of these claims have WPI assessments of less than 30% (noting that the current list includes some of those *potentially* reaching 30% WPI in future). The average impairment level excluding these low assessments is around 38%.

9.6.3 Income Support

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

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

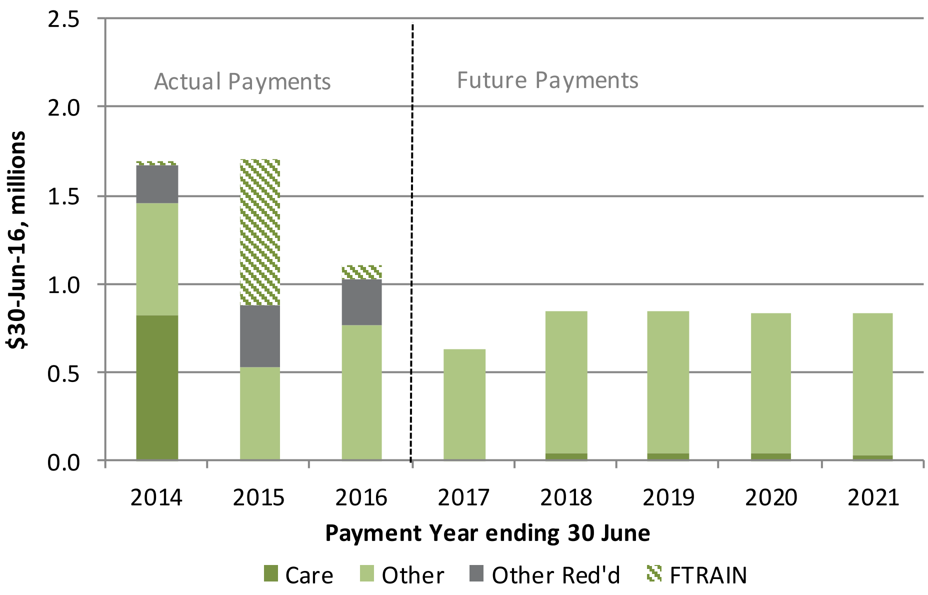


We estimate around $9.2 million will be paid in Income Support and a further $1.5 million in Income Support redemptions will be paid to Other Serious Injury claims in 2017. This is lower than recent levels as a result of the high recent redemption activity. Future payments will generally reduce over time in line with expected mortality and retirement, although there is a stepwise change between 2017 and 2018 as additional IBNR claims are all assumed to move into the serious injury group at one year's duration.

9.6.4 Care and Other Costs

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

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



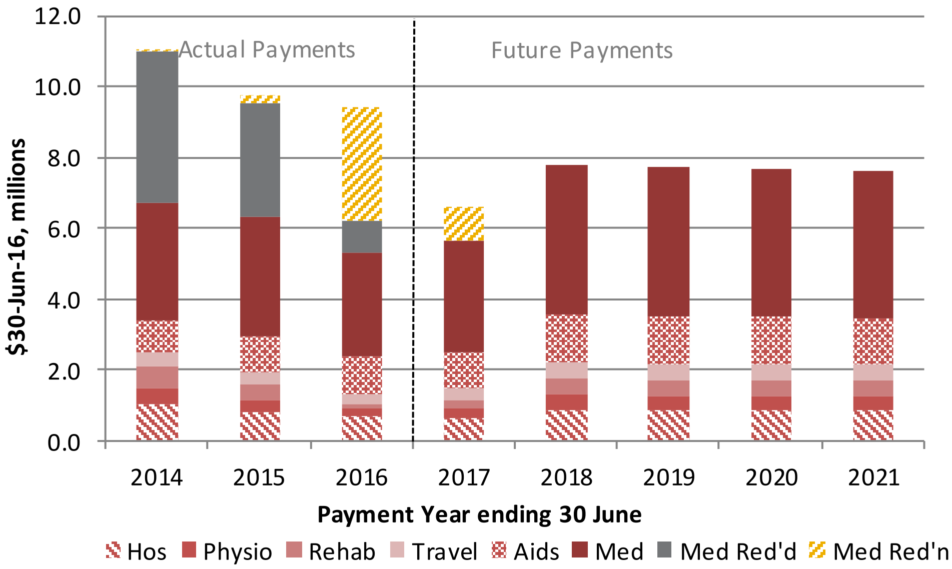
Other Serious Injury claims receive very little in care costs; almost all the care paid in the last three years related to a claimant who is now deceased or FTRAIN payments relating to dispute settlements.

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

9.6.5 Treatment and Related Costs

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

Figure 9.14 – Treatment and Related Payments – Other Serious Injury claims ($Jun-16)

