Scheme Actuarial Valuation as at 30 June 2015

ReturnToWorkSA

August 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.

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27 August 2015

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

Dear Ms Yuile

Scheme Actuarial Valuation as at 30 June 2015

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

Claims experience has continued to be positive in the last six months, leading to further favourable financial results for the scheme.

We note that our valuation makes allowance for recent Regulation changes that act to reverse a component of the RTW Act reforms in relation to existing claims. These changes increase the scheme's future liabilities.

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

Yours sincerely

Geoff Atkins | Gae Robinson | A McInerney Andrew McInerney

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Scheme Actuarial Valuation as at 30 June 2015

Glossary

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

Part I Executive Summary

1 Introduction

Finity Consulting Pty Limited ("Finity") has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme ("RTW Scheme") as at 30 June 2015.

Our previous actuarial review was as at 31 December 2014, and was documented in a report dated 3 March 2015.

2 Scope of the Review

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

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

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

3 Valuation Approach

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

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

We have also provided information to allow ReturnToWorkSA to adopt a provision for outstanding claims in its accounts which increases the probability of sufficiency above the central estimate level. As requested, we have provided this information at both a 65% and 75% probability of sufficiency for the Board's consideration (noting that the previous provision was set at a 65% probability of sufficiency); other probabilities of sufficiency can be provided if required.

4 Scheme Environment

Regulations were published in June 2015 that impact on the operation of the RTW Act, essentially reversing some of the changes that were recognised in the December 2014 valuation, by allowing claims with dates of injury prior to 1 July 2015 to access:

- Additional permanent impairment assessments, if certain (limited) circumstances are met – this will lead to:
  - increased payments of lump sum benefits, as the additional permanent impairment assessments will lead to extra lump sum payments
  - increased serious injury support payments (income, treatment, etc), as more claimants than originally estimated are expected to reach 30% WPI as a result of the further assessments.
- Future surgeries, even if the surgery falls outside the standard time based boundaries on medical expenses in the RTW Act – this will lead to increased surgery and related medical and hospital costs, along with additional income support payments, following surgical procedures.

These changes mean additional costs will be payable on existing claims beyond what was allowed for in the previous valuation, and these impacts are summarised below as 'Regulation change impacts'.

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

- **Early intervention and RTW focus**: changes continue to be made, and expanded, to focus on initial claims acceptance and improving early claim management. These strategies have led to significant reductions in income support claim numbers.
- **High dispute numbers**: dispute numbers still remain at around twice longer term historical levels, even though they have reduced off their peak in the last six months. A noticeable change in recent months is an increasing number of 'lump sum' disputes, which is an important area under the RTW Act given the importance of WPI assessments in many areas of the scheme.
- **Transition related activities**: a number of specific strategies are being undertaken 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.
- **Payment processing delays**: there have been increased delays in provider invoice processing in the last six months, which makes the observed payment experience appear more favourable than the true underlying experience.
- **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.
- **Strong Work Capacity Assessment Use**: 'on time' WCA performance continued to operate at unprecedented levels, with almost every claim having a WCA as they reached 130 weeks in the last six months.

5 Recent Claim Experience

The key features of the claims experience in the six months to 30 June 2015 were:

- New Income Support 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 IS claim in the valuation, RTW improvements in the first 10 days will reduce the number of IS claims).

- Considerable numbers of longer duration IS claims were exited from the scheme (including some with agreements in place but where payments are still pending) as part of ReturnToWorkSA's transition related strategies.
- Considerable numbers of claims continue to have open disputes.
- Total net claim payments in the six months were $34 million (12%) lower than the previous valuation projections, primarily as a result of lower than expected income support payments.

6 Liability Valuation Results

Summary of Results

Our central estimate of the Scheme's outstanding claims liability for registered employers as at 30 June 2015 is $2,239 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses.

