Scheme Actuarial Valuation as at 31 December 2014

ReturnToWorkSA

March 2015

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

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

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

3 March 2015

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

Dear Ms Yuile

Scheme Actuarial Valuation as at 31 December 2014

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

Our assessment of the outstanding claims liabilities takes account of the expected impacts of the new RTW Act which governs the scheme. The RTW Act introduces changes which fundamentally alter the scheme's benefit design and financial levers, and has resulted in a significant reduction in the outstanding claims liability.

In addition to this change we are pleased to report that the underlying claims experience has continued to improve over the last six months, which has also led to savings in the scheme's liabilities.

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

Yours sincerely

Geoff Atkins | Gae Robinson | Andrew McInerney

Fellows of the Institute of Actuaries of Australia

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

Sydney
Level 7, 155 George Street
The Rocks NSW 2000
Ph: +61 2 8252 3300
Fax: +61 2 8252 3399

Melbourne
Level 3, 30 Collins Street
Melbourne VIC 3000
Ph: +61 3 8080 0900
Fax: +61 3 8080 0999

Auckland
Level 5, 79 Queen St
Auckland 1010
Ph: +64 9 363 2894

Scheme Actuarial Valuation as at 31 December 2014

Glossary **3**

Part I Executive Summary **4**

Part II Detailed Findings **15**

1 Introduction and Scope 15

2 Approach and Information 17

3 The Scheme Environment 20

4 Recent Claims Experience 26

5 Income Maintenance Entitlements 31

6 Lump Sums 41

7 Treatment and Related Costs 50

8 Other Entitlements 79

9 Serious Injury claims 95

10 Economic and Other Assumptions 110

11 Valuation Results 117

12 Break Even Premium Rate for 2015/16 126

13 Uncertainty and Sensitivity Analysis 128

14 Reliances and Limitations 133

15 RTW Act and Scheme History 135

Glossary

Actuarial Release	A 'like with like' measure of how claims management activity has impacted on Scheme financial performance since the previous valuation. See section 10.3 for additional information.
APR	Average Premium Rate – the premium charged by ReturnToWorkSA to registered employers, on average, as a percentage of leviable wages.
BEP	Break Even Premium– the estimated cost of running the scheme for a year, including all future payments for claims incurred in the year after allowing for investment earnings, expressed as a percentage of leviable wages.
Curam	ReturnToWorkSA's claims management system.
EML	Employers Mutual Limited (Scheme claims agent).
ER	Incentives for early reporting of claims, introduced in 2008.
GB	Gallagher Bassett (Scheme claims agent).
IM	Income Maintenance (also known as weekly benefits or income support) 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
WRCA	Workers Rehabilitation and Compensation Act 2008, the Act which previously governed the scheme.

Part I Executive Summary

1 Introduction

Finity Consulting Pty Limited (“Finity”) has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme (“RTW Scheme”) as at 31 December 2014.

Our previous actuarial review was as at 30 June 2014, and was documented in a report dated 25 August 2014.

Return To Work Corporation of South Australia has replaced the WorkCover Corporation of South Australia as the statutory authority responsible for managing South Australia’s workers’ compensation scheme; the Scheme itself was previously known as the “WorkCover Scheme”. In this report, we have used the current titles “ReturnToWorkSA” and “RTW Scheme” throughout. These terms include the previous authority and Scheme, where relevant.

2 Scope of the Review

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

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

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

3 Return to Work Act 2014

The Return to Work Act 2014 (“RTW Act”) was passed on 30 October 2014 and now governs the scheme, with all provisions commencing on or before 1 July 2015. The RTW Act makes very significant changes to entitlements and to the Scheme’s operations. Table 1 summarises the most significant elements of the RTW Act in relation to claim costs. These apply for claims incurred on 1 July 2015 or later.

Table 1 – Key Elements of the RTW Act

Area	Change(s)
Serious Injury	Increased compensation and a reduced emphasis on RTW for workers with WPI of 30% or more
Compensability Requirements	A tighter link between employment and injury before compensation is available
IM Payments for (Short Term Claims)	Clear and objective two year boundary on claim duration for non-serious injuries, supported by various elements to create a focus on early RTW
Treatment Costs for (Short Term Claims)	Benefits capped to 12 months after the cessation of IM Payments

Lump Sums (Short Term Claims)	A new lump sum payment for loss of future earning capacity for new Short Term Claims with WPI of 5% or more
Common Law (Serious Injury)	Restricted access to common law damages for economic loss (for new Serious Injury claims only)
Dispute Resolution	A new specialist Tribunal, SAET, and Independent Medical Advice to assist in the resolution of disputes; restrictions on what decisions can be disputed.

Claims occurring before 1 July 2015 (including all existing claims) will be subject to the RTW Act's transitional provisions, which include:

- Time-based caps on benefits commencing 1 July 2015
- Claims with a WPI of 30% or more will be considered Serious Injuries and will have access to long term benefits
- No access to either common law or the future economic loss lump sum.

4 Valuation Approach

Our estimate of the outstanding claims liabilities at 31 December 2014 and of the Break Even Premium for 2015/16, allow fully for the expected impacts of the RTW Act ("RTW Act valuation").

We have also made an 'as if' valuation estimate which ignores the RTW Act and its impacts but reflects the Scheme's most recent claims experience ("WRCA valuation"). This estimate is for information purposes only, and can be used to assess the underlying claims management performance since the previous valuation.

Under the RTW Act provisions, Serious Injury claims have very different entitlements from other claims, and so our RTW Act valuation projects all entitlements for Serious Injury claims separately from those for other 'Short Term Claims'.

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.

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, in accordance with Corporation policy.

5 Scheme Environment

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

- **Early intervention and RTW focus**: a number of changes have been made to improve initial claims acceptance and early claim management, including the introduction of early RTW consultants and mobile case managers to visit smaller employers. These strategies are being extended and further changes are being made as the focus on prompt RTW increases.

- **Improved Work Capacity Assessment Use**: 'on time' WCA performance has continued to improve with almost all claims now having a WCA as they reach 130 weeks. Further, essentially all legacy claims have now had a WCA completed, providing improved clarity about the ongoing benefit status of longer duration claims.
- **Provider management**: a number of activities aimed at improving provider engagement and behaviour are being undertaken, which appear to be leading to changes in payment levels for services such as rehabilitation and physiotherapy.
- **Increased disputes**: there has been a strong increase in new dispute numbers in the last 12-18 months, although importantly this increase is being driven by the increased number of decisions being made by ReturnToWorkSA, as opposed to an increase in the dispute rate per decision.
- **Upcoming transition activities**: now that the RTW Act has been passed a small number of specific strategies are being undertaken which are intended to streamline the transition to the RTW Act. This includes offering prescribed quantum redemptions to some long duration claims and a focus on resolving legacy disputes.

6 Recent Claim Experience

The key features of the claims experience in the six months to 31 December 2014 were:

- New Income Maintenance claim numbers continued to reduce (noticeably)
  - This appears to be a direct result of ReturnToWorkSA's operational initiatives relating to (1) new claim acceptance, and (2) early intervention activities (as there is a 10 day lost time threshold to count as an IM claim in the valuation, RTW improvements in the first 10 days will reduce the number of IM claims).
  - Furthermore, our analysis suggests the reductions are coming from claim segments which have historically had longer than average recovery timeframes, suggesting that costs savings could be proportionately higher than the claim number reductions.
- IM exit experience was favourable relative to our June 2014 valuation basis across nearly all claim cohorts.
- Considerable numbers of claims continue to have open disputes, particularly following the increase in 'on time' decision making for claim acceptance and WCA over the last 18 months. In the last six months there was an increased focus on settling old disputes, which has led to increases in some payment types.
- Total net claim payments in the six months were $5 million (2%) lower than the previous valuation projections.

7 Liability Valuation Results

Summary of Results

Our central estimate of the Scheme's outstanding claims liability for registered employers as at 31 December 2014 is $2,516 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 6.0% to produce a provision with a 65% probability of sufficiency, consistent with ReturnToWorkSA's reserving policy, gives an outstanding claims provision of $2,667 million, as shown in Table 2. This is the amount that we recommend ReturnToWorkSA use in updating its financial position at 31 December 2014 to be in accordance with its reserving policy.

Table 2 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,239		
Gross Claims Cost - Short Term Claims	985		
Claims Handling Expenses	361		
Gross Outstanding Claims Liability	2,585	155	2,741
Recoveries	-69	-4	-74
Net Outstanding Claims Liability	2,516	151	2,667

As this shows, the majority of the OSC liability now relates to Serious Injuries, and this balance will continue to shift toward Serious Injury liabilities over time.

The provision includes an allowance for future claims handling expenses equivalent to 16% of gross costs, which is a higher proportionate loading than at the previous valuation in recognition of the transition related costs which ReturnToWorkSA faces in running off existing claims. A risk margin of 6.0% of the central estimate is added for a 65% probability of sufficiency, up from 5.5% previously following a detailed review to incorporate the introduction of the RTW Act (noting that the higher risk margin percentage is applied to a lower overall central estimate liability).

Movement in Liability

Our central estimate is $1,077 million lower, and the associated provision $1,123 million lower, than projected at the previous valuation. We have split the change in central estimate into three components to show:

- 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
- Movement in liability due to reform – this covers the impact of the RTW Act commencing
- 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 (before allowing for external impacts such as reform) relative to the previous valuation basis, as shown in Table 3 below.

Table 3 – December 2014 Central Estimate and Determination of Actuarial Release

	Projected Dec-14 Liability[1]	AvE Payments in 6 mths to Dec 14	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-14 Valuation	3,476		
Projected Liability at Dec-14 (from Jun-14 valuation)	3,593		
Movement in liability due to claims performance	-205	-5	210
Movement in liability due to reform	-1,065		
Impact of Change in economic assumptions	193		
Recommended Liability at Dec-14	2,516		

[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 $210 million for the period, which is a favourable result for the Scheme. Changes as a result of the RTW Act reduce the liabilities by a further $1,065 million, before changes to economic assumptions – inflation and discount rates – offset some of this release, increasing the central estimate liability by $193 million.

Each of these items is discussed briefly below.

Components of the Actuarial Release

Table 4 shows the actuarial release by entitlement group.

Table 4 – Actuarial Release by Entitlement Group

Entitlement Group	Actuarial Release [3]	Release as %
	$m	%
Income & Related	189	9%
Lump Sums	-6	-4%
Legals	-7	-4%
Treatment Related [1]	2	0%
Rehabilitation	10	12%
Other Costs [2]	2	7%
Recoveries	4	5%
Total Claim Costs	194	6%
Expenses	16	6%
Net Central Estimate	210	6%

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

[2] Investigation, common law , commutation, LOEC

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

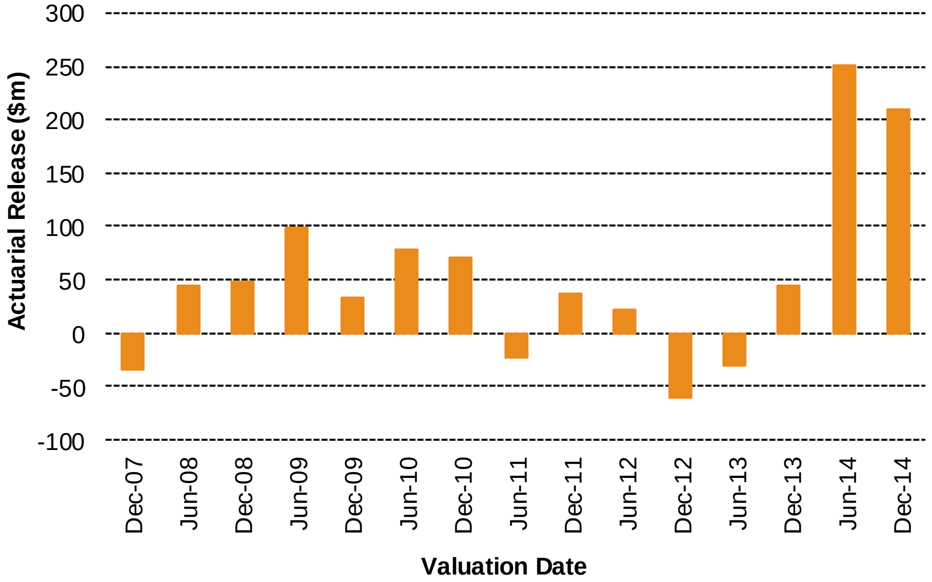
The major contributor to the $210 million actuarial release is the Income Maintenance liability, which is $189 million (9%) below the projected liability from the previous valuation. This result is driven by the recent operational activities, where the combination of improved 'on time' use of WCA, reductions in new IM claim numbers and the Tail Project to review legacy claims has produced favourable exit performance.

Treatment Related costs have a close to neutral overall result, which is the net result of two largely offsetting impacts: the flow on impact of reductions in ongoing IM claims (releasing around $30 million), and increases in 'other' costs following increased 'future retraining' payments.

Legal costs increased following continued high dispute numbers and referrals for advice.

Figure 1 shows the actuarial release at each valuation over the last seven years. As this shows, the results in the last 12-18 months are a standout performance for the Scheme.

Figure 1 – Actuarial Release At Recent Valuations



Impacts of the RTW Act

Table 5 shows the impact of the RTW Act by entitlement group.

Table 5 – Impact of Reform on December 2014 OSC

Entitlement Group	Difference from WRCA Liability
	$m
Income & Related	-1,225
Lump Sums	-11
Legals	-21
Treatment Related [1]	105
Rehabilitation	8
Other Costs [2]	-16
Recoveries	23
Total Claim Costs	-1,139
Expenses	73
Net Central Estimate	-1,065

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

[2] Investigation, common law , commutation

The major contributor is the significant reduction in Income Maintenance liabilities, as Short Term Claims will receive benefits for a maximum of two years from 1 July 2015.

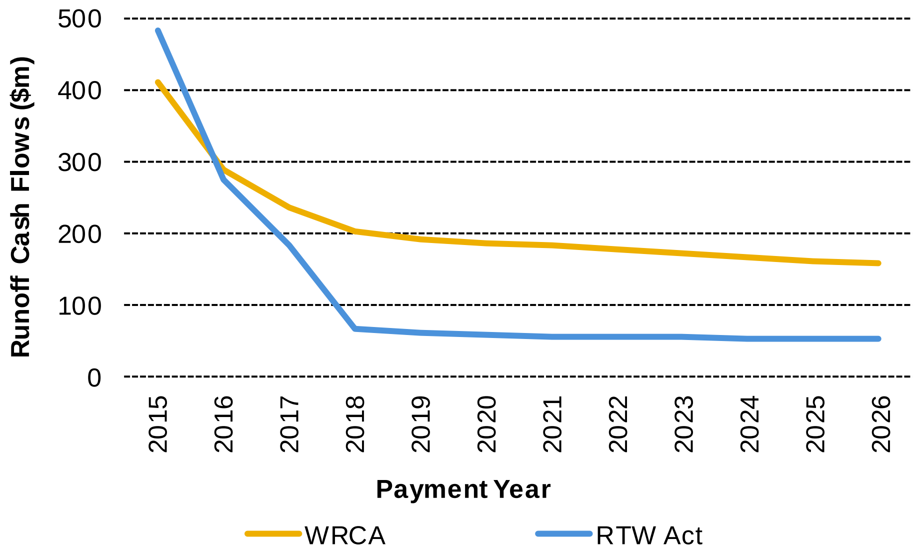
Treatment related expenditure is projected to increase overall, reflecting the net result of the 12 month cap on most medical benefits after the cessation of IM for Short Term Claims being more than offset by an increase in 'Other' expenditure to cover the costs of providing lifetime care and support to Serious Injury claims.

The remaining savings are of a lower direct magnitude, although they are also intended to produce important behavioural and cultural changes that encourage a greater focus on RTW (such as through reduced disputation and the removal of top up lump sums).

The post-reform liability has an increased level of claims management expenses as there are additional short term transition costs involved in setting up the new RTW scheme.

Figure 2 shows the impact of these changes on the projected cashflow runoff for existing claims. As this shows, there is a significant reduction in expenditure after three years, with a very stable and slow runoff of Serious Injury claim costs thereafter. The increase in cashflows in 2015 reflects the impact of redemptions which brings forward expenditure on some older claims.

Figure 2 – Cashflow Runoff of pre-Dec-14 Claims



Impacts of Economic Assumption Changes

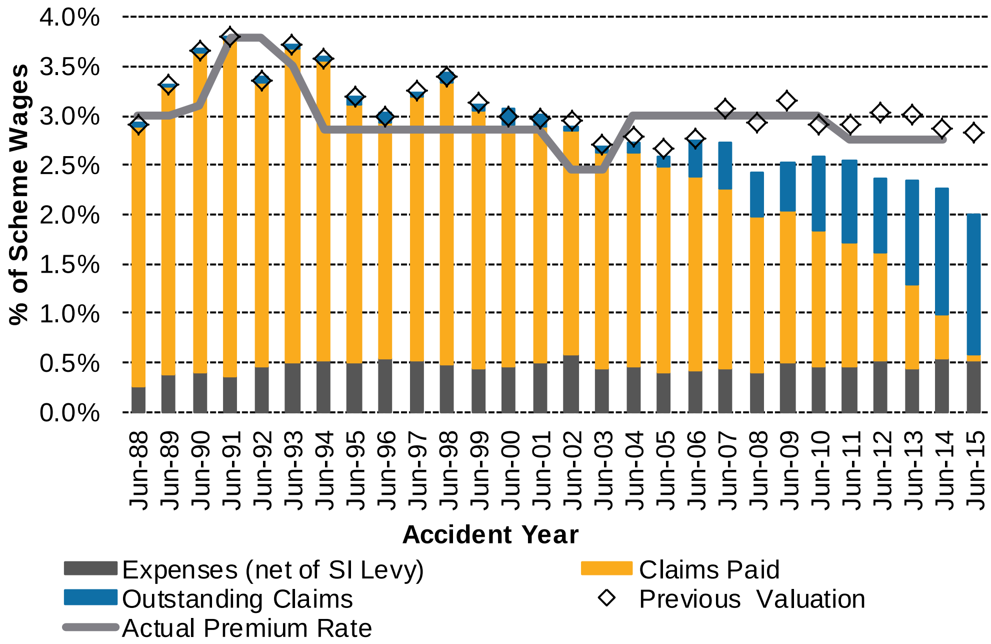
Changes to inflation and discount rate assumptions increase the central estimate by $193 million. This follows the further significant reduction in long term risk free discount rates, an event which is outside ReturnToWorkSA's control, but which is required to be recognised in accordance with ReturnToWorkSA's adopted financial reporting standard.

8 Historical Scheme Costs

We have estimated the 'historical premium rate', otherwise known as the Break Even Premium rate (BEP), for each past accident year; this is the premium rate that would have been sufficient to fully cover claim costs, expenses and recoveries, assuming the Scheme achieved risk free 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 3 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 3 – Break Even Premium Rate and Actual Premium Rate Charged



The main points to note are:

- Prior to introduction of the RTW Act, the scheme had consistently run at a BEP of around 3.0% of wages; recent operational improvements had reduced the BEP to marginally below 3.0%, but still above the actual premium rate of 2.75%
- The current estimate of the BEP for the 2015 accident year is 2.00%. This estimate has reduced from 2.84% since the June 2014 valuation, due to:
  - Claim improvements reducing the BEP by 0.12% of wages
  - Reform impacts reducing the BEP by 0.81% of wages
  - Economic assumption changes increasing the BEP by 0.09% of wages.
- The impact of the RTW Act reduces as you move into earlier accident years, as the majority of the cost for these years has already been paid under the WRCA.

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.

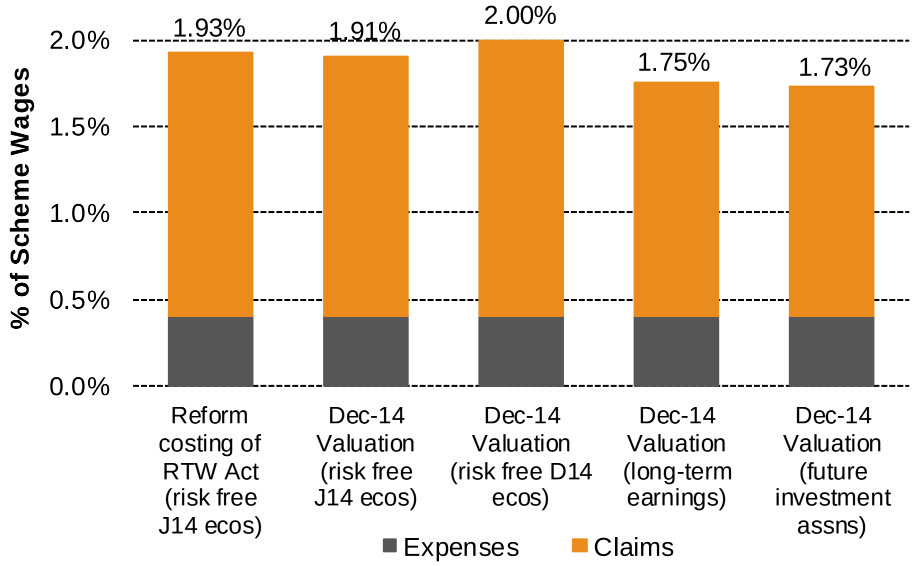
We emphasise that the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2015 still involves a degree of estimation.

9 Break Even Premium Rate for 2015/16

An important purpose of the mid-year review is to provide information on the calculation of the BEP for the coming year. While the calculations and recommendations for the 2015/16 Average Premium Rate (APR) to be charged to employers is ReturnToWorkSA's responsibility, the BEP is a key input to these considerations.

Figure 4 below shows our calculation of the BEP for 2015/16, in line with the claims assumptions used in the outstanding claims valuation and adopting different investment earnings assumptions.

Figure 4 – 2015/16 Break Even Premium Rate at Different Earnings Assumptions



The key features of Figure 4 are:

- Our reform costing work estimated a post-reform BEP of 1.93% of wages; this was prior to the latest adverse movement in economic assumptions.
- On the same economic assumptions (i.e. before allowing for the impact of external economic changes since 30 June 2014), the current estimate of the post-reform BEP is 1.91% of wages – the lower cost is a result of the claim management improvements achieved by ReturnToWorkSA in the last six months, with some offset from higher Serious Injury claim costs now that additional information on these claims is available.
- Allowing for the latest economic assumptions increases the 2015/16 BEP to 2.0% of wages.
- If ReturnToWorkSA can earn an investment return that is consistent with its long term earnings rate and/or the expectations of its investment advisor then the BEP reduces to around 1.75% of wages (the fourth and fifth columns of the graph).
- An expense rate of 0.40% of remuneration has been allowed, based on preliminary information from ReturnToWorkSA about the indicative long-term expense rate for the RTW scheme. We note that this is lower than the current scheme expense rate, and that even after allowing for the recognition of additional transition related costs in the outstanding claims valuation expenses loading additional costs are still likely to be incurred in the next year or two (i.e. ReturnToWorkSA will need to consider the funding approach for any such additional costs if they are to be funded from outside of the 2015/16 premium).

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

10 Uncertainty

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

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

- **WPI assessments** – the Serious Injury 'gateway' to lifetime benefits and the new lump for future economic loss payable to Short Term Claims means there may be increasing pressure on WPI assessments in future. Robustness of the 'once and for all' WPI assessment rules under the RTW Act are key to managing these risks and are as yet untested in practice.
- **Future cost escalation** – future cost growth in a number of medical and treatment related expenditure items is a particular risk for the lifetime benefits payable to Serious Injury claims. Future cost escalation may result from increasingly expensive treatment costs, above inflationary increases in award wages in the care and treatment industry, increases in utilisation (e.g. increased use of attendant and/or residential care in future as current family based carers age), compensability of new areas (e.g. the additional costs associated with ageing).
- **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 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. Counter to this, it will be crucial to ensure existing claims cannot come back onto benefits (e.g. past discontinuances starting as new claims or 'restart the clock' following a short return to work).
- **Outcomes for claims with current disputes** – the valuation basis assumes a high level of success on currently disputed claims.
- **Management actions** – the extent to which activity over the transition period will ultimately act to reduce the number of claims that remain on long term benefits.

With the key provisions of the RTW Act due to commence on 1 July 2015, the current valuation basis reflects our best estimate of how the post-reform experience may eventuate. Over time, our basis will develop based on the actual post-reform experience as it emerges and it is possible that the experience could differ, perhaps materially so, from our current expectations

11 Reliances and Limitations

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

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

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

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

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

Part II Detailed Findings

1 Introduction and Scope

1.1 Introduction

Finity Consulting Pty Limited ("Finity") has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 31 December 2014.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 30 June 2014 as documented in a report dated 25 August 2014[1].

1.2 Scope of the Review

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

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

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

1.3 ReturnToWorkSA and Predecessor

In February 2015, Return To Work Corporation of South Australia replaced the WorkCover Corporation of South Australia (also known as "WorkCoverSA" or "the Corporation") as the statutory authority responsible for managing South Australia's workers' compensation scheme. The scheme itself, now known as the "Return to Work Scheme", was previously known as the "WorkCover Scheme".

In this report, we have used the current titles "ReturnToWorkSA" and "RTW Scheme" throughout. These terms include the previous authority and 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] At previous reviews, the Scheme was known as the WorkCover Scheme, and the governing authority was known as WorkCoverSA.

1.5 Control Processes and Review

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

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

1.6 Structure of this Report

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

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

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

2 Approach and Information

2.1 Approach

2.1.1 Allowance for the Return to Work Act 2014

The Return to Work Act 2014 ("RTW Act") makes very significant changes to entitlements and to the Scheme operations, with all of the new features to commence on or before 1 July 2015; see Section 3.1. Our estimate of the outstanding claims liabilities, and of the Break Even Premium for 2015/16, allow fully for the impacts of the RTW Act ("RTW Act valuation").

At ReturnToWorkSA's request, we have also made an 'as if' valuation estimate which ignores the RTW Act and its impacts but reflects the Scheme's most recent claims experience ("WRCA valuation"). In this way we are able to estimate:

- The actuarial release which would have emerged in the absence of the RTW Act (i.e. the impact of claims experience and our valuation response)
- The impacts of the RTW Act reforms.

2.1.2 Modelling of Different Claim Cohorts

This section describes how the modelling has been structured to meet these various reporting needs.

Under the RTW Act provisions, "Serious Injury" claims have very different entitlements from other claims. As such, we have modelled these claims separately for the RTW Act Valuation, with the remaining claims modelled as 'Short Term Claims'. Table 2.1 summarises where each entitlement and claim cohort are documented in this report.

Table 2.1 – Report Structure by Legislation and Claim Cohort

	Short Term Claims	Serious Injuries	Overall Results
WRCA Act			
Valuation Basis and Results	Entitlement Sections 5 to 8		
Economic Impacts	Not quantified (as unnecessary)		
RTW Act			
Valuation Basis and Results	Entitlement Sections 5 to 8	Section 9	Entitlement Sections 5 to 8, Section 11
Economic Impacts	Section 11 for Total Results		
BEP	Section 12		

To summarise:

- The **WRCA valuation** does not separate Serious Injury claims from Short Term Claims but values all claims in aggregate, as has been the case in our previous Scheme valuations. The assumptions and results are found in the first part of the individual entitlement sections (Sections 5 to 8).
- Our **RTW Act 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 second part of the individual entitlement sections (Sections 5 to 8).
  - The overall impact of the RTW Act on each entitlement is summarised at the end of the individual entitlement sections (Sections 5 to 8).
- Overall results, documenting the total liabilities, are quantified in Section 11.
- The impact of the updated economic environment at December 2014 is quantified in Section 11.

Segmenting by Accident Period

Where relevant our projections are presented in aggregated segments to simplify communication, based on accident dates, which are described below:

Table 2.2 – Claim Cohorts

Accident Years	Accident Dates	Commentary
2004/05 and earlier	30 June 2005 and earlier	Claims mostly managed under the pre-2008 legislative basis, and subject to high levels of redemption use.
2005/06 to 2008/09 (4 years)	1 July 2005 to 30 June 2009	Impacted strongly by the Tail Project strategy in 2013 and 2014 calendar years.
2009/10 to 2011/12 (3 years)	1 July 2009 to 30 June 2012	Subject to WCA reviews, but assessment occurred later than 130 weeks for most claims. Older claims in this cohort impacted by the Tail Project.
2012/13 and later (2.5 years, at Dec14)	1 July 2012 and later (to 31 Dec 14)	Have had, or are expected to have, 'on-time' WCA reviews (at 130 weeks).

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 a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 65% probability of sufficiency, in accordance with Corporation policy.

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete Scheme history to 31 December 2014. 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:

- A briefing session on 13 January 2015
- Information on disputes and dispute outcomes
- Other operational information.

3 The Scheme Environment

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

3.1 Return to Work Act 2014

The RTW Act was passed on 30 October 2014, with all of the provisions to take effect on or before 1 July 2015. The RTW Act reforms constitute the biggest change to the Scheme in its 25 year history, fundamentally altering its financial dynamics. This section provides a high level summary of the RTW Act provisions; Section 15.1 sets out further detail on the changes.

3.1.1 Claims Occurring from 1 July 2015

Table 3.1 summarises the most significant elements of the RTW Act in relation to claim costs. These apply for claims incurred 1 July 2015 or later.

Table 3.1 – Key Elements of the RTW Act

Area	Change(s)
Serious Injury	Increased compensation and a reduced emphasis on RTW for workers with WPI of 30% or more
Compensability Requirements	A tighter link between employment and injury before compensation is available
IM Payments for Short Term Claims	Clear and objective two year boundary on claim duration for non-serious injuries, supported by various elements to create a focus on early RTW
Treatment Costs for Short Term Claims	Benefits capped to 12 months after the cessation of IM Payments
Lump Sums (Short Term Claims)	A new lump sum payment for loss of future earning capacity for new Short Term Claims with WPI of 5% or more
Common Law (Serious Injury)	Restricted access to common law damages for economic loss (for new Serious Injury claims only)
Dispute Resolution	A new specialist Tribunal, SAET, and Independent Medical Advice to assist in the resolution of disputes; restrictions on what decisions can be disputed.

3.1.2 Transitional Provisions

Claims occurring before 1 July 2015 (including all existing claims) will be subject to the RTW Act's transitional provisions. The most important of these are:

- Time-based caps on benefits will start at 1 July 2015 – notably, the limit of two years' IM benefits will begin from 1 July 2015.
- Claims with an assessed or deemed WPI of 30% or more will be considered Serious Injuries and will have access to long term benefits.
- No access to common law or the future economic loss lump sum.

3.2 Operational and Environmental Changes

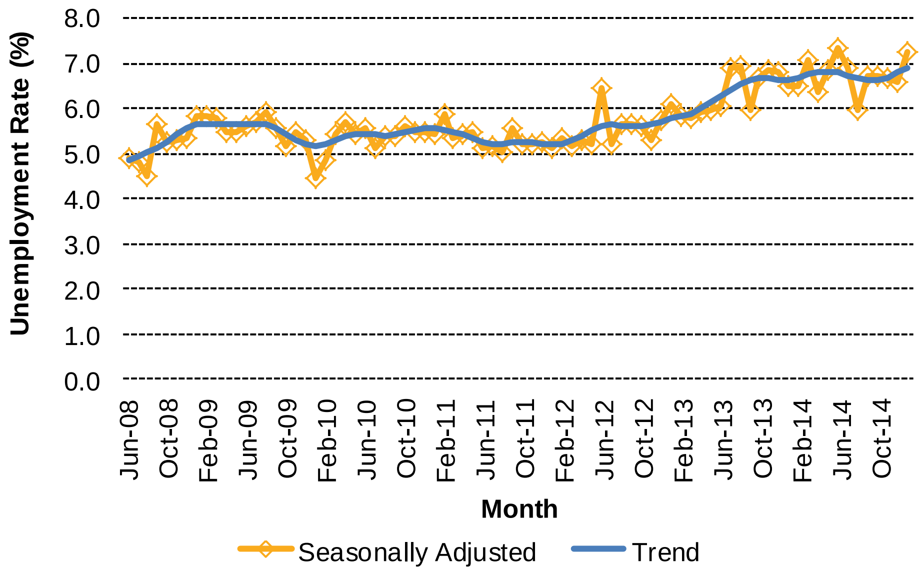
This section describes other recent changes in the Scheme environment. Section 15 includes an overview of earlier operational and legislative changes which are useful in understanding the Scheme's historical experience.

3.2.1 South Australian Economic Conditions

Changes in economic conditions have had a significant impact in recent years. Movements in discount rates over the past six months have again increased the current liability estimate, with yields decreasing for the longer durations. This is discussed further in Section 10.

Further, unemployment rates in South Australia have been reasonably high for about two years now, increasing from 5.1% in 2012 to around 7% currently, as shown in Figure 3.1. The unemployment rate is now higher than that seen in the GFC environment in late 2008 to mid-2009.

Figure 3.1 – South Australia Unemployment Rate



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

3.2.2 Tail Project

In early 2013, after the start of the new agent contracts, ReturnToWorkSA and the claims agents commenced the 'Tail Project', which focused additional resources on claims which were already beyond 130 entitlement weeks. At the start of the Tail Project, many of these claims were yet to have a WCA.

Around 2,000 claims, from accident years 2009/10 and earlier, were included in the Tail Project; the intention was for each to be individually assessed and have specific management actions identified.

Activity began slowly in 2013, and ramped up strongly during 2014 – particularly in the second half of the year. By the end of the project in December 2014 essentially all claims had had a WCA, and nearly 50% had exited; see Table 3.2.[2]

Table 3.2 – Tail Project Outcomes

Accident Period	No. in Tail Project	No. of Exits	Exit Rate
Pre Jun05	260	84	32%
2006	145	68	47%
2007	362	162	45%
2008	462	227	49%
2009	566	283	50%
2010	331	186	56%
Total	2,126	1,010	48%

Claims which did not exit during the project are likely to continue on ongoing benefits for the foreseeable future – which in practice will mean until they reach the time limits introduced by the RTW Act.

3.2.3 Front End Claims

During the second half of 2013, ReturnToWorkSA commenced a number of claim acceptance initiatives. These initiatives were developed in response to increases in the number of mental injury claims, but elements of the changes impact on other claims as well. The actions focus largely on early intervention and the prompt addressing of claim acceptance issues. This now also includes the use of 'mobile case managers', who visit a workplace soon after a claim is reported and deal proactively with any issues that impact on RTW (e.g. identifying suitable duties).

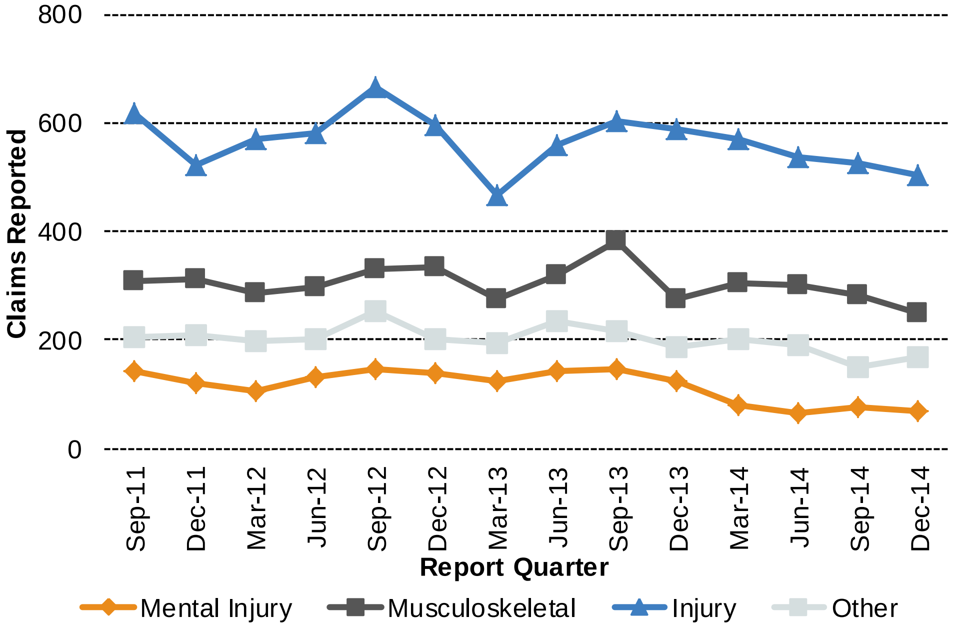
ReturnToWorkSA's main aim of this strategy is to reduce the time required to make claim acceptance decisions – that is, if a claim is eligible for benefits (in accordance with the Act) then that decision should be made promptly and benefits be paid, and equally, if a claim is to be rejected (as the injury does not meet the eligibility requirements under the Act) then this decision should also be made promptly so as to not create any false expectation of ongoing benefits.

Under this initiative, mental injury claimants are referred to specialist providers much earlier than they have been in the past. The intention is that early intervention for these claims will ultimately lead to more favourable outcomes for claimants, and as a consequence reduced claim severity.

The effect of the change is that many claims that would previously have received up to 13 weeks of benefits under provisional liability rules now have their determination made within one to two weeks. As a direct consequence of these changes, the number of claims rejected has increased significantly relative to longer term levels. The overall impact has been a notable reduction in IM claim numbers; see Figure 3.2, which shows IM claim reports by quarter of report and by injury type.

[2] Some claims which have exited during the December 2014 quarter will receive IM payments in the March 2015 quarter, as IM will continue until the end of the 13-week notice period.

Figure 3.2 – New IM Claim Reports

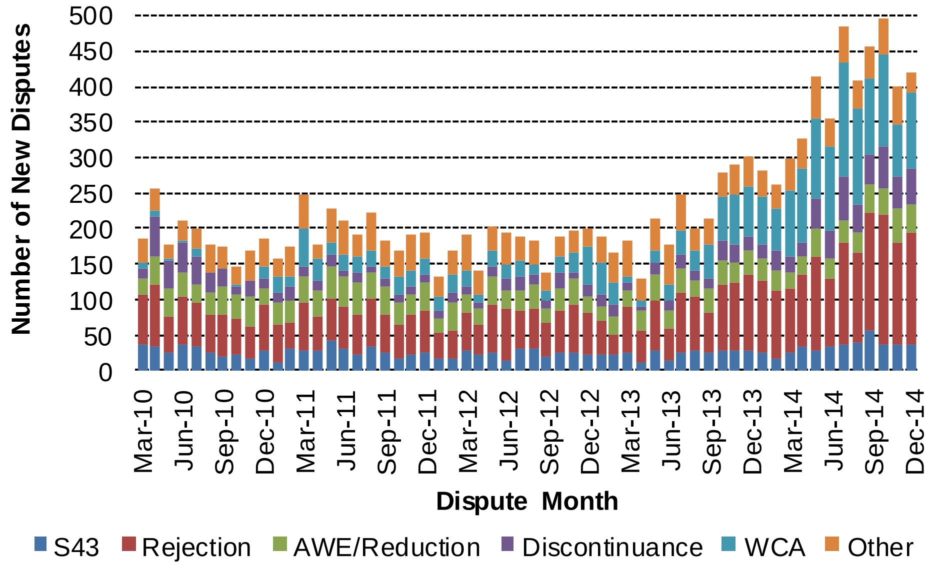


IM claim reports have trended down since late 2013 for all injury types. The proportionate reduction is highest for mental injury claims (about a 50% drop).