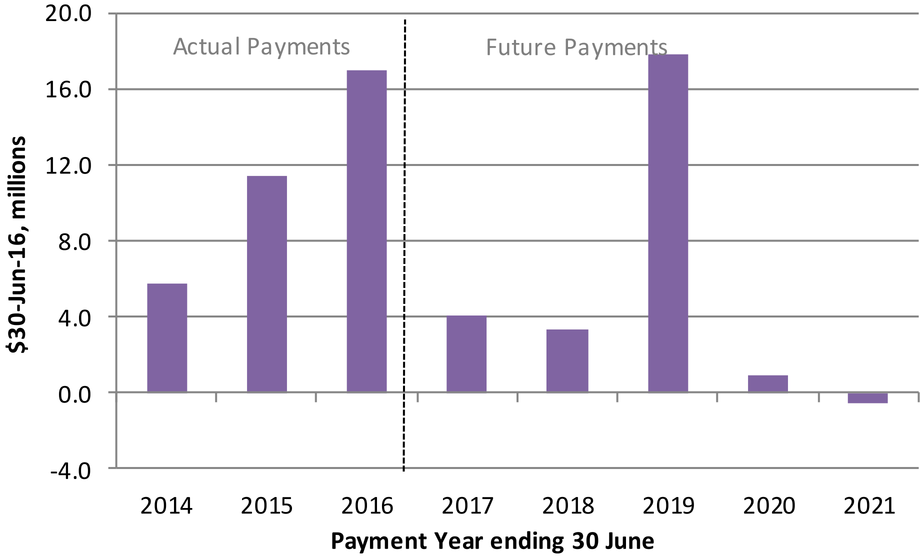


We expect treatment and related payments of $5.0 million in 2017 for ongoing claims, with an additional $1.0 million of payments relating to redemptions. Payments thereafter increase due to IBNR (in 2018) claims offset by reductions in line with mortality.

9.6.6 All Other Payments

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

Figure 9.15 – All Other Payments – Other Serious Injury claims ($Jun-16)



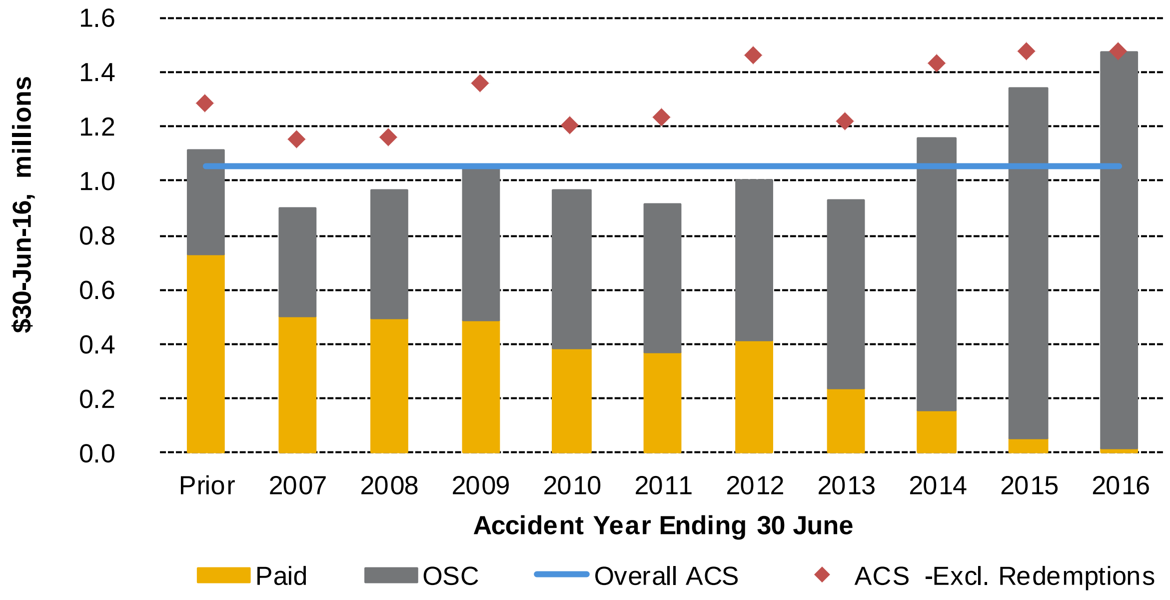
Our future projections include:

- Lump sum benefits of $27.5 million paid to current Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $13.6 million
- Recoveries of $9.3 million.

9.6.7 Overall Results and Implications

Figure 9.16 shows the net ultimate average claim size (inflated to 30 June 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 known Other Serious Injury claims is around $1.0 million, however excluding claims that have been redeemed (a practice which is not expected to continue) the average size is $1.4 million and appears generally consistent across accident years. We have therefore adopted an average claim size of $1.4 million for IBNR Other Serious Injury claims (adjusted only for inflation since the previous valuation), as these will be managed entirely under the RTW Act rules.

9.7 Valuation Results and Actuarial Release

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

Table 9.4 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Jun-16 from Dec-15 Valuation	Jun-16 Estimate on Dec-15 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Jun-16	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	298.3	276.9	-21.3	-1.7	23.0	8%
2005/06 - 2012/13	649.9	633.4	-16.5	3.7	12.8	2%
2013/14 - 2014/15	228.2	218.8	-9.3	0.8	8.5	4%
2015/16[1]	113.9	112.7	-1.2	-0.1	1.3	1%
Total	1,290.3	1,241.9	-48.4	2.7	45.7	4%

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

In aggregate, the total release is largely explained by the impact of additional redemptions achieved with the impact of other changes netting each other out.

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

Table 9.5 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(3)
Difference from projected liability		
Changes to Valuation Basis		
Extra SI claims	(92)	
Claims no longer SI	16	
Redemption	53	
Entitlement, selection and basis changes	34	
IBNR changes	38	
Subtotal		48
Total		46

The movements are driven by:

- new claims identified as Serious Injury (net $92 million increase), which is likely to continue over the next one to two years as assessments are completed
- the closure of a large number of Serious Injury claims following recent redemption activity ($53 million reduction)
- changes in IBNR numbers in offset to the new claim numbers ($38 million reduction)
- Reductions in ongoing selections, generally related to medical and treatment costs ($34 million reduction).