We have been asked to provide recommended provisions at two probabilities of sufficiency, those being:

- A 65% probability of sufficiency, consistent with ReturnToWorkSA's previous reserving policy, which would require a margin of 6.5% to give an outstanding claims provision of $2,384 million.
- A 75% probability of sufficiency, which would require a margin of 11.5% to give an outstanding claims provision of $2,496 million.

Table 1 summarises our valuation results by component for the two stated probabilities of sufficiency. 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.

Table 1 – Recommended Balance Sheet Provision at Different Probabilities of Sufficiency

		65% Prob of Sufficiency		75% Prob of Sufficiency	
	Central Estimate	Risk Margin	Recommended Provision	Risk Margin	Recommended Provision
	$m	$m	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,215				
Gross Claims Cost - Short Term Claims	792				
Claims Handling Expenses	295				
Gross Outstanding Claims Liability	2,302	150	2,451	265	2,566
Recoveries	-63	-4	-67	-7	-70
Net Outstanding Claims Liability	2,239	146	2,384	257	2,496

The provision includes an allowance for future claims handling expenses equivalent to 15% of gross claim costs, which is a higher proportionate loading than normal in recognition of the transition related costs which ReturnToWorkSA faces in running off existing claims.

Risk margins have been updated to incorporate recent scheme changes, including the impact of the June 2015 Regulation changes, and have been increased since the previous valuation (from 6.0% of the central estimate to 6.5% for a 65% probability of sufficiency, and from 10.5% to 11.5% for a 75% probability of sufficiency).

Movement in Liability

Our central estimate is $154 million lower than projected at the previous valuation. We have attributed the change in central estimate into three components to show:

- Movement in liability due to claims performance – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions.
- Movement in liability due to Regulation changes – this contains the additional costs that we estimate will result following the Regulation changes in June 2015; this is essentially an external impact that offsets some of the reform savings recognised in December 2014.
- Impact of changes in economic assumptions – the component which is mandated by accounting standards (and therefore outside ReturnToWorkSA's control).

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

Table 2 – June 2015 Central Estimate and Determination of Actuarial Release

	Central Estimate		
	Projected Jun-15 Liability[1]	AvE Payments in 6 mths to Jun 15	Actuarial Release [2]
	$m	$m	$m
Liability at Dec-14 Valuation	2,516		
Projected Liability at Jun-15 (from Dec-14 valuation)	2,392		
Movement in liability due to claims performance	-166	-34	200
Movement in liability due to Regulation changes	72		
Impact of Change in economic assumptions	-59		
Recommended Liability at Jun-15	2,239		

[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 $200 million for the period, which is a favourable result for the Scheme. Regulation changes increase the liabilities by $72 million, before changes to economic assumptions decrease the central estimate liability by $59 million. Each of these items is discussed briefly below.

Components of the Actuarial Release

Table 3 shows the actuarial release by entitlement group.

Table 3 – Actuarial Release by Entitlement Group

Entitlement Group	Actuarial Release [3]	Release as %
	$m	%
Income & Related	64	11%
Lump Sums	-7	-4%
Legals	34	23%
Treatment Related [1]	57	5%
Rehabilitation	30	34%
Other Costs [2]	2	11%
Recoveries	-2	-2%
Total Claim Costs	179	9%
Expenses	22	7%
Net Central Estimate	200	8%