3.2.4 Dispute Numbers

Following on from the increased number of claim rejections and WCA decisions, the number of disputes has also risen, from around 150 per month historically to over 400 per month in late 2014, as demonstrated in Figure 3.3.

Figure 3.3 – Disputes by Type



The increase in disputes relates mainly to increased Rejections and WCA; importantly, this increase is being driven by the increased number of decisions being made by ReturnToWorkSA, as opposed to an increase in the dispute rate per decision.

This increase in new disputes has increased the number of open disputes, which has led to a recent settlement push that is discussed further in Section 3.2.6 below.

Given the time taken to resolve disputes in the South Australian scheme, it is difficult to predict what the ultimate outcomes will be from these additional disputes.

3.2.5 Improved Provider Management

In recent years the level of rehabilitation and physiotherapy costs paid in South Australia has been high compared to other jurisdictions across Australia. Given the poor rates of RTW in South Australia, even with this high level of expenditure, ReturnToWorkSA have implemented a number of initiatives with the aim of improving outcomes from vocational rehabilitation and related services and reducing over-servicing, including:

- A new outcome fee model for same employer RTW services, which commenced in the second half of 2013 – same employer services are generally used within the first two years after injury, and focus on removing barriers that impede RTW with the pre-injury employer.
- Early RTW consultants, who visit smaller employers soon after an injury occurs to their worker (usually within 48 hours) – most of these employers have very infrequent claims, and so the early RTW consultant is able to guide them and the injured worker through the recovery and RTW process. Given early success with this initiative, ReturnToWorkSA have been increasing the numbers of such consultants and have expanded the scope to include small-medium employers since June 2014.
- Provider performance monitoring, with new referrals to be targeted toward the best performers.
- Utilising job placement agencies to help workers with job skills find new employment, where a return to the pre-injury employer is not possible.
- Peer-to-peer monitoring program of physiotherapy providers.

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

3.2.6 Scheme Transition

ReturnToWorkSA has a small number of specific strategies which are intended to streamline the transition to RTW Act operations.

Dispute Settlement

Following the increase in dispute numbers discussed in Section 3.2.4, there are currently a significant number of open disputes in the scheme. In an attempt to reduce the number of such disputes, and free up claim management resources to focus on the new RTW Scheme, targeted settlement activity has been undertaken in relation to some disputes.

This has seen an increase in a number of payment types, such as IM backpays, retraining allowances and medical redemptions, in the last six months. It is not clear how many further settlements will be agreed on existing dispute matters, although ReturnToWorkSA have emphasised that such settlements will only proceed where it is in the interests of the scheme to do so.

Redemption of IM Entitlements

ReturnToWorkSA has identified over 700 claimants who have been receiving IM payments for long periods and which are largely expected to continue to be entitled to IM payments until the cut-off date of 30 June 2017. These claimants are all over 130 entitlement weeks, with a completed WCA (decision status 'payments continue') and no active dispute. There were a number of exceptions where claimants have not been included in this cohort including (but not limited to) claims with active fraud investigations, claimants near retirement, and workers with a WPI>30%.

ReturnToWorkSA is offering each of these claimants the opportunity to redeem future IM payments, with the redemption amount in each case calculated as the IM benefit the claimant would have received between the date of the redemption and 30 June 2017. Calculated in this way, the redemption represents only a change in **timing** (bringing forward) of payments that would have been received in future, as opposed to a negotiation on quantum; as a result their impact on the Scheme's liabilities is only a discounting effect and is minor.

ReturnToWorkSA advises that these redemptions need to be agreed prior to 30 June 2015, at which time any unaccepted offers will be withdrawn. All payments expected to be paid out by the end of 2015.

ReturnToWorkSA expects it may identify further claims for redemption, and these will be on the same basis (i.e. a bringing forward of benefits only).

4 Recent Claims Experience

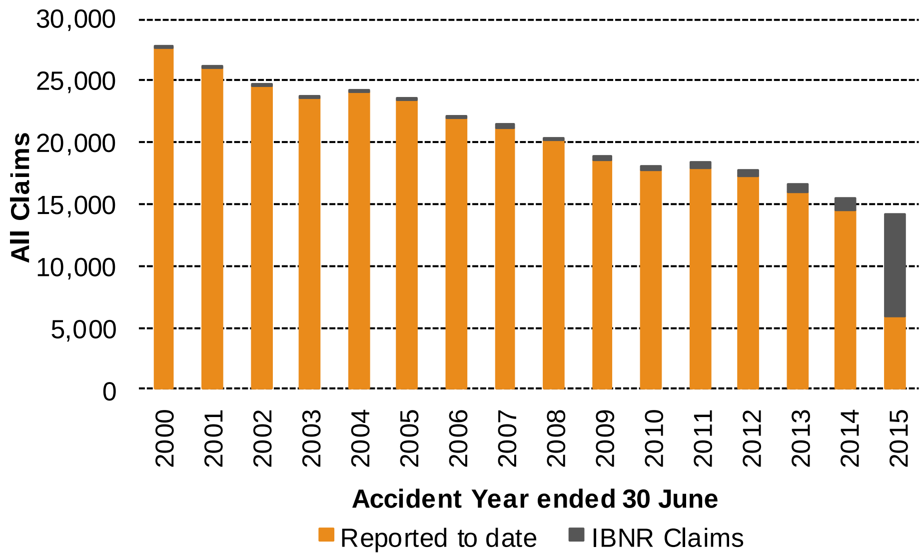
This section provides a high level analysis of Scheme experience, including the numbers of new claims and overall payment trends.

4.1 Claim Incidence

4.1.1 All Claims

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

Figure 4.1 – Ultimate Number of Claims (All Claims)



The main feature of the experience is a general downwards trend, which began in the 1990s. After an increase in claim numbers in 2011, there have been reductions in each year since. Our current estimate of 14,215 claims for the 2014/15 accident year is 8% lower than the projected number for 2013/14, and 2% lower than was projected at the previous valuation.

Despite the strength of these reductions, scheme costs have not followed the same downward trend. This suggests that most of the reduction in claim numbers has been due to a reduction in less serious injuries.

4.1.2 Income Maintenance Claims

Income maintenance (IM) 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 IM claims for the 2013/14 and 2014/15 accident years.

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

Figure 4.2 – Ultimate IM Claim Numbers

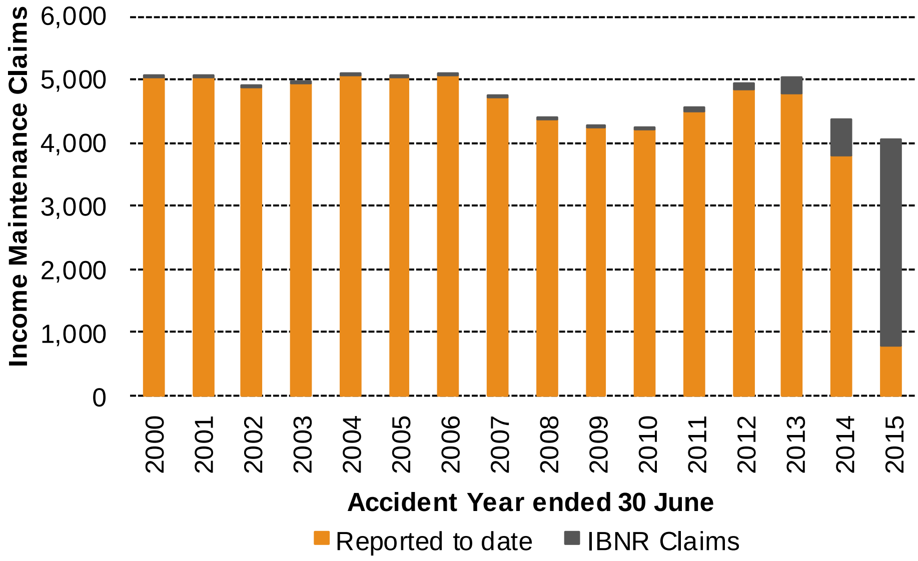


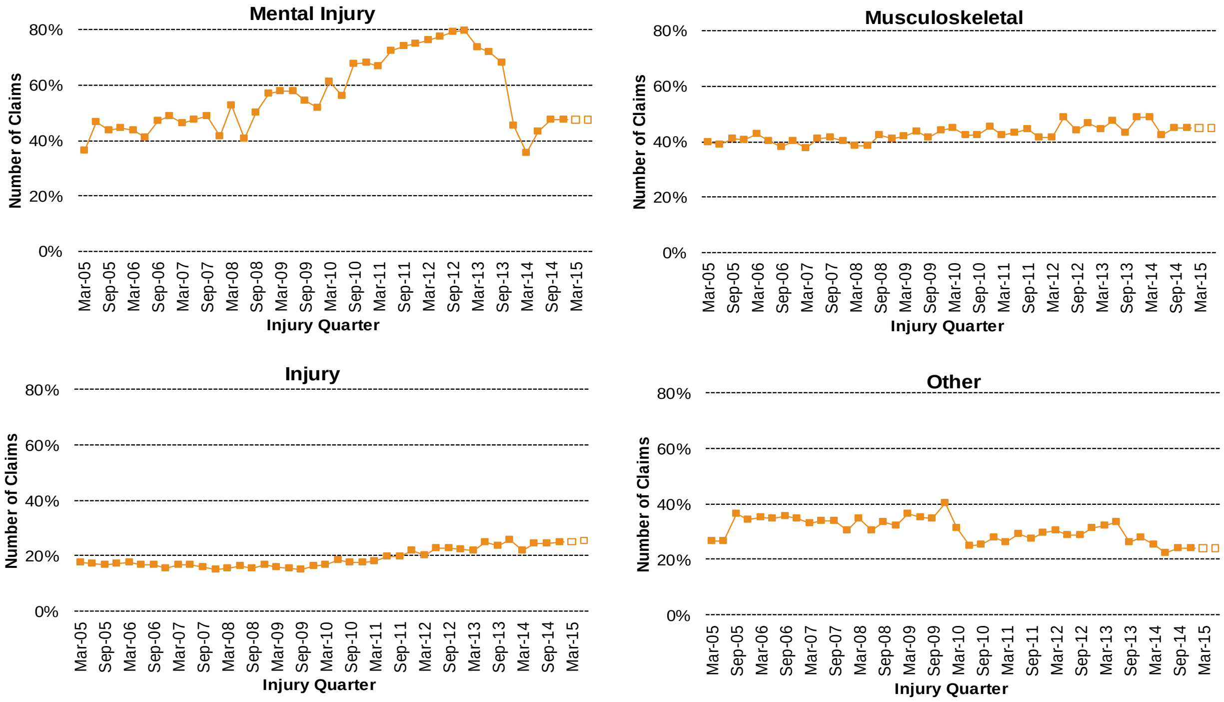
Figure 4.2 shows:

- Prior to 2007 IM claim numbers were reasonably stable, with around 5,000 claims per annum
- IM claim numbers dropped by 17% between 2005/06 and 2009/10, and then rose over the next three years to again reach 5,000 claims per annum
- Our current projection shows IM claim numbers are expected to reduce materially in 2013/14 (a 14% reduction) and again in 2014/15 (an 8% reduction). Our projection of 4,025 IM claims for the 2015 year is the lowest since the scheme commenced, and is 15% lower than was projected at the previous valuation (noting that this still includes a level of 'bounce-back' from overturned disputes following the recently higher numbers of disputed rejections).

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 IM claim numbers, we have separately modelled 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 IM claim). The largest driver of the reduction is mental injury claims, which halved, with smaller reductions for 'Other' claims and musculoskeletal claims. This has important implications for long term IM claim costs as these injury types tend to have longer average durations than the 'typical' IM claim; which implies that IM claim costs should reduce by at least as much as the reduction in numbers.

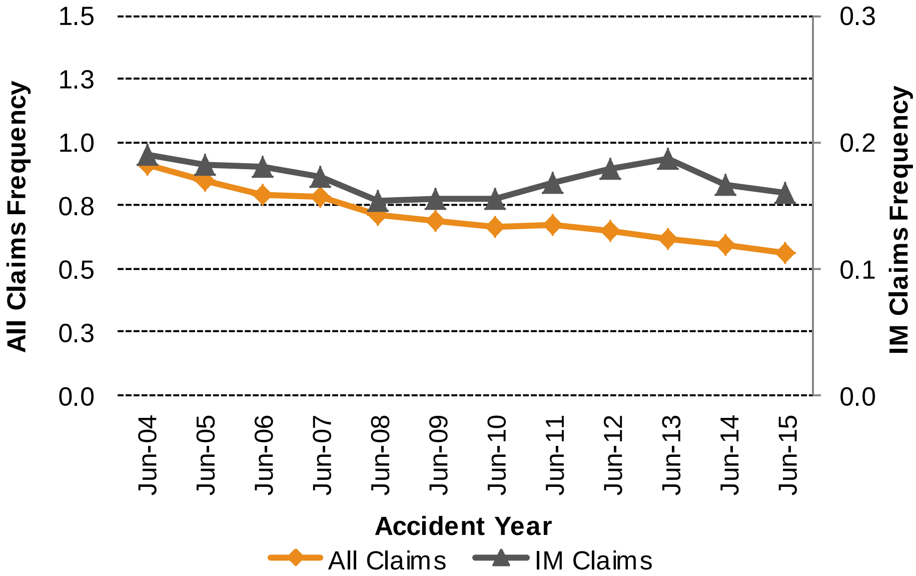
Figure 4.3 – IM Claims as a Proportion of All Claims by Type of Injury



Claims Frequency – All Claims and IM Claims

Figure 4.4 compares the trends in (1) total claim frequency ('all claims' numbers from 4.1.1) and (2) IM claim frequency (IM 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)

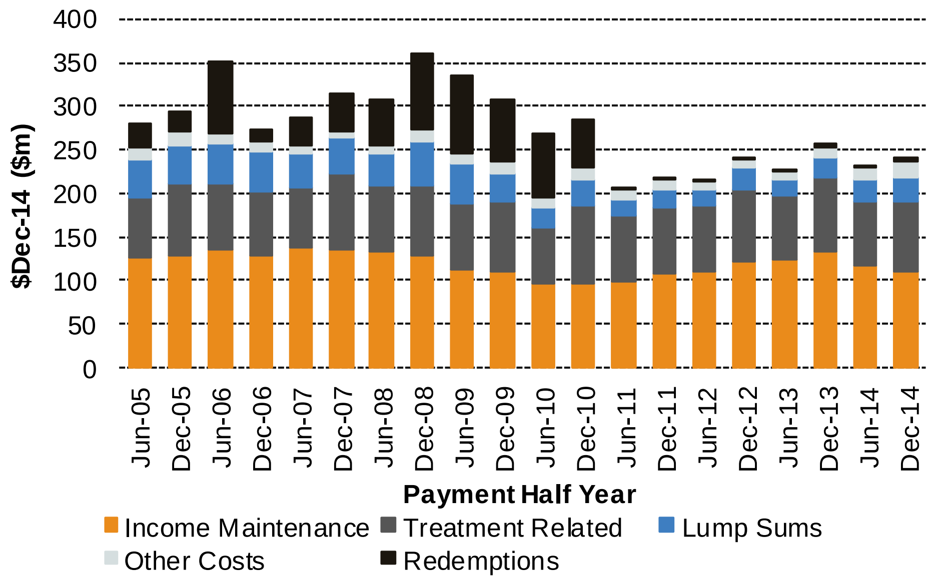


The IM claim frequency was on a similar trend to the all claims frequency until 2008, before diverging between 2008 and 2013. Following the improvement in IM claim numbers in the last two years the estimated frequencies for accidents in 2013/14 and 2014/15 are again moving in line for IM claims and all claims.

4.2 Overall Payment Experience

Figure 4.5 shows gross claim payments (i.e. before recoveries) in half yearly periods over the last ten years, inflated to current values.

Figure 4.5 – Gross Claim Payments ($Dec14)



Gross payments of $237 million were 3% higher in real terms (i.e. after adjusting for inflation to current values) than the previous six months. This reflects some mixed experience by payment type:

- In 2014, IM payments decreased reflecting the impact of on-time WCA, lower new claim numbers and the Tail Project.
- Treatment costs have been fairly stable since 2008, however this comes despite claim number reductions in the last 18 months (i.e. implying there is an increase in the average treatment costs per claim).
- Lump sum payments have been lower since around 2010, after the transition to the new assessment basis.
- Redemption payments reduced following the completion of the redemption tail claim project in December 2010.

After allowing for recoveries of $12 million in the last six months, net claim payments of $225 million were $7 million (3%) higher than the previous six months. Payments were $5 million (2%) lower than projected at the previous valuation. Table 4.1 shows the breakdown.

Table 4.1 – Payments: Actual vs Expected vs Prior Period

Entitlement	Six Months to Dec-14				Six Months to Jun-14	
Group	Actual	Expected	Act - Exp	Act/Exp	Actual	Dec - Jun
	$m	$m	$m		$m	$m
Income maintenance	108.5	124.3	-15.7	87%	114.8	-6.2
Redemptions	2.7	0.6	2.0	413%	2.4	0.3
Lump sums	27.4	22.6	4.9	122%	24.6	2.8
Worker legal	5.5	5.6	-0.1	98%	3.0	2.4
Corporation legal	10.2	8.2	2.0	125%	8.5	1.7
Medical	41.9	39.9	2.0	105%	38.9	3.0
Hospital	7.7	7.6	0.1	101%	6.8	1.0
Travel	4.0	4.0	0.0	99%	3.9	0.1
Rehabilitation	9.6	10.5	-0.9	91%	9.4	0.2
Physical therapy	6.0	7.2	-1.2	83%	6.7	-0.7
Investigation	2.2	1.9	0.3	117%	1.5	0.7
Other	11.3	6.3	5.1	181%	6.3	5.1
Common law	0.0	0.1	-0.1	0%	0.0	0.0
LOEC	0.1	0.0	0.0	151%	0.2	-0.1
Commutation	0.2	0.5	-0.3	45%	0.0	0.2
Gross Payments	237.4	239.2	-1.9	99%	226.8	10.5
Recoveries	-12.3	-8.9	-3.3	137%	-8.3	-4.0
Net Payments	225.1	230.3	-5.2	98%	218.5	6.6

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

- The largest difference related to IM payments which were $16 million (13%) lower than expected, reflecting the increase in on-time WCA since late 2013, lower new IM claims and the Tail Project.
- Redemptions, Other and Corporation legal costs were collectively $9 million higher than expected, reflecting an increase in dispute resolution and settlement activity over the last six months.
- Lump sums were $5 million higher than expected, reflecting a bringing forward of lump sum payments with the speeding up of WCA activity.
- Medical costs were $2 million (5%) higher than expected. This was offset by lower than expected rehab and physio costs, where recent management activity has aimed to reduce over-servicing.
- Recoveries were $3.3 million (37%) higher than expected.

IM and related expenditure is discussed further in Section 5. Lump sums are discussed in Section 6, treatment related expenditure in Section 7 and all other entitlements in Section 8. Section 9 discusses our RTW Act valuation of Serious Injury claims.

5 Income Maintenance Entitlements

This section describes our valuation of income maintenance (IM) payments, as well as redemption of IM and Medical entitlements.

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IM payments (including redemption of IM payments) since the June 2014 valuation. All figures here include the IM liability for Serious Injury claims.

Table 5.1 – Valuation Results: IM and Redemption

Jun14 Valuation	$m	$m	$m
Estimated Liab at Jun-14	1,985.4		
Projected Liab at Dec-14	2,061.5		
Dec-14 Valuation		AvE pmts	Actl Release
WRCA val: Impact of experience/OSC - valuation release	(175.0)	(13.7)	188.7
RTW Act val: Impact of RTW Act	(1,224.5)		
Estimated Liab at Dec-14 (Jun-14 eco assumptions)	**662.0**		
Impact of change in eco assumptions	26.8		
Estimated Liab at Dec-14 (Dec-14 eco assumptions)	**688.8**		

The three main movements from our June 2014 projection of the December 2014 liability are:

1. An actuarial valuation release of $189 million, reflecting the claims experience since June 2014 and our valuation response (WRCA valuation)
2. The RTW Act has a very significant impact on the IM liability, reducing it by a further $1,225 million (RTW Act valuation)
3. The change in economic assumptions at the current valuation – principally the reduction in the discount rate – increases the estimated liability by $27 million. This largely represents the impact on the value of long term payments on Serious Injury claims.

The remainder of this section deals with impacts 1 and 2 above, in Sections 5.2 and 5.3 respectively. The impact of the change in economic assumptions is discussed in Section 11.3.

The **RTW Act valuation** (Section5.3) shows our valuation of for Short Term Claims only. All payments for Serious Injury claims are valued together in a separate exercise and described in Section 9.

5.2 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation. In all analysis that follows, early reporting (ER) claims are excluded unless explicitly identified.

5.2.1 Experience vs Expectations

Payments

Table 5.2 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 5.2 – Actual vs Expected Payments: IM (includes ER Claims)

Accident Period	Payments in Six Months to Dec 14 Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	5.4	6.2	(0.8)	87%
2005/06 - 2008/09	20.0	23.1	(3.2)	86%
2009/10 - 2011/12	31.6	33.8	(2.2)	94%
20112/13 and later [1]	51.5	61.1	(9.5)	84%
Total	108.5	124.3	(15.7)	87%

[1] Accidents to Dec14

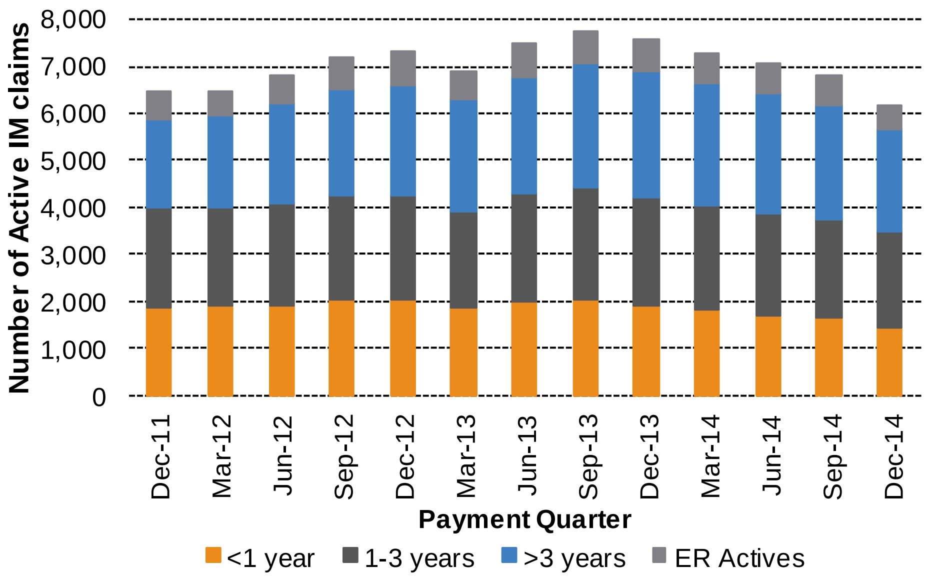
IM payments in the six months were well below expectations for most accident periods (13% lower than expected overall). Payments were **above** expectations (by 3%) for accident year 2010/11, which is why the 2009/10-2011/12 experience is less favourable than for the other segments in Table 5.2.

During the six months redemption payments totalled $2.7 million, compared to expectations of $0.6 million.

Active Claims and Exits

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

Figure 5.1 – Numbers of Active IM Claims



Total active claim numbers fell by 4% in the September 2014 quarter – similar to the reductions in the previous three quarters – and by 9% in the December quarter, the biggest reduction seen in the recent history. Active claims reduced across all claim durations, with about 40% of the reduction relating to claims with duration over three years.

The lower active claim numbers can largely be attributed to ReturnToWorkSA's operational claim strategies.

In Table 5.3 we compare the numbers of active IM claims at December 2014 and the exit experience in the last six months with our June 2014 valuation projection. In this analysis we have separated WCA exits from other exits, because of the specific operational focus on WCA exits[3]. For the most recent accidents, active claim numbers were expected to grow rather than reduce in the six months.

Table 5.3 – AvE Active Claims and Exits

	Active Claims				Work Capacity Exits			Other Exits		
Accident Period	Proj from Jun-14 Val	Actual Actives	Act *less* Proj	Diff as % Actual	Proj Jun-14 Val	Actual Exits	Act *less* Proj	Proj Jun-14 Val	Actual Exits	Act *less* Proj
To 30 Jun 05	293	237	-61	-21%	0	28	28	-18	10	28
Jun-06	110	86	-24	-22%	0	27	27	3	0	-3
Jun-07	274	219	-55	-20%	1	65	64	11	2	-9
Jun-08	327	249	-78	-24%	13	92	79	9	8	-1
Jun-09	381	310	-71	-19%	36	100	64	10	17	7
Jun-10	426	368	-58	-14%	68	134	66	15	8	-7
Jun-11	472	483	11	2%	94	96	2	30	17	-13
Jun-12	716	642	-74	-10%	152	202	50	65	89	24
Jun-13	1,069	1,005	-64	-6%				188	252	64
Jun-14	1,591	1,341	-250	-16%				108	358	250
Dec-14 [1]	817	707	-110	-13%				-817	-707	110
Total	6,476	5,647	-834	-13%	364	744	380	-396	54	450

[1] Six months only

Overall, active claim numbers at December 2014 are 13% below expectations, which is consistent with IM payments being 13% below expectations. Active claims are above expectations for only one accident year, 2010/11.

In relation to exits:

- Overall, there have been twice as many WCA exits as projected at the June 2014 valuation (744, compared to 364 projected)
  - For accident years 2009/10 and earlier, the favourable WCA exit experience was driven by Tail Project outcomes (Section 3.2.2)
  - WCA exits for 2010/11 were close to our projection
  - The favourable experience for 2011/12 related to a bringing forward of WCA activity – with 98% of claims now having their WCA on time (at 130 weeks)
- The experience for other exits has been unfavourable for years in the range 2005/06 to 2010/11, but favourable elsewhere
  - The shortfall in other exits for accident years impacted by the Tail Project is likely a side effect of the focus on WCA exits for those years
- The favourable RTW experience at the front end (recent accidents) is noteworthy, given the smaller numbers of IM claims being reported (see Section 3.2.3); i.e. the more recent claims do not appear to be a 'harder core' group.

[3] It is somewhat artificial to isolate WCA exits in this way, because all exits achieve the same impact for the Scheme and, operationally, there can be substitution of one exit type for another. Our analysis takes all past WCA exits at face value, and therefore implicitly assumes that any currently disputed WCA exits will remain as exits (or be replaced by other exits).

5.2.2 WRCA Valuation

Pre-June 2005 Claims

Table 5.4 shows the movements between the numbers of claims valued (as lifetime claims) at June 2014 and at December 2014, as well as the estimated liability as at December 2014 (WRCA).

Table 5.4 – Valuation of Pre-June 2005 Claims

Status at Dec-14	Jun-14 Val	Total Net Exits	Dec-14 Val	OSC Dec 14[1]
				$m
Lifetime Claims at Jun-14	317	34	283	98.6
New at Dec-14	8	7	1	0.1
Lifetime Claims Dec-14			284	98.7
IBNR allowance [2]				11.2
Total OSC Dec-14				109.9

[1] Using Dec-14 economic assumptions

[2] Rolled forward from Jun-14 allowance.

Of the 317 claims valued at June 2014, 34 (11%) have exited during the six months.

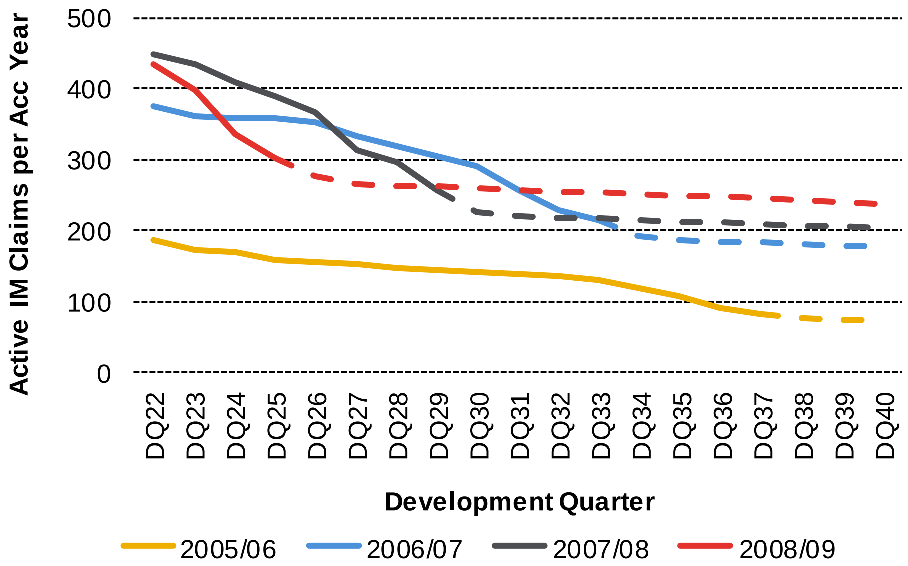
We have valued 284 claims as lifetime claims at December 2014, at an average value of $347,000 (the June 2014 average was $353,000). We made no allowance for future WCA, RTW or other non-mortality discontinuance.

Accident Years 2005/6 to 2008/09

Our WRCA valuation for these years – which had very favourable experience in the last six months due to Tail Project outcomes (see Section 3.2.2) – projects only small numbers of future exits. In essence, our valuation assumes that all claims which were likely to discontinue before retirement age will have done so.

This is illustrated in Figure 5.2, which shows the active IM claim experience and projection for the four accident years 2005/06 to 2008/09. The solid part of each line represents experience to date, and the dotted portion is our WRCA valuation projection; the projection segment of each curve is quite flat.

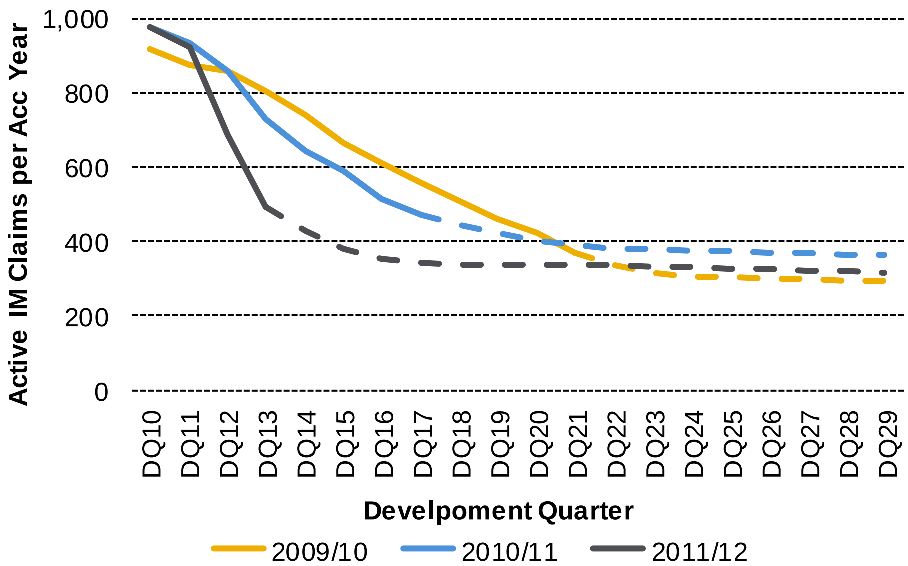
Figure 5.2 – Active IM Claims and Projection: 2005/06 to 2008/09



Accident Years 2009/10 to 2011/12

Figure 5.3 compares the active IM claim experience and projection for the three accident years 2009/10 to 2011/12. (Note that this projection starts at Development Quarter 10, which is earlier than Figure 5.2).

Figure 5.3 – Active IM Claims and Projection: 2009/10 to 2011/12



- The experience for 2009/10 shows a slow reduction between Development Quarter (DQ) 12 and DQ 22 (2.5 years in total), reflecting the fact that WCA exits have occurred gradually for these claims. Few WCA assessments were ‘on time’.
- Accident year 2010/11 has seen WCA exits happen earlier, but again only a proportion of WCAs were on time.
- For 2011/12, WCA assessments have happened largely on time, and therefore the fall in actives due to WCA exits is sharp and occurs mostly between DQ11 and DQ14. We note that our

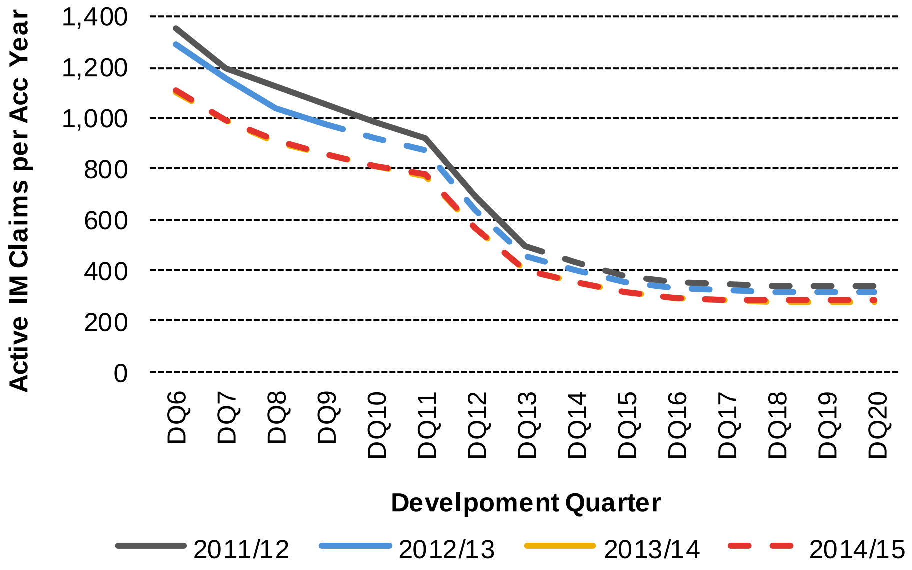
valuation basis at June 2014 projected WCA exits to happen more slowly, continuing out to DQ20, for this and later accident years.

Once again, only small numbers of exits are projected beyond the WCA durations, reflecting experience.

Accidents 2012/13 and Later

Figure 5.4 shows the experience and projection of active IM claims for accident years 2011/12 (repeated from Figure 5.3, for comparison) to 2014/15.

Figure 5.4 – Active IM Claims and Projection: 2011/12 to 2014/15



- Actives in 2012/13 are slightly below 2011/12 levels, reflecting lower actual experience to date and a similar projection basis
- Actives in 2013/14 are noticeably lower again, reflecting the reductions in front-end IM numbers which began in the December 2014 quarter (halfway through 2013/14).
- Our projection for 2014/15 is virtually identical to 2013/14.

5.2.3 WRCA Valuation Results and Actuarial Release

Table 5.5 sets out the actuarial release resulting from our WRCA valuation of IM payments, including redemptions[4]. The first column represents our projection from the June 2014 valuation.

[4] This relates to redemptions under the WRCA, not the 'two year' redemptions discussed in Section 3.2.6 .

Table 5.5 – WRCA Valuation: Actuarial Release for IM and Redemptions

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	118.9	109.9	(9.0)	(0.8)	9.8	8%
2005/06 - 2008/09	585.5	442.2	(143.3)	(2.1)	145.3	25%
2009/10 - 2011/12	630.4	682.8	52.4	(1.5)	(51.0)	-8%
20112/13 and later [1]	726.8	651.6	(75.2)	(9.4)	84.6	12%
Total	2,061.5	1,886.5	(175.0)	(13.7)	188.7	9%

[1] Accidents to Dec14

The very large release of nearly $190 million in total is driven almost entirely by active claim numbers at December 2014 being lower than our June 2014 projection. This is demonstrated in Table 5.6, which breaks down the actuarial release by source.

Table 5.6 – Components of WRCA Actuarial Release: IM and Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		13.7
AvE post Jun-05 actives		263.5
Pre Jun-05 experience		10.1
Changes to Valuation Basis		
Exit rates	(51.2)	
Payments	(47.3)	
Subtotal		(98.6)
Total		188.7

The difference between projected and actual actives results in a release of nearly $265 million. Changes in the valuation basis offset about $100 million of that release.

Changes to the adopted **exit rates** (about $50 million strengthening) have a number of (in part, offsetting) components:

- Front-end exit rates have been increased to reflect the most recent favourable experience (release of about $20 million; affects recent accident periods only)
- We now expect that WCA exits for recent accident years (2012/13 and later) will occur earlier than previously projected, which means that lower future IM payments are projected (release of about $25 million for recent accident years)
- We have reduced the rates of **future** WCA exit for years 2009/10 to 2011/12, reflecting the fact that almost all claims which have reached 130 weeks have had their WCA assessment by now, and any exits have been reflected in the experience release already (strengthening of about $45 million, which acts to offset some of the significant experience-related release of about $265 million that reflected the speeding up of WCAs and exits)
- We have reduced the other (non-WCA) exit rates for WCA durations, reflecting the recent experience (strengthening of about $50 million; affects accidents 2011/12 and later).

The changes to our **payments** basis largely reflect the projection of one-off payments as part of the settlement of IM disputes, which is consistent with the recent experience.

5.3 RTW Act Valuation

This section summarises our valuation of IM payments, allowing for the impact of the RTW Act.

5.3.1 RTW Act Impacts – All Claims

Table 5.7 summarises the RTW Act impacts on IM entitlements (Short Term Claims), as well as how we have modelled them in our RTW Act valuation. The **transitional** provisions of the RTW Act are relevant here (see Section 15.1.2).