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 to applying to future durations 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 adopted long term forward rate and the 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 in the range of 2% to 3% p.a.), combined with expectations of long term real yields
- Beyond the end of our extrapolation, the yield is maintained at the long term forward rate.

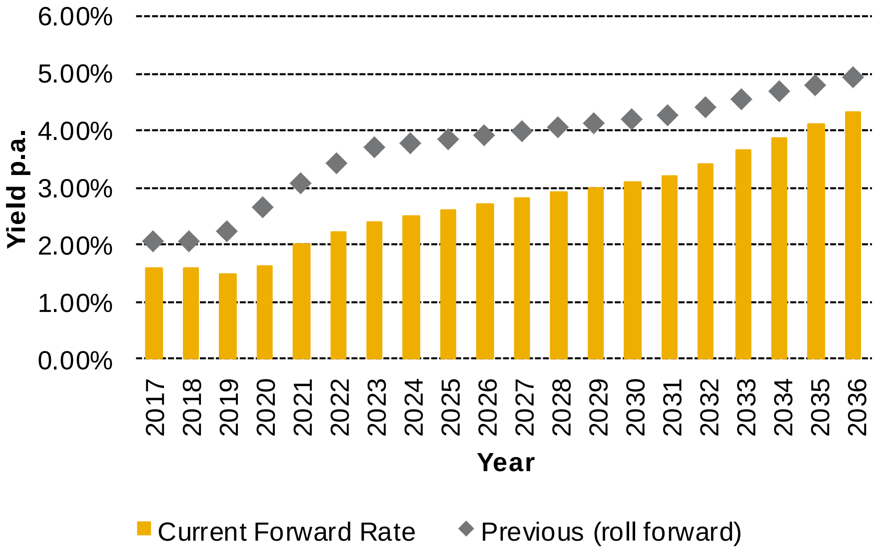
The resulting forward rates are applied to the projected cashflows for each future period. When discounting using forward rates, the relevant rates must be ‘chained’ together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

Government bond yields at June 2016 are lower than at December 2015 at all durations out to 23 years. Beyond this point we have assumed a long-term rate of 5.00% p.a., 0.25% lower than the long-term rate of 5.25% at December 2015.

Figure 10.1 shows the current forward rates, and compares these to the corresponding forward rates implied by the previous valuation (i.e. rolled forward to the current valuation date). This shows that the discount rates have decreased for all durations (particularly at medium durations five to 15 years into the future) with the equivalent single discount rate decreasing from 3.7% p.a. at 31 December 2015 to 3.3% p.a. at 30 June 2016.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



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

10.2 Inflation

In setting our inflation assumptions we consider:

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

In summary, our assumptions at the current valuation are:

- Wage Price Inflation has been assumed to be 2.2% p.a. for the coming year, increasing to 2.75% p.a. after five years. This reflects both current forecasts and the current low interest rate environment.
- Wage Price Inflation assumptions gradually increase from this level to 3.00 % p.a. over the next 10 years.
- Beyond 25 years after the valuation date, Wage Price Inflation is 3.25%, unchanged from the previous valuation.
- The long-term gap between Wage Price Inflation and the yield is 1.75%, a reduction of 0.25% from December 2015.
- Average Weekly Earnings (AWE) is set to be equal to Wage Price Inflation for the next 5 years and beyond that AWE is 0.25% higher than Wage Price Inflation; at the previous valuation AWE was 0.25% higher than Wage Price Inflation at all durations. This front end reduction reflects the current

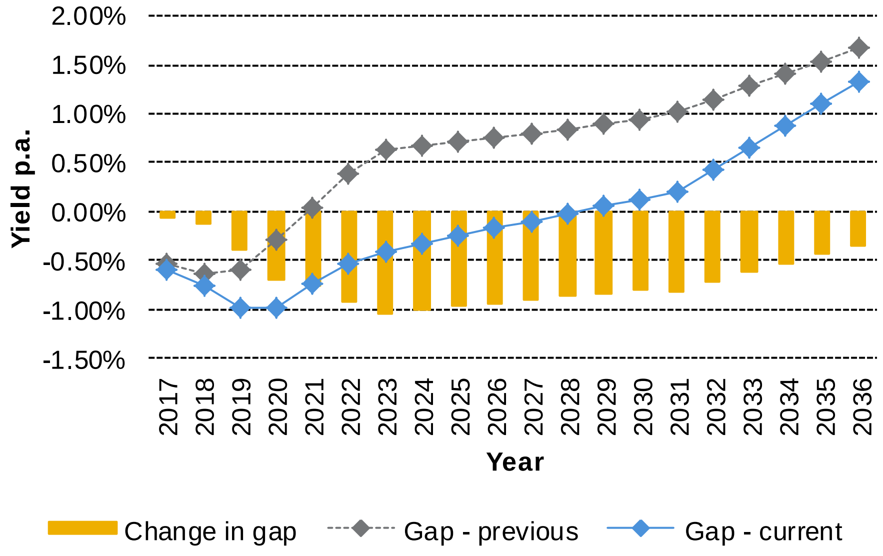
economic climate and an expectation of movement away from higher income industries such as mining and the effect of potential increases in underemployment and reduced hours worked.