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

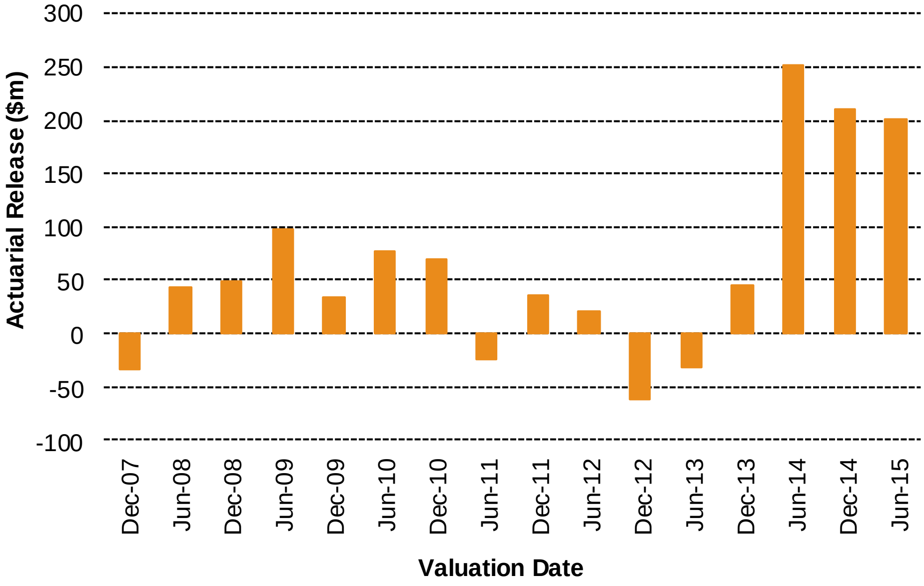
The major contributors to the $200 million actuarial release are:

- Income Support (and related) liabilities release $64 million following reductions in claim numbers across most cohorts, reflecting improved front end claim management, on time WCA use and transition related settlement activities on legacy disputes. There were also material reductions in the number of ongoing Serious Injury claims.
- Legal costs decreased by $34 million, following a reassessment of the expected cost of running disputes in SAET as details of its operating model became known (very little was known about SAET at the time of the previous review).
- Treatment liabilities have reduced by $57 million, due to a combination of flow on reductions from lower IS claim numbers, particularly from those in the Serious Injury cohort, and targeted ReturnToWorkSA activity in areas such as physiotherapy.
- Rehabilitation has reduced by $30 million following targeted activity by ReturnToWorkSA in the last 2-3 years.

The actuarial release resulted from both Serious Injury claims ($70 million release) and Short Term Claims ($130 million release).

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

Figure 1 – Actuarial Release at Previous Valuations



Impact of Regulation Changes

Table 4 shows the impact of the Regulation changes on the June 2015 outstanding claims liability, which increased our estimates by $72 million.

Table 4 – Impact of Regulation Changes at June 2015

		$m
Additional lump sum assessments		
- extra lump sum cost	11.0	
- extra Serious Injury claims cost	35.4	
		46
Surgery payments on existing claims		
- extra hospital cost	5.1	
- extra flow on medical costs	4.4	
- additional IS with surgery	16.1	
		26
Total impact of Regulation changes		72

We emphasise that there is considerable uncertainty in the impacts of these Regulations, particularly for the change to allow additional lump sum assessments. This is discussed further in our uncertainties and sensitivities analysis in Section 12.