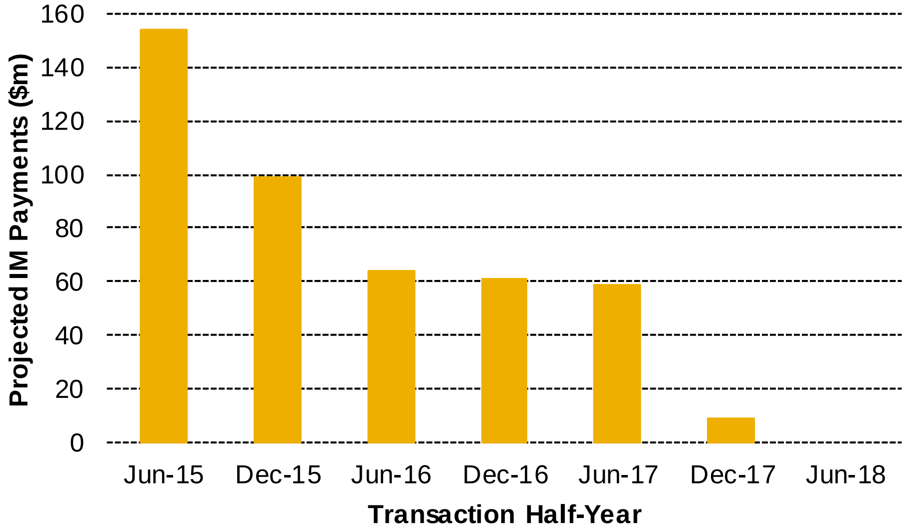
Table 5.7 – RTW Act Impacts on IM

Change	Modelling Approach
Serious Injury IM entitlements	See Section 9**.**
Short Term Claims IM entitlements cease 30 Jun 17 (two years after 1 Jul 15)	IM payments after 30 Jun 17 removed from projection Some payments projected to Dec17, allowing for delay in payment of pre-Jun17 entitlements
No **WCI indexation** of Short Term Claims IM entitlements after 1 Jul 15	WCI indexation increases removed from projection
No **Work Capacity Assessments** from 1 Jul 15	No new Determinations to Cease projected beyond Jun15 Some WCA exits projected in Sep15 quarter, relating to Determinations to Cease in Jun15 quarter (allows for waiting period)
Changes to payment percentages	Average payment amounts adjusted to reflect new 'stepdown' rules for recent claims

5.3.2 RTW Valuation Basis – Short Term Claims

The resulting projection of IM payments for **accidents to 31 December 2014** (the 'run-off' of the current valuation) essentially stops by the end of 2017, as shown in the graph below.

Figure 5.5 – RTW Act Valuation: Projected IM Payment Run-Off for Short Term Claims



The high level of payments in the six months to June 2015 (and to a lesser extent in the following six months) represent the impact of redemption of IM payments for claims which are expected to be entitled to IM benefits until 30 June 2017 (i.e. we expect this will reflect a ‘bringing forward’ of payments; see Section 3.2.6).

There are significant IM payments through to the first half of June 2017, reflecting the expectation that even after allowing for redemptions many of the claims currently entitled to IM will remain on benefits until they reach the hard boundary, two years out from 1 July 2015; this is illustrated in Table 5.8.

Table 5.8 – Continuance of Current Actives to June 2017

Acc Yr	Actives at Dec-14	Expected Redemptions	Projected Actives at Jun-17	% still Active at Jun-17
2006	71	20	35	50%
2007	188	90	58	31%
2008	212	81	96	45%
2009	288	116	118	41%
2010	331	119	151	46%
2011	456	156	215	47%
2012	616	91	243	39%
2013	1,008	3	593	59%
2014	1,429	0	699	49%
2015 [1]	1,129	0	388	34%
Total	5,728	676	2,596	45%

[1] 6 months to December

For each of the older accident years (up to 2012), about 40-50% of current active claims are expected to be receiving IM until the hard boundary, equating to some 900-odd claims (in addition to those from more recent periods who are also projected to reach the two year boundary.

5.3.3 RTW Act Valuation Results – All Claims

Table 5.9 sets out our liability estimates for IM and redemption payments, before and after allowing for the impacts of the RTW Act. The RTW Act results combine our estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 5.9 – RTW Act Valuation Results: IM and Redemptions

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	109.9	17.7	40.5	**58.2**	(51.7)
2005/06 - 2008/09	442.2	79.1	76.8	**155.8**	(286.4)
2009/10 - 2011/12	682.8	121.2	64.7	**185.9**	(496.9)
2012/13 and later [1]	651.6	207.2	54.8	**262.0**	(389.6)
Total	1,886.5	425.2	236.8	**662.0**	(1,224.5)

[1] Accidents to Dec14

The RTW Act reduces the IM liability by $1,225 million. Over one-third of the overall post-RTW Act liability of $662 million relates to Serious Injury claims; the proportion is much higher for older accident years (70% for pre-Jun 2005 accidents).

6 Lump Sums

This section describes our valuation of lump sum payments. A lump sum is payable to a worker who suffers a compensable disability that results in at least 5% whole person permanent impairment (WPI). Under the RTW Act, separate Lump Sums compensate claimants for non-economic loss and economic loss.

Introduction

We value lump sums in five components:

- "Death" and funeral claims
- "Deafness" claims
- "First Paid" lump sums – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Deafness claims)
- "Top Up" lump sums – where a claimant receives an additional payment in a half-year after they received their first lump sum payment (excluding Death and Deafness claims). We understand that top-ups should not occur after 1 July 2015, as the RTW Act introduces 'once and for all' WPI assessments
- "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 June 2014 valuation.

Table 6.1 – Valuation Results: Lump Sums

Jun14 Valuation	$m	$m	$m
Estimated Liab at Jun-14	167.3		
Projected Liab at Dec-14	167.9		
Dec-14 Valuation		AvE pmts	Release
WRCA val: Impact of experience/OSC - Movement in liab	1.4	4.9	(6.3)
RTW Act val: Impact of RTW Act	(11.3)		
Estimated Liab at Dec-14 (Jun-14 eco assumptions)	**158.0**		
Impact of change in eco assumptions	3.4		
Estimated Liab at Dec-14 (Dec-14 eco assumptions)	**161.4**		

The three main movements from our June 2014 projection of the December 2014 liability are:

1. An actuarial strengthening of $6.3 million, reflecting an increase of $1.4 million in the liability, and higher claims payments since June 2014 (WRCA valuation)
2. The RTW Act impact reduces the estimated liability by $11.3 million (RTW Act valuation)
3. The change in economic assumptions at the current valuation – principally the reduction in the discount rate – increases the estimated liability by $3.4 million.

The remainder of this section deals with impacts 1 and 2 above, in Sections 6.2 and 6.3 respectively. The impact of the change in economic assumptions is discussed in Section 11.3.

The **RTW Act valuation** (Section 6.3) shows our valuation of Short Term Claims only. All payments for Serious Injury claims are valued together in a separate exercise and described in Section 9.

6.2 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

In this part of the valuation, Short Term Claims and Serious Injury claims are valued together, and Serious Injury claims and their liability are not identified separately.

6.2.1 Payments vs Expectations

Table 6.2 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection and Table 6.3 shows the actual and expected payments split into the components used in our valuation modelling.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident	Payments in Six Months to Dec 14			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.6	1.4	0.2	111%
2005/06 - 2008/09	4.1	3.4	0.7	122%
2009/10 - 2011/12	12.6	9.5	3.0	132%
2012/13 and later [1]	9.2	8.2	1.0	112%
Total	27.4	22.6	4.9	122%

[1] Accidents to Dec14

Table 6.3 – Actual vs Expected Payments by Type of Lump Sum

Type of	Payments in Six Months to Dec 14			
Lump Sum	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
First Paid	20.3	16.3	4.0	124%
Top Ups	2.3	1.7	0.7	139%
Deafness	2.2	2.0	0.3	113%
Death	2.6	2.6	0.0	99%
Total	27.4	22.6	4.9	122%

Payments were higher than expected in the six months to 31 December 2014. This was mainly driven by First Paid lump sum payments arising from accident periods with high WCA activity; which we have interpreted as being a bringing forward of payments that previously would have taken longer to occur.

6.2.2 WRCA Valuation Basis

Valuation Basis for First Paid Lump Sums

With the increased maturity of experience since the 2008 reforms we have progressively revised our claim number projection model. We use a chain ladder approach for periods up to June 2012, and for more recent accident periods where there is less experience, we have maintained the use of a frequency approach.

There is very little development for accidents prior to December 2007 and as such, we have left the basis for these periods unchanged. For accidents after December 2007, we have interpreted the higher number of payments in the last six months as a bringing forward of payments rather than an increase in the ultimate number of payments. In light of this, we have sped up the development pattern by increasing the chain ladder factors at earlier durations and decreasing them at longer durations.

For accident periods after June 2012 where a frequency approach is used, 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, and compares these to the previous basis; the overall movements are relatively minor. 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

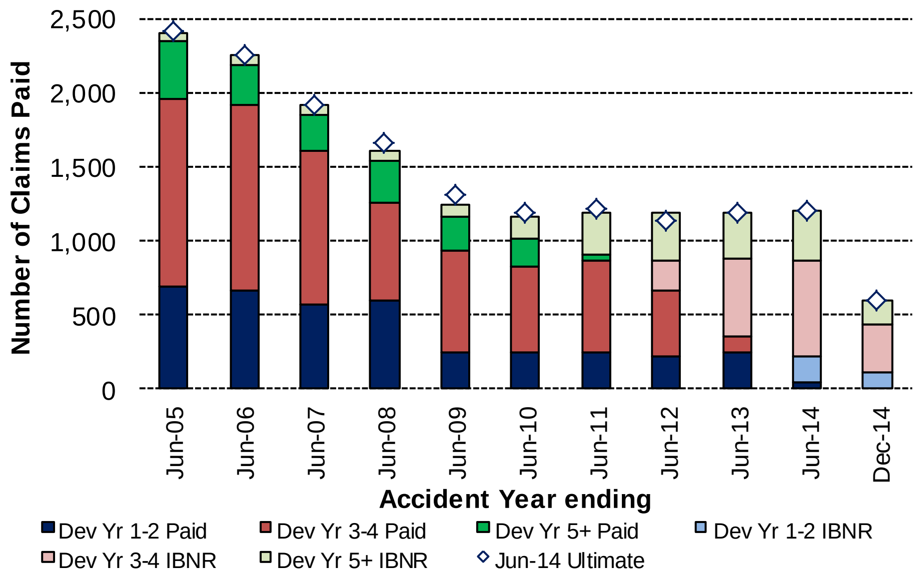
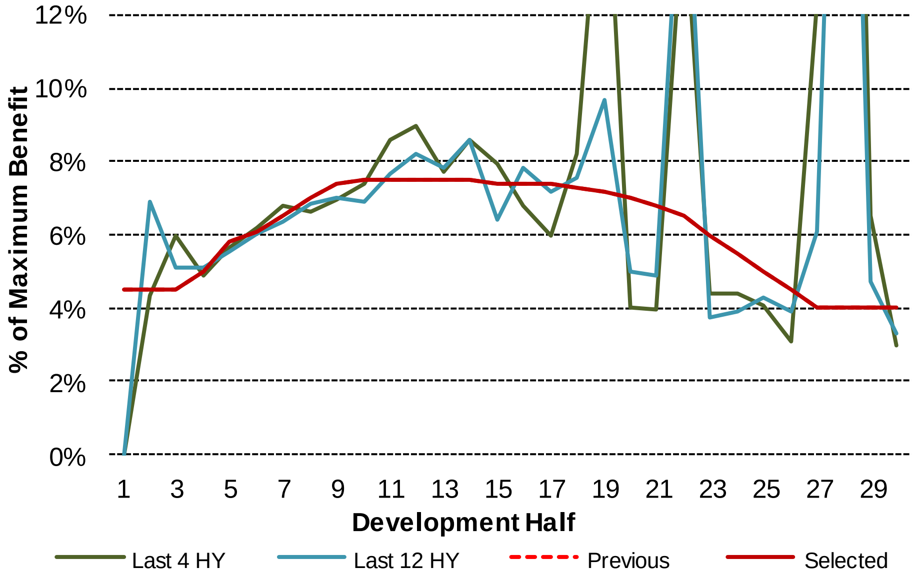


Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury. The selected basis is unchanged from the previous valuation and reflects the relatively stable experience in the last six months.

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



At an overall level, the average First Paid lump sum is expected to be 6.3% of the prescribed maximum benefit, or around $28,000.

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. The number of Top Up lump sums has reduced considerably since the 2008 reforms. At this valuation, we have maintained our selections from the previous valuation.

Figure 6.3 shows the projected ultimate numbers of Top Up lump sums, split into paid and IBNR claims. The ultimate numbers of Top Up claims from the previous valuation are also shown.

Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims

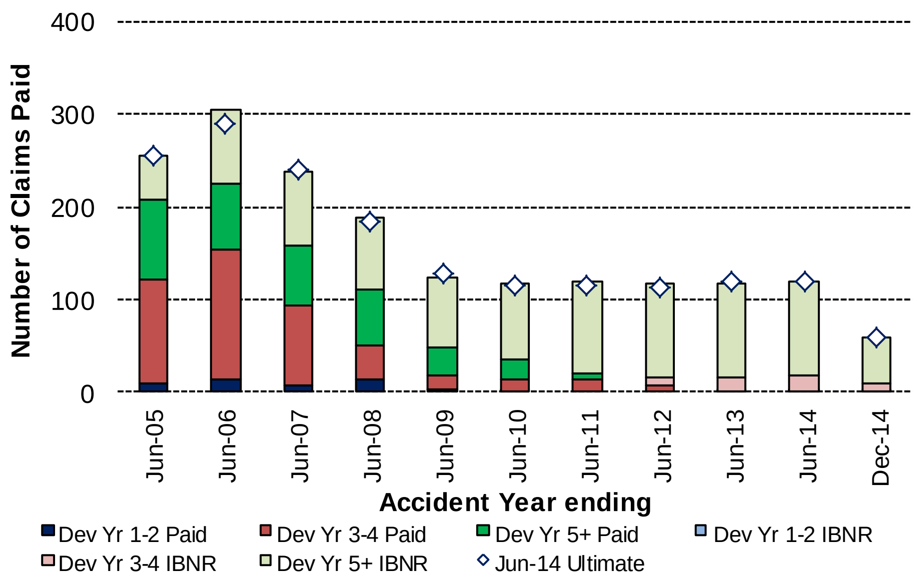
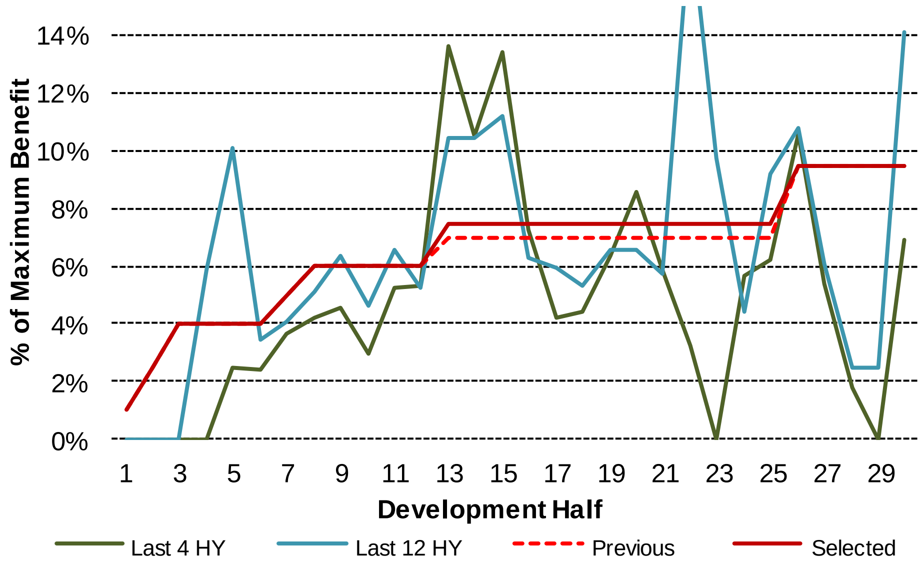


Figure 6.4 shows the average size of Top Up lump sum payments as a percentage of the maximum benefit available.

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

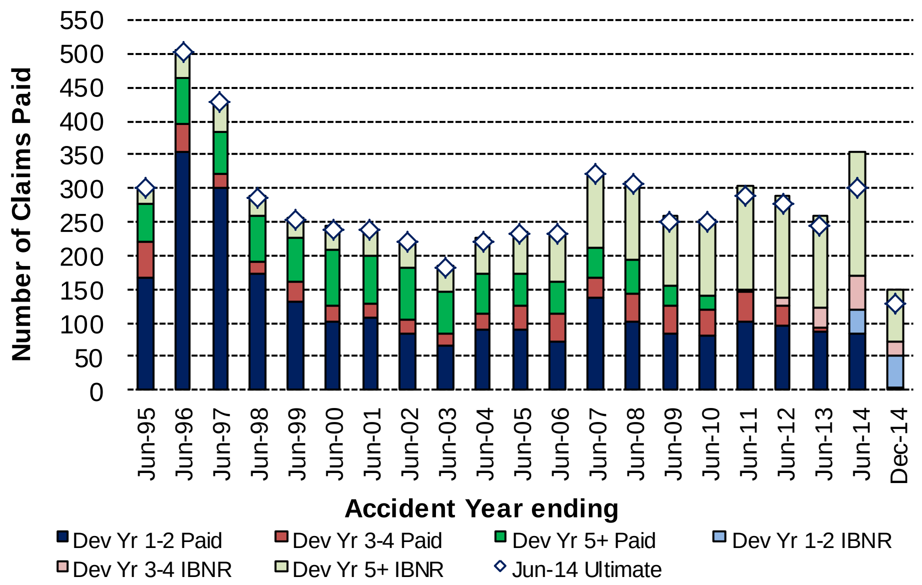


The average payment size has been volatile but increasing in the longer durations beyond six years. In response, we have increased the adopted size slightly in this period.

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, along with the previous valuation basis. The tail of Deafness IBNR claims is considerably larger than for First Paid lump sums, with claims still occurring many years after the injury (as is for common Deafness claims).

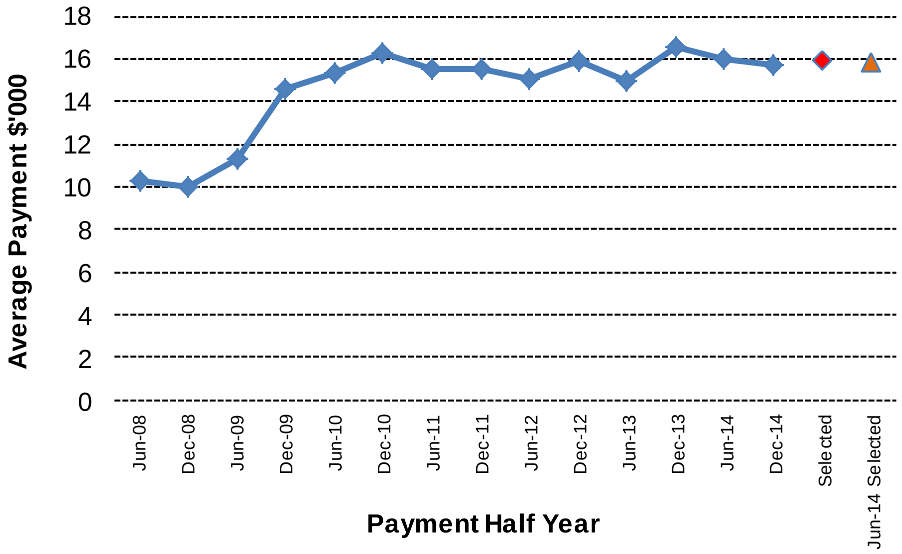
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Experience in the previous six months shows Deafness lump sum payments continue to be higher than expected for most accident periods, and we have increased the claim reporting pattern to reflect this.

Figure 6.6 shows the overall average benefit paid to a Deafness claim.

Figure 6.6 – Average Lump Sum Deafness Payment



The selected average Deafness benefit is unchanged from our previous valuation and is consistent with the recent experience at around $16,000.

Valuation Basis for Death Lump Sums

Our projection of Death (and funeral) lump sums is based on recent experience and the basis is unchanged from our previous valuation. Figure 6.7 shows the numbers of Death lump sums by accident year, along with the ultimate number of claims selected at the June 2014 valuation.

Figure 6.7 – Ultimate Number of Death Lump Sums

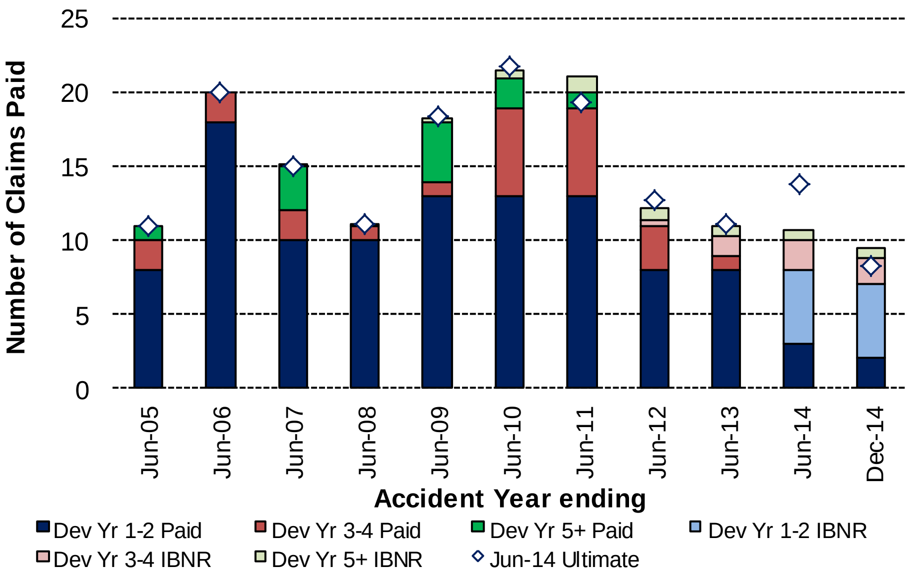
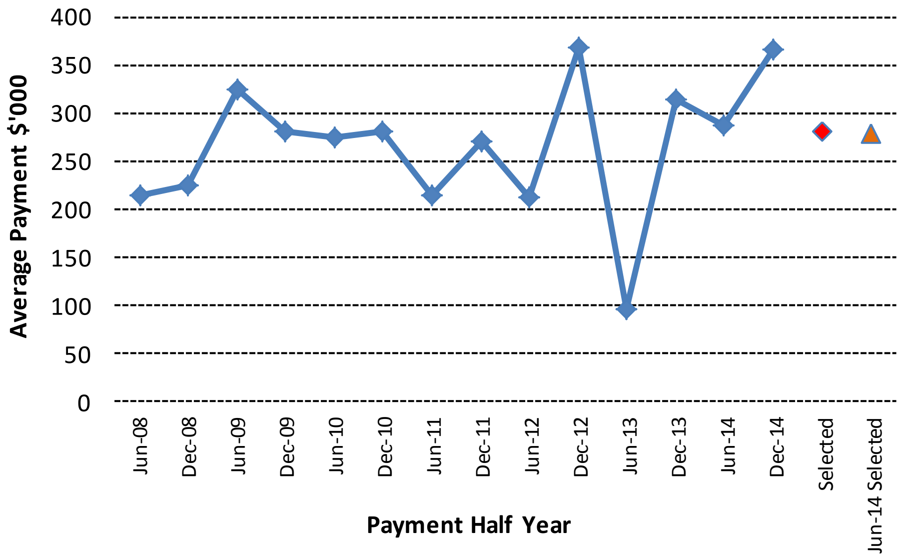


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to December 2014 has been high and reflects the lower proportion of funeral claims (which are smaller in size) paid out in the period. Given the volatility and small number of death payments, the selected average death benefit has been left unchanged from our previous valuation.

6.2.3 WRCA Valuation Results and Actuarial Release

Table 6.4 sets out the actuarial release resulting from our WRCA valuation of lump sum payments. The first column represents our projection from the June 2014 valuation.

Table 6.4 – WRCA Valuation: Actuarial Release for Lump Sums

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	20.0	20.2	0.2	0.2	(0.4)	-2%
2005/06 - 2008/09	18.0	16.7	(1.3)	0.7	0.5	3%
2009/10 - 2011/12	40.8	41.2	0.4	3.0	(3.4)	-8%
2012/13 and later [1]	89.1	91.2	2.0	1.0	(3.0)	-3%
Total	167.9	169.3	1.4	4.9	(6.3)	-4%

[1] Accidents to Dec14

[2] 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 increase in projected liability combined with actual payments being $4.9 million more than expected results in an actuarial increase of $6.3 million. The actuarial increase occurs in the more recent accident periods after 2009.

Table 6.5 breaks down the actuarial release by source.

Table 6.5 – Components of WRCA Actuarial Release: Lump Sums

Release (strengthening) due to	$m	$m
AvE payments in six months		(4.9)
Changes to Valuation Basis		
First Paid IBNR numbers	0.6	
Top Up average claim size	(0.7)	
Deafness IBNR numbers	(1.3)	
Subtotal		(1.4)
Total		(6.3)

Shifting the chain ladder factors of First Paid claims forward reduces the liability by $0.6 million. Increases in the Top Up average size and higher Deafness IBNR numbers increase the liability by $0.7 million and $1.3 million respectively.

6.3 RTW Act Valuation

This section summarises our valuation of lump sum payments, allowing for the impact of the RTW Act.

RTW Act Impacts – All Claims

We have summarised the main changes of the RTW Act along with our adjustments to the valuation basis below.

Table 6.6 – Summary of RTW Act changes: Lump Sums

Type of Lump Sum	Changes in RTW Act	Changes in Valuation
First Paid	Increase in benefit scale with the maximum lump sum benefit applying at a lower WPI for new injuries.	Minor change to future accident year sizes.
Top Ups	Cease to be available after 1 July 2015 for all accident periods (assuming the new assessment rules work as intended).	Remove projected payments for assessments after the 1 July 2015 cut-off date. We have not anticipated any 'behaviour change' which increases Top Ups in the transition period leading up to 1 July 2015.
Deafness	No impact expected.	No change in basis from WRCA valuation.
Death	Correction to dependent benefit rules plus one-off ex-gratia payments to some post-2008 claims.	Small increase in ongoing death benefits plus extra ex-gratia payments in the next financial year.
Economic Loss	Applies to accidents after 1 July 2015, subject to age, hours worked and hearing loss adjustments.	Project an additional $45 million per year of Lump Sums based on the current profile of workers receiving lump sums.

We note that a faster payment pattern due to the two year boundary on IM benefits is likely to result as the RTW Act comes into effect. For now we have not attempted to anticipate this change in projection.

RTW Act Valuation Results – All Claims

As the RTW Act Lump Sums liability basis is relatively consistent with the WRCA basis, we have not re-produced the valuation assumptions in this section.

Table 6.7 sets out our liability estimates for lump sum payments, before and after allowing for the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section **9**). These liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 6.7 – RTW Act Valuation Results: Lump Sums

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates: Short Term Claims	RTW Act Val Estimates: Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	20.2	11.7	0.9	**12.6**	(7.6)
2005/06 - 2008/09	16.7	7.9	5.5	**13.4**	(3.4)
2009/10 - 2011/12	41.2	31.8	9.5	**41.4**	0.2
2012/13 and later [1]	91.2	71.3	19.5	**90.7**	(0.5)
Total	169.3	122.6	35.4	**158.0**	(11.3)

[1] Accidents to Dec14

The impact of the RTW Act is a reduction of $11.3 million on the outstanding claims liability. The reduction reflects the removal of Top Up payments after 1 July 2015 slightly offset by the one-off payments for dependents. Economic Loss lump sums are not included in the outstanding claims liability (accidents up to 31 December 2014) as they exist only for accidents after 1 July 2015.

7 Treatment and Related Costs

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

7.1 Summary of Results

Table 7.1 summarises the movements in our liability estimates for treatment and related cost payments since the June 2014 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Jun14 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-14	552.3	68.0	54.0	79.7	48.4	139.8	942.1
Projected Liab at Dec-14	571.8	70.1	55.2	81.4	49.3	143.1	971.0
Dec-14 Valuation							
WRCA val: Impact of experience/OSC - Movement in liab	(7.7)	(5.6)	(2.9)	(9.1)	(4.4)	12.3	(17.5)
RTW Act val: Impact of RTW Act	(63.2)	2.8	3.7	7.5	4.1	157.4	112.4
Estimated Liab at Dec-14 (Jun-14 eco assumptions)	**500.9**	**67.3**	**56.0**	**79.8**	**49.1**	**312.8**	**1,065.9**
Impact of change in eco assumptions	63.0	9.6	7.5	9.2	5.5	46.7	141.6
Estimated Liab at Dec-14 (Dec-14 eco assumptions)	**563.9**	**76.9**	**63.5**	**89.0**	**54.6**	**359.6**	**1,207.5**
AvE Payments - six months to Dec-14	2.0	0.1	(0.0)	(0.9)	(1.2)	5.1	5.1
Actuarial Release at Dec-14	5.7	5.5	3.0	10.0	5.6	(17.4)	12.4

The three main movements from our June 2014 projection of the December 2014 liability are:

1. A decrease of $17.5 million in the liability, reflecting the claims experience since June 2014 and our valuation response (WRCA valuation). This produces an actuarial release of $12.4 million when combined with actual payments in the period being $5.1 million higher than expected.
2. The RTW Act increases the estimated liability by a further $112.4 million (RTW Act valuation). The increase is driven by Serious Injury costs.
3. The change in economic assumptions at the current valuation – principally the reduction in the discount rate – increases the estimated liability by $141.6 million.

The remainder of this section deals with impacts 1 and 2 above, in Sections 7.2 and 7.3 respectively. The impact of the change in economic assumptions is discussed in Section 11.3.

In the **RTW Act valuation** (Section 7.3) shows our valuation of Short Term Claims only. All payments for Serious Injury claims are valued together in a separate exercise and described in Section 9.

7.2 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

In this part of the valuation, Short Term Claims and Serious Injury claims are valued together, and Serious Injury claims and their liability are not identified separately.

Each of the six entitlements noted above use the same modelling structure. The remainder of this section considers each entitlement separately and describes:

- Recent payment trends, including a comparison to expectations at the previous valuation
- Short term model (STPPCI) – this is used for the valuation of liabilities in the first three years after injury (short and long term models are blended between two and three years duration). The model projects payments on a monthly basis.
- Long term model (LTPPAC) – this is a quarterly model used for the valuation of liabilities in respect of payments made more than two years after injury, and for claims that are also receiving income maintenance (IM) payments in the quarter. The two key assumptions are:
  - Utilisation Rate – the proportion of active IM claims that also receive an entitlement payment in the quarter
  - Payment Per Active Claims – the average payment to those claims who receive the entitlement in the quarter.
- Long term model (LTPPCI) – this is a quarterly model used for the valuation of liabilities in respect of payments made more than two years after injury, for claims that are not receiving IM payments in the quarter.
- Valuation results and actuarial releases split by accident years.

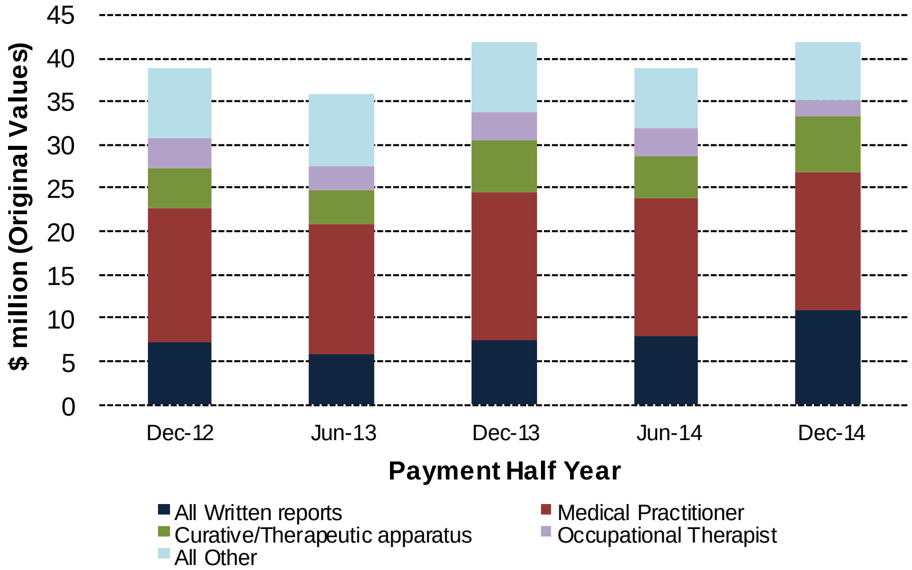
7.2.1 Medical

Medical payments includes payments for treating doctors, written medical reports, therapeutic devices, pharmaceuticals, psychologists, and dentists.

Payments vs Expectations

Table 7.1 below shows medical payments by six month period.

Figure 7.1 – Medical Half-Yearly Payments



Payments have grown by around 6% p.a. in the last two years, which is in line with the inflationary allowances in the valuation – i.e. while this growth is well above standard inflationary increases, it is similar to the valuation basis. There is clear seasonality in half yearly payments, but on average payments are running at around $40 million per half year. The breakdown of medical payments by type shows most of the recent increase is driven by increases in written reports, which we understand is linked to the recent increase in WCA activity.

Table 7.2 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

Accident	Payments in Six Months to Dec 14			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	3.7	3.6	0.1	102%
2005/06 - 2008/09	7.0	5.7	1.3	122%
2009/10 - 2011/12	10.3	8.7	1.6	118%
2012/13 and later [1]	20.9	21.9	(1.0)	96%
Total	41.9	39.9	2.0	105%

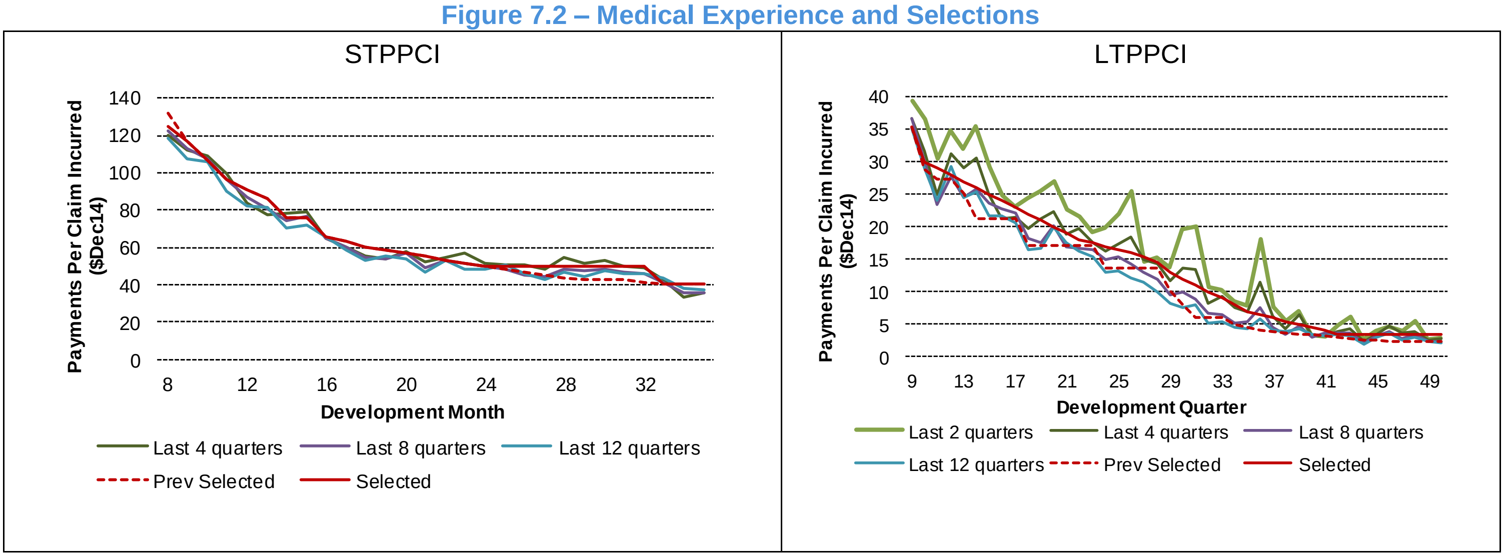
[1] Accidents to Dec14

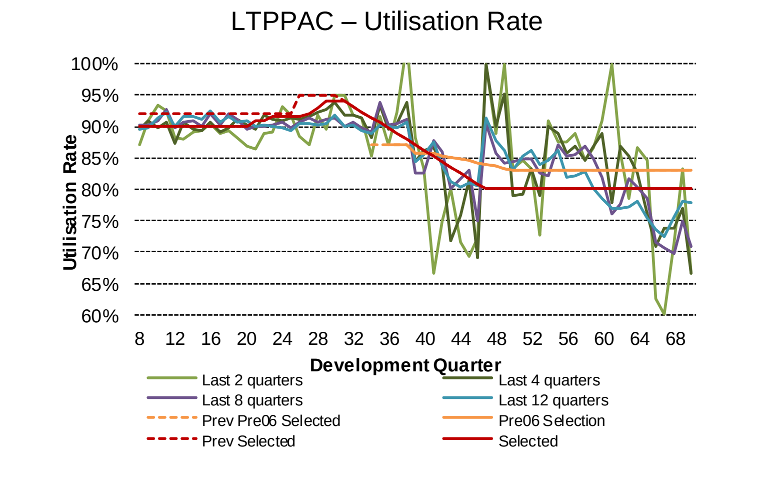
Overall, payments were $2.0 million (5%) greater than expected. The higher than expected payments was driven by pre-2012 accident periods where the recent WCA activity has required more written reports.

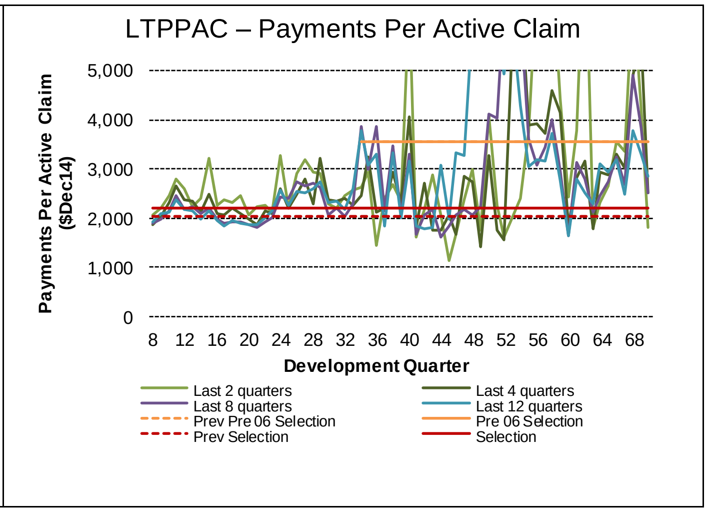
WRCA Valuation Basis

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:

- STPPCI: short term medical payments have increased slightly in the last six month. We have increased the adopted assumptions marginally around the 2-3 year duration to reflect the experience.
- LTPPCI: these payments relate to claims no longer receiving an IM payment and have been increasing over the last 12 months. This is likely to be largely driven by higher number of payments for written medical reports as a result of the recent WCA activity. We do not expect this to be a permanent feature of the experience and have therefore only slightly reflected the increases in our basis.
- LTPPAC: this model represents the bulk of the medical liability. Utilisation out to DQ28 has decreased in the last 12 months and we have adjusted our basis accordingly. Payments per active claim have increased across all durations. A contributing factor (but not all) to the increase in payments beyond DQ20 can be attributed to the higher activity in the 'Tail Project' which has now ceased. We have increased our selected PPAC at this valuation in response to the underlying experience, without fully reflecting the temporarily high costs that resulted from recent projects.