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

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

The combined impact of the above movements in adopted inflation and discount rates is a decrease in the 'gap' between inflation and discount rates, as shown in Figure 10.2. The gap is now negative out to 2029, and the impact of this change is to increase the scheme liability, which is quantified in Section 11.3

Figure 10.2 – Gap between Adopted WPI and Discount Rates



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 Wage Price Inflation.
- The maximum Lump Sum entitlement is indexed annually by the adopted CPI rate (the maximum entitlement applies to all accidents occurring in a year).
- All other entitlements are inflated at the adopted AWE rate, with allowance for superimposed inflation where warranted.

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

10.3 Expenses

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

With the passage of the RTW Act there has been (and will continue to be) a period of high expenses before the scheme returns to a more stable long term basis. The approach we have taken is as follows:

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

(ii) For Short Term Claims, in conjunction with ReturnToWorkSA we estimated the expenses of running off those claims until the end of 2017/18 when the transition will be largely complete. We have reviewed our assumptions at the current valuation and in light of the high redemption and settlement activity, which have reduced ongoing claim numbers, we have revised our allowance downwards to reflect the lower number of transitional claims remaining. This results in a reduction of around $15 million on an undiscounted basis.

(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 few 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 11.7% of gross outstanding claims, down from 13.8% 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 2015.

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 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

Risk Margin Group	Total CV Jun-16	Total CV Dec-15
Serious Injury	26.5%	26.5%
Short Term Claims		
IS + Redemption	14.5%	14.5%
Lump Sums	23.0%	23.0%
Legal + Investigation	25.8%	25.8%
Medical and Other Treatment	17.0%	17.0%
Recoveries	22.4%	22.4%
Total (Undiversified)	24.3%	23.9%
Total (Diversified)	**20.7%**	**19.9%**
Diversification	14.9%	16.6%

While the individual CVs are unchanged for each entitlement group, the total undiversified CV is higher due a shift in the mix of entitlements from Short Term Claims, which have lower CVs, to Serious Injury claims which have a higher CV. After allowing for diversification benefits, the overall CV is 0.8% higher than at the previous valuation.

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% (increased from 6.5%).
- For a 75% probability of sufficiency – a risk margin of 12.5% (increased from 12.0%).

Given the Serious Injury liabilities are expected to continue growing over time, it is likely that the overall risk margin will also need to be adjusted from time to time to reflect the latest claims mix.

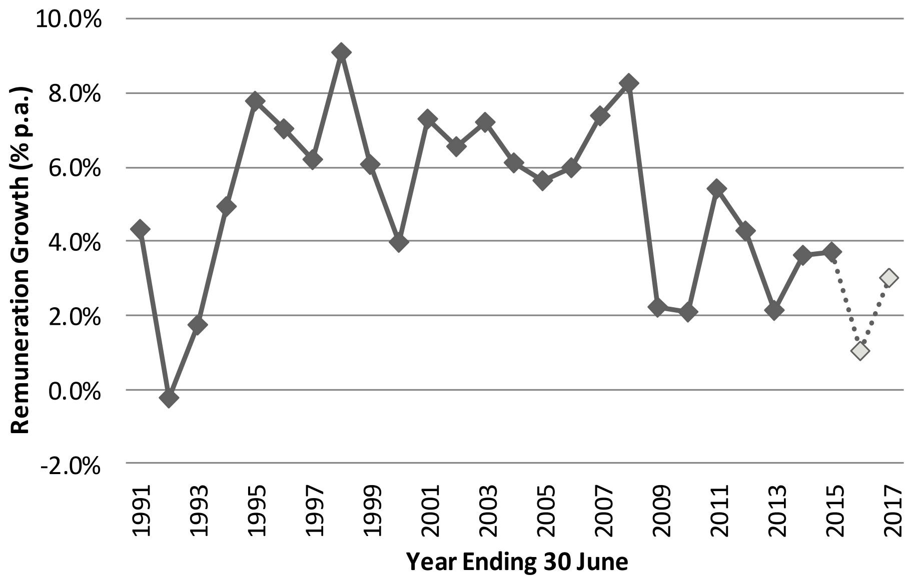
10.6 Non-Exempt Remuneration

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 $25.6 billion for 2015/16, noting that it is still subject to estimation as premium returns are yet to be completed for the current year. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
  - The global financial crisis – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
  - A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.
- Despite remuneration growth briefly heading up to more 'normal' historical levels in 2011 and 2012, wage growth has since headed down towards levels seen during the GFC.
- ReturnToWorkSA is currently projecting 2016 remuneration growth at the lowest level in 25 years (since the national recession in the early 1990's). We understand this result is an expectation of low wage inflation (see Section 10.2) and increased unemployment (see Section 3.3.1), along with increasing 'under employment' or reduced hours of work.