Impacts of Economic Assumption Changes

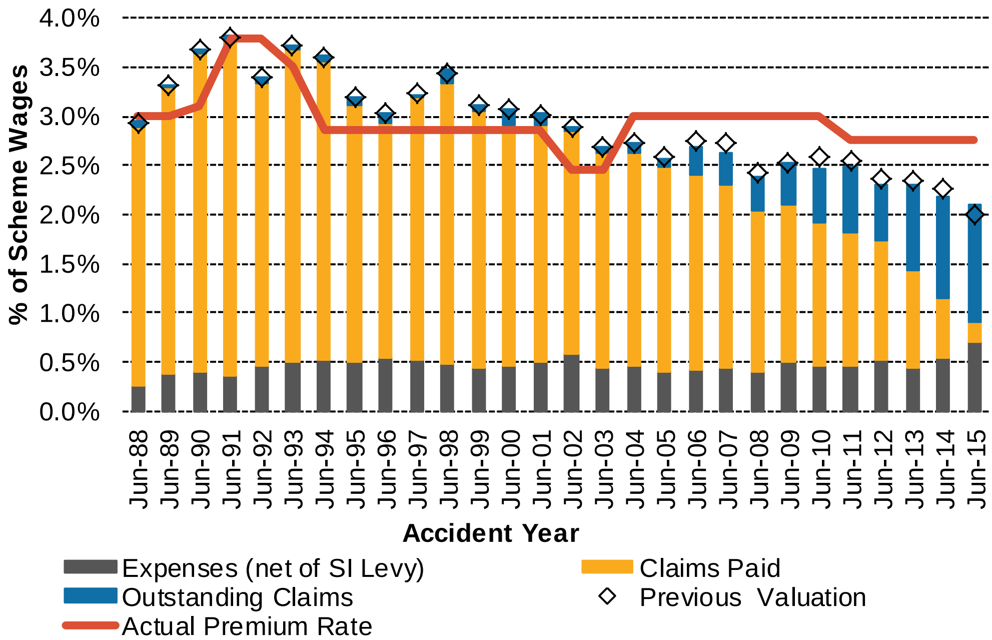
Changes to inflation and discount rate assumptions reduce the central estimate by $59 million. As discussed in Section 10.1 there have been increases in discount rates for most durations, an event which is outside ReturnToWorkSA's control, which has led to this decrease in the OSC liability.

7 Historical Scheme Costs

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

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

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



The main points to note are:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages, with the most recent accident years reducing below 2.5%.
- In the last six months there have been reductions of around 0.1% for injury years between 2006 and 2014, reflecting the improved scheme performance described above.
- The current estimate of the BEP for the 2015 accident year is 2.10%. This estimate has increased from 2.00% since the December 2014 valuation, due to an offsetting combination of:
  - An increase in scheme expenses of 0.18%, reflecting planned transition costs in the current year.
  - Claim improvements, net of an offsetting impact for Regulation changes, reducing the BEP by 0.04% of wages.
  - Economic assumption changes reducing the BEP by 0.03% of wages.

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.

8 Uncertainty

There are considerable uncertainties in the projected future claim costs. In particular, the uncertainty surrounding the impacts of the RTW Act mean there is a higher than usual level of uncertainty in our central estimates. Section 12 details some of the uncertainties and sensitivities of our advice, in order to place our estimates in their appropriate context.

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

- **WPI assessments** – the Serious Injury ‘gateway’ to lifetime benefits and the new lump sum 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.

  Indeed there has already been some relaxing of these once and for all rules via Regulation since our previous valuation, to allow the reintroduction of additional lump sums under some circumstances for existing claims; if the restrictions on how and when these additional assessments can be undertaken do not operate as intended then the cost implications will be significant.

- **Future cost escalation** – future cost growth in a number of medical, treatment and personal care 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), or 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 ‘restarting 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 commencing on 1 July 2015, the current valuation basis reflects our best estimate of how the post-reform experience will 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

9 Reliances and Limitations

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

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

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

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

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

Part II Detailed Findings

1 Introduction and Scope

1.1 Introduction

Finity Consulting Pty Limited ("Finity") has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 30 June 2015.

We have carried out half-yearly actuarial reviews since June 2003; the most recent was as at 31 December 2014 as documented in a report dated 3 March 2015.

1.2 Scope of the Review

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

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

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

1.3 ReturnToWorkSA and Predecessor

In February 2015, Return To Work Corporation of South Australia replaced the WorkCover Corporation of South Australia (also known as "WorkCoverSA") 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.

1.5 Control Processes and Review

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

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

1.6 Structure of this Report

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

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

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

2 Approach and Information

2.1 Approach

2.1.1 Allowance for the Return to Work Act 2014

The Return to Work Act 2014 (“RTW Act”) made very significant changes to entitlements and to the Scheme operations, with all of the new features to commence on or before 1 July 2015; see Section 14.1 for details. Our estimate of the outstanding claims liabilities allow fully for the expected impacts of the RTW Act.