Medical Fee Increases

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

WRCA Valuation Results and Actuarial Release

Table 7.3 sets out the actuarial release resulting from our WRCA valuation of medical payments. The first column represents our projection from the June 2014 valuation.

Table 7.3 – WRCA Valuation: Actuarial Release for Medical

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	76.0	75.5	(0.5)	0.1	0.5	1%
2005/06 - 2008/09	140.7	117.2	(23.5)	1.3	22.2	16%
2009/10 - 2011/12	160.5	182.8	22.3	1.6	(23.9)	-15%
2012/13 and later [1]	194.6	188.5	(6.0)	(1.0)	7.0	4%
Total	571.8	564.1	(7.7)	2.0	5.7	1%

[1] Accidents to Dec14

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

The $7.7 million decrease in the projected liability is slightly offset by actual payments being $2.0 million more than expected resulting in an actuarial release of $5.7 million. There is a strengthening in the 2009/10 to 2011/12 accident years as a result of higher number of actives still remaining in this period and higher PPACs adopted at this valuation.

Table 7.4 breaks down the actuarial release by source.

Table 7.4 – Components of WRCA Actuarial Release: Medical

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(2.0)
Changes to Valuation Basis		
IM active proj	45.1	
Short term assumptions	(0.4)	
Long term assumptions	(36.9)	
Subtotal		7.7
Total		5.7

The favourable IM active claim number experience reduces the Medical liability by $45.1 million. This is largely offset by increases in the medical valuation basis of $37.3 million.

Redemption of Medical

The redemption of Medical entitlements is modelled separately and aggregated back into the Redemptions group for reporting purposes (in line with ReturnToWorkSA's financial groups). As discussed in Section 3.2.6, there has been a higher level of activity around dispute settlements and as a result, a higher utilisation of medical redemptions. We have also seen in the experience that almost all medical redemptions receive the maximum $5,000 allowed.

At this valuation, we have increased both the utilisation and selected size (to $4,900) to reflect the recent experience. The undiscounted liability for medical redemptions is $12.4 million.

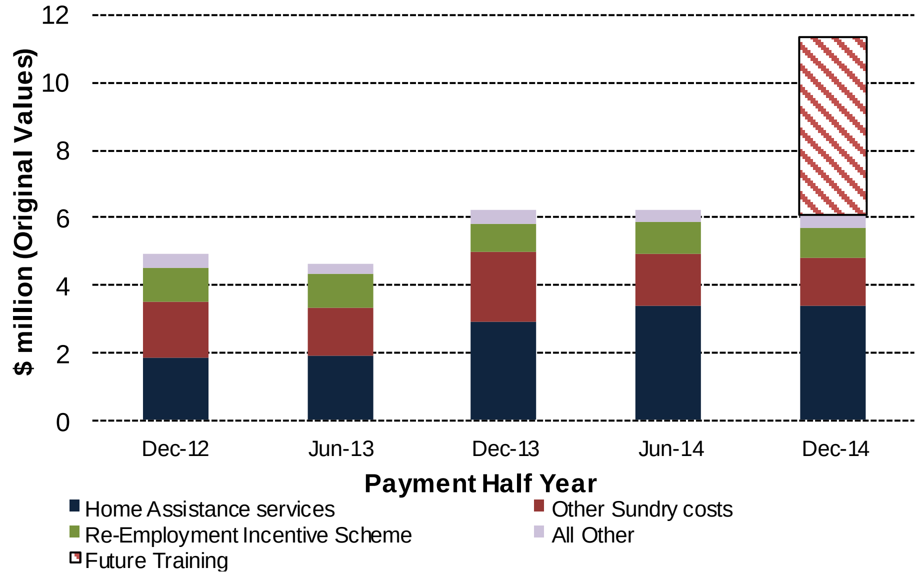
7.2.2 Other

The Other payment type includes payments on home assistance and modifications, Re-Employment Incentive Scheme (RISE) 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 increased significantly in the December 2014 half year due to 'future training and education' benefits paid to workers as part of the recent dispute settlement activity. This was described in Section 3.2.6. Excluding the 'future training and education' payments, 'other' payments have been relatively stable over the last 18 months.

Table 7.5 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.9	1.7	0.2	115%
2005/06 - 2008/09	3.1	1.3	1.9	247%
2009/10 - 2011/12	4.8	2.1	2.7	229%
2012/13 and later [1]	1.5	1.2	0.3	124%
Total	11.3	6.3	5.1	181%

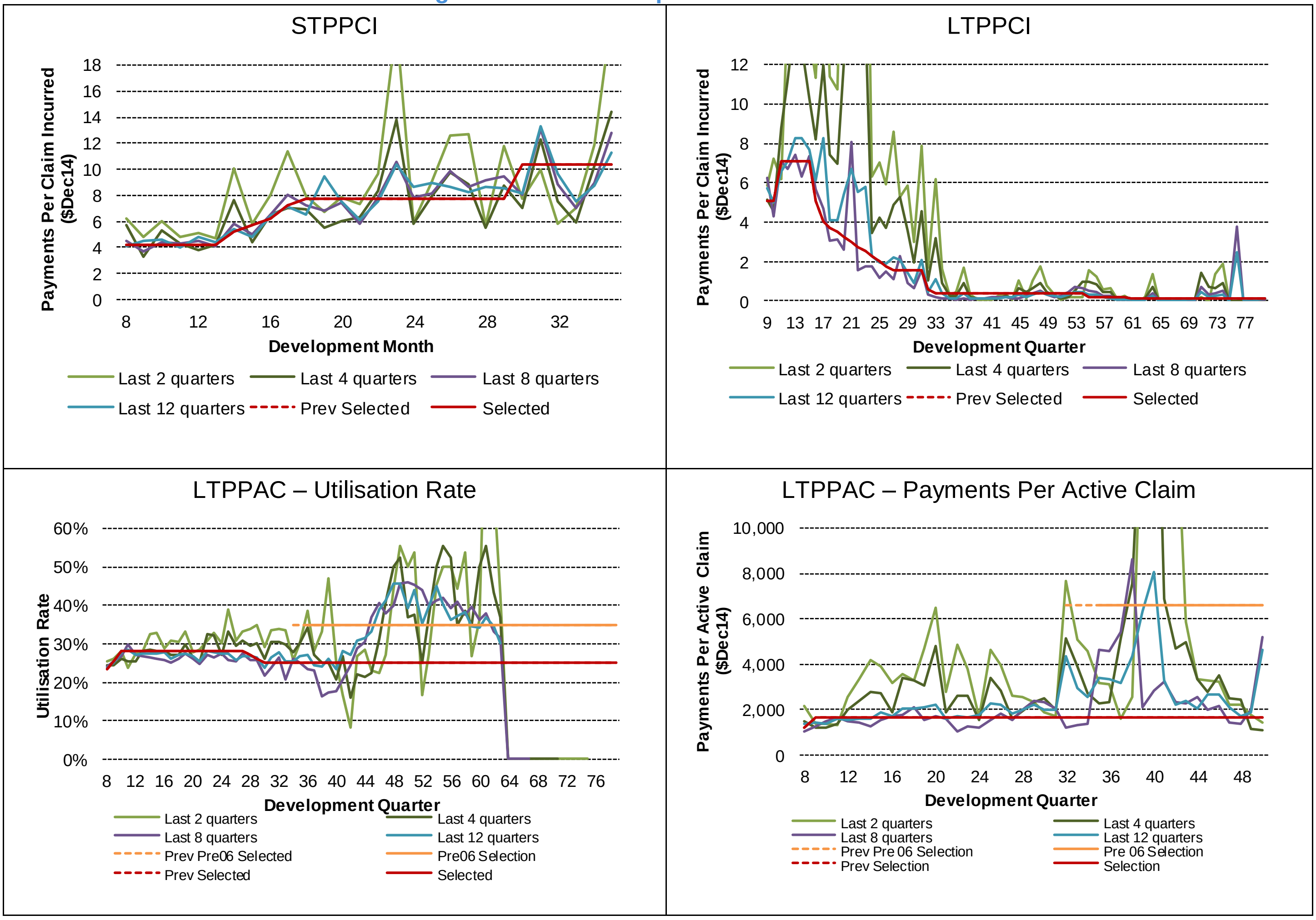
[1] Accidents to Dec14

Overall, payments were $5.1 million (81%) greater than expected. This was mainly driven by the dispute settlement activity in pre-2012 accident periods.

WRCA Valuation Basis

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

Figure 7.4 – Other Experience and Selections



The high payments in the recent experience are captured through the green lines (experience in the last 2 and 4 quarters) in the above charts. As the increase reflects a temporary increase in future training costs and the recent experience has otherwise been stable, we have maintained the adopted basis from our previous valuation for the long term projection and separately included an allowance for future training in addition to this.

WRCA Valuation Results and Actuarial Release

Table 7.6 sets out the actuarial release resulting from our WRCA valuation of 'other' payments. The first column represents our projection from the June 2014 valuation.

Table 7.6 – WRCA Valuation: Actuarial Release for Other

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation¹	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	32.8	32.0	(0.9)	0.2	0.6	2%
2005/06 - 2008/09	35.7	33.6	(2.1)	1.9	0.2	1%
2009/10 - 2011/12	36.0	46.5	10.5	2.7	(13.2)	-37%
2012/13 and later [1]	38.5	43.3	4.8	0.3	(5.0)	-13%
Total	143.1	155.4	12.3	5.1	(17.4)	-12%

[1] Accidents to Dec14

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

The $12.3 million increase in the projected liability combined with actual payments being $5.1 million more than expected results in an actuarial increase of $17.4 million. The increase falls in the post-2009 accident periods where there is a high level of dispute resolution activity to be completed.

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of WRCA Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(5.1)
Changes to Valuation Basis		
IM active proj	13.0	
Dispute settlement cost	(25.2)	
Subtotal		(12.3)
Total		(17.4)

The favourable IM active claim number experience reduces the 'other' liability by $13.0 million, which is offset by the allowance for additional dispute settlement costs.

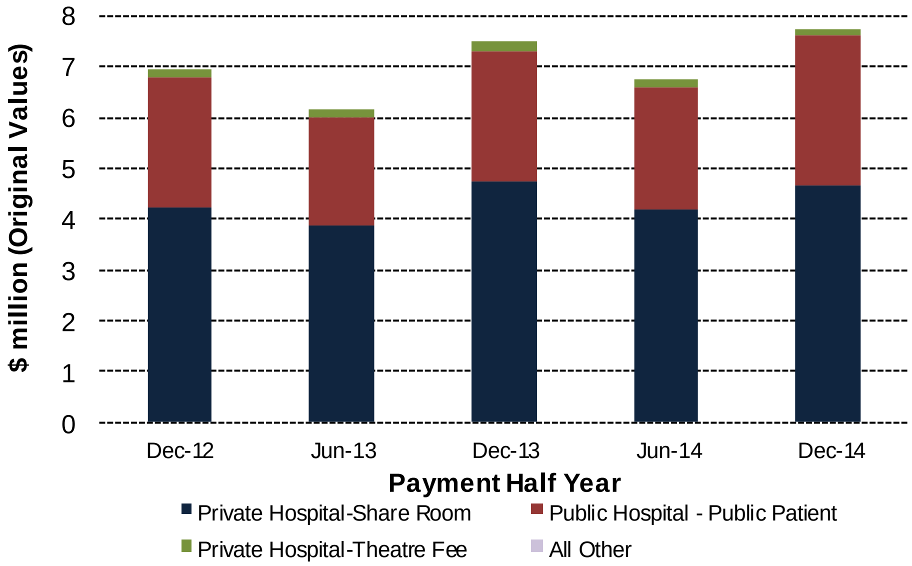
7.2.3 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs Expectations

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

Figure 7.5 – Hospital Half-Yearly Payments



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

Table 7.8 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

Accident	Payments in Six Months to Dec 14			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.4	0.5	(0.1)	75%
2005/06 - 2008/09	0.5	0.6	(0.1)	87%
2009/10 - 2011/12	0.9	1.0	(0.1)	95%
2012/13 and later [1]	5.9	5.5	0.4	106%
Total	7.7	7.6	0.1	101%

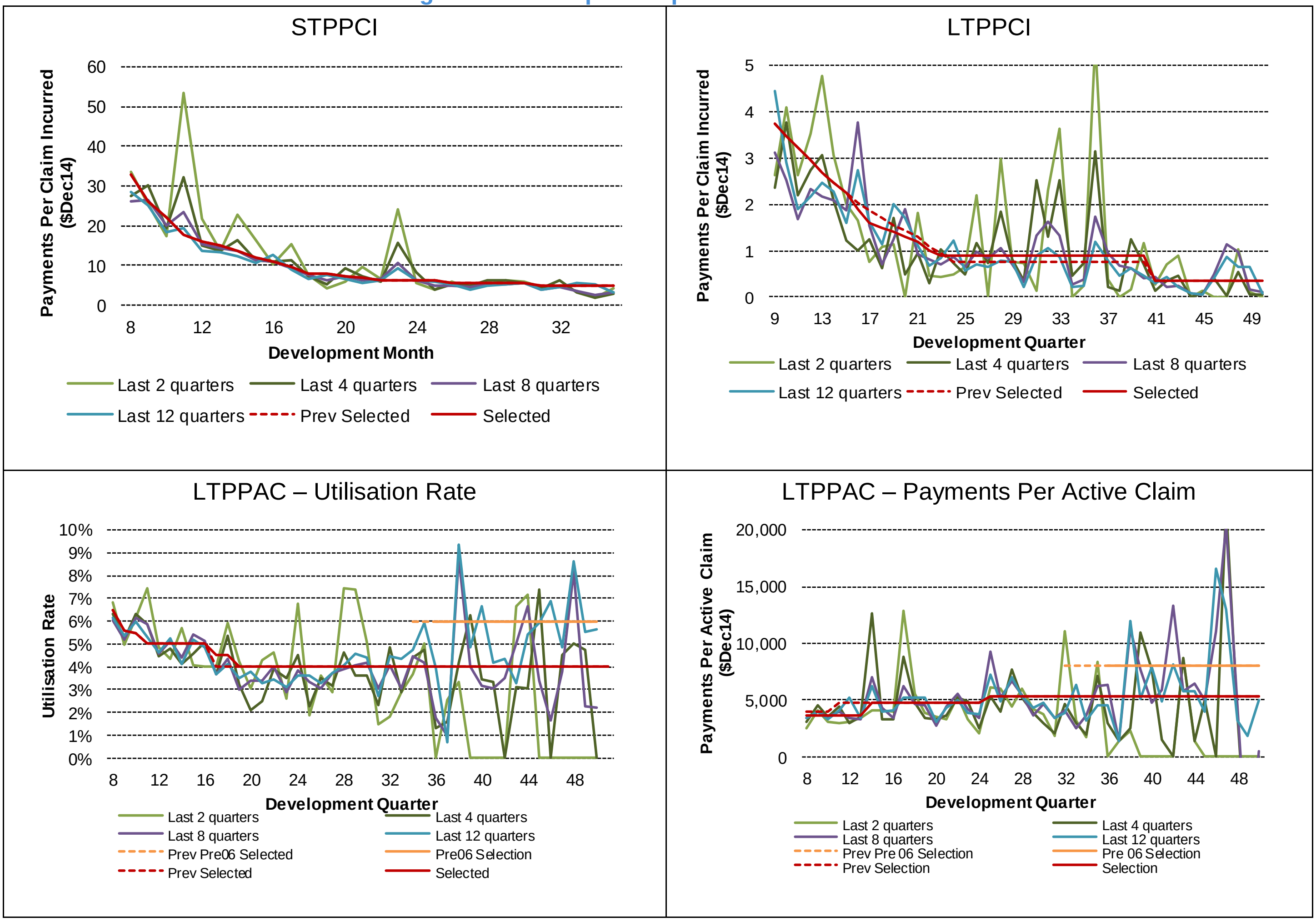
[1] Accidents to Dec14

Payments in the last six months were close to expected ($0.1 million higher). Higher payments in more recent accident periods were offset by lower payments in older accident periods.

WRCA Valuation Basis

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

Figure 7.6 – Hospital Experience and Selections



Our comments on the experience and selected assumptions are below:

- STPPCI: there have been no major changes to the short term experience since the previous valuation; we have left the basis unchanged.
- LTPPCI: these payments relate to claims no longer receiving an IM payment and have increased for payments made beyond five year durations. We have reshaped the payment pattern resulting in a slight increase in the PPCIs to better reflect the experience.
- LTPPAC: this model represents the bulk of the hospital liability. Both utilisation and PPACs have been stable since the previous valuation and we have applied only minor tweaks to the valuation basis reflecting the experience.

WRCA Valuation Results and Actuarial Release

Table 7.9 sets out the actuarial release resulting from our WRCA valuation of hospital payments. The first column represents our projection from the June 2014 valuation.

Table 7.9 – WRCA Valuation: Actuarial Release for Hospital

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	11.3	11.0	(0.4)	(0.1)	0.5	4%
2005/06 - 2008/09	17.0	13.0	(4.0)	(0.1)	4.1	24%
2009/10 - 2011/12	17.7	18.8	1.0	(0.1)	(1.0)	-6%
2012/13 and later [1]	24.0	21.7	(2.3)	0.4	1.9	8%
Total	70.1	64.5	(5.6)	0.1	5.5	8%

[1] Accidents to Dec14

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

The $5.6 million decrease in the projected liability is slightly offset by actual payments being $0.1 million more than expected resulting in an actuarial release of $5.5 million. There is a strengthening in the 2009/10 to 2011/12 accident years as a result of high number of actives still remaining in this period.

Table 7.10 breaks down the actuarial release by source.

Table 7.10 – Components of WRCA Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(0.1)
Changes to Valuation Basis		
IM active proj	5.6	
Subtotal		5.6
Total		5.5

The favourable IM active claims experience reduces the Hospital liability by $5.6 million.

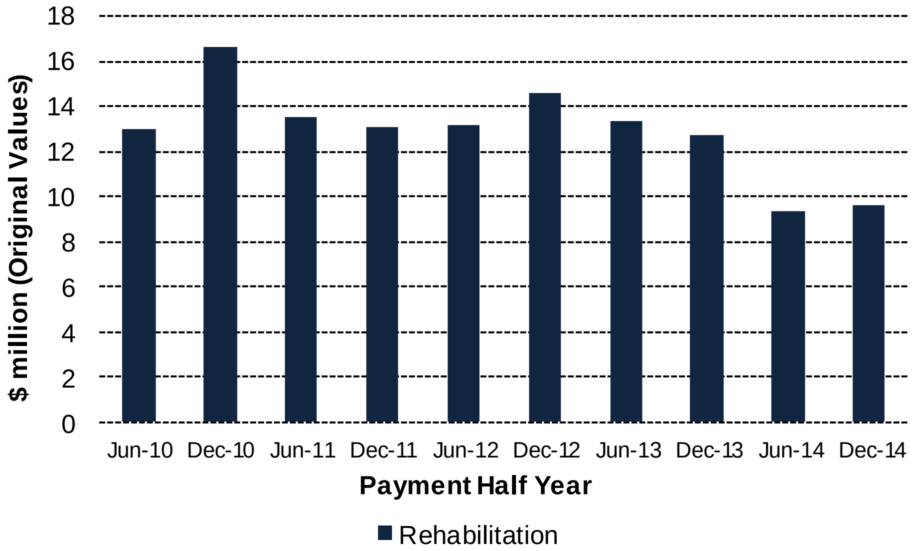
7.2.4 Rehabilitation

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 remained low in the last six months reflecting the impact of recent ReturnToWorkSA initiatives.

Table 7.11compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	77%
2005/06 - 2008/09	0.9	1.3	(0.5)	64%
2009/10 - 2011/12	2.8	3.7	(0.8)	78%
2012/13 and later [1]	5.8	5.3	0.4	108%
Total	9.6	10.5	(0.9)	91%

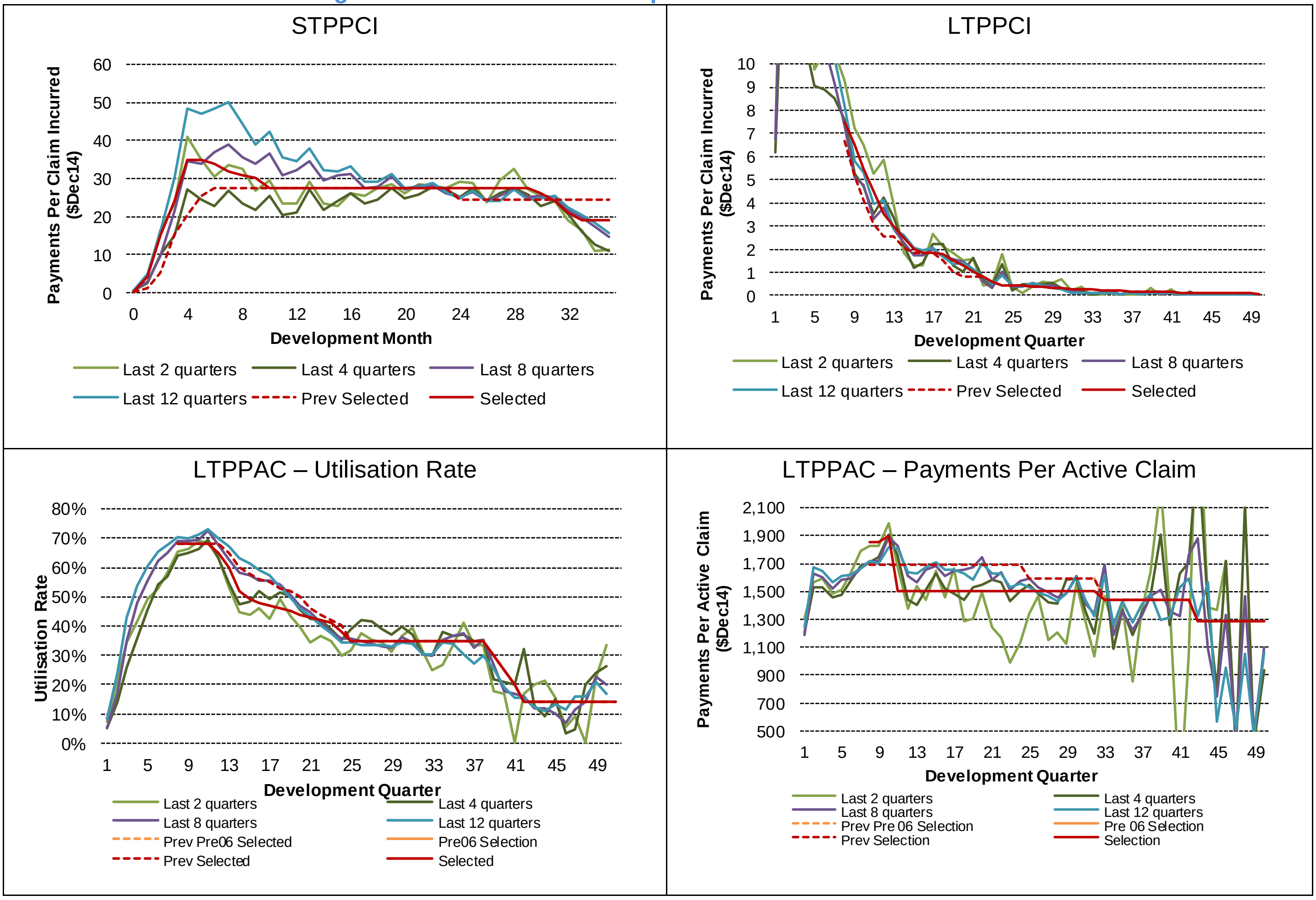
[1] Accidents to Dec14

Overall, payments were $0.9 million (9%) lower than expected driven by pre-2012 accident years with payments for more recent accident years slightly above expected.

WRCA Valuation Basis

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

Figure 7.8 – Rehabilitation Experience and Selections



Our comments on the experience and selected assumptions are below:

- STPPCI: short term rehabilitation payments have increased slightly in the last six months after reducing materially in the last two years. We have increased the adopted assumptions in line with this recent experience.
- LTPPCI: these payments relate to claims no longer receiving an IM payment and have increased slightly over the last 6 months. We have adjusted the basis upwards to reflect this experience.
- LTPPAC: both utilisation and PPACs have continued to decrease over the last six months. We have revised the basis downwards to reflect the lower level of payments.

WRCA Valuation Results and Actuarial Release

Table 7.12 sets out the actuarial release resulting from our WRCA valuation of rehabilitation payments. The first column represents our projection from the June 2014 valuation.

Table 7.12 – WRCA Valuation: Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	2.0	1.9	(0.1)	(0.0)	0.1	6%
2005/06 - 2008/09	13.2	10.0	(3.1)	(0.5)	3.6	27%
2009/10 - 2011/12	22.6	22.2	(0.5)	(0.8)	1.3	6%
2012/13 and later [1]	43.7	38.2	(5.5)	0.4	5.0	11%
Total	81.4	72.3	(9.1)	(0.9)	10.0	12%

[1] Accidents to Dec14

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

The $9.1 million decrease in the projected liability combined with actual payments being $0.9 million less than expected results in an actuarial release of $10.0 million. The release falls mainly in the period after 2005.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of WRCA Actuarial Release: Rehabilitation

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.9
Changes to Valuation Basis		
IM active proj	7.1	
Short term assumptions	(0.6)	
Long term assumptions	2.7	
Subtotal		9.1
Total		10.0

The favourable IM active claims experience reduces the Rehabilitation liability by $7.1 million. A reduction in the long term assumptions further reduces liability by $2.7 million which is only partially offset by an increase in the short term assumptions of $0.6 million.

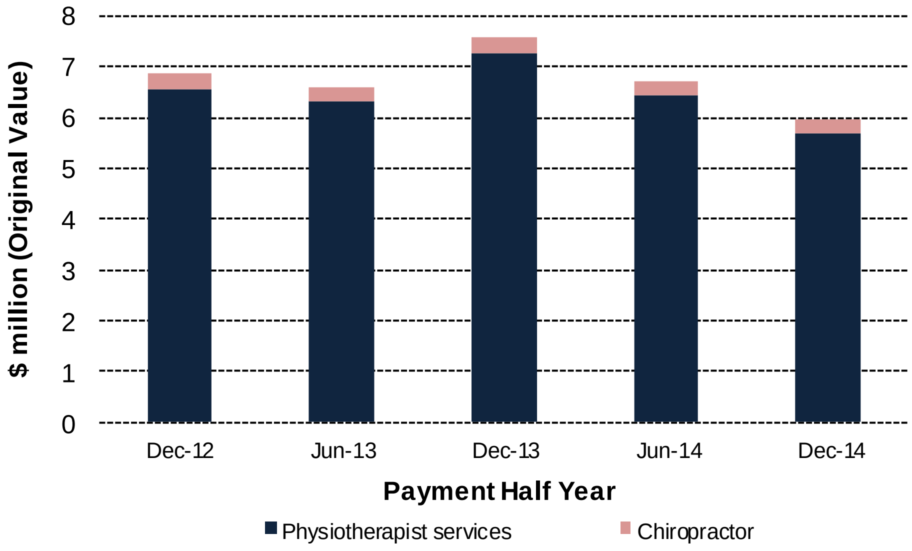
7.2.5 Physical Therapy

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.

Figure 7.9 – Physical Therapy Half-Yearly Payments



Total physical therapy payments have continued to decrease in the last six months, which follows recent ReturnToWorkSA initiatives targeting over-servicing.

Table 7.14 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.3	0.3	(0.0)	92%
2005/06 - 2008/09	0.6	0.7	(0.1)	90%
2009/10 - 2011/12	1.1	1.2	(0.1)	92%
2012/13 and later [1]	4.0	5.0	(1.0)	80%
Total	6.0	7.2	(1.2)	83%

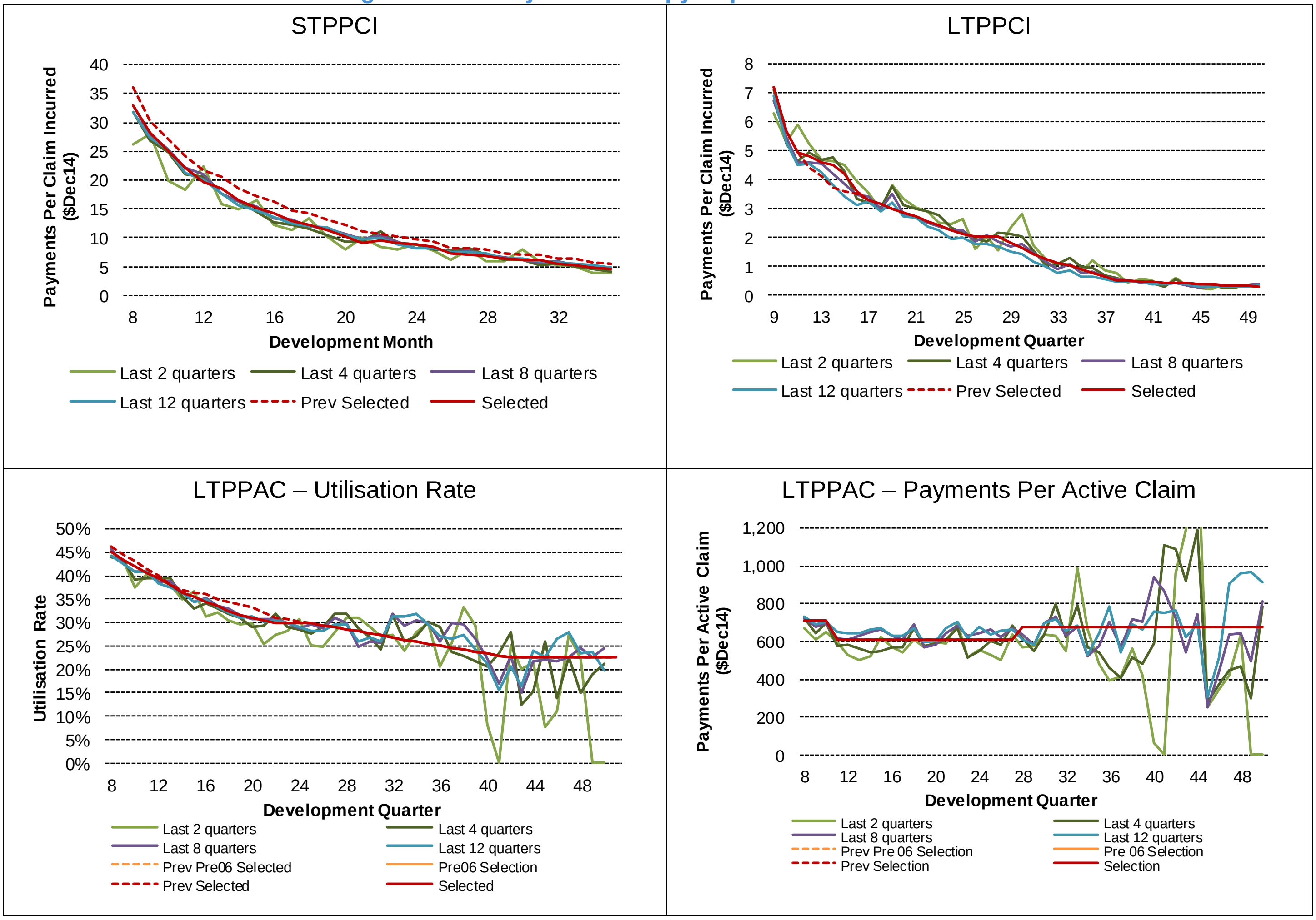
[1] Accidents to Dec14

Overall, payments were $1.2 million (17%) lower than expected driven by the more recent accident periods.

WRCA Valuation Basis

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

Figure 7.10 – Physical Therapy Experience and Selections



Our comments on the experience and selected assumptions are below:

- STPPCI: The adopted basis for short term physical therapy payments has been reduced to reflect the emerging experience.
- LTPPCI: these payments relate to claims no longer receiving an IM payment and have increased slightly over the last 6 months. We have adjusted our valuation basis slightly to capture this experience.
- LTPPAC: utilisation in the short term has decreased in the last 12 months and we have adjusted our basis accordingly. PPACs are unchanged from our previous valuation.

WRCA Valuation Results and Actuarial Release

Table 7.15 sets out the actuarial release resulting from our WRCA valuation of physical therapy payments. The first column represents our projection from the June 2014 valuation.

Table 7.15 – WRCA Valuation: Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	4.9	4.8	(0.1)	(0.0)	0.2	3%
2005/06 - 2008/09	10.4	8.1	(2.3)	(0.1)	2.4	23%
2009/10 - 2011/12	12.9	13.3	0.4	(0.1)	(0.3)	-3%
2012/13 and later [1]	21.2	18.8	(2.4)	(1.0)	3.4	16%
Total	49.3	45.0	(4.4)	(1.2)	5.6	11%

[1] Accidents to Dec14

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

The $4.4 million decrease in the projected liability combined with actual payments being $1.2 million lower than expected results in an actuarial release of $5.6 million. There is a strengthening in the 2009/10 to 2011/12 accident years as a result of higher number of actives still remaining in this period.

Table 7.16 breaks down the actuarial release by source.

Table 7.16 – Components of WRCA Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.2
Changes to Valuation Basis		
IM active proj	3.3	
Short term assumptions	0.8	
Long term assumptions	0.2	
Subtotal		4.4
Total		5.6

The favourable IM active claims experience reduces the Physical Therapy liability by $3.3 million. The reduction in short-term utilisation and PPCI's reduces the liability by a further $1.1 million.

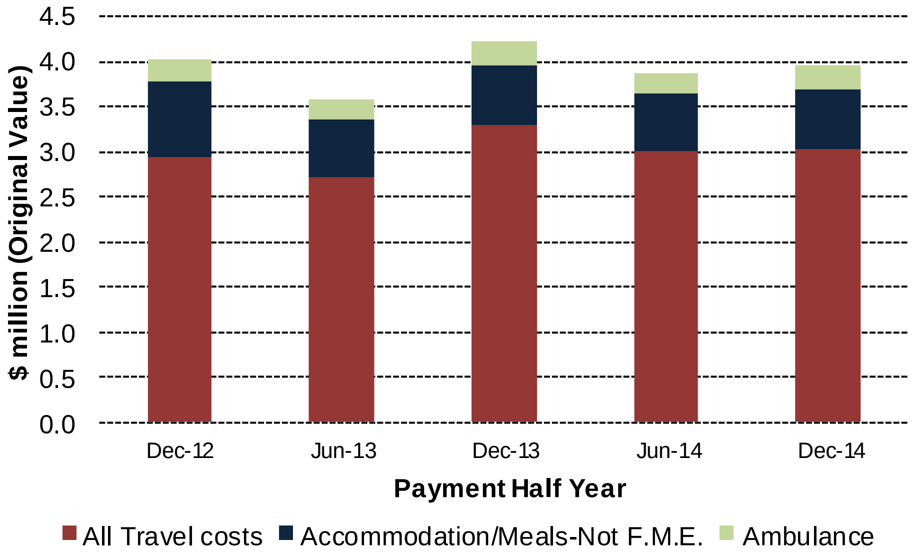
7.2.6 Travel

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.

Figure 7.11 – Travel Half-Yearly Payments



Travel costs have been stable in the last six months, with around $4 million paid per half year.

Table 7.17 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.7	0.6	0.1	116%
2005/06 - 2008/09	0.6	0.6	(0.0)	96%
2009/10 - 2011/12	1.0	1.0	0.0	102%
2012/13 and later [1]	1.7	1.8	(0.1)	94%
Total	4.0	4.0	(0.0)	99%

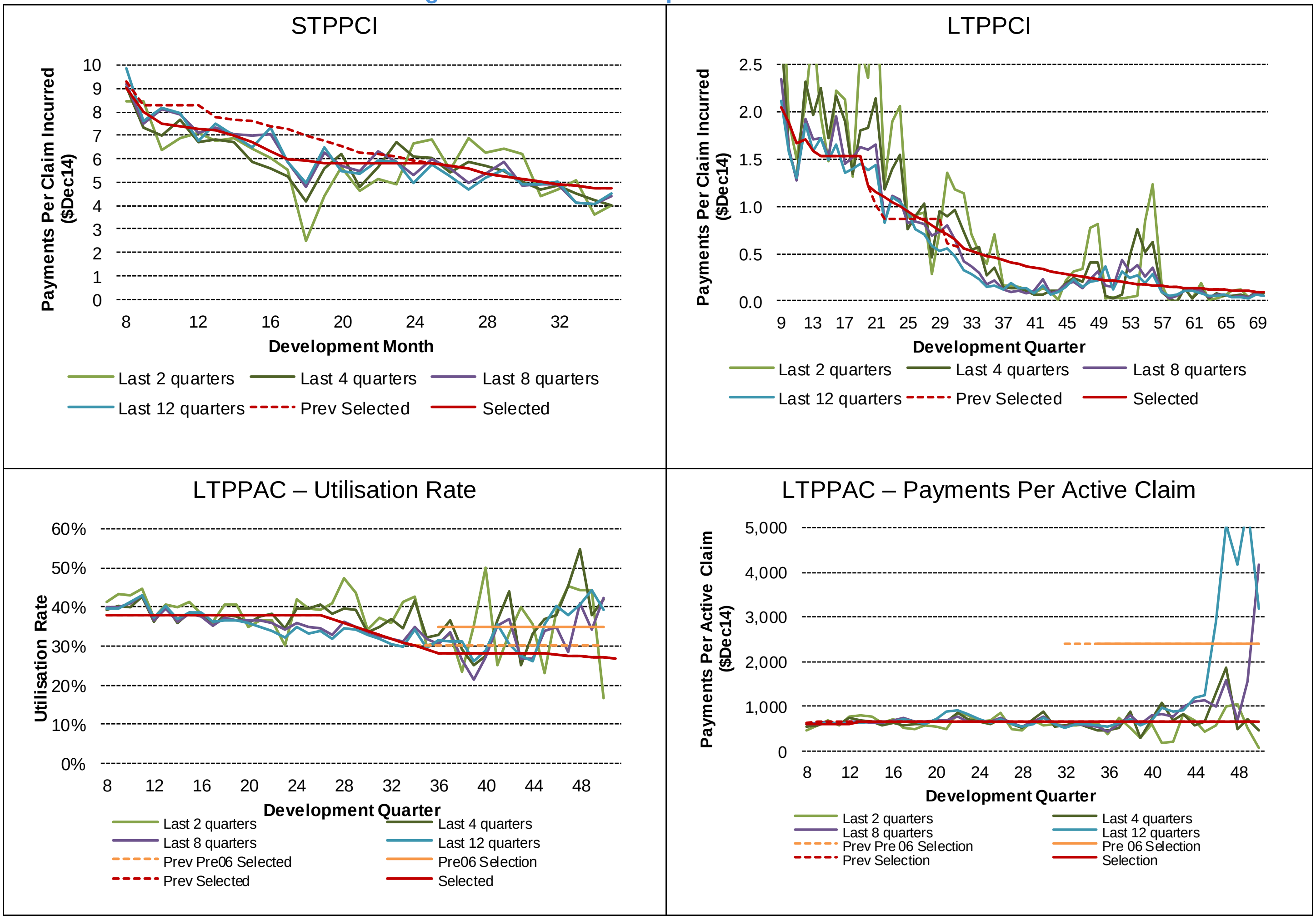
[1] Accidents to Dec14

Payments in the last six months emerged in line with expectations.