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

11 Valuation Results

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

- The central estimate of outstanding claims as at 30 June 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 31 December 2016 and 30 June 2017
- Reconciliation of results with 31 December 2015 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2016 is set out in Table 11.1. This liability relates to all claims which occurred on or before 30 June 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	163	278	441	20%
Redemptions	28	3	31	1%
Lump sums	177	39	216	10%
Worker legal	39	8	47	2%
Corporation legal	26	9	35	2%
Medical	112	468	580	27%
Hospital	16	77	93	4%
Travel	6	44	50	2%
Rehabilitation	14	59	73	3%
Physical Therapy	9	43	52	2%
Investigation	2	1	4	0%
Other (including Care)	11	379	390	18%
Common law	2	0	2	0%
LOEC	1	0	1	0%
Commutation	2	0	2	0%
Gross Liability	609	1,408	2,016	93%
Recoveries	-34	-42	-76	-3%
Expenses	115	120	235	11%
Net Central Estimate	690	1,486	2,176	

The outstanding claims liability before recoveries and expenses is estimated to be $2,016 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,176 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	43	302	344	16%
Jun-06	7	57	63	3%
Jun-07	10	99	109	5%
Jun-08	11	81	92	4%
Jun-09	15	62	77	4%
Jun-10	18	113	131	6%
Jun-11	23	104	127	6%
Jun-12	29	79	108	5%
Jun-13	44	132	176	8%
Jun-14	65	118	183	8%
Jun-15	109	131	240	11%
Jun-16	236	129	365	17%
Gross Liability	609	1,408	2,016	93%
Recoveries	-34	-42	-76	-3%
Expenses	115	120	235	11%
Net Central Estimate	690	1,486	2,176	100%

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

Table 11.3 – Impact of Discounting

	Serious Injuries	Short Term Claims	Total
	$m	$m	$m
Inflated	3,641	723	4,364
Inflated and Discounted	1,486	690	2,176
Ratio	41%	95%	50%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 65% probability of sufficiency, $2,328 million.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,408		
Gross Claims Cost - Short Term Claims	609		
Claims Handling Expenses	235		
Gross Outstanding Claims Liability	2,251	158	2,409
Recoveries	-76	-5	-81
Net Outstanding Claims Liability	2,176	152	2,328

If a 75% probability of sufficiency were to be adopted, the provision would increase to $2,448 million, an increase of $120 million.

11.3 Movement in Liability

Our central estimate is $73 million higher than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 – Movement from Previous Valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at Dec-15	1,958	-85	271	2,143
Plus liability for claims incurred in the period	201	-5	19	215
Less Expected Payments to Jun-16	233	-6	48	275
Plus Interest (unwinding of discount)	20	-1	0	19
Liability Projected from Previous Valuation	1,947	-85	241	2,103
Current Valuation	2,016	-76	235	2,176
Difference	69	9	-6	73

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

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

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

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

	Projected Jun-15 Liability[1]	AvE Payments in 6 mths to Jun 16	Actuarial Release [2]
	$m	$m	$m
Liability at Dec-15 Valuation	2,143		
Projected Liability at Jun-16 (from Dec-15 valuation)	2,103		
Movement in liability due to claims performance	-69	27	42
Impact of Change in economic assumptions	142		
Recommended Liability at Jun-16	2,176		

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

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

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at June 2016

The actuarial release over the period is a release (favourable result) of $42 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	-2.1	-4.2	-6.3	
Redemptions	-27.4	-13.4	-40.8	
Combined	*-29.5*	*-17.6*	*-47.1*	*-10.7%*
Lump Sums	3.3	-2.6	0.6	0.3%
Worker legal	11.1	-1.6	9.5	16.9%
Corporation legal	4.7	2.4	7.2	16.8%
Investigation	1.9	-0.1	1.8	37.7%
Medical	-3.8	33.7	29.9	5.3%
Other	-1.5	10.0	8.5	2.3%
Hospital	-2.4	5.0	2.6	2.9%
Travel	0.2	5.8	6.0	11.8%
Physical therapy	-0.9	3.7	2.8	5.5%
Rehabilitation	2.1	2.6	4.7	6.8%
Common Law	0.1	0.0	0.1	5.9%
LOEC	0.1	0.0	0.1	10.9%
Commutation	-0.1	0.0	-0.1	-6.9%
Gross Liability	-14.5	41.2	26.7	1.4%
Recoveries	-6.2	4.4	-1.7	2.0%
Expenses	12.7	4.3	17.0	7.0%
Net Central Estimate	-8.0	49.9	42.0	2.0%

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

The major factors contributing to the $42 million actuarial release at the current valuation are:

- For **Short Term Claims**, the $8 million strengthening (negative actuarial release) comprises:
  - A net strengthening of nearly $30 million for income support and redemptions. For the most recent accident year (2015/16), the first cohort of post-reform clams, the numbers of claims receiving IS payments are higher than modelled at our December 2015 valuation. For transitional claims where there are currently high levels of redemption activity (notably 2014/15), the rates of discontinuance by other means have recently been lower than expected.
  - Legal costs (both worker and corporation) have large reductions, recognising the speed at which legacy disputes have been resolved and the recently lower number of new disputes.
  - Small increases on some treatment related expenditure (medical and hospital in particular).
  - Reduced allowances for future recoveries, following the reductions in gross scheme costs and speeding up of recoveries (which means fewer recoveries remain outstanding for collection in future).
  - A reduction in the claims handling expense loading, releasing $13 million.
- For **Serious Injury claims**, there was an overall release of $50 million, due to:
  - Higher numbers of newly identified SI claims than expected being offset by positive outcomes from redemption activity and confirmation that a small number of claims are not Serious Injuries; this produced a net saving of $15 million
  - Changes in entitlement levels and valuation basis changes releasing $34 million.