2.1.2 Modelling of Different Claim Cohorts

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

Table 2.1 – Report Structure by Claim Cohort

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

To summarise:

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

2.1.3 Basis of the Valuation

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

We have also provided information on the recommended provision for outstanding claims which increases the central estimate to specified probabilities of sufficiency.

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete Scheme history to 30 June 2015. We have not independently verified or audited the data but we have reviewed it for general reasonableness and consistency, including reconciliations to the previous actuarial review information and to information from ReturnToWorkSA's financial statements. The claims data appears to be of high quality and contains extensive detail.

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

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

2.2.2 Qualitative and Additional Information

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

- Briefing sessions on 29-30 June 2015
- Information on disputes and dispute outcomes
- Information on recent and agreed but yet to be paid redemptions and dispute settlements
- Other operational information.

For the IS valuation we have relied on information from a broad range of sources to build up the claims profile, and not all of these sources are on CURAM nor is the information 'linked' internally. As such, there is greater than usual uncertainty in understanding the in force claims cohort for this valuation.

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 Regulation Changes Impacting the Operation of the RTW Act

Subsequent to the passing of the RTW Act, a number of Regulations were published in June 2015 which impact on the operation of the RTW Act. The Regulation changes relate to claims with dates of injury prior to 1 July 2015 and allow:

- Claims who have already received a non-economic loss lump sum payment to apply for additional permanent impairment assessments if certain (limited) circumstances are met. Our summary of the circumstances that need to be met for additional compensation to be available are:
  - that the compensable injury incorporated multiple body parts, and that not all of these body parts had been compensated by 30 June 2015, and
  - the evidence to support the injuries to the multiple body parts (that is, that the injuries were known and accepted as part of the claim) was available at 30 June 2015. The implication of this requirement is that injuries, body parts or other changes (such as aggravations, deteriorations, sequelae, etc) are not to be considered as part of the assessment if they are not known until 1 July 2015 or later.
  - Approval to seek additional lump sum compensation must be sought before 1 July 2016, even if the assessment itself cannot be undertaken until a later date.
- Claims with non-Serious Injuries to apply for future surgeries and up to 13 weeks of weekly benefits, even if the surgery falls outside the standard time based boundaries on medical expenses in the RTW Act.

These changes mean additional costs will be payable on existing claims beyond what was allowed for in the previous valuation. Therefore, all else equal, the scheme's outstanding claims liability will increase as a result of these Regulations.

The main areas where costs will increase above the previous cost estimates are:

- additional payments of lump sum benefits, as the additional permanent impairment assessments will lead to extra lump sum payments
- additional serious injury support payments (income, treatment, etc), as more claimants than originally estimated are expected to reach 30% WPI as a result of the further assessments
- increased surgery and related medical and hospital costs, along with additional income support payments, following surgical procedures.

Each of these impacts is discussed in more detail in the relevant sections of the report.

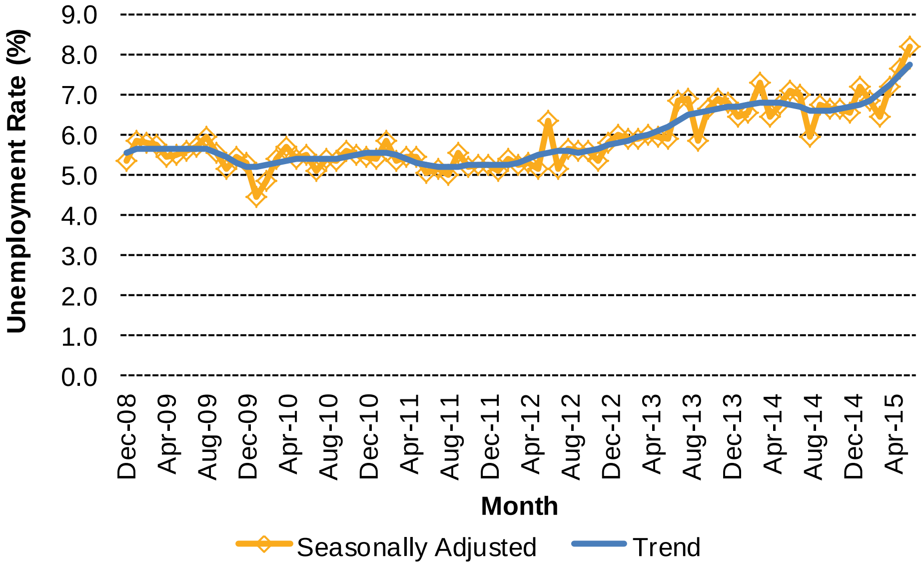
3.2 Operational and Environmental Changes