WRCA Valuation Basis

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

Figure 7.12 – Travel Experience and Selections



Our comments on the experience and selected assumptions are below:

- STPPCI: short term medical payments in the last six months were lower than expected. We have revised the PPCIs downwards to better reflect the experience.
- LTPPCI: the selected PPCIs reshaped lightly with little impact on the results.
- LTPPAC: the utilisation is has been increased for pre-2006 accident periods to reflect higher experience in this group. PPACs have been reduced slightly in the early durations to reflect the experience.

WRCA Valuation Results and Actuarial Release

Table 7.18 sets out the actuarial release resulting from our WRCA valuation of travel payments. The first column represents our projection from the June 2014 valuation.

Table 7.18 – WRCA Valuation: Actuarial Release for Travel

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	11.7	12.8	1.1	0.1	(1.2)	-10%
2005/06 - 2008/09	11.8	9.1	(2.7)	(0.0)	2.7	23%
2009/10 - 2011/12	13.9	14.6	0.7	0.0	(0.7)	-5%
2012/13 and later [1]	17.8	15.8	(2.1)	(0.1)	2.2	12%
Total	55.2	52.2	(2.9)	(0.0)	3.0	5%

[1] Accidents to Dec14

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

The $2.9 million decrease in the projected liability combined with actual payments being slightly less than expected results in an actuarial release of $3.0 million.

Table 7.19 breaks down the actuarial release by source.

Table 7.19 – Components of WRCA Actuarial Release: Travel

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.0
Changes to Valuation Basis		
IM active proj	4.5	
Short term assumptions	0.2	
Long term assumptions	(1.7)	
Subtotal		2.9
Total		3.0

The favourable IM active claims experience reduces the Travel liability by $4.5 million. This was partially offset by increases in the Travel valuation basis of $1.5 million.

7.3 RTW Act Valuation

RTW Act Impacts – Short Term Claims

This section summarises our valuation of treatment and related costs, allowing for the impact of the RTW Act. Under the RTW Act, treatment and related cost payments have a much shorter duration due to the capping of most benefits 12 months after weekly benefits cease. The two exceptions to this are payments for medical aids and appliances and payments for approved surgeries. We have summarised the main changes of the RTW Act along with our adopted methodology and valuation basis for Short Term Claims below.

Table 7.20 – Summary of RTW Act changes: Treatment and Related Costs

Type of Benefit	Changes in RTW Act (from 1 July 2015)	Changes in Valuation
Serious Injury claims	No change – lifetime benefits remain	Separately modelled (see Section 9) to capture lifetime benefit structure.
Medical	Medical benefits cease 12 months after IM payments or for claims with no IM payment, 12 months after the date of incapacity. Medical aids and appliances continue to be paid beyond the cessation of other medical benefits. Benefits paid only if related to 'necessary' treatment.	A PPAC model is retained as medical benefits are highly dependent on the number of active claims. Adjustments are made to allow for changes due to the RTW Act (shorter tail). Medical aids and appliances are split out and valued separately using a PPCI model.
Hospital	Hospital benefits cease 12 months after IM payments, except for approved surgeries which continue.	Adopt a PPCI model, minimal reduction in future payments.
Other, Travel, Rehabilitation, Physical therapy,	Benefits cease 12 months after IM payments cease.	Adopt a PPCI model, where long term payments are mostly removed .

Essentially the valuation of Short Term Claims becomes a far simpler exercise under the RTW Act due to the shorter tail of benefits. The following sections describe our approach and assumptions after the removal of Serious Injury claims and the overlaying of the new benefit structure. In most cases, we have shown two sets of valuation assumptions, namely:

- The basis for claims occurring after the RTW Act provisions commence on 1 July 2015 (i.e. where the new boundaries 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.
- The basis for transitional claims, (i.e. those that occurred prior to 30 June 2015):
  - For these claims, the duration boundaries will commence on 1 July 2015 and so payments will generally cease by 30 June 2018 (i.e. the valuation assumptions shown will apply out to June 2018 before dropping to nil).

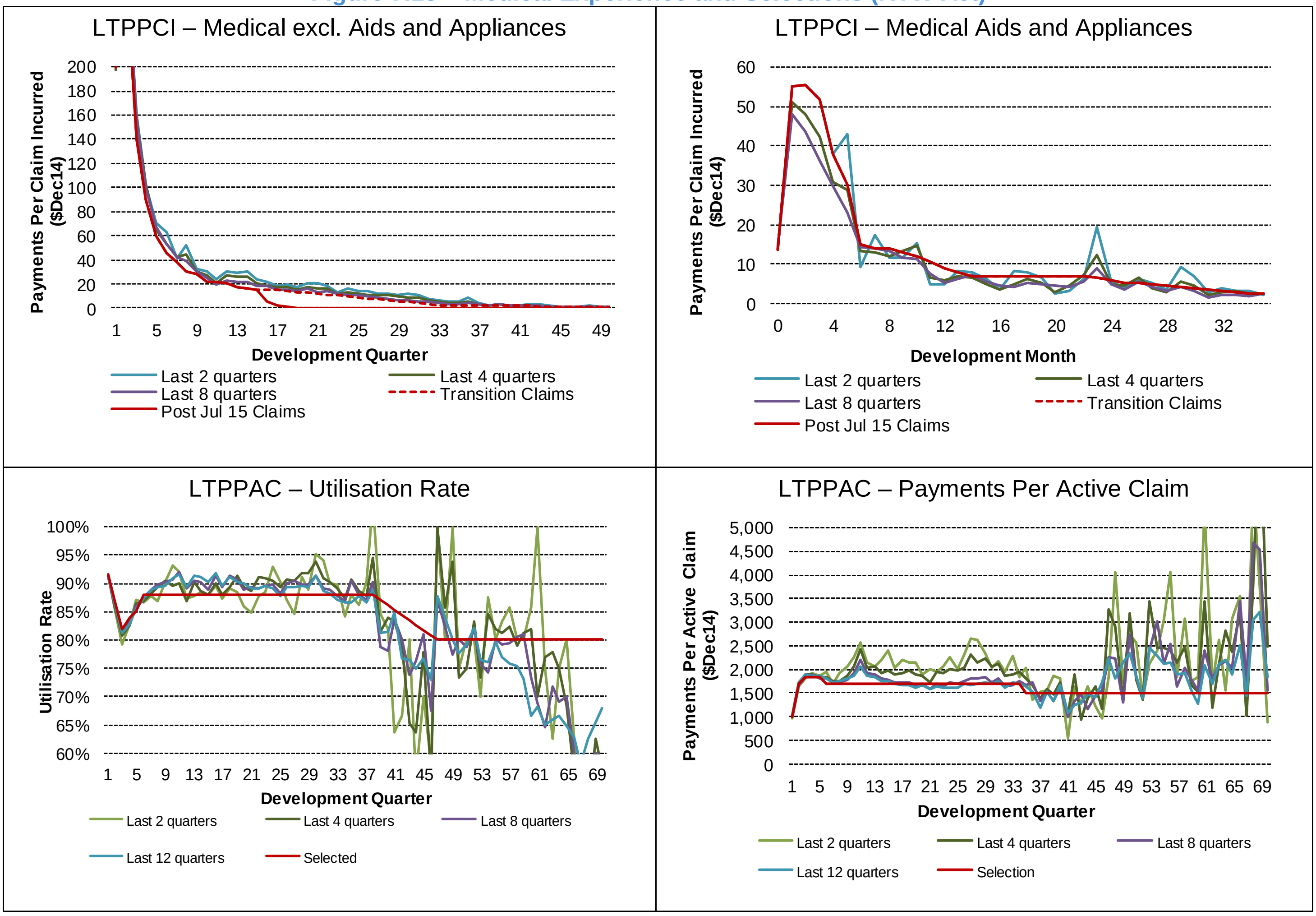
Detailed descriptions of the projection models and details of all projection assumptions are included in Appendix A and H.

7.3.1 Medical

RTW Valuation Basis – Short Term Claims

Figure 7.13 below shows the recent experience and selected basis with adjustments for the RTW Act.

Figure 7.13 – Medical Experience and Selections (RTW Act)



Our comments on the experience and selected assumptions are below:

- Medical costs (excluding aids and appliances) for claims not receiving an IM payment have been increasing over the last 12 months, although as noted in our WRCA valuation basis some of this relates to a temporary increase in written medical reports as a result of the high WCA activity recently. As WCA is removed from 1 July 2015, we have selected a basis consistent with the longer term average for transition claims. From 1 July 2015 the capping of benefits under the RTW Act also commences, with PPCIs reducing to zero by 4.5 years duration.
- Medical aids and appliances payments have a relatively stable payment pattern. We have selected a basis consistent with the long-term experience, noting that these payments are not impacted by the duration cap under the RTW Act.
- LTPPAC: there is a significant reduction in this type of liability compared to our WRCA valuation due to the capping of IM actives after 2 years. The selected payments per active claim is below the recent average as we expect the removal of WCA in the RTW Act will reduce medical reports going forward.

RTW Act Valuation Results – All Claims

Table 7.21 sets out our liability estimates for medical payments, before and after allowing for the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes to economic assumptions are discussed in Section 11.3.

Table 7.21 – RTW Act Valuation Results: Medical

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates: Short Term Claims	RTW Act Val Estimates: Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	75.5	26.6	54.3	**80.9**	5.4
2005/06 - 2008/09	117.2	24.7	107.3	**132.0**	14.8
2009/10 - 2011/12	182.8	38.4	89.1	**127.5**	(55.4)
2012/13 and later [1]	188.5	68.7	91.9	**160.5**	(28.0)
Total	564.1	158.3	342.6	**500.9**	(63.2)

[1] Accidents to Dec14

The impact of the RTW Act is a reduction of $63.2 million on the outstanding claims liability. The reduction reflects the duration capping of medical payments under the RTW Act.

Redemption of Medical

The RTW Act is expected to reduce the level of redemption of Medical entitlements as these are predominately related to the settlement of ongoing claims which will be less relevant after 1 July 2015. Therefore, we have reduced the utilisation of medical redemptions in our RTW Act valuation.

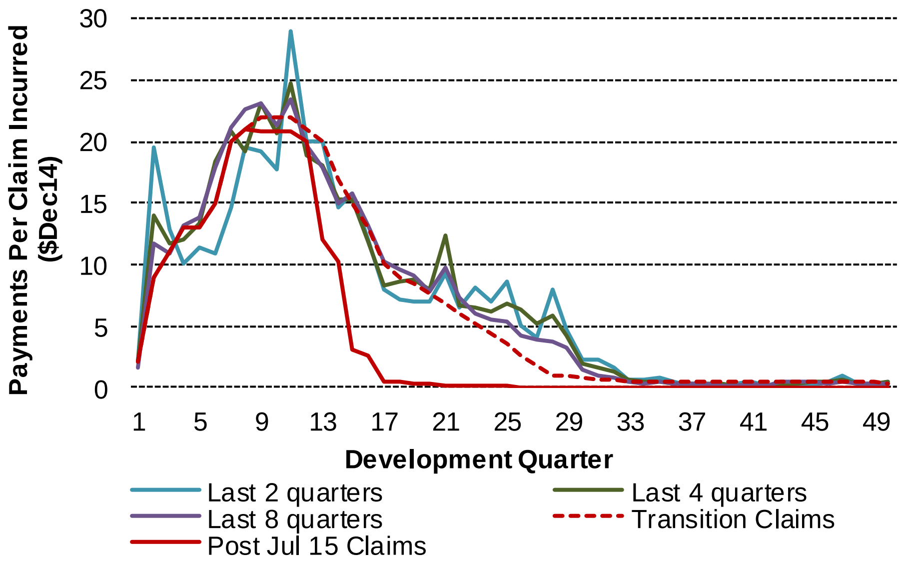
The undiscounted liability reduces to $3.8 million.

7.3.2 Other

RTW Valuation Basis – Short Term Claims

Figure 7.14 below shows the recent experience and selected basis for 'other' payments with adjustments for the RTW Act.

Figure 7.14 – PPCI Experience and Selections: Other (RTW Act)



The adopted PPCIs for transition claims for 'other' are consistent with the long term average. For post 1 July 2015 claims that are subject to the capping of benefits under the RTW Act, we have gradually reduced the selected PPCI to zero by 4.5 years duration.

The allowance made for 'future training and development' under the RTW Act is lower than allowed for in the WRCA valuation basis, due to the lower number of disputes expected in future.

RTW Act Valuation Results – All Claims

Table 7.22 sets out our liability estimates for 'other' payments, before and after allowing for the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 7.22 – RTW Act Valuation Results: Other

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	32.0	1.1	94.7	**95.8**	63.9
2005/06 - 2008/09	33.6	7.7	48.2	**55.9**	22.3
2009/10 - 2011/12	46.5	12.0	84.5	**96.6**	50.0
2012/13 and later [1]	43.3	9.8	54.7	**64.5**	21.2
Total	155.4	30.7	282.2	**312.8**	157.4

[1] Accidents to Dec14

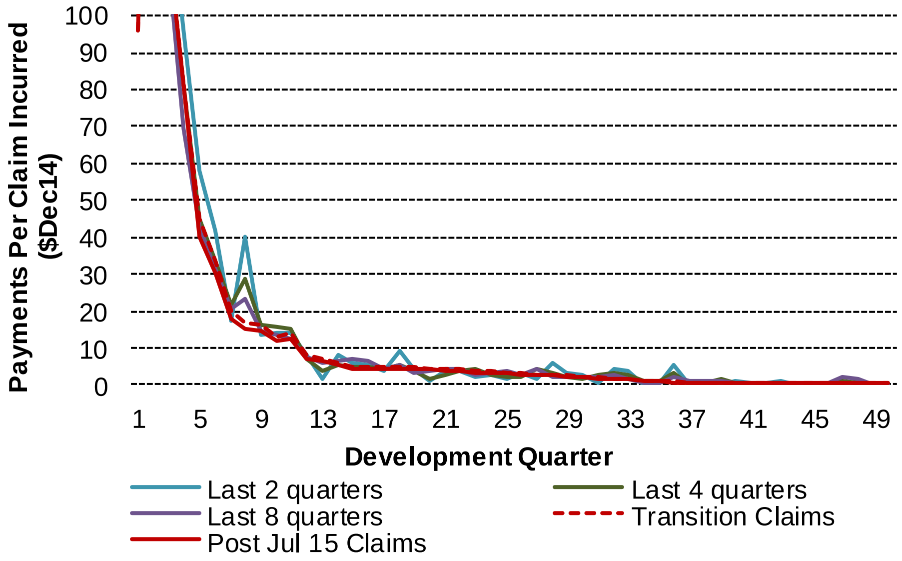
The impact of the RTW Act is an increase of $157.4 million on the outstanding claims liability. The sizeable increase reflects the change to a more detailed modelling approach for Serious Injury claims which better reflects the high lifetime care and support costs for Serious Injury claims.

7.3.3 Hospital

RTW Valuation Basis – Short Term Claims

Figure 7.15 below shows the recent experience and selected basis for hospital payments with adjustments for the RTW Act.

Figure 7.15 – PPCI Experience and Selections: Hospital (RTW Act)



The adopted PPCIs for transition claims are consistent with the long term average, which has been stable. Claims after 1 July 2015 are subject to the capping of benefits under the RTW Act, however the PPCI does not reduce as approved surgeries are not subject to the same capping.

RTW Act Valuation Results – All Claims

Table 7.23 sets out our liability estimates for hospital payments, before and after the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 7.23 – RTW Act Valuation Results: Hospital

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	11.0	0.6	11.3	**11.8**	0.9
2005/06 - 2008/09	13.0	0.9	12.1	**13.1**	0.0
2009/10 - 2011/12	18.8	2.4	14.1	**16.5**	(2.3)
2012/13 and later [1]	21.7	8.1	17.8	**25.9**	4.2
Total	64.5	12.0	55.3	**67.3**	2.8

[1] Accidents to Dec14

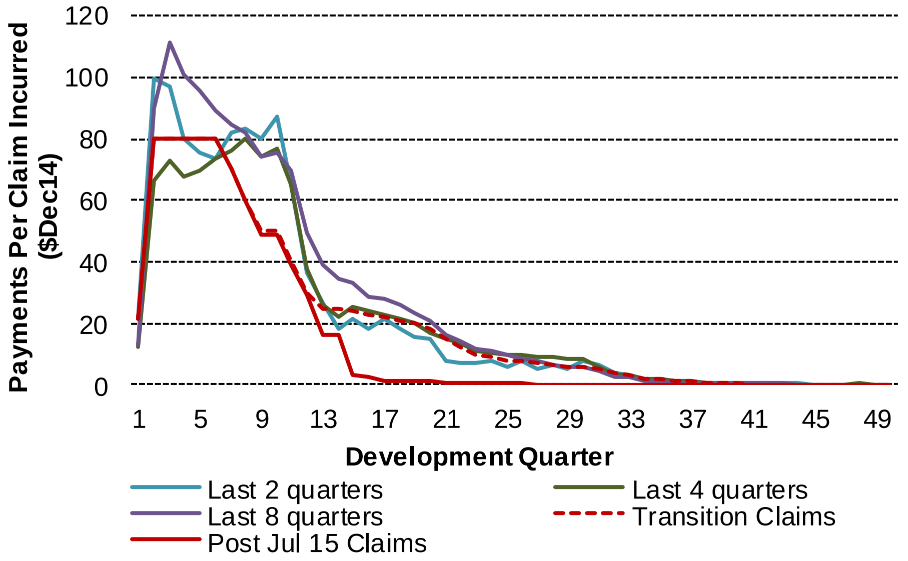
The impact of the RTW Act is an increase of $2.8 million on the outstanding claims liability. The small increase reflects higher hospital costs associated with Serious Injury claims.

7.3.4 Rehabilitation

RTW Valuation Basis – Short Term Claims

Figure 7.16 below shows the recent experience and selected basis for rehabilitation payments with adjustments for the RTW Act.

Figure 7.16 – PPCI Experience and Selections: Rehabilitation (RTW Act)



The adopted PPCIs for rehabilitation for transition claims are lower than the experience due to the removal of WCA. Claims made after 1 July 2015 are subject to the capping of benefits under the RTW Act, the selected PPCI reduces from 3 years duration to zero at 4.5 years duration.

RTW Act Valuation Results – All Claims

Table 7.24 sets out our liability estimates for rehabilitation payments, before and after allowing for the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 7.24 – RTW Act Valuation Results: Rehabilitation

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates: Short Term Claims	RTW Act Val Estimates: Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	1.9	0.0	4.6	**4.6**	2.6
2005/06 - 2008/09	10.0	1.9	15.6	**17.5**	7.5
2009/10 - 2011/12	22.2	8.1	17.0	**25.1**	3.0
2012/13 and later [1]	38.2	19.1	13.6	**32.7**	(5.6)
Total	72.3	29.1	50.7	**79.8**	7.5

[1] Accidents to Dec14

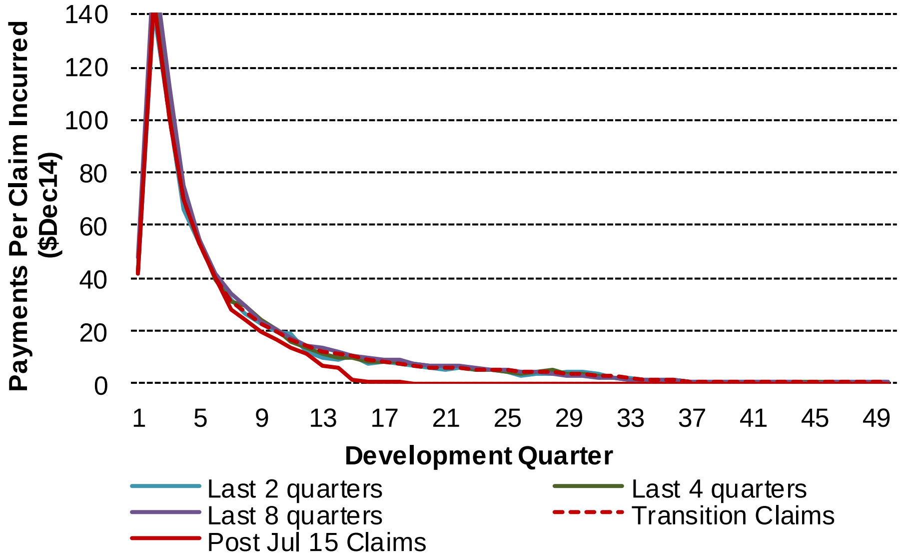
The impact of the RTW Act is an increase of $7.5 million on the outstanding claims liability. The increase reflects higher rehabilitation costs associated with Serious Injury claims.

7.3.5 Physical Therapy

RTW Valuation Basis – Short Term Claims

Figure 7.17 below shows the recent experience and selected basis for physical therapy payments with adjustments for the RTW Act.

Figure 7.17 – PPCI Experience and Selections: Physical Therapy (RTW Act)



The adopted PPCIs for physical therapy for transition claims are consistent with the long term experience. Claims after 1 July 2015 are subject to the capping of benefits under the RTW Act, and the PPCI reduces to zero by 4.5 years.

RTW Act Valuation Results – All Claims

Table 7.25 sets out our liability estimates for physical therapy payments, before and after the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 7.25 – RTW Act Valuation Results: Physical Therapy

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates: Short Term Claims	RTW Act Val Estimates: Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	4.8	0.8	7.9	**8.7**	3.9
2005/06 - 2008/09	8.1	1.4	10.4	**11.8**	3.7
2009/10 - 2011/12	13.3	3.5	8.0	**11.5**	(1.8)
2012/13 and later [1]	18.8	9.6	7.6	**17.1**	(1.7)
Total	45.0	15.3	33.8	**49.1**	4.1

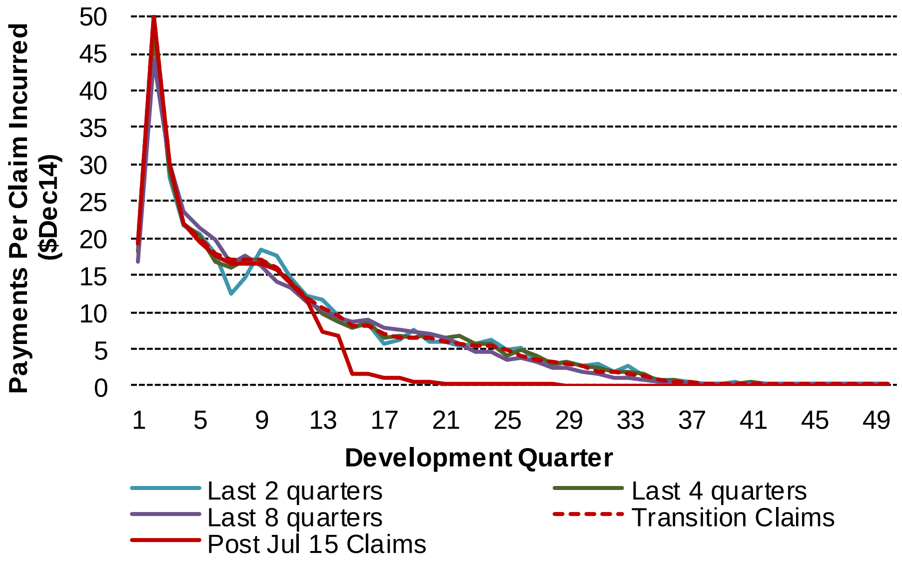
The impact of the RTW Act is an increase of $4.1 million on the outstanding claims liability. The increase reflects higher physical therapy costs associated with Serious Injury claims.

7.3.6 Travel

RTW Valuation Basis – Short Term Claims

Figure 7.18 below shows the recent experience and selected basis for travel payments with adjustments for the RTW Act.

Figure 7.18 – PPCI Experience and Selections: Travel (RTW Act)



The adopted PPCIs for travel for transition claims are consistent with the long term experience. For claims after 1 July 2015, the selected PPCI reduce to zero at around 5 years duration.

RTW Act Valuation Results – All Claims

Table 7.26 sets out our liability estimates for physical therapy payments, before and after allowing for the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 7.26 – RTW Act Valuation Results: Travel

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates Short Term Claims	RTW Act Val Estimates Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	12.8	0.6	12.0	**12.6**	(0.2)
2005/06 - 2008/09	9.1	1.0	13.1	**14.1**	5.0
2009/10 - 2011/12	14.6	3.2	10.9	**14.1**	(0.5)
2012/13 and later [1]	15.8	5.9	9.3	**15.2**	(0.6)
Total	52.2	10.6	45.4	**56.0**	3.7

[1] Accidents to Dec14

The impact of the RTW Act is a $3.7 million increase in the outstanding claims liability. The increase reflects higher travel costs associated with Serious Injury claims which more than offset the reductions for Short Term Claims.

8 Other Entitlements

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

8.1 Summary of Results

Table 8.1 summarises the movements in our liability estimates for the remaining entitlement groups since the June 2014 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest-igation	Common Law	LOEC	Commu-tation	Recoveries	Total
Jun14 Valuation	$m	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Jun-14	86.9	72.4	24.5	2.0	1.7	4.6	(90.5)	101.6
Projected Liab at Dec-14	89.5	70.6	25.5	2.0	1.6	4.7	(90.0)	103.9
Dec-14 Valuation								
WRCA val: Impact of experience/OSC - Movement in liab	(5.8)	11.0	(2.2)	(0.0)	(0.1)	(0.0)	(0.8)	2.1
RTW Act val: Impact of RTW Act	(16.3)	(5.1)	(14.8)	0.0	(1.6)	0.0	22.6	(15.2)
Estimated Liab at Dec-14 (Jun-14 eco assumptions)	**67.3**	**76.4**	**8.6**	**2.0**	**0.0**	**4.7**	**(68.1)**	**90.8**
Impact of change in eco assumptions	1.5	5.3	0.4	0.1	0.0	0.1	(1.2)	6.1
Estimated Liab at Dec-14 (Dec-14 eco assumptions)	**68.8**	**81.7**	**9.0**	**2.1**	**0.0**	**4.8**	**(69.4)**	**97.0**
AvE Payments - six months to Dec-14	(0.1)	2.0	0.3	(0.1)	0.0	(0.3)	(3.3)	(1.4)
Actuarial Release at Dec-14	6.0	(13.1)	1.9	0.1	0.1	0.3	4.1	(0.7)

The three main movements from our June 2014 projection of the December 2014 liability are:

1. An increase of $2.1 million in the liability, reflecting the claims experience since June 2014 and our valuation response (WRCA valuation). Combining this with payments being $1.4 million lower than expected produces and actuarial strengthening of $0.7 million.
2. The RTW Act impact reduces the liability by $15.2 million (RTW Act valuation)
3. The change in economic assumptions at the current valuation – principally the reduction in the discount rate – increases the estimated liability by $6.1 million.

8.2 Worker Legal

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

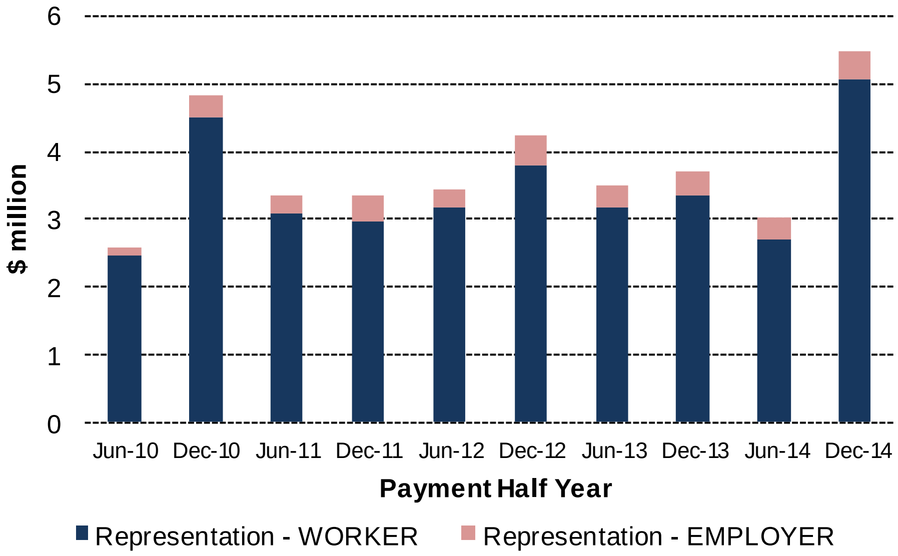
8.2.1 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

Payments vs Expectations

Figure 8.1 below shows worker legal payments in each six month period since June 2010.

Figure 8.1 – Worker Legal Half Yearly Payments



Payments increased significantly in the last six months reflecting the higher level of disputes as discussed in Section 3.2.4. Since worker legal accounts are generally only submitted upon completion of the dispute, the higher dispute numbers over the last 18 months have only just translated into additional payments (this is different to Corporation legal which are paid at commencement of the dispute).

Table 8.2 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

Accident	Payments in Six Months to Dec 14			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.3	0.4	(0.1)	80%
2005/06 - 2008/09	1.7	1.2	0.6	148%
2009/10 - 2011/12	2.3	2.5	(0.3)	89%
2012/13 and later [1]	1.2	1.5	(0.3)	78%
Total	5.5	5.6	(0.1)	98%

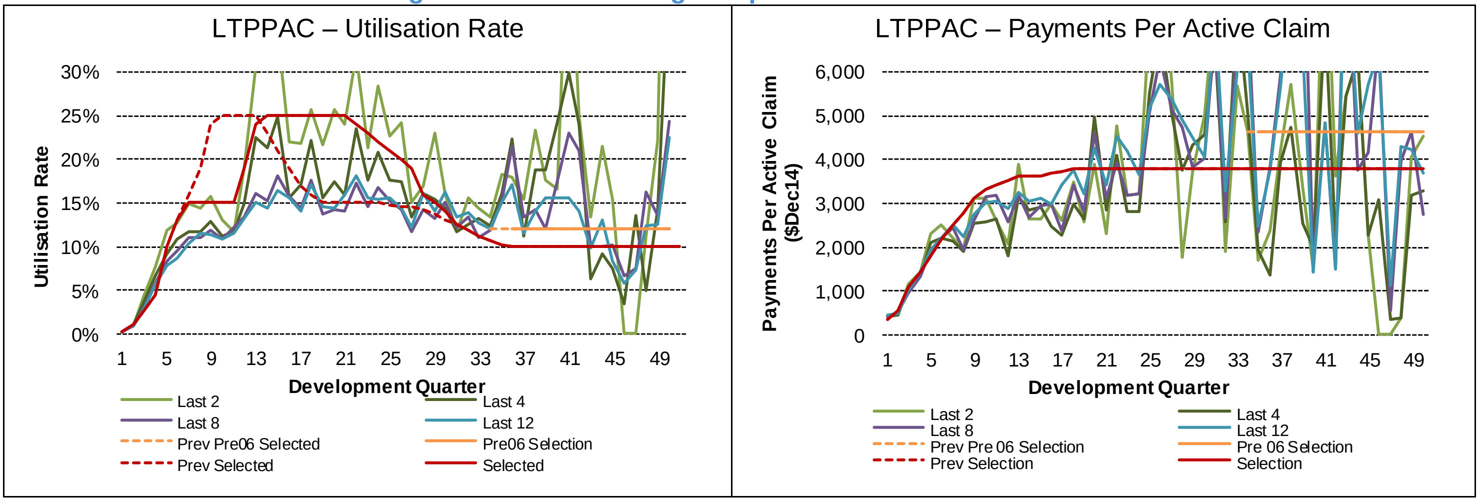
[1] Accidents to Dec14

Overall, payments were similar to expected, as we had allowed for the higher dispute numbers to translate into increased worker legal payments in our previous valuation basis.

WRCA Valuation Basis

A PPAC model is used to value Worker Legal under the WRCA valuation. Figure 8.2 below shows the recent experience and selected basis for worker legal payments.

Figure 8.2 – Worker Legal Experience and Selections



In our previous valuation, we roughly doubled the selected utilisation rates in the front end to allow for higher dispute numbers. Emerging experience shows the level of utilisation is roughly in line with our previous basis but the lag was longer than expected. At this valuation, we have revised our basis by shifting the utilisation rate increase further out to reflect the experience. This has an overall impact of increasing the outstanding liabilities.

The selections are unchanged beyond development quarter 20 as the experience becomes more to do with the pre-2005 long term claims.

The selected long term utilisation rates for the post-2006 period are below the current experience for pre-2006 claims, based on an expectation of lower long term dispute rates, particularly after claims have moved through the WCA period.

The selected PPACs remain unchanged from the previous valuation.

WRCA Valuation Results and Actuarial Release

Table 8.3 sets out the actuarial release resulting from our WRCA valuation of worker legal payments. The first column represents our projection from the June 2014 valuation.

Table 8.3 – WRCA Valuation: Actuarial Release for Worker Legal

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation¹	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	7.4	7.0	(0.4)	(0.1)	0.4	6%
2005/06 - 2008/09	22.2	16.5	(5.8)	0.6	5.2	23%
2009/10 - 2011/12	25.8	30.2	4.4	(0.3)	(4.1)	-16%
2012/13 and later [1]	34.0	29.9	(4.1)	(0.3)	4.4	13%
Total	89.5	83.6	(5.8)	(0.1)	6.0	7%

[1] Accidents to Dec14

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

The $5.8 million decrease in the projected liability combined with actual payments being $0.1 million less than expected results in an actuarial release of $6.0 million. There is a strengthening in the 2009/10 to

2011/12 accident years as a result of high number of actives still remaining in this period combined with an increase in the utilisation rates.

Table 8.4 breaks down the actuarial release by source.

Table 8.4 – Components of WRCA Actuarial Release: Worker Legal

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.1
Changes to Valuation Basis		
IM active proj	9.7	
Long term assumptions	(3.8)	
Subtotal		5.8
Total		6.0

The favourable IM active claim number experience reduces the Worker Legal liability by $9.7 million. This is partially offset by the increase in the valuation basis of $3.8 million due to higher utilisation rates.

8.2.2 RTW Act Valuation

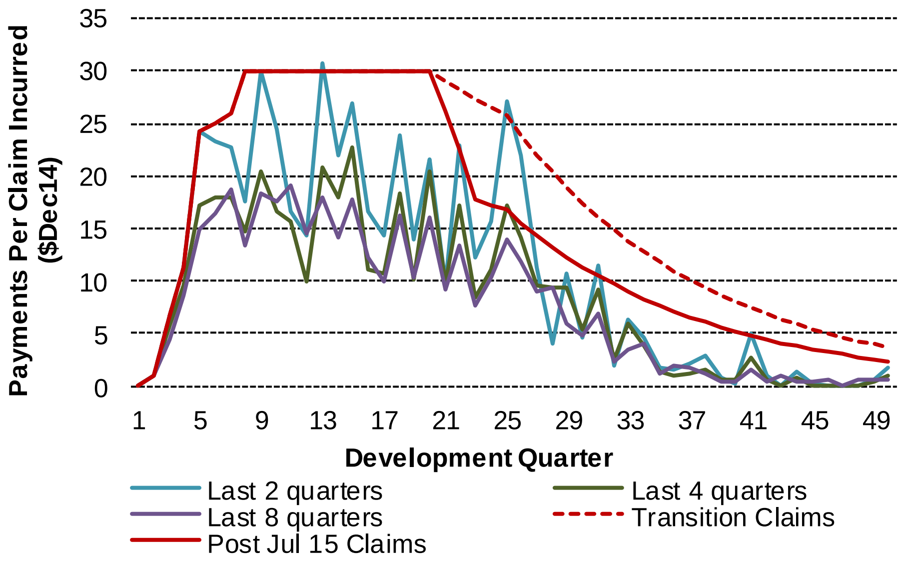
RTW Valuation Basis – Short Term Claims

There are no direct changes to worker legal entitlements under the RTW Act although changes elsewhere could impact on dispute numbers and resolution (for example the continuation of IM in dispute may encourage and prolong some disputation; whereas the move to a more inquisitorial process should hopefully reduce dispute durations). Overall we expect that the introduction of a boundary on other entitlement groups (IM, treatment) and removal of WCA will lead to lower numbers of future disputes. This in turn translates into lower legal payments (both worker and corporation).

Under the RTW Act we have changed our modelling approach to a PPCI model as active IM claims will be much shorter in duration.

Figure 8.3 below shows the recent experience and selected basis under the RTW Act.

Figure 8.3 – PPCI Experience and Selections: Worker Legal (RTW Act)



The adopted PPCIs for transition claims are above the long term experience. This is to allow for the additional payments as a result of the higher number of disputes currently in the system.

For claims after 1 July 2015 we expect there will be a shorter payment pattern as the boundary on other entitlement groups come into effect. We have gradually reduced the selected PPCI from year 5, noting that the tail for worker legal payments is longer than other entitlement groups since there can be large delays between lodgement and settlement of disputes.

RTW Act Valuation Results – All Claims

Table 8.5 sets out our liability estimates for worker legal payments, before and after allowing for the impacts of the RTW Act. The table combines our liability estimates for Short Term Claims (discussed in this section) and Serious Injury claims (Section 9). As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 8.5 – RTW Act Valuation Results: Worker Legal

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	7.0	2.6	0.0	**2.6**	(4.4)
2005/06 - 2008/09	16.5	13.0	0.0	**13.0**	(3.5)
2009/10 - 2011/12	30.2	23.6	0.1	**23.7**	(6.5)
2012/13 and later [1]	29.9	27.2	0.7	**27.9**	(1.9)
Total	83.6	66.4	0.9	**67.3**	(16.3)

[1] Accidents to Dec14

The RTW Act decreased the outstanding claims liability by $16.3 million. The decrease reflects the savings expected from a lower number of disputes under the RTW Act.