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

11.3.2 Impact of Economic Assumption Changes

Changes to inflation and discount rate assumptions increased the central estimate by $142 million.

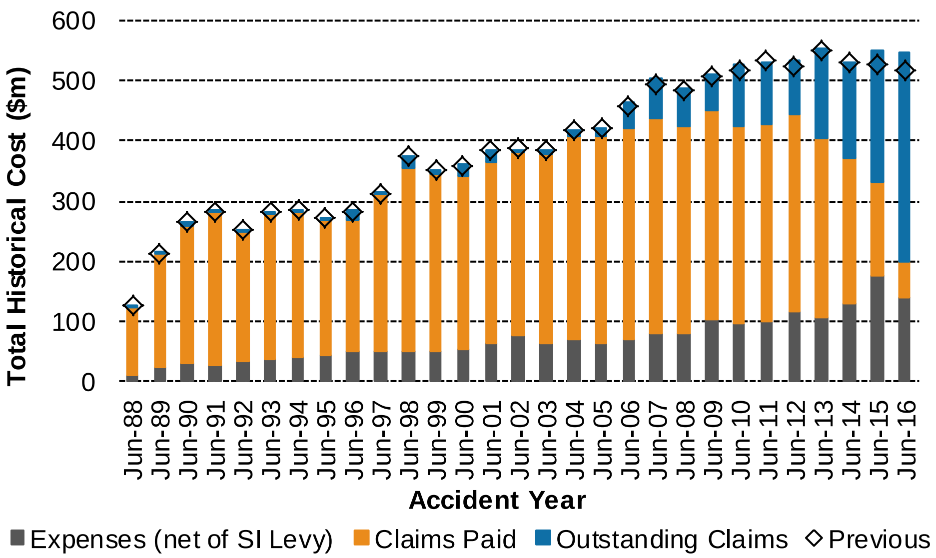
As discussed in Section 10.1 there have been decreases in discount rates for all durations, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

11.4 Historical Scheme Costs

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

Figure 11.1 summarises the currently estimated historical costs for each year since the Scheme began. As this shows, commencement of the RTW Act has acted to contain the cost for recent accident years into the $500 million to $550 million range, breaking the strong upward trend seen in the lead up to 2010. Scheme expenses were particularly high in 2015 as a result of additional transition related expenses. In general the hindsight cost estimates are close to the previous valuation estimates for years up to 2014, with the 2015 and 2016 injury years now expected to cost more than was previously estimated.

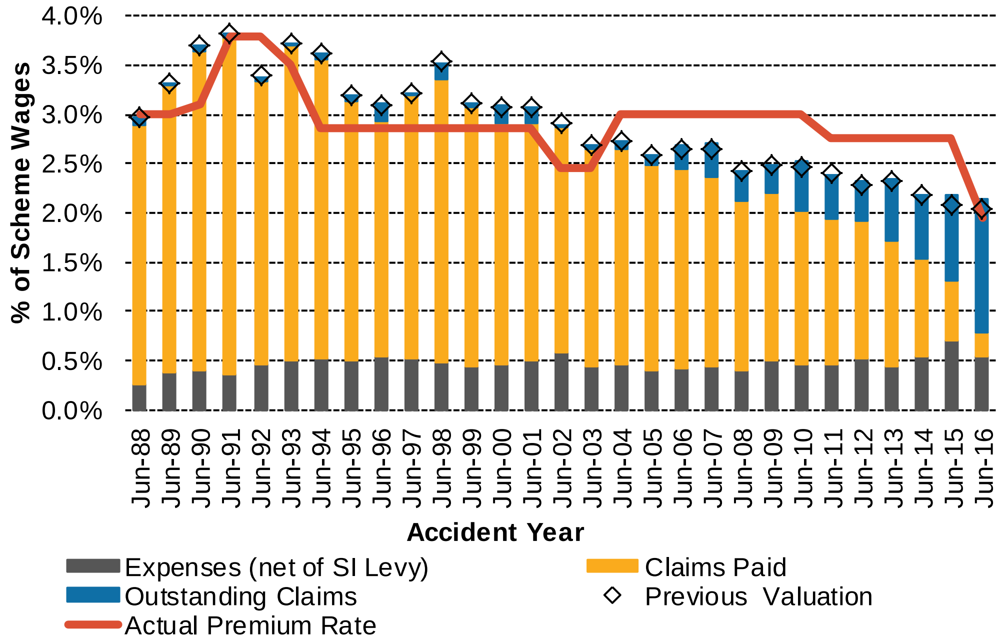
Figure 11.1 – Historical Cost Discounted to Accident Year



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

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

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



The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages
- For accident years since 2011 the costs are even lower, as claims have had less opportunity to remain on long term benefits.
- The current estimate of the BEP for the 2016 accident year is 2.14%, up from 2.03% at the December 2015 valuation; there has been a similar increase for the 2015 accident year. Changes in economic assumptions explain just over half of this increase, with the remainder due to increases in the cost of STC.
- Scheme expenses were relatively high in 2014 and 2016, and particularly high in 2015, as a result of additional transition related expenses. ReturnToWorkSA expects that scheme expenses will 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 2016 still involves a degree of estimation.