8.3 Corporation Legal

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

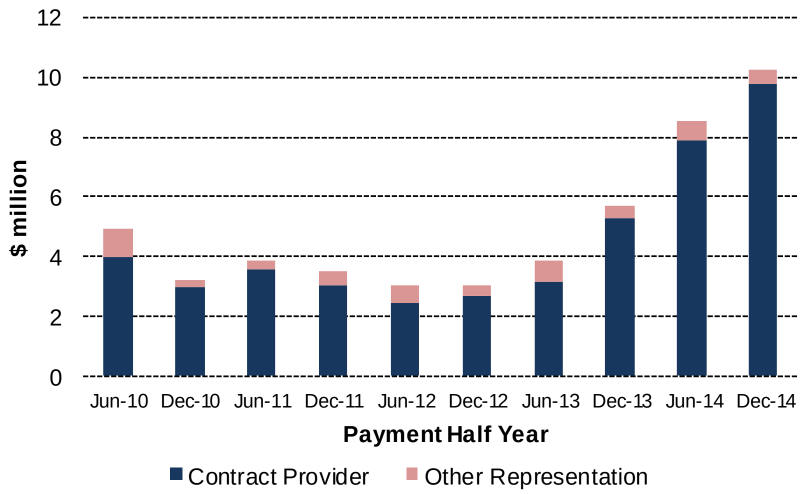
8.3.1 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

Payments vs Expectations

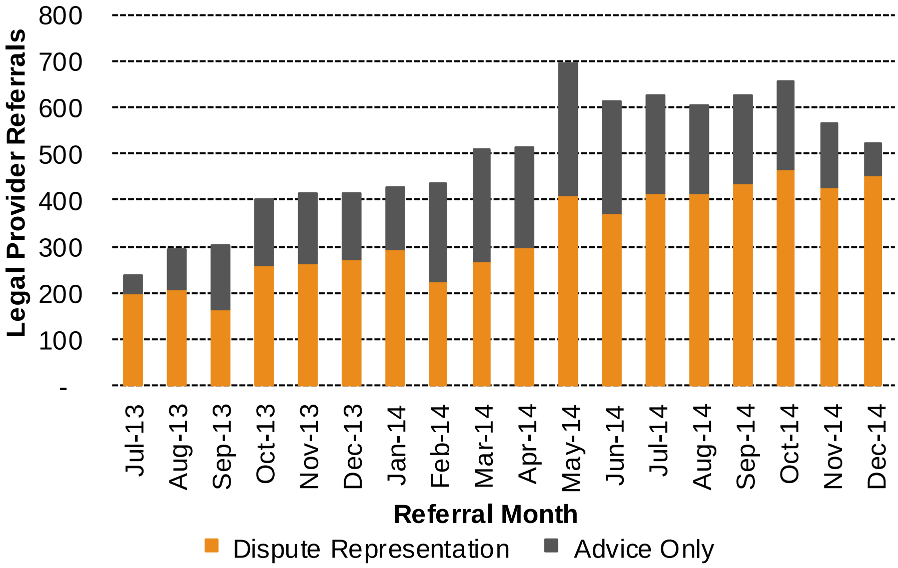
Figure 8.4 below shows corporation legal payments in each six month period since June 2010.

Figure 8.4 – Corporation Legal Half Yearly Payments



Payments for corporation legal continued to increase in the last six months in line with the increased dispute numbers discussed in Section 3.2.4. As Corporation Legal payments are paid on notification of a dispute, the higher number of disputes in the last 12-18 months leads directly to increased Corporation Legal costs. Figure 8.5 below shows the number of referrals by type since July 2013.

Figure 8.5 – Referrals to ReturnToWorkSA Legal Providers



The number of 'advice only matters' has fallen in the last six month while 'dispute representations', which are higher in cost, have increased. There are early signs the level of referrals have begun to reduce.

Table 8.6 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 8.6 – Actual vs Expected Payments: Worker Legal

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.5	0.4	0.0	111%
2005/06 - 2008/09	3.2	1.3	1.9	249%
2009/10 - 2011/12	4.3	4.2	0.2	104%
2012/13 and later [1]	2.2	2.3	(0.1)	97%
Total	10.2	8.2	2.0	125%

[1] Accidents to Dec14

Overall, actual payments were $2.0 million more than expected.

WRCA Valuation Basis

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

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

Beyond the contract, payments for Corporation Legal are projected using the Worker Legal claims cost projection, and in aggregate are around 99% of the projected payments for Worker Legal.

At this valuation, we have:

- Reduced the number of “advice only” matters in line with recent levels and the expectation that referral numbers have peaked.
- Temporarily increased the number of “dispute representation” matters in line with higher number of disputes in the recent experience. We have also increased the ‘steady state’ level of “dispute representations” going forward in light of ReturnToWorkSA’s dispute settlement initiatives.
- Assumed the higher level of matters will continue throughout 2015, before reducing to a new ‘steady state’ level in 2016, as the recent high levels of dispute activity are not expected to continue going forward.

Table 8.7 shows the actual and projected number of matters for the current contract period.

Table 8.7 – Actual and Projected Matters

		Number of Matters		
	Half Year	Advice Only	Dispute Representation	Supreme Court Rep'n
Actual	Jun-13	146	942	-
	Dec-13	702	1,369	-
	Jun-14	1,337	1,861	-
	Dec-14	988	2,616	-
Projected	Jun-15	900	2,450	2
	Dec-15	700	2,067	2
	Jun-16	300	1,300	2
	Dec-16	300	1,300	2
	Jun-17	300	1,300	2

WRCA Valuation Results and Actuarial Release

Table 8.8 sets out the actuarial release resulting from our WRCA valuation of corporation legal payments. The first column represents our projection from the June 2014 valuation.

Table 8.8 – WRCA Valuation: Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	5.3	6.0	0.7	0.0	(0.8)	-15%
2005/06 - 2008/09	14.6	12.9	(1.7)	1.9	(0.2)	-1%
2009/10 - 2011/12	22.5	27.8	5.3	0.2	(5.4)	-24%
2012/13 and later [1]	28.2	34.9	6.7	(0.1)	(6.7)	-24%
Total	70.6	81.6	11.0	2.0	(13.1)	-19%

[1] Accidents to Dec14

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

The $11 million increase in the projected liability combined with actual payments being $2 million more than expected results in an actuarial increase of $13.1 million.

8.3.2 RTW Act Valuation

RTW Valuation Basis – Short Term Claims

As discussed in Section 8.2, there are no direct changes to legal entitlements under the RTW Act although other changes should impact on corporation legal costs.

Given the nature of the legal contract is unchanged under the RTW Act, we have not made any changes to our valuation approach. We have however revised the valuation basis by reducing the long-term level of referrals as a result of the lower expected number of disputes.

Table 8.9 shows the revised projected number of matters for the current contract period.

Table 8.9 – Actual and Projected Matters

		Number of Matters		
	Half Year	Advice Only	Dispute Representation	Supreme Court Rep'n
Actual	Jun-13	146	942	-
	Dec-13	702	1,369	-
	Jun-14	1,337	1,861	-
	Dec-14	988	2,616	-
Projected	Jun-15	900	2,450	2
	Dec-15	700	2,033	2
	Jun-16	300	1,200	2
	Dec-16	300	1,200	2
	Jun-17	300	1,200	2

Further detail of ReturnToWorkSA's Legal model can be found in Appendix A.

RTW Act Valuation Results – All Claims

Table 8.10 sets out our liability estimates for corporation legal payments, before and after allowing for the impacts of the RTW Act.

Table 8.10 – RTW Act Valuation Results: Corporation Legal

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	6.0	4.0	0.0	**4.0**	(2.0)
2005/06 - 2008/09	12.9	10.1	0.0	**10.1**	(2.8)
2009/10 - 2011/12	27.8	27.3	0.0	**27.4**	(0.4)
2012/13 and later [1]	34.9	34.6	0.4	**35.0**	0.1
Total	81.6	76.0	0.4	**76.4**	(5.1)

[1] Accidents to Dec14

The RTW Act decreases the Corporation Legal outstanding claims liability by $5.1 million. The decrease reflects the savings expected from a lower number of disputes under the RTW Act.

8.4 Investigation

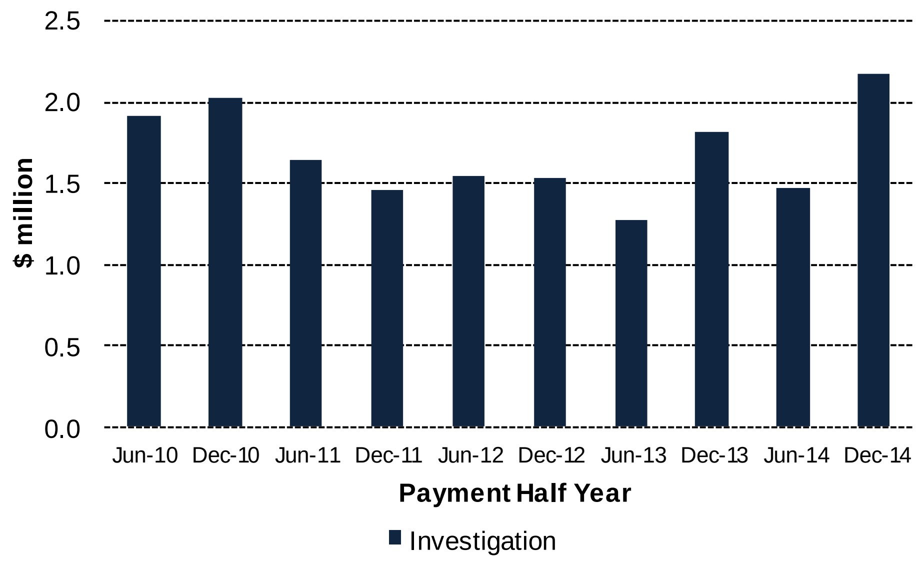
8.4.1 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

Payments vs Expectations

Figure 8.6 below shows investigation payments in each six month period since June 2010.

Figure 8.6 – Investigation Half Yearly Payments



Payments have increased in the last six months, which we understand follows the recent high WCA activity.

Table 8.11 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 8.11 – Actual vs Expected Payments: Investigation

Accident Period	Payments in Six Months to Dec 14			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	0.0	100%
2005/06 - 2008/09	0.5	0.3	0.2	183%
2009/10 - 2011/12	0.7	0.4	0.2	153%
2012/13 and later [1]	0.9	1.1	(0.2)	84%
Total	2.2	1.9	0.3	117%

[1] Accidents to Dec14

Overall, actual payments were $0.3 million greater than expected driven by pre-2012 accident periods.

WRCA Valuation Basis

Investigation payments are modelled as a percentage of IM payments for longer term claims, which is where the majority of the costs are incurred, with a PPCI model for short term claims.

Given the temporary nature of the high WCA activity and the volatility of investigation payments from period to period, we have not responded to the most recent experience and have maintained an unchanged valuation basis.

WRCA Valuation Results and Actuarial Release

Table 8.12 sets out the actuarial release resulting from our WRCA valuation of investigation payments. The first column represents our projection from the June 2014 valuation.

Table 8.12 – WRCA Valuation: Actuarial Release for Investigation

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	1.4	1.3	(0.1)	0.0	0.1	8%
2005/06 - 2008/09	6.9	5.2	(1.7)	0.2	1.5	21%
2009/10 - 2011/12	7.8	8.4	0.6	0.2	(0.8)	-10%
2012/13 and later [1]	9.4	8.5	(0.9)	(0.2)	1.1	11%
Total	25.5	23.4	(2.2)	0.3	1.9	7%

[1] Accidents to Dec14

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

The $2.2 million decrease in the projected liability is offset slightly by actual payments being $0.3 million more than expected resulting in an actuarial release of $1.9 million. This is driven by decreases in the projected future IM costs.

8.4.2 RTW Act Valuation

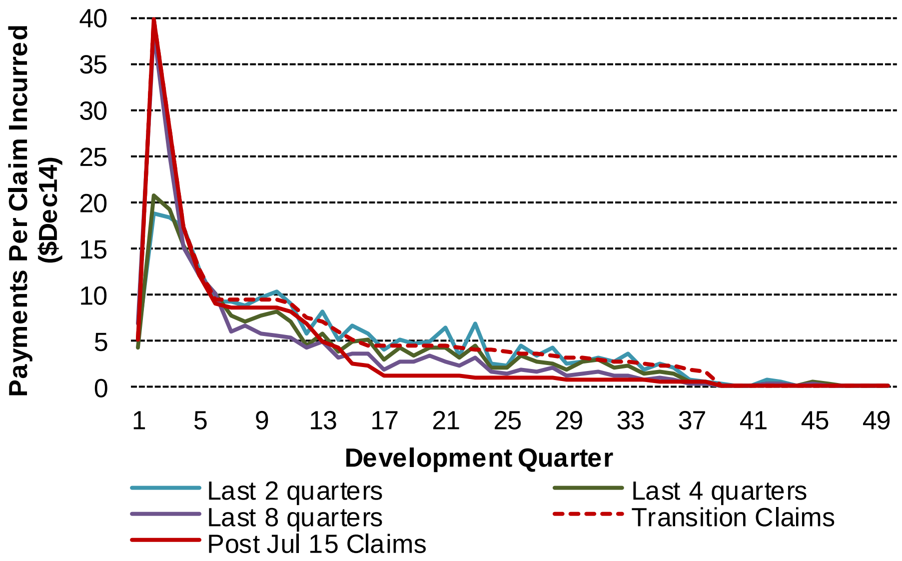
RTW Valuation Basis – Short Term Claims

There are no direct changes to investigation entitlements under the RTW Act. However the introduction of duration caps on other IM and medical and treatment related payments will lead to a significant reduction in investigation expenditure as investigation costs relate predominately to longer term claims.

We have adopted a PPCI model as we expect investigation payments to be much shorter in duration under the RTW Act.

Figure 8.7 below shows the recent experience and selected basis under the RTW Act.

Figure 8.7 – PPCI Experience and Selections: Investigation (RTW Act)



The adopted investigation PPCIs transition claims are consistent with the long term experience. Claims after 1 July 2015 will have a shorter payment pattern as the boundary on other entitlement groups come into effect. We have gradually reduced the selected PPCI from the 2 year duration onwards to near zero at the 4.5 year duration mark, although there is a small tail to deal with late matters.

RTW Act Valuation Results – All Claims

Table 8.13 sets out our liability estimates for investigation payments, before and after allowing for the impacts of the RTW Act.

Table 8.13 – RTW Act Valuation Results: Investigation

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	1.3	0.2	0.0	**0.2**	(1.1)
2005/06 - 2008/09	5.2	1.4	0.0	**1.4**	(3.8)
2009/10 - 2011/12	8.4	2.6	0.0	**2.6**	(5.8)
2012/13 and later [1]	8.5	4.1	0.2	**4.3**	(4.1)
Total	23.4	8.3	0.3	**8.6**	(14.8)

[1] Accidents to Dec14

The RTW Act decreases the Investigation outstanding claims liability by $14.8 million. The significant decrease reflects the savings expected from the removal of long term claims which will remove the need for investigation expenditure for those claims.

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.

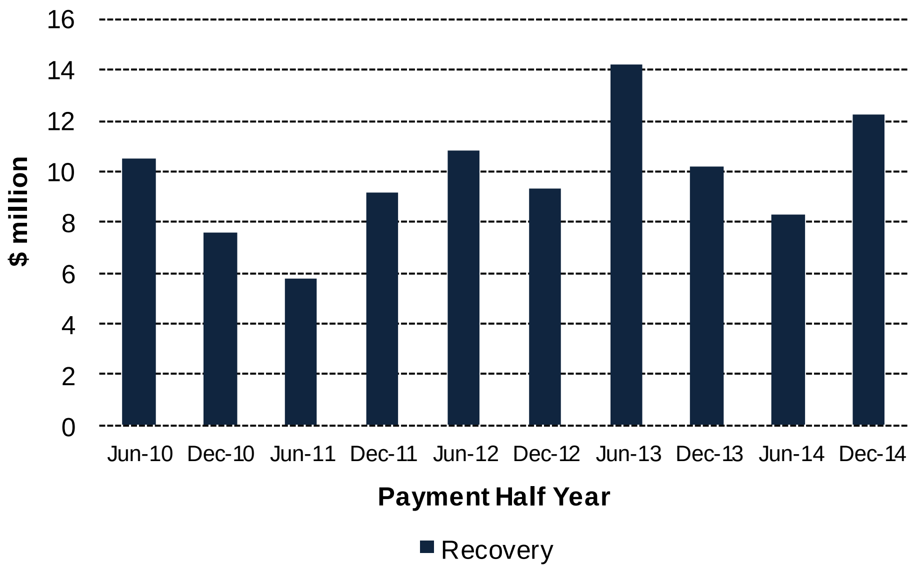
8.5.1 WRCA Valuation

This section discusses the experience in the six months since June 2014 and our response in the WRCA valuation.

Payments vs Expectations

Figure 8.8 below shows recovery payments in each six month period since June 2010.

Figure 8.8 – Recovery Half Yearly Payments



Recovery payments in the last six months were slightly higher than the average amount recovered per half-year since June 2010.

Table 8.14 compares the payments in the six months to 31 December 2014 with the expected payments from our June 2014 valuation projection.

Table 8.14 – Actual vs Expected Payments: Recoveries

Accident	Payments in Six Months to Dec 14			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.1)	(0.5)	0.4	24%
2005/06 - 2008/09	(6.9)	(4.2)	(2.7)	163%
2009/10 - 2011/12	(4.4)	(3.5)	(0.9)	125%
2012/13 and later [1]	(0.8)	(0.7)	(0.2)	128%
Total	(12.3)	(8.9)	(3.3)	137%

[1] Accidents to Dec14

Overall, actual recovery payments were $3.3 million greater than expected driven in part by one large recovery from the 2008 accident period.

WRCA Valuation Basis

A PPCI model is used for recovery payments on both short term and long term claims.

We have maintained the valuation basis noting that the large recovery payments received in the last six month was mostly due to one claim and that recovery payments in general are quite volatile from period to period.

WRCA Valuation Results and Actuarial Release

Table 8.15 sets out the actuarial release resulting from our WRCA valuation of recovery payments. The first column represents our projection from the June 2014 valuation.

Table 8.15 – WRCA Valuation: Actuarial Release for Recoveries

Accident Period	Projected Liab at Dec 14 from Jun 14 Valuation[1]	Dec 14 Estimate on Jun 14 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 14	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	(3.1)	(3.2)	(0.1)	0.4	(0.4)	11%
2005/06 - 2008/09	(12.3)	(12.7)	(0.4)	(2.7)	3.1	-25%
2009/10 - 2011/12	(37.2)	(37.5)	(0.2)	(0.9)	1.1	-3%
2012/13 and later [1]	(37.3)	(37.4)	(0.1)	(0.2)	0.3	-1%
Total	(90.0)	(90.7)	(0.8)	(3.3)	4.1	-5%

[1] Accidents to Dec14

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

The increase in recoveries asset of $0.8 million is mainly due to changes in reported claim numbers. When combined with actual recoveries being above expectations, this has resulted in an overall actuarial release of $4.1 million.

8.5.2 RTW Act Valuation

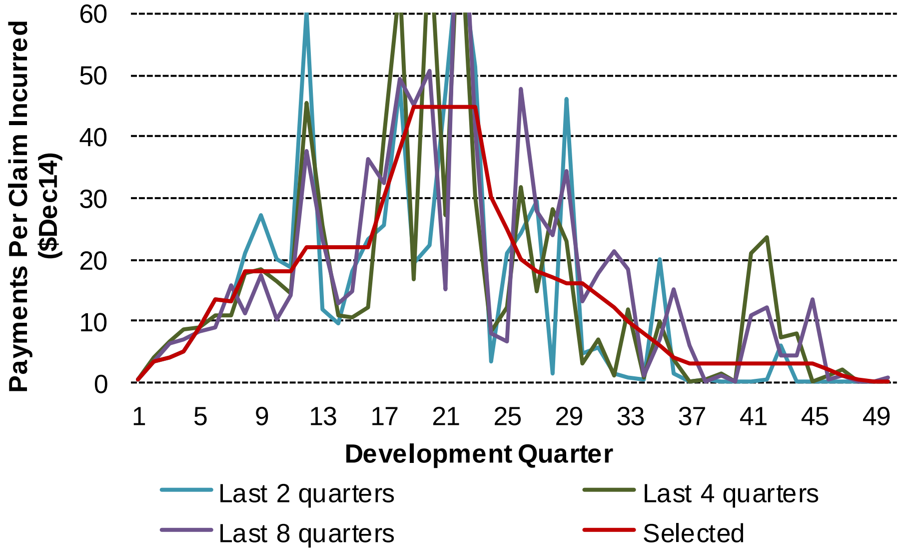
RTW Valuation Basis – Short Term Claims

Technical changes are intended to make it easier for ReturnToWorkSA to prepare recovery matters, although there are no actual changes to the recovery rights available under the RTW Act. However, the reduction in gross liability from the other entitlement types will likely reduce future expected recoveries.

We have maintained a PPCI approach with new selections to allow for the removal of serious injury claims.

Figure 8.9 below shows the recent experience and selected basis under the RTW Act.

Figure 8.9 – PPCI Experience and Selections: Recoveries (RTW Act)



The adopted recovery PPCIs are slightly below the long term experience, as we anticipate recoveries will reduce in line with reductions in the gross liability.

RTW Act Valuation Results – All Claims

Table 8.16 sets out our liability estimates for recovery payments, before and after allowing for the impacts of the RTW Act.

Table 8.16 – RTW Act Valuation Results: Recoveries

Accident Period	Liability Estimate - WRCA Val	RTW Act Val Estimates Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	(3.2)	(1.6)	(0.1)	**(1.7)**	1.5
2005/06 - 2008/09	(12.7)	(8.1)	(6.6)	**(14.8)**	(2.1)
2009/10 - 2011/12	(37.5)	(21.5)	(5.7)	**(27.1)**	10.3
2012/13 and later [1]	(37.4)	(16.3)	(8.2)	**(24.5)**	12.9
Total	(90.7)	(47.5)	(20.6)	**(68.1)**	22.6

[1] Accidents to Dec14

The impact of the RTW Act is a decrease of $22.6 million on the recoveries asset. The 25% decrease in recoveries is lower than the 30% savings expected in the gross liability, as some recoveries relate to payments already made.

8.6 LOEC, Commutations, and Common Law

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

8.6.1 LOEC

One LOEC claim related to a deceased worker was finalised since June 2014, and payment amounts for the remaining eight LOEC claims have been updated using information from EML and GB, which has resulted in very little change in the WRCA valuation liability.

Under the RTW Act, LOEC claims are valued with Serious Injury claims and therefore no liability is held for LOEC in Short Term Claims. LOEC is not split out separately for Serious Injury claims.

8.6.2 Commutations

There were a small number of commutation payments ($0.2 million) during the last six months. These payments were the first payments in the last two years and were below our expectations ($0.5 million). The commutation entitlement relates to a small number of relatively large claims, and needs to be considered over long time horizons. Having taken this into consideration we have left the WRCA valuation basis unchanged.

8.6.3 Common Law

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

There is no change to historical common law entitlements under the RTW Act and therefore, we have left the basis unchanged. New common law entitlements will commence for some Serious Injury claims from 1 July 2015, although this does not impact the current outstanding claims valuation.

RTW Act Valuation Results – All Claims

Table 8.17 sets out our liability estimates for LOEC, Commutation and Common Law entitlements, before and after allowing for the impacts of the RTW Act. As noted earlier, these liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 8.17 – RTW Act Valuation Results: LOEC, Commutation and Common Law

		RTW Act Val Estimates			
Accident Period	Liability Estimate - WRCA Val	Short Term Claims	Serious Injury Claims	Total	RTW Act Impact
	A			B	B - A
	$m	$m	$m	$m	$m
To 30 Jun 05	2.0	0.4	0.0	**0.4**	(1.6)
2005/06 - 2008/09	1.5	1.5	0.0	**1.5**	0.0
2009/10 - 2011/12	2.1	2.1	0.0	**2.1**	0.0
2012/13 and later [1]	2.6	2.6	0.0	**2.6**	0.0
Total	8.2	6.7	0.0	**6.7**	(1.6)

[1] Accidents to Dec14

The reduction of $1.6 million in the RTW Act impact is entirely due to LOEC payments being removed from the Short Term Claims and not being split out separately in the Serious Injury valuation. There is no actual underlying change.

9 Serious Injury claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury costs at 31 December 2014. These liability estimates use our **June 2014** economic assumptions; the impact of changes in economic assumptions is discussed in Section 11.3.

Table 9.1 – RTW Act Valuation Results: Serious Injury claims

Payment Type	Catastrophic Injury	Other Serious Injury	Total
	$m	$m	$m
Income Maintenance	68.6	168.2	236.8
Other (Care)	252.8	29.4	282.2
Medical	132.3	210.3	342.6
Hospital	29.7	25.6	55.3
Rehabilitation	17.5	33.2	50.7
Physical Therapy	15.9	18.0	33.8
Travel	22.2	23.1	45.4
Investigation	0.1	0.2	0.3
Legal - Non-Contract	0.1	0.8	0.9
Legal Contract	0.1	0.3	0.4
Lump sums	9.5	26.0	35.4
Gross	548.6	535.1	1,083.7
Recoveries	-12.6	-8.0	-20.6
Net	536.1	527.1	1,063.1

The outstanding claims cost for Serious Injury claims is $1,063.1 million at 31 December 2014.

Because this is the first time Serious Injury claims have been separately valued there is no analysis of the liability movements for this group alone; movements in the overall liability for each entitlement (i.e. across both Short Term Claims and Serious Injury claims) are discussed in the preceding sections.

9.2 Background

The RTW Act defines “Serious Injury” claims as those with WPI of 30% or more, and provides income maintenance to retirement and other benefits for life. Given the significant differences in benefits available to Serious Injury claims under the RTW Act, relative to those available to Short Term Claims, we have valued Serious Injury claims separately.

As Serious Injury claims have not been previously identified, there is uncertainty as to the precise number and characteristics the Serious Injury cohort. Our Serious Injury cohort at the current valuation includes:

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

- Potential Serious Injury claims, i.e. those who have not had a WPI assessment of 30% or more but who may do so at some point in future; we have estimated the number of potential Serious Injury claims using claims profiling information undertaken by ReturnToWorkSA, where they identified claims with potential to be considered Serious Injury based on the nature of their injury and other characteristics.

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.

9.3 Valuation Approach

As Serious Injury claims are essentially entitled to lifetime benefits, it is important to consider the characteristics of individual claims and 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 costs of treatment and care, we have separately modelled 'Catastrophic 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]

	Catastrophic Injuries	Other Serious Injury
Life expectancy	Mortality improvement at 2% p.a. Mortality loadings for claims with high care needs (reducing life expectancy by 20 years) and for claims identified as having 'worse than average' health by RTWSA (reducing life expectancy by 11 years)	Mortality improvement at 2% p.a.
Income maintenance	To retirement age (unless already retired or redeemed) Based on historical experience and estimates provided by RTWSA	To retirement age on all operationally active claims Based on historical experience
Treatment Related Costs and Other[2]	Paid for life Based on historical experience and estimates provided by RTWSA Allowed for IBNER on Other and Medical costs above identified costs	Paid for life Based on historical experience
Lump sums[3]	Paid to claimants who have not already had a lump sum, based on assessed WPI (or assumed WPI if this is not available)	
Legal and Investigation	Assumed an average ultimate legal and investigation cost, net of payments to date	
Recoveries	Projected on claims identified by RTWSA as having recovery potential Used recovery estimates, where available, or an ultimate recovery proportion net of recoveries to date	Applied an ultimate recovery proportion net of recoveries to date
Common Law	Not available to pre-July 2015 claims	

	Catastrophic Injuries	Other Serious Injury
Future cost escalation	WCI: IM, Legal and Investigation AWE: Recoveries, Treatment and Other Superimposed: 3% p.a. on Treatment and Other	WCI: IM, Legal and Investigation AWE: Recoveries, Treatment and Other Superimposed: 2% p.a. on Treatment and Other
IBNR Assumptions	IBNR claims in the latest two accident years only Claim size based on historical experience on current known claims	IBNR claims in the latest two accident years only Claim size based on historical experience on current known and potential claims

[1] Projected costs are those paid after the claim has been identified as Serious Injury.
[2] Treatment related costs relate to Medical (including Aids and Appliances), Hospital, Rehab, Physio and Travel. Other costs have been split into "Care" and "Other" for the purposes of the valuation. Care relates to services such as attendant, respite and/or nursing care. The remaining payments in 'Other' mainly relate to home and vehicle modifications and domestic services.
[3] Impairment lump sums only. Serious Injury claims are not entitled to the Future Economic Loss lump sum.

One of the key determinants of 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 Catastrophic 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 expected numbers of Serious Injury claims.

Table 9.3 – Serious Injury Claim Numbers

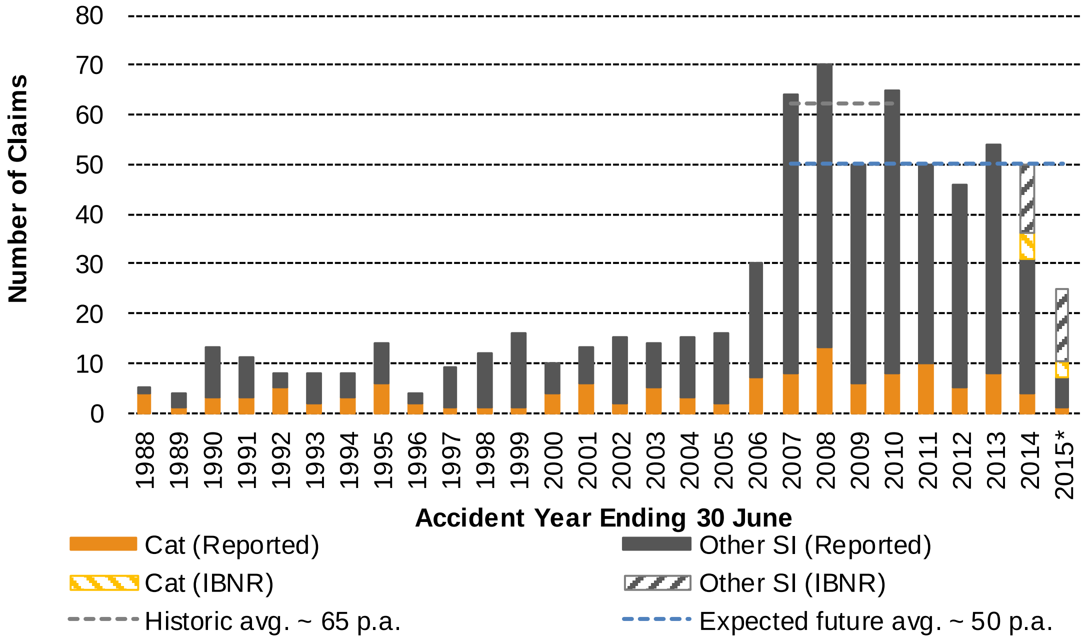
	Catastrophic	Other SI	Total
Reported Serious Injury	124	432	556
plus Potential Serious Injury claims[1]	0	106	106
Total Ongoing Claims	124	538	662
Future Serious Injury (IBNR)	9	29	37
Total	133	567	699

[1] Identified by ReturnToWorkSA.

Our Serious Injury projection incorporates 662 known or potential claims, and 37 IBNR claims as at 31 December 2014. There are a further 24 claims that ReturnToWorkSA have identified as being potential Serious Injury claims but who are not on ongoing benefits due to reasons such as being decreased, redeemed, discontinued, or relating to an alternative Serious Injury claim.

Figure 9.1 shows our estimated numbers of Serious Injury claims by accident year.

Figure 9.1 – Serious Injury Claim Numbers by Accident Year



* 6 months to 31 December 2014 only

The key features we note from this are:

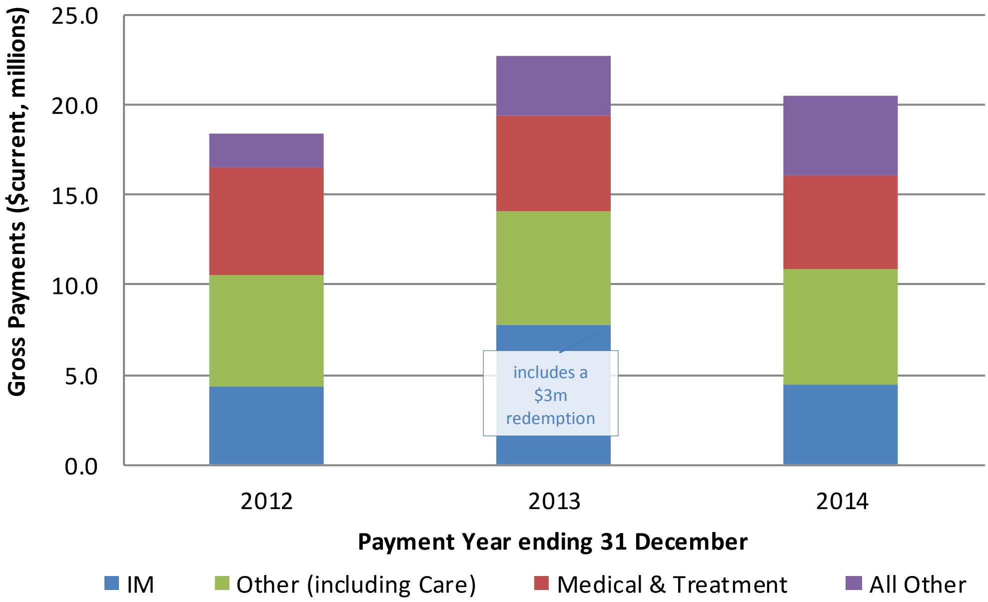
- The number of Serious Injury claims prior to 2007 is low, which we believe is a result of past redemption activity removing such claims from the scheme
- In the period 2007 to 2010 there averaged around 65 Serious Injury claims per year. However, this includes around 15 claims which related to ‘deteriorations’, ‘aggravations’ or ‘multiple injuries’, which are no longer expected under the RTW Act due to the requirement for ‘once and for all’ WPI assessments
- From 2011 to 2013 the number of Serious Injury claims is lower, at around 50 claims per year, as to date there has been limited ‘topping up’ of WPI scores on these claims
- For later years we expect there will still be development in claim numbers. Assuming the new WPI assessment provisions work as intended, we expect there to be around 50 Serious Injury claims per year (of which 9 are expected to be Catastrophic), and have allowed for IBNR in the 2013/14 accident year and in the six months to December 2014 based on this ultimate view.

9.5 Valuation of Catastrophic Injury claims

9.5.1 Payments by Type

Figure 9.2 shows claim payments over the past three years for Catastrophic Injury claims.

Figure 9.2 – Catastrophic Injury Claim Payments ($Dec-14)



Around $60 million has been paid to Catastrophic Injury claims in the last three years. After allowing for recoveries of almost $10 million over this same period, this equates to an average of around $16.5 million per annum in net claim payments to (inflated to 31 December 2014 values), comprising around:

- $6.5 million per annum in care and other costs
- $5.5 million per annum in medical, treatment and related benefits
- $4.5 million per annum in income maintenance
- $3.0 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.1 million per annum)
- $3.3 million per annum in recoveries.

9.5.2 Claimant Profile

Table 9.4 shows the injury profile of the current Catastrophic Injury claims.

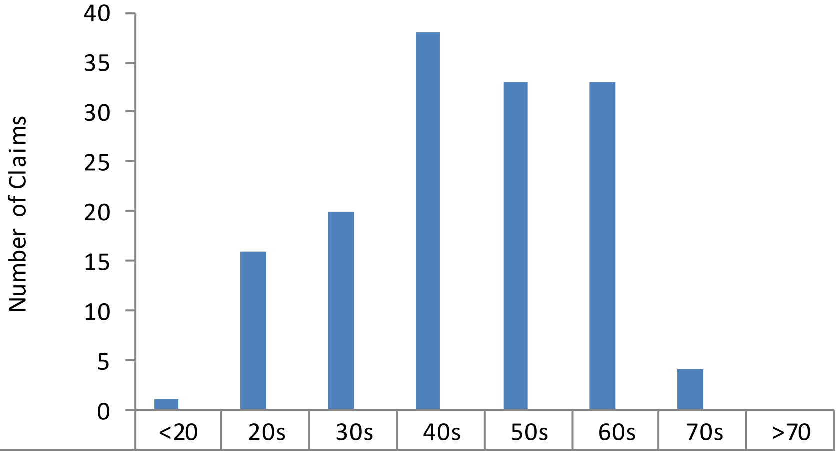
Table 9.4 –Catastrophic Injuries by Type

Type of injury	Number
Spinal	36
Brain	34
Amputation	30
Multiple	11
All Other	13
Total	124

Around three quarters of the current Catastrophic Injury claims relate to Spinal Cord, Traumatic Brain injuries or Amputations.

Figure 9.3 shows the age and (standard) life expectancy of the current Catastrophic Injuries; our loadings for higher than standard mortality act to reduce the life expectancy for Catastrophic Injury claims by an average of 6 years below those shown, although it should be noted that these reductions are biased toward those with the most serious injuries.

Figure 9.3 –Average Age and Life Expectancy for Catastrophic Injury claims



	<20	20s	30s	40s	50s	60s	70s	>70
Number of Claims	1	16	20	38	33	33	4	0
Standard Life Expectancy	70	65	53	41	32	22	14	0

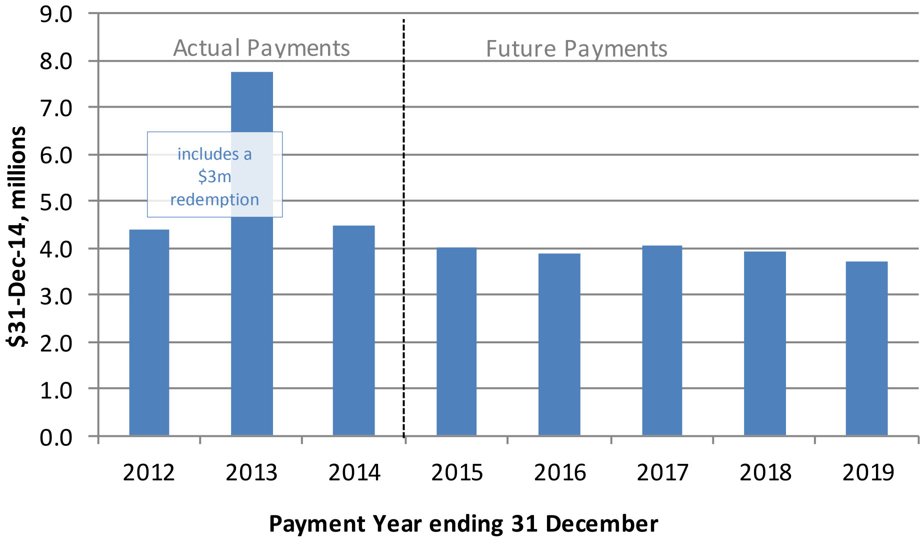
Catastrophic Injury claimants are currently around 50 years old on average, with an expected future life expectancy of just over 30 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was 40 years.