11.5 Future Cashflows

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

Table 11.8 – Projected Cashflows

Entitlement Group	Projected Cashflows for Period			
	Jun-16 to Dec-16	Dec-16 to Jun-17	Jun-17 to Dec-17	Dec-17 to Jun-18
	$m	$m	$m	$m
Income Support & Redemption	97.3	82.5	71.2	65.6
Medical	31.3	32.1	32.1	30.3
Lump sums	31.0	26.9	31.3	35.6
Rehabilitation	5.8	5.9	6.5	6.7
Physical Therapy	5.0	4.9	5.1	5.0
Hospital	8.5	8.3	8.1	7.9
Worker legal	7.6	7.5	6.0	6.0
Other	7.4	8.1	6.6	6.8
Corporation legal	6.5	6.2	6.3	6.4
Travel	2.7	2.7	2.9	3.0
Investigation	1.3	1.3	1.2	1.2
Commutation	0.2	0.2	0.2	0.2
LOEC	0.1	0.2	0.1	0.2
Common law	0.1	0.1	0.1	0.2
Recoveries	-5.2	-5.6	-7.3	-31.8
Net Claims Cost - Total	199.7	181.5	170.5	143.2
Serious Injuries (net)	27.7	18.5	21.4	-2.4
Short Term Claims (net)	172.0	162.9	149.1	145.5

Serious injury cashflows show as a net negative amount in the fourth future half-year, as nearly all recovery amounts are assumed to occur at that time; given the timing of recoveries is quite variable, it is most likely that actual experience will vary from this.

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 31 December 2016 and 30 June 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 31 December 2016 and 30 June 2017

	Half year ending	
	Dec-16	Jun-17
	$m	$m
Central Estimate at Period Start	2,176	2,186
Plus Additional Liability Incurred in Period	235	239
Less Expected Payments in Period	-240	-224
Plus Interest (unwind of discount)	16	17
Projected Central Estimate at Period End	2,186	2,217

[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 31 December 2016 to be $2,186 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 July 2016 to 31 December 2016.

The projected *increase* to 31 December 2016 in the liabilities relates to the fact that the additional liability incurred on new Serious Injury claims is more than the expected payments on existing Serious Injury claims.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 31 December 2015 valuation we projected an additional claim cost liability of $196 million would be incurred from claims arising in the January to June 2016 half-year. Our current projection for the ultimate value of this liability is $198 million, an increase of 1.0%. This increase is mainly due to a higher number of claims receiving income support in the latest accident year than previously expected.

Table 11.10 – Comparison of December 2015 Projections to Current Valuation

For period 01 Jan 2016 to 30 Jun 2016		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-15 Valuation	196	
Incurred (current valuation)	198	1.3%

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 passage of and transition to the RTW Act.

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

We have considered the uncertainty in four broad categories:

- Economic – employment, inflation, investment markets
- Legal – disputes, tribunal decisions, appeal court decisions
- Claim outcomes – the way scheme participants such as injured workers, employers and service providers behave in future (sometimes referred to as 'scheme culture') and the outcomes achieved
- 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 claim outcome risks.

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

Premiums Charged

Uncertainty relating to claim cost outcomes also applies to our estimates of the costs for 2015/16 claims which form the basis of our latest Break Even Premium calculations. This means that any desirability for a 'buffer' (margin) in the premiums actually charged by the Scheme should consider this uncertainty.

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

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	2.5% pa
Investment earnings	8% pa	1.5% pa
Real 'Gap'[1]	3%	-1%

[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 'claim outcomes' 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		BEP impact	
	$m	%	% Wage	% Change
30 Jun 16 OSC estimate (Including risk margin at 65% POS)	2,328		2.14%	
Strong Economic Scenario (3% gap between inflation and discount rate)	-689	-30%	-0.28%	-13%
Weak Economic Conditions (-1% gap)	+516	+22%	+0.22%	+10%
Economic assumptions return to pre-2008 levels over the next 5 years	-344	-15%	-0.11%	-5%

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

12.3 Legal Risk Scenarios

It is likely that the provisions in the current RTW Act will increasingly begin to be challenged as the hard boundaries on benefits take effect. The table below indicates the sensitivity of results to two scenarios around WPI assessments and "Top Up" lump sums. 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, impacting more than just lump sums and Serious Injury claim numbers.

Table 12.3 – Legal Sensitivities

	OSC Impact		BEP impact	
	$m	%	% Wage	% Change
30 Jun 16 OSC estimate (Including risk margin at 65% POS)	2,328		2.14%	
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.	+135	+6%	+0.17%	+8%
Restrictions on multiple assessments ('top ups') do not work as expected.	+120	+5%	+0.17%	+8%

The two scenarios shown above have a significant impact on the provision due to the impact that WPI assessments and "Top Up" lump sums have on Serious Injury claim numbers.

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:

- No increase in income support claim numbers for RTW Act claims (2015/16) – assumes that the higher numbers and payments observed to date relate entirely to speeding up of payments, due to WPRR time limits and increased proportion of Direct payments
- Future non-redemption exit rates for transitional claims (IS) – there is uncertainty around what is achievable in terms of future exits for these claim cohorts, where significant redemption activity has been focused in recent years. Our scenarios test the impacts of both lower and higher exit rates than our current valuation basis on the runoff of transitional claims.
- Increased access to surgery-related benefits via the 2015 Regulation changes – this increases the level of future IS and Medical costs
- Lump sums – leading to increases in the new future economic loss lump sum.