Only around half the current Catastrophic Injuries have a WPI assessment, averaging just over 50%, although this is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. Somewhat surprisingly, 15 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 Maintenance

Figure 9.4 shows historic and projected income maintenance payments for Catastrophic Injury claims (including IBNR claims).

Figure 9.4 – IM Payments – Catastrophic Injury claims ($Dec-14)

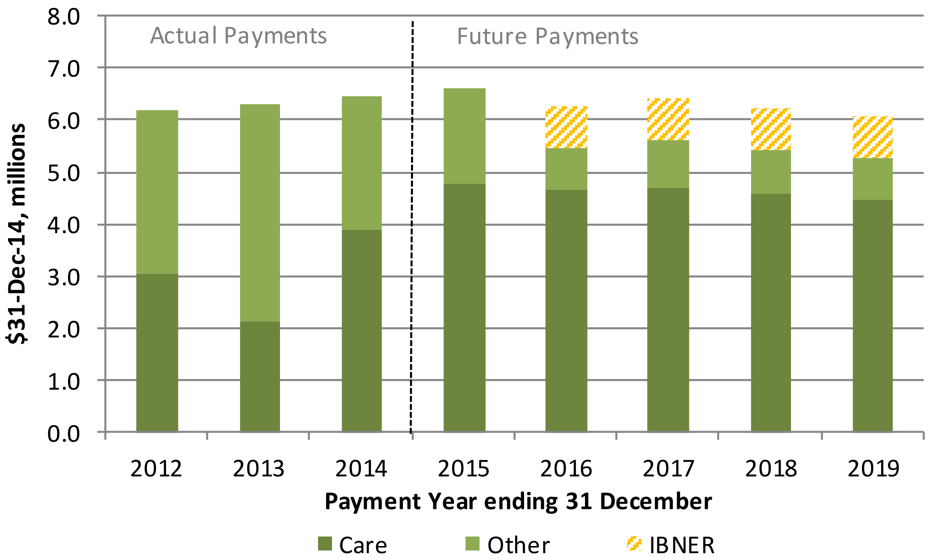


We estimate around $4.0 million will be paid in income maintenance to Catastrophic Injury claims in 2015. Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 19 years of the 2015 payments.

9.5.4 Care and Other Costs

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

Figure 9.5 – Other (incl. Care) Payments – Catastrophic Injury claims ($Dec-14)

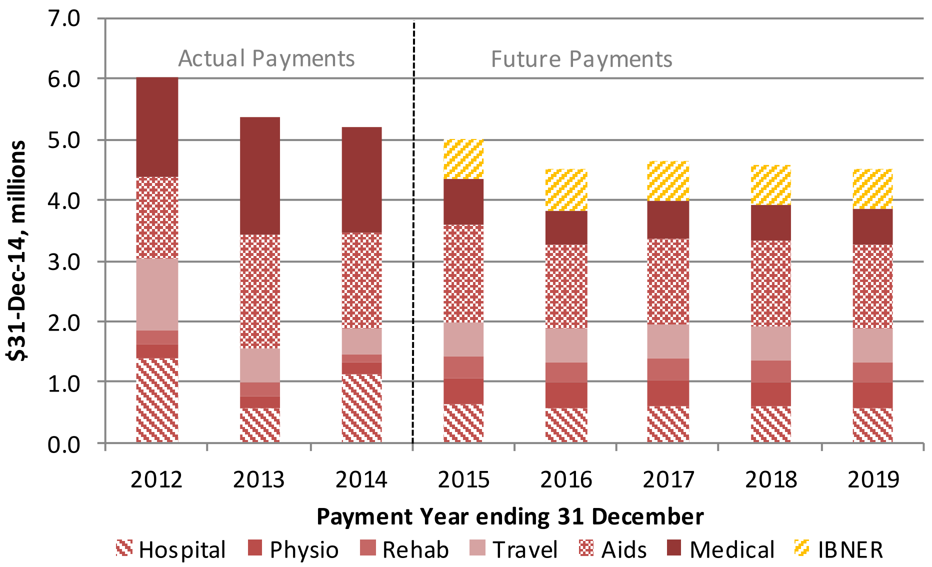


We expect around $6.6 million of other and care payments in 2015, an increase of 2%, noting the 2015 year includes estimated up-front modification spend. Payments reduce thereafter in line with mortality, with the overall outstanding claims liability equating to 27 years of 2015 payments.

9.5.5 Treatment and Related Costs

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

Figure 9.6 – Treatment and Related Payments – Catastrophic Injury claims ($Dec-14)

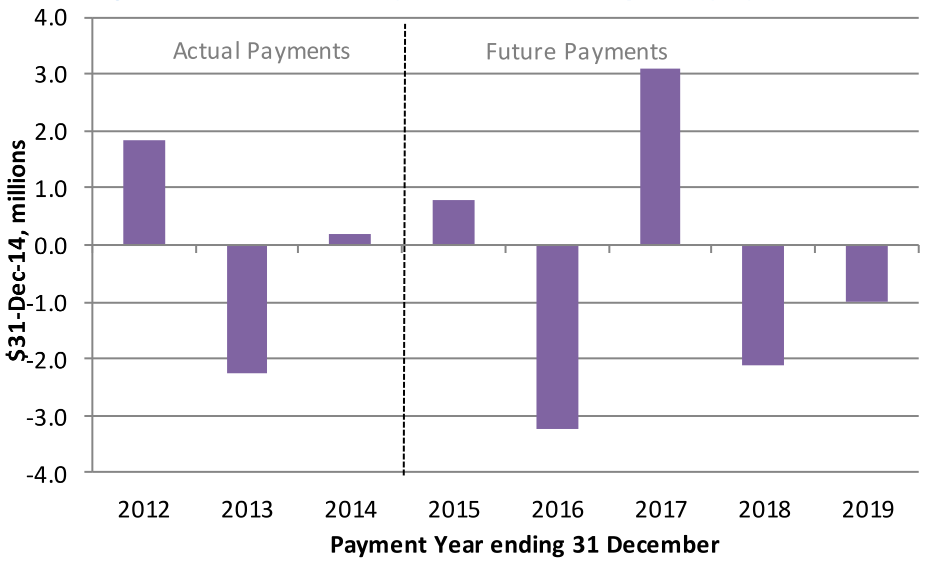


We expect future treatment and related payments of $5.0 million in 2015, down 3% reflecting ReturnToWorkSA estimates and our allowance for IBNER. The 2015 year includes allowance for upcoming one-off spend on prosthetics and known surgeries. Payments reduce thereafter in line with mortality and the outstanding claims projection equates to 35 years of 2015 payments.

9.5.6 All Other Payments

The following graph shows historic and projected other benefits for Catastrophic 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 – Catastrophic Injury claims



In the three years to 31 December 2014, a net amount of $0.1 million of other benefits was paid for Catastrophic Injury claims. Our future projections include:

- Lump sum benefits of $7.8 million paid to current Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of around $0.2 million
- Recoveries of around $11.0 million, for those claims where ReturnToWorkSA have identified recovery potential. The ultimate recovery rate on all Catastrophic Injury claims is 5%.

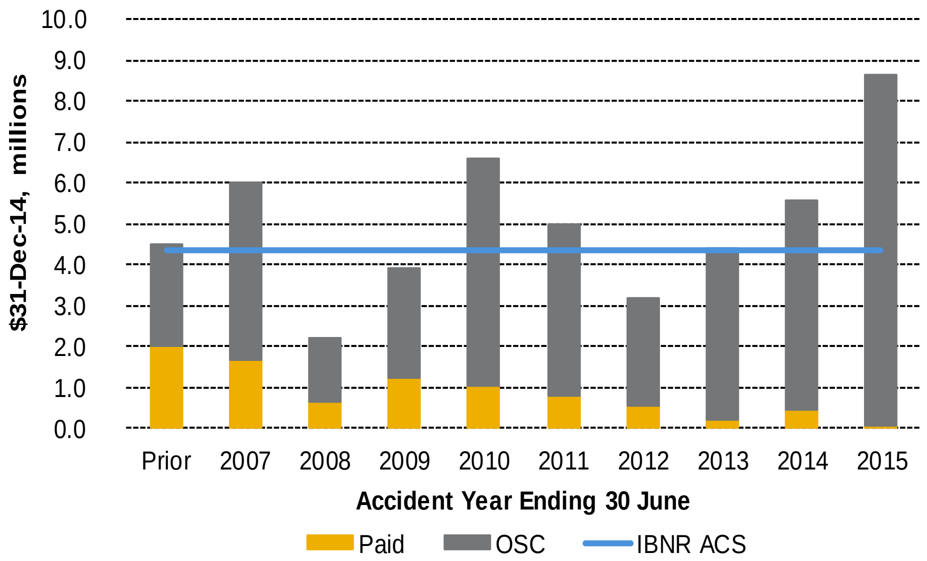
These payments are all assumed to be made in the next five years.

9.5.7 Results and Implications

Ultimate Average Claim Size

Figure 9.8 shows the net ultimate average claim size across current Catastrophic 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 – Catastrophic Injury claims ($Dec-14)



The average claim size across current Catastrophic Injury claims is around $4.5 million. The higher average claim size in 2014 and 2015 is driven by the fact that few claims are currently known and those that are have an average age of just over 30, compared to 50 years across all other years.

We have adopted an average claim size of $4.3 million for IBNR Catastrophic Injury claims, all of which are for the 2014 and 2015 accident years.

Results

The following table summarises the total cost of Catastrophic Injury claims at 31 December 2014.

Table 9.5 – Catastrophic Injury Claim Costs

	Claim Numbers			Ultimate Claim Cost ($current, $m)			OSC[1] (Inflated and Discounted)	Ultimate Avg Claim Size
Acc FY	Reported	IBNR	Total	Paid	OSC	Total		
Prior	61	0	61	122.9	150.6	273.5	191.6	4.5
2007	8	0	8	13.3	34.7	48.0	45.6	6.0
2008	13	0	13	8.3	20.0	28.3	25.2	2.2
2009	6	0	6	7.4	16.1	23.5	18.1	3.9
2010	8	0	8	8.3	44.5	52.7	60.6	6.6
2011	10	0	10	7.8	42.1	50.0	57.3	5.0
2012	5	0	5	2.7	13.3	16.0	18.8	3.2
2013	8	0	8	1.7	33.4	35.1	42.7	4.4
2014	4	5	9	1.7	37.4	39.1	50.8	4.3
2015 [2]	1	4	5	0.1	19.5	19.6	25.3	4.3
Total	124	9	133	174.2	411.5	585.7	536.1	4.4

[1] Excluding costs assumed to be paid before IBNR claims are identified as being Serious Injury

[2] 6 months to Dec-14 only

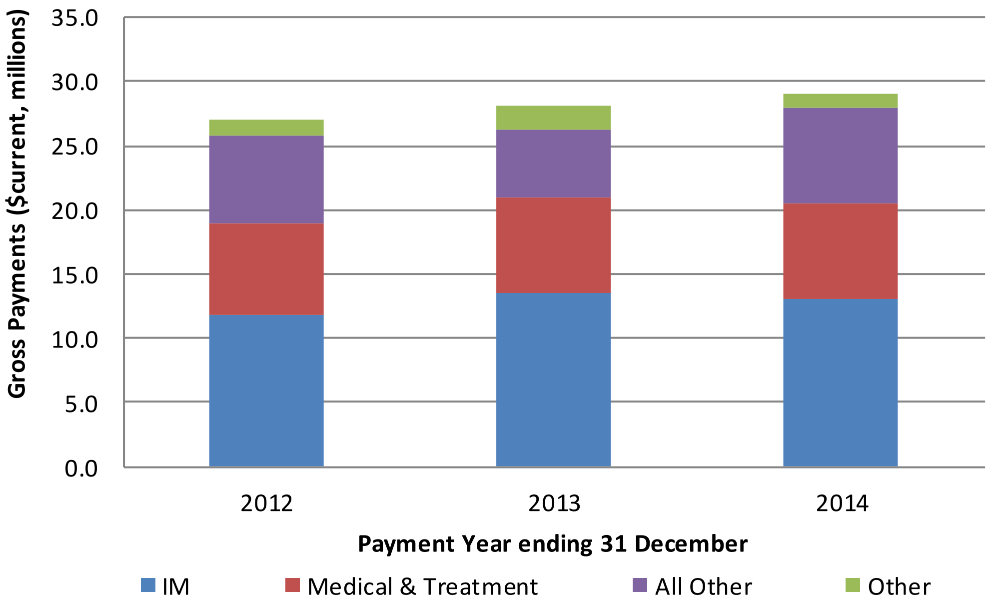
The outstanding claims cost for Catastrophic Injury claims is $536.1 million when inflated and discounted using 30 June 2014 valuation economic assumptions.

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 Catastrophic Injuries).

Figure 9.9 – Other Serious Injury Claim Payments ($Dec-14)



Around $84 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $4 million over this same period, this equates to an average of around $27.0 million per annum in net claim payments (inflated to 31 December 2014 values), comprising:

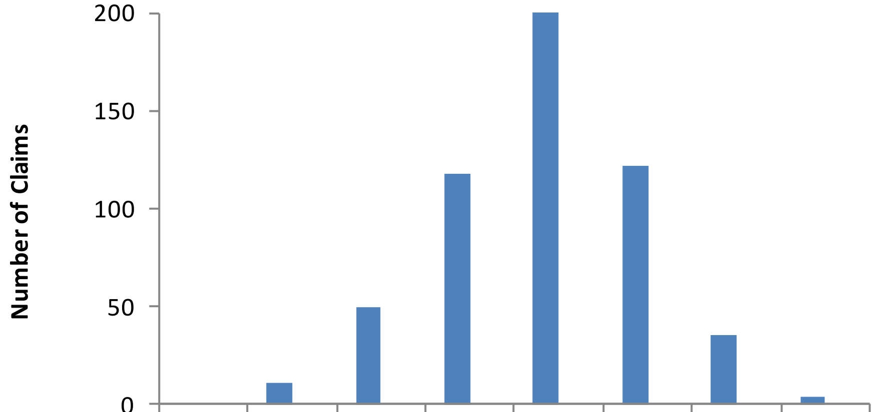
- $13.0 million per annum in income maintenance

- $7.5 million per annum in medical, treatment and related benefits
- $6.0 million per annum in lump sums
- Only small amounts of other benefits ($0.5 million).

9.6.2 Claimant Profile

Figure 9.10 shows the current age and (standard) life expectancy of the known and potential Other Serious Injury claims.

Figure 9.10 –Average Age and Life Expectancy for Other Serious Injury claims



	<20	20s	30s	40s	50s	60s	70s	>70
Number of Claims	0	11	49	118	202	122	35	4
Standard Life Expectancy	0	64	53	42	32	23	14	9

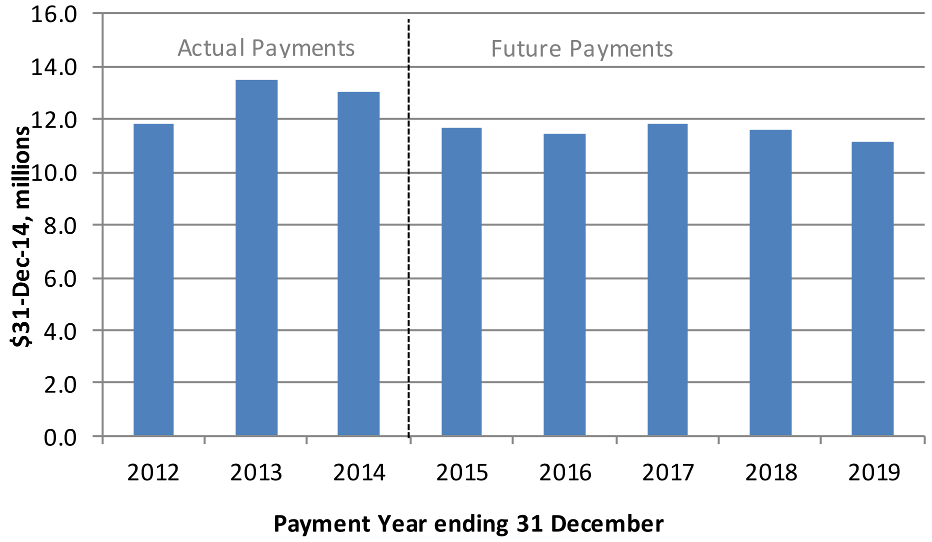
The Other Serious Injury claims are currently around 55 year old, with an expected future life expectancy of just over 30 years (after allowing for mortality including mortality improvements). We note the average age at injury was 45 years.

Around half 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% (remembering that the current list is based on those *potentially* reaching 30% WPI). The average impairment level excluding these low assessments is around 40%.

9.6.3 Income Maintenance

Figure 9.11 shows historic and projected income maintenance payments for Other Serious Injury claims (including IBNR claims).

Figure 9.11 – IM Payments – Other Serious Injury claims ($Dec-14)

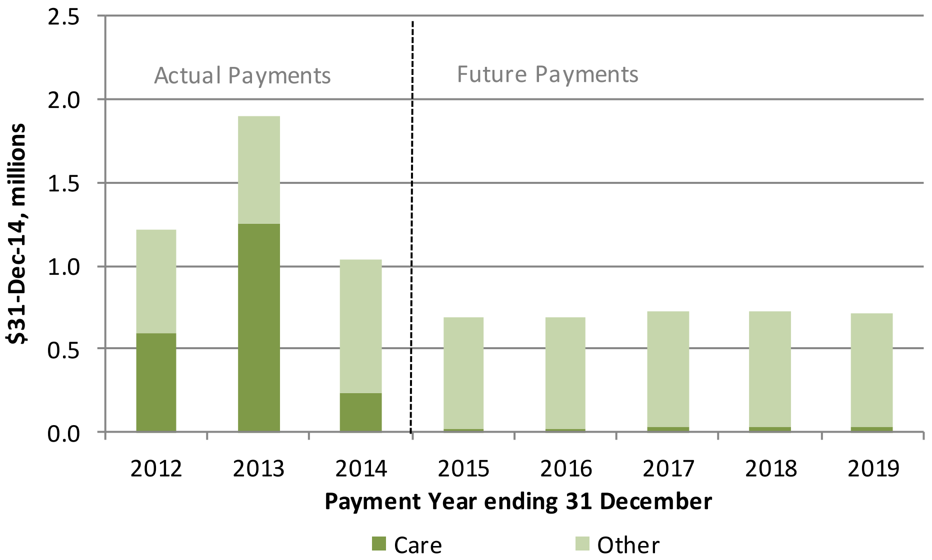


We estimate $11.7 million will be paid in income maintenance to Other Serious Injury claims in 2015. Future payments reduce over time in line with expected mortality and retirement. Overall we project that future payments will equate to 16 years of 2015 levels.

9.6.4 Care and Other Costs

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

Figure 9.12 – Other (incl. Care) Payments – Other Serious Injury claims ($Dec-14)



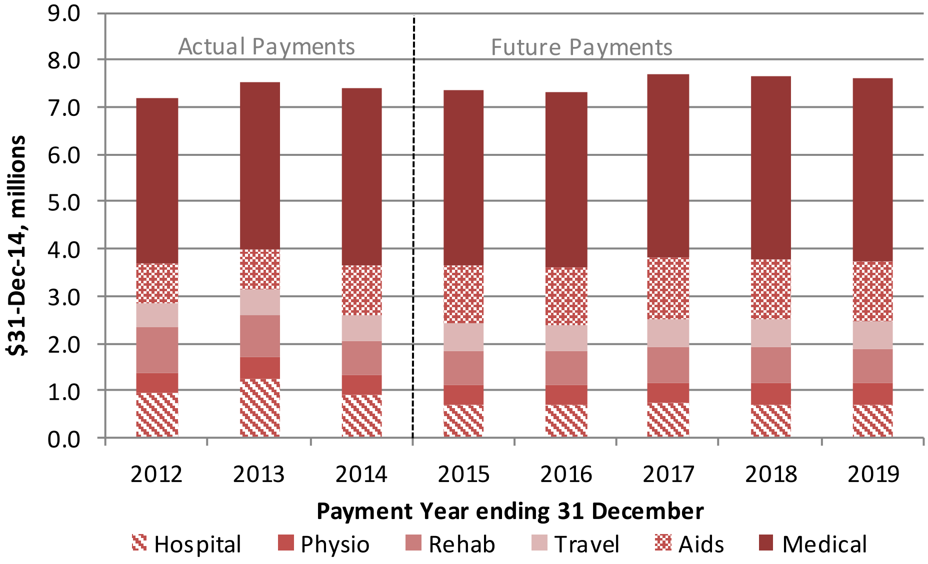
Other Serious Injury claims receive very little in care costs (almost all the care paid in the last three years related to a claimant who is now deceased).

We expect around $0.7 million in other payments in 2015, in line with the average across the last three years. Payments reduce thereafter in line with mortality, and equate to 37 years of 2015 payments.

9.6.5 Treatment and Related Costs

Figure 9.13 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims).

Figure 9.13 – Treatment and Related Payments – Other Serious Injury claims ($Dec-14)

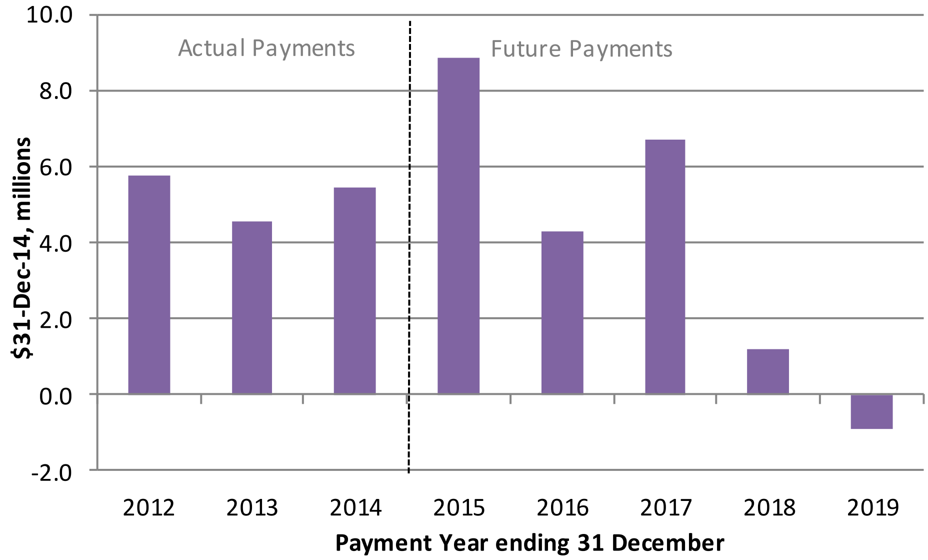


We expect treatment and related payments of $7.4 million in 2015, in line with the average over the last three years. Payments reduce thereafter in line with mortality, and equate to 36 years of 2015 payments.

9.6.6 All Other Payments

Figure 9.14 shows historic and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 9.14 – All Other Payments – Other Serious Injury claims ($Dec-14)



Our future projections include:

- Lump sum benefits of $23.5 million paid to current Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of around $1.1 million
- Recoveries of around $7.1 million.

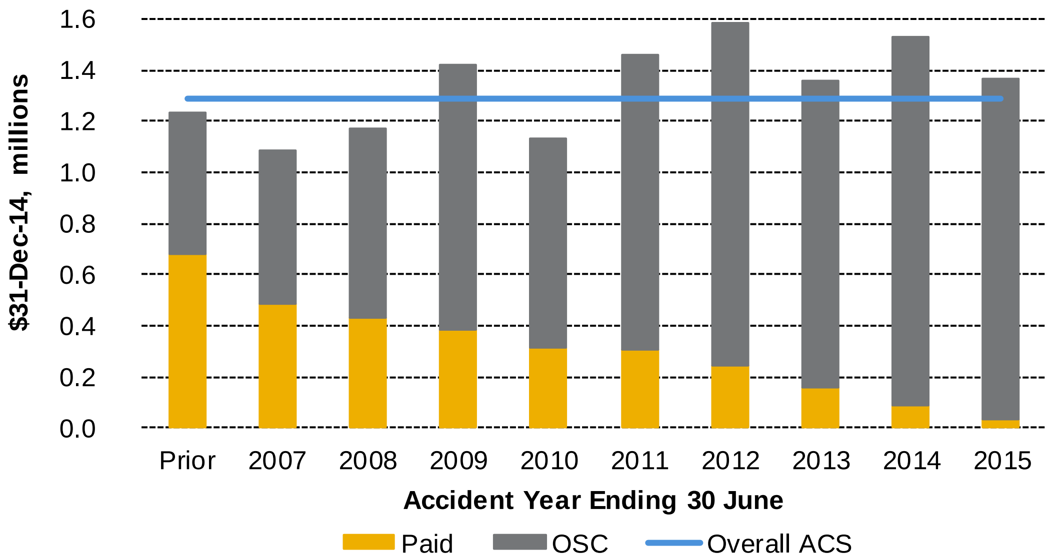
These payments are all assumed to be made in the next five years.

9.6.7 Results and Implications

Ultimate Average Claim Size

Figure 9.15 shows the net ultimate average claim size (inflated to 31 December 2014 values) across current Other Serious Injury claims.

Figure 9.15 – Average Claim Size – Other Serious Injury claims



We have adopted an average claim size of $1.3 million for IBNR Other Serious Injury claims, in line with the average ultimate claim size across all known and potential claims.

Results

The following table summarises the total cost of Other Serious Injury claims at 31 December 2014.

Table 9.6 – Other Serious Injury Claim Costs

	Claim Numbers			Ultimate Claim Cost ($current, $m)			OSC[1]	Ultimate
Acc FY	Reported	IBNR	Total	Paid	OSC	Total	(Inflated and Discounted)	Avg Claim Size
Prior	164	0	164	111.5	91.4	202.9	98.7	1.2
2007	56	0	56	27.0	34.0	60.9	35.4	1.1
2008	57	0	57	24.5	42.2	66.7	45.1	1.2
2009	44	0	44	16.8	45.7	62.6	48.6	1.4
2010	57	0	57	18.0	46.6	64.6	50.1	1.1
2011	40	0	40	12.2	46.4	58.6	48.3	1.5
2012	41	0	41	9.9	54.9	64.9	57.3	1.6
2013	46	0	46	7.3	55.3	62.5	58.4	1.4
2014	27	14	41	2.3	56.9	59.2	59.0	1.4
2015 [2]	6	15	21	0.2	26.5	26.7	26.2	1.3
Total	538	29	567	229.7	499.9	729.6	527.1	1.3

[1] Excluding costs assumed to be paid before IBNR claims are identified as being Serious Injury

[2] 6 months to Dec-14 only

The outstanding claims cost for Other Serious Injury claims is $527.1 million when inflated and discounted using the 30 June 2014 valuation economic assumptions.

10 Economic and Other Assumptions

10.1 Discount Rate

10.1.1 Approach

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

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

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

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

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

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

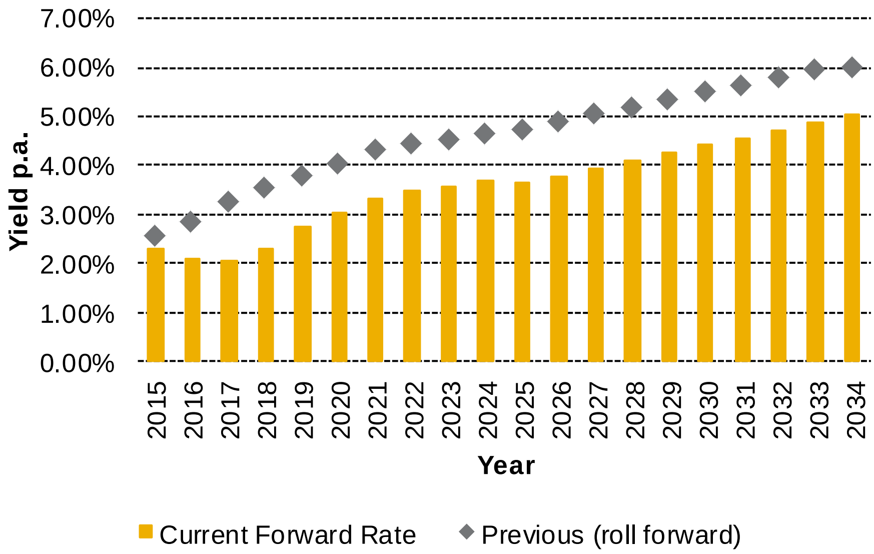
10.1.2 Current Assumptions

Government bond yields at December 2014 are lower than at June 2014 at all durations. At the current valuation we have reduced the forward rate to 5.5% p.a. for the very long term (for periods more than 22 years into the future) which is the duration of the longest dated bond currently available on the market. This is a reduction of 0.5% p.a. from the previous valuation and reflects further reductions in the yields of long-term bonds as well as the current sustained low yield environment.

Figure 10.1 shows the current forward rates, and compares these to the corresponding forward rates implied by the previous valuation (i.e. rolled forward to the current valuation date). This shows that the discount rates have decreased for all durations with the equivalent single discount rate reducing from

4.2% p.a. at 30 June 2014 to 4.0% p.a. at 31 December 2014; if not for the impacts of the RTW Act reforms there would have been an even larger economic factor impact on the valuation result.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



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

10.2 Inflation

In setting our inflation assumptions we consider:

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

In summary, our approach at the current valuation has been:

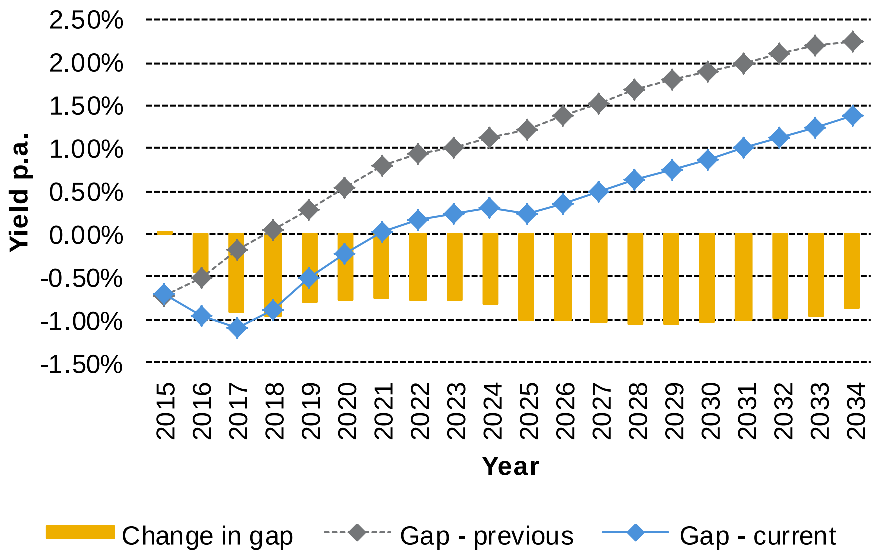
- Wage Price Inflation has been assumed to be 2.75% p.a. for the coming year, increasing to 3.00% after five years. This is a reflection of both current forecasts and the current low interest rate environment.
- Wage Price Inflation assumptions gradually increase from this level to 3.5% over the next 18 years, where a gap of 2% p.a. is maintained between Wage Price Inflation and forward rates.
- Average Weekly Earnings (AWE) is set as 0.25% above Wage Price Inflation at all durations.

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

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

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

Figure 10.2 – Gap between Adopted AWE and Discount Rates



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

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

- IM entitlements and related expenditure for Short Term Claims are inflated using the projected Wage Price Inflation rate until 30 June 2015. After this point no inflation is applied to IM entitlements for the current cohort of claims, consistent with the RTW Act. AWE is initially applied for future injuries.
- IM entitlements and related expenditure for Serious Injury claims continue to be inflated using the projected Wage Price Inflation rate until retirement.
- The maximum Lump Sum entitlement is indexed annually by the adopted CPI rate (the maximum entitlement applies to all accidents occurring in a year).
- All other entitlements are inflated at the adopted AWE rate, with allowance for superimposed inflation where warranted.

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

10.3 Expenses

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

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

(i) For Serious Injury claims we express claim handling expenses as a percentage of outstanding claims – the allowance is 8.5% based on approximately 20 FTEs working in the serious injury area

(ii) For Short Term Claims, we make a rough estimate of the expenses of running off those claims until the end of 2017/18 when the transition will be largely complete – the claims handling allowance for this component is $265 million

(iii) For Break Even Premiums under the RTW Act, we use 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.

The framework established for the expense allowances should be able to be applied at subsequent valuations during the transition and should be updated at June 2015 when operating plans and budgets for the following period are complete.

Given the significant changes being undertaken by ReturnToWorkSA to implement the RTW Act, and the resulting changes in claimant profile over the next two years, it is expected that the expense loading will move more than would normally be the case over the next few valuations.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

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

For this valuation, we have undertaken a detailed review of risk margins based on the key elements of the framework proposed by the Institute of Actuaries of Australia's Risk Margin Taskforce in their paper "Framework for Assessing Risk Margins" ('the task force paper'). The task force paper proposes use of a balanced scorecard approach to separately evaluate the Coefficients of Variation (CVs) arising from independent error, internal systemic error and external systemic error. A summary of the framework is included in Appendix C.2.

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

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

Table 10.1 – Coefficient of Variation

Risk Margin Group	Total CV Dec-14	Total CV Jun-14
Serious Injury	25.5%	N/A
Short Term Claims		
IM + Redemption	13.4%	14.5%
Lump Sums	19.8%	14.4%
Legal + Investigation	25.8%	25.8%
Medical and Other Treatment	14.8%	27.8%
Recoveries	22.4%	24.1%
Total (Undiversified)	21.2%	19.0%
Total (Diversified)	**16.4%**	**15.5%**
Diversification	22.8%	18.7%

Although the individual components are not directly comparable as a result of the Serious Injury and Short Term Claim split, it is still useful to make comparisons with the previously adopted CVs. The movements in the CVs since our previous valuation are:

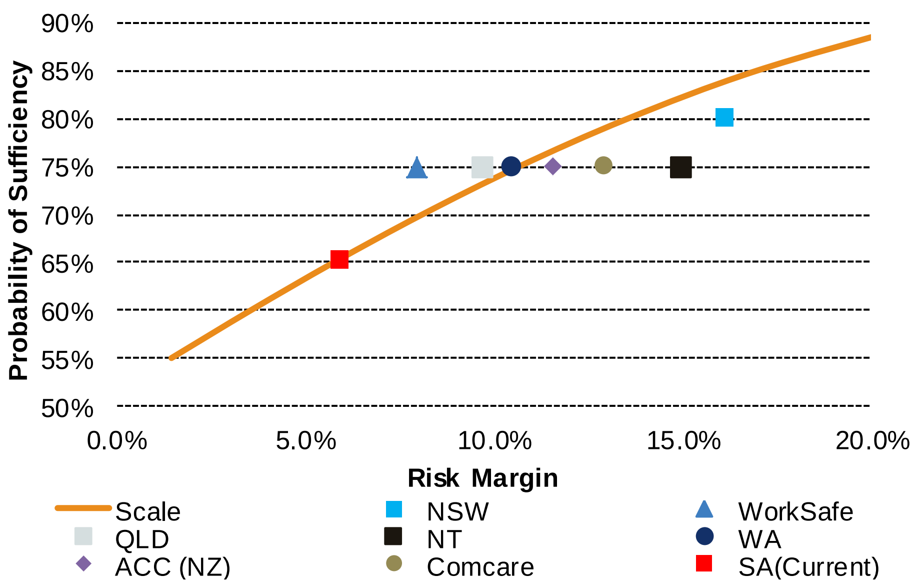
- IM and Redemption has reduced as a result of the boundary on duration of claims and the removal of serious injury claims which have a long duration. This reduces the variability in the tail resulting in a reduction in the independent error component. The internal systemic error component also reduces as a result of lower parameter selection error. Some uncertainty around the current legislative reforms is added back in through the external systemic error component.
- Lump Sum has increased due to a higher independent error component. We last updated our independent error analysis based on June 2009 data before actual claim experience had emerged for lump sums under the 2008 reform basis. The increase in independent error reflects the higher variability of lump sum payments after the 2008 reforms. Uncertainty around the current legislative reforms increases the external systemic error.
- Legal and Investigation remains roughly the same with lower independent and internal systemic errors offset by higher external systemic error due to legislative reforms.
- Medical and Other Treatment has reduced significantly as a result of removing serious injury claims and the introduction of a hard boundary on duration of claims. Similar to IM and Redemption, this reduces both the independent and internal systemic errors. Legislative reforms add some uncertainty back.
- Recoveries has reduced slightly as the boundary on duration of claims under the RTW Act reduces the duration of recovery payments. This in turn reduces the variability of recovery payments.
- Serious injuries on its own has a high CV due to the long term nature of these claims and high uncertainty in relation to future cost escalation.
- The diversification benefit has increased due to reduced correlations between the entitlement groups and the added diversification benefit between Serious Injury and Short Term Claims.

Based on a coefficient of variation of 16.4%, ReturnToWorkSA's adopted 65% probability of sufficiency and our modelled distribution (which is a blend between a normal and lognormal distribution), we believe a risk margin of 6.0% (after rounding) is appropriate. This compares to 5.5% adopted at the previous valuation. For information purposes, if ReturnToWorkSA were to increase its probability of sufficiency to 75% then the required risk margin would increase to 10.5% of the central estimate.

10.5.1 Comparison to Other Schemes

We have compared the current risk margin and stated probability of adequacy for ReturnToWorkSA and a number of other workers compensation schemes. Figure 10.3 sets out the comparison.

Figure 10.3 – Comparison of Risk Margins



The points on the graph show the stated risk margins and corresponding probability of adequacy for each scheme. The orange line shows the risk margin required to give a particular probability of adequacy for ReturnToWorkSA, assuming a blended normal and log-normal distribution, consistent with our selected CV of 16.4%.

If ReturnToWorkSA were to adopt a 75% probability of sufficiency, this would place their risk margin (10.5%) at a level between NT WorkSafe and WorkSafe, which is a sensible result based on our understanding of the features of each scheme.