Table 12.4 – STC Sensitivities

	OSC Impact		BEP impact	
	$m	%	% Wage	% Change
30 Jun 16 OSC estimate (Including risk margin at 65% POS)	2,328		2.14%	
2015/16 Accident Year				
2015/16 year ultimate cost unchanged from prev valn	-12	-1%	-0.04%	-2%
Future IS Discontinuance for Transitional Claims				
Lower exit rates - consistent with poorest experience in recent years	+7	+0%	-	-
HIgher exit rates - consistent with best experience in recent years	-9	-0%	-	-
Treatment Costs				
Surgery costs emerge more than expected, approximately double the current allowance	+21	+1%	+0.01%	+0%
Lump Sums				
Economic Lump Sums emerge 20% higher than expected	+10	+0%	+0.03%	+2%

If the unfavourable IS experience to date for 2015/16 can ultimately be fully attributed to speeding up of payments, the overall BEP estimate for this year would reduce by 0.04%.

The IS exit rate scenarios produce relatively small changes, as they relate to only transitional claims – which have a maximum of one year's remaining IS payments.

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

We note that the impact of the future economic loss lump change is relatively minor at this time, as only the latest accident year has it available as a benefit (i.e. the future economic loss payment is not available to transitional claims).

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

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		BEP impact	
	$m	%	% Wage	% Change
30 Jun 16 OSC estimate (Including risk margin at 65% POS)	2,328		2.14%	
Ultimate claim numbers do not reduce from 2007-2013 levels	+112	+5%	+0.15%	+7%
Current IBNR and pending Other Serious Injury claims are ultimately two-thirds of the current allowance	-130	-6%	-	-
All pending Other Serious injury claims and a third of additional claims who have applied for top up lump sums reach 30% WPI.	+60	+3%	-	-
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).	+350	+15%	-	-
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.	+281	+12%	-	-
Superimposed inflation is 1% p.a. lower than assumed for medical and care.	-208	-9%	-	-

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:

- The removal of the ability to have subsequent WPI assessments may change behaviour such that claimants either wait longer to have their WPI assessment (i.e. the injury has fully stabilised) or that claimants attempt to include more aspects of injury in their initial assessment than they otherwise would. If this leads to the top-up restrictions having no impact on ultimate claim numbers then there would be around a $112 million strengthening on the OSC provision and the BEP would increase by 0.15% to 2.29% of wages.
- Accident years 2013 and prior have a significant proportion of the liability attributed to identified potential Serious Injury claims and a specific IBNR allowance relating to further claims being identified via top-up WPI assessments. If the ultimate number of claims who reach the 30% WPI threshold from this group is only two-thirds of the current allowance then the OSC provision would decrease by around $130 million.
- Conversely, the number of claims allowed for in this cohort could ultimately be higher than assumed in the current valuation. As applications for top-up assessments have now been applied for, the range of possible outcomes has been reduced. If a third of claims who have applied for a top-up WPI assessment and are not in the current valuation reach the 30% WPI threshold then the OSC provision would strengthen by about $60 million.

12.6 Scheme Expenses

We have investigated the impact of scheme expenses reducing to the long term expense rate of 0.4% of wages for the 2015/16; the expenses are currently higher than 'normal' due to scheme transition.

	OSC Impact		BEP impact	
	$m	%	% Wage	% Change
30 Jun 16 OSC estimate (Including risk margin at 65% POS)	2,328		2.14%	
Scheme expenses reduce to pricing basis assumption (0.4%)	n/a	n/a	-0.10%	-5%

12.7 Key Uncertainties

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

The main areas of uncertainty in our 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. Another factor is the new lump sum for future economic loss payable to Short Term Claims. With these changes 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 a key 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 for claimants applying prior to 30 June 2016; while we are now past this deadline, given most applications came in just prior to 30 June only limited information was available at the time of our work on how this will impact Serious Injury claim numbers. 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 previous Fair Work wage decisions 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 SI claim numbers. These include: the ultimate number of top-ups that are yet to emerge due to legislation changes, the impact the removal of top-ups will have on ultimate claim numbers and the number of claims from the 'potential' group that ultimately meet the 30% WPI threshold.

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

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

- **Legal precedent risk** – risks here include the possibility of decisions which are unfavourable to the Scheme or the cultures and behaviours of its participants. This risk is likely to remain for at least another year or two.
- **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** – unemployment rates are relatively high and there is particularly low wages growth at the moment. While there is no direct evidence to suggest this is causing problems, it is possible these factors could be contributing to the recently higher claim numbers and/or deterioration in RTW outcomes.

With the RTW Act provisions having commenced only on 1 July 2015, there is only one year of post-reform experience – and within this year, the experience has not yet 'settled'. The current valuation basis reflects our best estimate of how the post-reform 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. The RTW Act made very significant changes to the Scheme and its key features only came into effect from 1 July 2015.

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

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 years.

1987-88

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

1990-91

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

1991-92

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

1992-93

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

1994-95

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

1995-96

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

1998-99

Contract 1998 – reduced to five claims agents.

1999-00

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

2002-03

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

2004-05

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

2005-06

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

2007-08

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

2008-09

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

2009-10

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

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

2010-11

- Bonus/Penalty Scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

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

2014-15

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

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

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

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

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

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