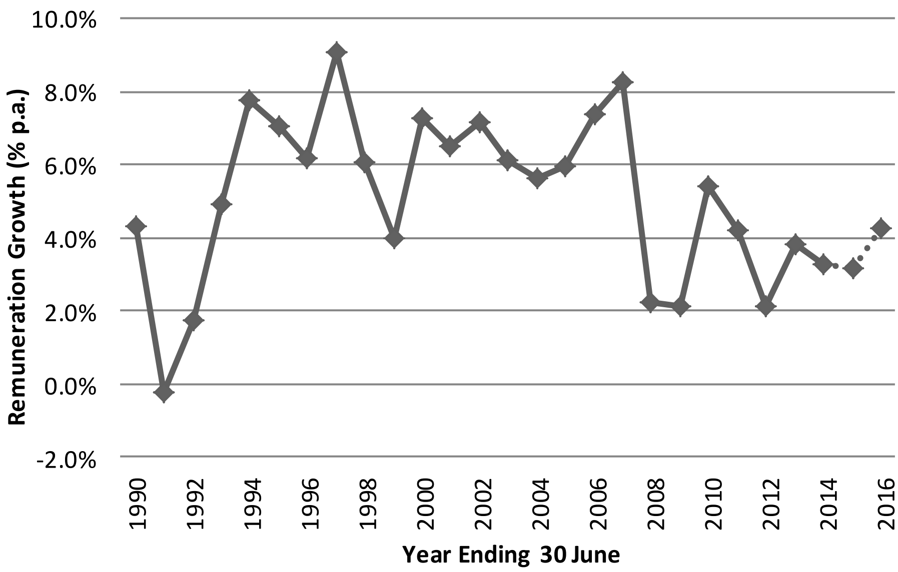
10.6 Non-Exempt Remuneration

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

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

The remuneration projection for current and future years is undertaken by ReturnToWorkSA and the implied annual growth in the total non-exempt remuneration by year is shown below in Figure 9.3.

Figure 10.4 – Non-Exempt Leviable Remuneration: Annual Growth



We have adopted ReturnToWorkSA's of remuneration projection of $25.2 billion for 2014/15 for valuation purposes, and of $26.0 billion for the purposes of the 2015/16 BEP. 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.
- The remuneration growth since 2011 had returned towards more 'normal' historical levels, although on average has been sitting at lower levels than were seen in the lead up to the GFC.
- ReturnToWorkSA is currently projecting 2015 remuneration growth to be at similar levels to the recent experience.

11 Valuation Results

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

- The central estimate of outstanding claims as at 31 December 2014
- The recommended balance sheet provision under AASB1023
- Movement in the central estimate compared to what was projected at the previous valuation
- Estimated historical scheme costs
- Projected future cashflows for the current outstanding claims
- Projected outstanding claims as at 30 June 2015 and 31 December 2015
- Reconciliation of results with 30 June 2014 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 31 December 2014 is set out in Table 11.1. This liability relates to all claims which occurred on or before 31 December 2014 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	431	254	686	27%
Redemptions	3	0	3	0%
Lump sums	126	36	161	6%
Worker legal	68	1	69	3%
Corporation legal	81	0	82	3%
Medical	162	402	564	22%
Hospital	9	0	9	0%
Travel	11	53	63	3%
Rehabilitation	29	60	89	4%
Physical Therapy	15	39	55	2%
Investigation	9	0	9	0%
Other	31	329	360	14%
Common law	2	0	2	0%
LOEC	0	0	0	0%
Commutation	5	0	5	0%
Gross Liability	985	1,239	2,224	88%
Recoveries	-49	-21	-69	-3%
Expenses	256	105	361	14%
Net Central Estimate	1,193	1,323	2,516	

The outstanding claims liability before recoveries and expenses is estimated to be $2,224 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,516 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	69	252	321	13%
Jun-06	18	74	92	4%
Jun-07	34	96	131	5%
Jun-08	43	83	126	5%
Jun-09	59	75	134	5%
Jun-10	71	129	200	8%
Jun-11	100	126	226	9%
Jun-12	112	89	201	8%
Jun-13	160	119	279	11%
Jun-14	198	134	332	13%
Jun-15	122	62	184	7%
Gross Liability	985	1,239	2,224	88%
Recoveries	-49	-21	-69	-3%
Expenses	256	105	361	14%
Net Central Estimat	1,193	1,323	2,516	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 – Results Before and After Discounting

	Serious Injuries	Short Term Claims	Total
	$m	$m	$m
Inflated	4,143	1,278	5,421
Inflated and Discounted	1,323	1,193	2,516
Ratio	32%	93%	46%

11.2 Provision for Outstanding Claims

As discussed in Section 10.5, a margin of 6.0% is added to the net central estimate (including claims administration expenses) to produce an intended 65% probability of sufficiency. The recommended provision at 31 December 2014 including this margin is $2,667 million, as set out below.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,239		
Gross Claims Cost - Short Term Claims	985		
Claims Handling Expenses	361		
Gross Outstanding Claims Liability	2,585	155	2,741
Recoveries	-69	-4	-74
Net Outstanding Claims Liability	2,516	151	2,667

This is the amount that we recommend ReturnToWorkSA use in updating its financial position at 31 December 2014 to be in accordance with its reserving policy.

11.3 Movement in Liability

Our central estimate is $1,077 million lower, and the associated provision $1,123 million lower, than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 - Movement from Previous Valuation

	Gross	Recoveries	CHE	Net	Risk Margin	Provision
	$m	$m	$m	$m	$m	$m
Liability as at 30-06-14	3,287	-90	279	3,476	191	3,667
Less Expected Payments to 31-12-14	221	-9	19	231		
Plus Interest (unwinding of discount)	39	-1	3	41		
Plus liability for claims incurred in the period	289	-7	25	306		
Liability Projected from Previous Valuation	3,394	-90	289	3,593	198	3,790
Current Valuation	2,224	-69	361	2,516	151	2,667
Difference	-1,170	21	73	-1,077	-47	-1,123

We have split the change in central estimate into the following three 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
- Movement in liability due to reform – this covers the impact of the RTW Act commencing
- 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 (i.e. before allowing for external impacts such as reform) relative to the previous valuation basis.

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

	Projected Dec-14 Liability[1]	AvE Payments in 6 mths to Dec 14	Actuarial Release [2]
	$m	$m	$m
Liability at Jun-14 Valuation	3,476		
Projected Liability at Dec-14 (from Jun-14 valuation)	3,593		
Movement in liability due to claims performance	-205	-5	210
Movement in liability due to reform	-1,065		
Impact of Change in economic assumptions	193		
Recommended Liability at Dec-14	2,516		

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

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

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at December 2014

The actuarial release over the period is a release (favourable result) of $210 million. Table 11.7 shows the actuarial release (strengthening) by entitlement type.

Table 11.7 – Actuarial Release by Entitlement Type

Entitlement Group	Difference from Projected Liability	AvE Payments in 6 mths to Dec 14	Actuarial Release [1]	Release %
	$m	$m	$m	%
Income	-182.3	-15.7	198.0	9.7%
Redemptions	7.3	2.0	-9.3	-82.1%
Combined	*-175.0*	*-13.7*	*188.7*	*9.2%*
Lump Sums	1.4	4.9	-6.3	-3.8%
Worker legal	-5.8	-0.1	6.0	6.7%
Corporation legal	11.0	2.0	-13.1	-18.5%
Investigation	-2.1	0.3	1.8	7.0%
Medical	-7.7	2.0	5.7	1.0%
Other	12.3	5.1	-17.4	-12.2%
Hospital	-5.6	0.1	5.5	7.9%
Travel	-2.9	0.0	3.0	5.4%
Physical therapy	-4.4	-1.2	5.6	11.3%
Rehabilitation	-9.1	-0.9	10.0	12.3%
Common Law	0.0	-0.1	0.1	6.1%
LOEC	-0.1	0.0	0.1	3.8%
Commutation	0.0	-0.3	0.3	5.5%
Gross Liability	-188.1	-1.9	190.0	5.6%
Recoveries	-0.8	-3.3	4.1	4.5%
Expenses	-16.0	0.0	16.0	5.5%
Net Central Estimate	-204.9	-5.2	210.1	5.8%

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

The major factors contributing to the $210 million actuarial release at the current valuation are:

- The Income Maintenance (and related) liability is $189 million lower than the projected liability from the previous valuation, following reductions in claim numbers across most cohorts.
- Legal costs – corporation legal costs increased by $13 million, following continued high dispute numbers and referrals for advice. There was a small offsetting decrease in worker legals as a result of lower IM claim numbers.
- Treatment and Related costs – flow on reductions of around $30 million as a result of the reductions in ongoing IM claims were partially offset by an increase of around $17 million in 'other' costs following an increased use of 'future retraining' payments.

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 Movement in Liability Due to Reform

Commencement of the RTW Act brings changes to the benefit rules for some existing claims, with the result that overall scheme liabilities are reduced. Table 11.8 summarises the movement in liability by entitlement.

Table 11.8 – Impact of Reform on December 2014 OSC

Entitlement Group	Change due to Reform Impacts
	$m
Income	-1,209.1
Redemptions	-15.5
Combined	*-1,224.5*
Lump Sums	-11.3
Worker legal	-16.3
Corporation legal	-5.1
Investigation	-14.9
Medical	-63.2
Other	157.4
Hospital	2.8
Travel	3.7
Physical therapy	4.1
Rehabilitation	7.5
Common Law	0.0
LOEC	-1.6
Commutation	0.0
Gross Liability	-1,161.3
Recoveries	22.6
Expenses	73.5
Net Central Estimate	-1,065.2

The impact of the RTW Act is to:

- Significantly reduce Income Maintenance liabilities, as Short Term Claims will receive benefits for a maximum of two years from 1 July 2015
- Reduce Medical liabilities, following the introduction of a 12 month cap on benefits after the cessation of IM; offsetting this is an increase in 'Other' expenditure which is largely related to the projected cost of providing lifetime care and support to Serious Injury claims – while these claims more or less had the same entitlements under the WRCA, the ability to individually identify these claims and their needs has led to an increase in our estimate of the costs required.
- Produce other savings that are of a lower direct magnitude than the IM reduction, such as through reduced disputation and the removal of top up lump sums, although the indirect impacts of these changes are also important to the success of the overall reform package.
- Increase expenses, as there are additional short term transition costs involved in setting up the new RTW scheme.

11.3.3 Impact of Economic Assumption Changes

Changes to inflation and discount rate assumptions increased the central estimate by $193 million.

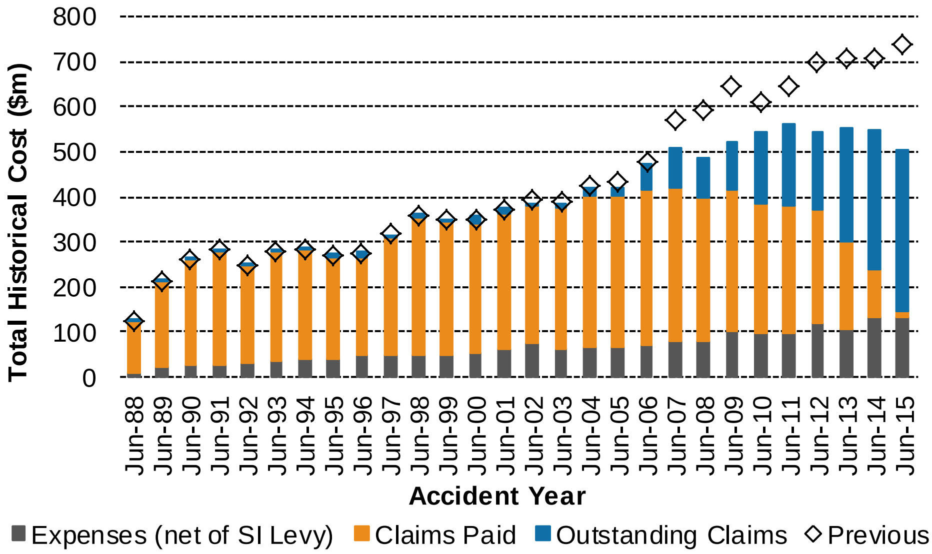
As discussed in Section 10.1 there has been a further significant reduction in long term discount rates, an event which is outside ReturnToWorkSA's control, which has led to this increase in the OSC liability.

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 2015.

Figure 11.1 summarises the currently estimated historical costs for each year since the Scheme began. As this shows, commencement of the RTW Act has acted to reduce the cost for recent accident years into the $500-550 million range, breaking the strong upward trend seen in recent years.

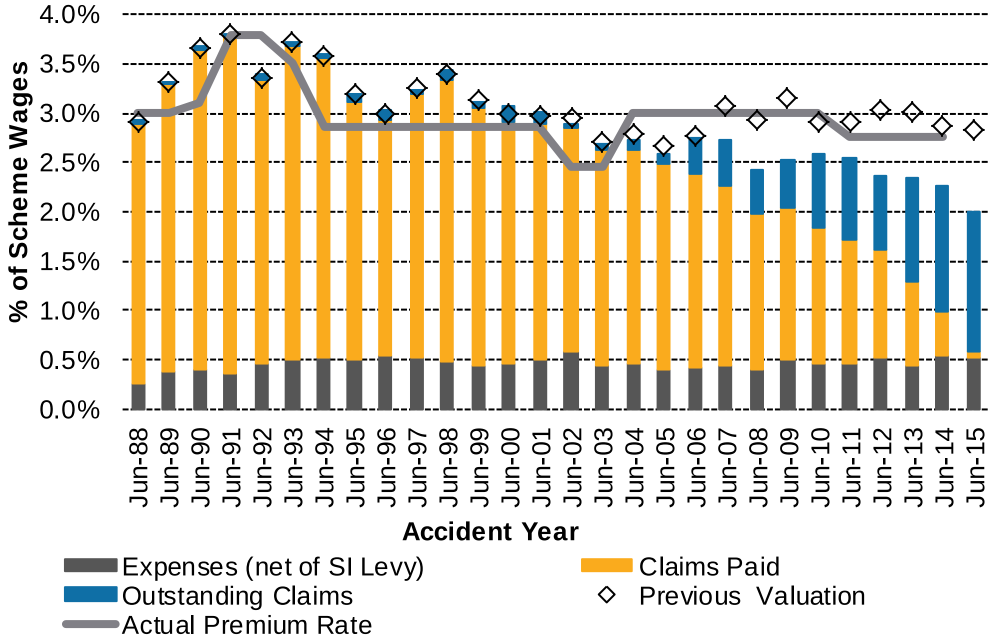
Figure 11.1 – Historical Cost Discounted to Accident Year



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

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 for each year.

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



The main points to note are:

- Prior to introduction of the RTW Act the scheme has consistently run at a BEP of around 3.0% of wages; recent operational improvements had reduced the BEP to marginally below 3.0%, but still above the actual premium rate of 2.75%
- The current estimate of the BEP for the 2015 accident year is 2.00%. This estimate has reduced from 2.84% since the June 2014 valuation, due to an offsetting combination of:
  - Claim improvements reducing the BEP by 0.12% of wages
  - Reform impacts reducing the BEP by 0.81% of wages
  - Economic assumption changes increasing the BEP by 0.09% of wages
- The impact of reform reduces as you move into earlier accident years, as the majority of the cost for these years has already been paid under the WRCA.

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

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2015 still involves a degree of estimation.

11.5 Future Cashflows

Table 11.9 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 11.9 – Projected Cashflows

Entitlement Group	Projected Cashflows for Period			
	Dec-14 to Jun-15	Jun-15 to Dec-15	Dec-15 to Jun-16	Jun-16 to Dec-16
	$m	$m	$m	$m
Income Maintenance & Redemption	168.1	126.2	104.2	113.7
Medical	38.0	39.8	40.6	43.4
Lump sums	30.0	30.2	23.0	24.2
Rehabilitation	9.1	9.3	9.1	9.3
Physical Therapy	6.4	6.4	6.2	6.3
Hospital	6.8	6.9	6.7	6.9
Worker legal	8.8	8.6	8.4	8.3
Other	18.4	13.9	6.6	6.6
Corporation legal	10.0	7.8	5.2	4.6
Travel	3.7	3.7	3.7	3.7
Investigation	2.4	2.3	2.2	2.1
Commutation	0.5	0.5	0.5	0.5
LOEC	0.0	0.0	0.0	0.0
Common law	0.1	0.1	0.1	0.1
Recoveries	-9.8	-6.3	-6.2	-11.2
Net Claims Cost - Total	292.7	249.6	210.3	218.6
Net Claims Cost - Serious Injuries	27.1	18.6	19.5	17.7
Net Claims Cost - Short Term Claims	265.6	230.9	190.9	200.9

11.6 Projected Outstanding Claims

Table 11.10 shows the outstanding claims projected to 30 June 2015 and 31 December 2015. We note the payments shown here are based on that in Table 11.9 but also include an allowance for claims handling expenses for consistency with our liability estimate.

Table 11.10 – Projected Outstanding Claims at 30 June 2015 and 31 December 2015

	Half year ending	
	Jun-15	Dec-15
	$m	$m
Provision at Period Start	2,667	2,536
Less Risk Margin	151	144
Central Estimate at Period Start	2,516	2,392
Less Expected Payments in Period	-343	-299
Plus Interest (unwind of discount)	29	27
Plus Additional Liability Incurred in Period	190	228
Projected Central Estimate at Period End	2,392	2,348
Plus Risk Margin	144	141
Projected Provision at Period End	2,536	2,489

We project the provision for the net outstanding claims liability at 30 June 2015 to be $2,536 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 January 2015 to 30 June 2015. The corresponding provision for outstanding claims is projected to increase to $2,489 million at 31 December 2015.

The projected *decrease* in the provision relates to the fact that the additional liability incurred on new accidents is less than the expected payments on existing Short Term Claims. It is likely that the provision will continue to reduce over the next two years as the impact of transitioning claims to the RTW Act entitlements flows through the scheme.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 30 June 2014 valuation we projected an additional liability of $323 million would be incurred from claims arising in the July to December 2014 half-year. Our current projection for the ultimate value of this liability is $207 million, a reduction of 35.8%. This decrease is due to a combination of lower claims numbers and changes to benefit entitlements under the RTW Act.

Table 11.11 – Comparison of June 2014 projections to Current Valuation

For period 01 Jul 2014 to 31 Dec 2014		
Incurred Claims Liability ($m):		Difference
Projected in Jun-14 Valuation	323	
Incurred (current valuation)	207	-35.8%
Incurred New Claims (all claims, excl Incidents):		
Projected in Jun-14 Valuation	7,568	
Incurred (current estimate)	7,332	-3.1%
Incurred New IM Claims (excl ER):		
Projected in Jun-14 Valuation	2,465	
Incurred (current estimate)	2,026	-17.8%

12 Break Even Premium Rate for 2015/16

An important purpose of our review is to provide information on the calculation of the Break Even Premium Rate (BEP) for the coming year. While the calculations and recommendations for the 2015/16 Average Premium Rate (APR) to be charged to employers are ReturnToWorkSA's responsibility, the BEP is a key input to these considerations.

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

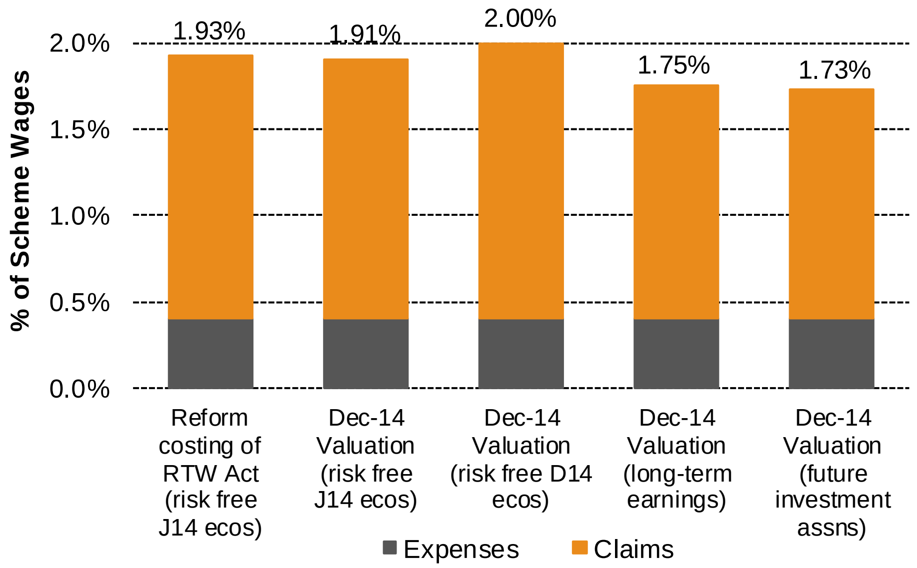
- Remuneration – ReturnToWorkSA provided estimated levyable remuneration in 2015/16 of $26.0 billion, up 3% relative to projected remuneration in 2014/15 as discussed above in Section 10.6.
- Claim costs – to project the cost of future accidents we make explicit projections of payments by entitlement type for accidents occurring over the next year (as per the valuation assumptions, with appropriate allowances for inflation and changes in workforce size). The undiscounted cashflows that underlie the claims cost projection are contained in Appendix K.3.
- Expenses – we have adopted a post-reform expense rate of 0.40% of remuneration based on preliminary information from ReturnToWorkSA about the indicative long-term expense rate that will apply under the RTW Act. We note that:
  - This is lower than the current expense rate of around 0.55% of remuneration, as Scheme expenses are assumed to reduce post-reform with the decrease in claim numbers and durations.
  - The long-term expense rate reflects the expected stable post-reform expense rate, *after* transition and other setup costs have been completed – some of these costs have already been recognised in the outstanding claims valuation's claims handling expense loading, although additional costs are still likely to be incurred in the next year or two. At a minimum, cash expenditure levels are likely to be materially higher than 0.40% as the Scheme implements the new legislation.

  Determining the level of expenses to assume in the 2015/16 BEP is an important consideration for the Board.
- Future investment returns – it is appropriate to allow for future investment returns (i.e. discounting) in calculating the required premium pool for the policy year. Historically a risk free rate has been used to discount the BEP, even though ReturnToWorkSA's average investment return has been consistently higher than this; this approach was adopted by ReturnToWorkSA given the previous significant unfunded liability on its balance sheet (i.e. there was no point assuming investment returns on assets that did not exist). Given the change in ReturnToWorkSA's financial position with commencement of the RTW Act it may be appropriate to re-consider this approach, and we have therefore provided the BEP on a number of investment return bases:
  - Assuming "risk free discount rates", as at both the previous (30 June 2014) and current (31 December 2014) valuations
  - Assuming investment returns which are intended to reflect ReturnToWorkSA's long term investment earnings performance – this suggests an investment return of around 2.5% above the risk free rate
  - Assuming investment returns are based on the assumptions provided to ReturnToWorkSA by its investment advisor.

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

The following graph shows the estimated 2015/16 BEP under each of the above scenarios, and also compares this to our costing of the RTW Act as part of the reform process.

Figure 12.1 – 2015/16 Break Even Premium Rate at Different Earnings Assumptions



The key features of Figure 12.1 are:

- Our reform costing work estimated the post-reform BEP would be 1.93% of wages; this was prior to the latest adverse movement in economic assumptions.
- On the same economic assumptions, the current estimate of the post-reform BEP is 1.91% of wages (i.e. this is before allowing for the impact of external economic changes since June 2014) – the lower cost is a result of the claim management improvements ReturnToWorkSA has achieved in the last six months, with some offset from higher Serious Injury claim costs now that additional information on these claims is available.
- Allowing for the latest economic assumptions increases the 2015/16 BEP to 2.0% of wages.
- If ReturnToWorkSA can earn an investment return that is consistent with its long term earnings rate and/or the expectations of its investment advisor then the BEP reduces to around 1.75% of wages(the fourth and fifth columns of the graph).

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

13 Uncertainty and Sensitivity Analysis

13.1 Risk and Uncertainty

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) and the breakeven premium for 2015/16 (BEP). 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 aid understanding we have illustrated some of the scenarios with approximate estimates of how changes in assumptions relating to the scenarios would influence the OSC and BEP.

We have described the uncertainty in four broad categories:

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

There is clearly overlap and interaction between the categories. ReturnToWorkSA has essentially no control over Economic, full control over Scheme management and strong influence (but not control) over Legal and Behavioural risks.

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

13.2 Economic scenarios

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

Table 13.1 – Economic Scenarios

	Stronger	Weaker
Unemployment	Down to 4%	Up to 9%
Wage inflation	5% pa	3% pa
Investment earnings	8% pa	2.5% pa
Real 'Gap'[1]	3%	-0.5%

[1] Difference between inflation and discount rate

In undertaking sensitivity analysis it is straightforward to model the inflation and investment earnings assumptions. In terms of unemployment there is no clear way to estimate the impact on the cost of claims and we refer to the RTW scenarios in the Behavioural section. Broadly the claims impact will be in the same direction as the other economic impacts, but the amount is probably less than the inflation and investment changes.

Table 13.2 – Economic Sensitivities

	OSC impact		BEP impact	
	$m	%	$m	%
31 Dec 14 OSC result (Including risk margin)	2,667		2.00%	
Strong Economic Scenario (3% gap between inflation and discount rate)	-453	-17%	-0.35%	-17%
Weak Economic Conditions (-0.5% gap)	+102	+4%	+0.04%	+2%
Economic assumptions return to pre-2008 levels over the next 5 years	-203	-8%	-0.10%	-5%

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

13.3 Legal risk scenarios

As discussed in section 3.2.4 we have observed recent increases in the number of disputes. The table below indicates the sensitivity of results to several legal issues. It is likely that if the legal environment is either better or worse than we have implicitly assumed, then several experience changes are likely to happen together.

Table 13.3 – Legal Sensitivities

	OSC impact		BEP impact	
	$m	%	$m	%
31 Dec 14 OSC result (Including risk margin)	2,667		2.00%	
Higher rate of overturn on rejection disputes (i.e. that most additional disputes are overturned)	+25	+1%	+0.08%	+4%
50% of the legacy WCA disputes are overturned, with benefits re-commencing.	+26	+1%	n/a	n/a
Dispute numbers continue at recent (high) levels	+33	+1%	+0.04%	+2%

Specific sensitivities on current legal issues are relatively minor. If several adverse outcomes occur together (legal culture) then the impact could be more than $100m. There is improvement potential of a similar amount if favourable resolution trends continue and the number of disputes drops as a result.

13.4 Behavioural scenarios

With the passage of the RTW Act we regard the scheme culture as being at a major inflexion point. It is possible that the early signs of experience changes might not be sustained if patterns of behaviour revert towards those of recent years. It is also possible that the scheme experience might outperform the current projections because of the extent of the change 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 OSC and BEP to:

- Claim numbers, Compensability and Claim acceptance
- Front-end RTW
- Pressure on WPI assessments (with the potential for extra Serious Injury claims, 'top up' lump sums or 'WPI creep')
- Long-term cost escalation and/or utilisation for medical and treatment related expenditure.

Table 13.4 – Behavioural Sensitivities

	OSC impact		BEP impact	
	$m	%	$m	%
31 Dec 14 OSC result (Including risk margin)	2,667		2.00%	
Compensability & Claim Acceptance				
Reduction in new IM claims (down 8%, e.g. if the recently higher number of rejection disputes does not lead to additional 'reopenings').	-25	-1%	-0.08%	-4%
Compensability changes reduce new claim numbers by an additional 10%.	n/a	n/a	-0.11%	-6%
Claim acceptance rules do not prove effective at preventing 'secondary' claims from re-starting benefits. Here we consider the impact if 1 in 5 claims reaching the two-year bounday re-commence.	n/a	n/a	+0.09%	+4%
RTW				
Improvement in front end RTW rates (i.e. 20% fewer claims remaining on benefits by 52 weeks)	-13	-0%	-0.06%	-3%
Deterioration in RTW performance (i.e. claim numbers return to levels seen 18 months ago)	+20	+1%	+0.04%	+2%
WPI Assessment				
WPI assessments increase by 2% as a result of the higher incentives under the RTW Act, resulting in more Serious Injury claims and higher lump sum payments.	+188	+7%	+0.18%	+9%
Restrictions on multiple assessments ('top ups') do not work as expected.	+193	+7%	+0.13%	+6%
Medical Utilisation				
Longer tail on medical aids and appliances costs than assumed, doubling the payments in the tail	+63	+2%	+0.02%	+1%

As expected, claim number and acceptance changes have only a small impact on OSC. For BEP, however, individual changes could be as much as +/- 10 basis points and combined changes could easily exceed 20 basis points or 10% of the premium.

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

The WPI scenarios tested are relatively extreme, but they highlight the growing importance of WPI as the Serious Injury gateway and the leveraged payment of future economic loss.

The medical utilisation scenario tested here relates only to Short Term Claims – the payments that continue after twelve months beyond IM. Serious injury is considered below.

Overall, the combined impact of the behavioural scenarios is one of the most significant uncertainties and they are strongly correlated with each other. It is not unusual for significant legislative reforms to end up at least 20% better or worse than costing estimates.

Serious Injury Scenarios

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

Table 13.5 – Serious Injury Sensitivities

	OSC impact		BEP impact	
	$m	%	$m	%
31 Dec 14 OSC result (Including risk margin)	2,667		2.00%	
Uncertainty around numbers, as such claims have not previously been identified. Here we consider the impact of an extra 15 (non-catastrophic) Serious Injury claims p.a.	+164	+6%	+0.12%	+6%
Uncertainty around numbers, due to potential redemption activity in the next 6 months may lead to fewer such claims. Here we consider the impact of around 15% of potential Other Serious Injury redeeming.	-104	-4%	n/a	n/a
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).	+391	+15%	+0.05%	+3%
Superimposed inflation is 2% p.a. higher than assumed, 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.	+176	+7%	+0.13%	+6%

Because of the very long tail of serious injury claims and the consequent leverage in financial results, the scenarios illustrate some very large changes in OSC. Changes in BEP are also material because Serious Injury is now a significant proportion of scheme cost.

13.5 Scheme Management Scenarios

The scenarios shown in the table below relate to specific management activities and to scheme expenses. Scheme management is important in more areas than this, but is better considered as part of the behavioural scenarios.

Table 13.6 – Scheme Management Sensitivities

	OSC impact		BEP impact	
	$m	%	$m	%
31 Dec 14 OSC result (Including risk margin)	2,667		2.00%	
WCA activity slows between now and 30 June, halving the number of new determinations	+27	+1%	n/a	n/a
Reductions in Physiotherapy and Rehabilitation spend are not maintained.	+11	+0%	+0.02%	+1%
Scheme expenses continue at historical levels for new premium periods.	n/a	n/a	+0.15%	+7%

The current initiatives tested (WCA activity and physio/rehab spend) are each relatively modest. The future level of scheme expenses is an important contributor to BEP as discussed in section 12.

13.6 Uncertainty

There are considerable uncertainties in the projected future claim costs. In particular, there are a number of factors that result in more than the usual level of uncertainty in our central estimates, 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** – there is a significant difference in the compensation available to claims that are above the 30% WPI threshold relative to those that are below under the RTW Act. This combined with the new lump for future economic loss payable to Short Term Claims means there may be increasing pressure on WPI assessments in future. The Scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold and/or 'WPI creep'. Robustness of the 'once and for all' WPI assessment rules under the RTW Act is also important and an area of risk.
- **Serious injury life expectancy and cost escalation** – with benefits payable for life, the future life expectancy for Serious Injury claims has a significant impact on future cost projections. In addition, the potential for future cost escalation in a number of medical, care and treatment related items, whether through higher levels of utilisation or higher average amounts pose a very real risk. 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 is an example. The increase in average costs for Care related specialists and facilities, due to the Fair Work wage decision and/or as the demand for these specialists outgrows supply, is another example.
- **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 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. Counter to this, it will be crucial to ensure existing claims cannot come back onto benefits (e.g. past Work Capacity discontinuances start new claims or 'restart the clock' following a short return to work).
- **Outcomes for claims with current disputes** – the valuation basis assumes a high level of success on currently disputed claims.
- **Management actions** – the extent to which WCAs and/or redemption activity will ultimately act, in combination with other types of exit, to reduce the number of claims that remain on long term benefits.

With the RTW Act provisions due to commence on 1 July 2015, the current valuation basis reflects our best estimate of how the post-reform experience may eventuate. Over time, our basis will develop based on the actual post-reform experience as it emerges and it is possible that the experience could differ, perhaps materially so, from our current expectations

14 Reliances and Limitations

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

14.1 Reliance on Data and Other Information

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

14.2 Uncertainty

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

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

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

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the RTW Act. The RTW Act makes very significant changes to the Scheme and its key features do not come into effect until 1 July 2015.

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

14.3 Latent Claims

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

14.4 Reinsurance

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

14.5 Limitations on Use

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

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

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

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

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

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

15 RTW Act and Scheme History

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

15.1 Return to Work Act 2014

The RTW Act was passed in late 2014 and the key provisions will take effect from 1 July 2015. The RTW Act constitutes the biggest change to the Scheme in its 25+ year history, fundamentally altering its financial dynamics. This section summarises the RTW Act provisions.

15.1.1 Claims Occurring from 1 July 2015

The main features of the reforms are:

- 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 will also be allowed 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.

There are numerous other changes which are part of the package of reforms, although they tend to be of lower direct financial significance. Table 15.1 below outlines the reforms which apply to all new claims from 1 July 2015 (i.e. those with an injury date after commencement of the new scheme).

Table 15.1 – Summary of RTW Act Reforms

Category	Change(s)
Compensability	• Stronger definition with only claims where employment is "a significant contributing cause" covered; for psychiatric injuries employment must be "the significant contribution cause" • Separation between secondary and primary injuries is removed
Provisional Liability	• Replace the current 'provisional liability' sections with the pre-2008 'interim payments' arrangements (i.e. revert back to 'prior to 2008 legislative change')
WPI Assessments	• Only one WPI assessment (no reassessments or top-up lump sums)
Seriously Injured workers	• Seriously Injured Workers are those with Whole Person Impairment (WPI) of 30% or more • Income maintenance payable at 100% of Notional Weekly Earnings (NWE) for 52 weeks post first-incapacity and 80% thereafter to retirement, reduced with any actual return to work • Lifetime care, support and medical services • No RTW obligations • Can access common law or redemption of benefits, but not both • May be managed by other agencies in SA according to lifetime care rules under NDIS or NIIS

Income Maintenance (non-serious injuries)	• Benefits capped to 2 years from first-incapacity for non-serious injuries • Payment percentages at 100% of NWE for 52 weeks, 80% thereafter, capped at two times state average weekly earnings and with benefits for working directors capped at declared remuneration • Benefits no longer indexed • Employer reimbursement requests must be made within 3 months • Supplementary income support for up to 13 weeks available to those undergoing pre-approved surgeries can occur outside of the duration cap • IM payments cannot fall below the relevant Federal Minimum Wage
Medical and Related services	• Paid for a maximum of 12 months after injury or IM payments have ceased • Cover for "necessary costs" only • Costs for surgeries and aids and appliances continue outside of the duration caps
Lump sums	• Modified permanent impairment benefit scale, with the maximum lump sum payable for WPI of 50% or more • New economic loss lump sum payable to those with WPI of 5% to 29% (excluding psychiatric injuries and noise induced hearing loss)
Redemptions	• Current limitations on redemptions will be removed
Common law (only available to new injuries)	• 30% WPI threshold on access to common law • No common law access for working directors • Damages for economic loss only • Workers with a primary psychological claim can access common law only if the psychological injury arises primarily from the tortious actions of the employer
Death Benefits	• Remove the concept of dependency when determining whether to make a lump sum payment to the worker's partner or children • IM support payable to the retirement age of dependents (as per serious injury support)
Early intervention	• RTW plans to be developed if IM is being paid and the worker is likely to be incapacitated for more than 4 weeks • New or other employers must be considered at 6 months if the worker has not returned to work
RTW obligations	• Employer must provide suitable work • Cannot terminate worker within 6 months of the date of first incapacity • Worker can apply to SAET for reinstatement if the employer fails to provide employment if within 2 years of first incapacity • Replace penal provisions for employers who do not provide suitable work
RTW services	• Reframe existing rehabilitation and RTW plans
Retirement age	• Align the retirement age to the Federal Aged Pension Age, increasing from 65 years currently to 67 years by 1 July 2023
Dispute Resolution	• WCT replaced with SAET • Some decisions are not reviewable under the new Act • Only points of law can proceed past SAET, with legal costs 'at risk'

	• IM payments continue for disputes regarding cessation or reduction in benefits • Medical panels replaced with IMAs who provide advice to SAET on medical matters
Recoveries	• Simplified process
Premiums	• All claims (except unrepresentative injuries) included in the premium calculations
Industry rate cap	• Removed from the Act

In addition, we note the ReturnToWorkSA premium rate charged from 1 July 2015 will no longer include a contribution to the funding of SafeworkSA (approximately 0.03% of wages was previously included in premiums to cover this cost).

15.1.2 Transitional Arrangements for Existing Claims

For existing claims, i.e. those with an injury date before 1 July 2015:

- Claims with an assessed or deemed WPI of 30% or more will be considered Serious Injuries and have access to long term benefits.
- Claims can only have one permanent impairment assessment. Those with a past WPI assessment cannot have another assessment in the new scheme, and a prior lump sum payment under the Table of Maims will count as a prior permanent impairment assessment. Impairment lump sums amounts are based on the Schedule relevant at date of injury.
- There is no entitlement to the future economic loss lump sum.
- There is no access to common law.
- New disputes from commencement date will be under SAET, while existing disputes will continue under the Tribunal.
- Other changes to entitlements involving a time period capping will start at commencement of the reforms e.g. 2 years of IM benefits will begin from 1 July 2015.
- The following replacement ratios for income maintenance will apply:

Table 15.2 – Income Maintenance Replacement Ratio* (for existing claims)

As at 30 June 2015	1 July 2015 to 30 June 2016	1 July 2016 to 30 June 2017
100%	100%	80%
90%	90%	80%
80%	80%	80%

* Expressed as a % of NWE, capped at two times the SA AWE.

15.2 Earlier Scheme History

1987-88

- WorkCover Claims and Levy Agency (a subsidiary of the State Government Insurance Commission) established in April 1987 to act as agent for the collection of levies and the 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) from 3 December 1992.
- Stress claims restrictions (refer to section 30a), effective 3 December 1992.
- New provisions for loss of earning capacity (LOEC) where the worker was incapacitated for more than two years, with WorkCoverSA 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. Self-insured employers given same authority.

1994-95

- WorkCoverSA resumed responsibility for the administration of the Occupational Health Safety and Welfare Act 1986, effective 1 July 1994. WorkCoverSA merged with Occupational Health and Safety Commission, effective 1 July 1994.
- Legislative changes:
  - Exclusion of most journey/recess claims by legislation, 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 to the worker, by agreement. Completely 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, regardless of the worker's gender. It also permitted up to six months' weekly payments for some workers injured within six months of retirement age.

1998-99

Contract 1998 – claims agent numbers reduced to five.

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 are passed by the South Australian Parliament on 17 June 2008, the most significant changes to the Scheme for many years. 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 IM claims; a Work Capacity Assessment to determine entitlement to ongoing IM 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.