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

3.2.1 South Australian Economic Conditions

Unemployment rates in South Australia have been reasonably high for about two years now, increasing from near 5% in 2012 to around 8% 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 Front End Claims

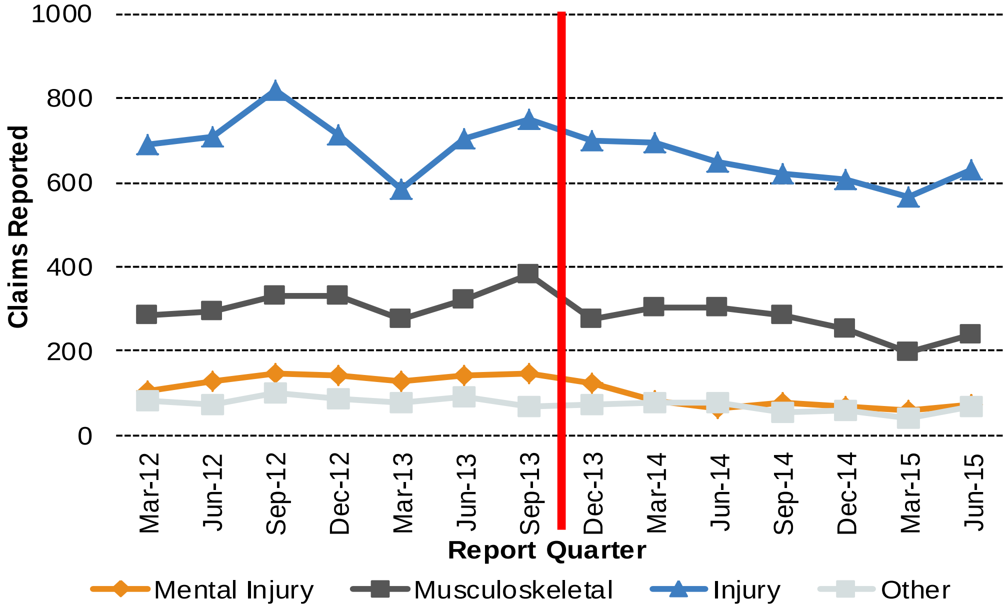
Since the second half of 2013, ReturnToWorkSA have commenced a number of initiatives aimed at improving initial claim acceptance and return to work activities. These initiatives were initially developed in response to increases in the number of mental injury claims, but have since expanded to other claim types as well. The actions focus largely on early intervention and the prompt addressing of claim acceptance issues, as well as the use of 'mobile case managers' who visit the workplace soon after a claim is reported and deal proactively with any issues that impact on RTW (e.g. identifying suitable duties).

The effect of the changes 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 we have seen two main impacts:

1. The number of claims rejected has increased significantly relative to longer term levels.
2. The number of claims that reach 10 days of lost time – which is the threshold to count as an 'income support claim' in the valuation – has reduced dramatically.

The overall impact has been a notable reduction in IS claim numbers; see Figure 3.2, which shows IS claim reports by quarter of report and by injury type.

Figure 3.2 – New Income Support Claim Reports by Type of Injury

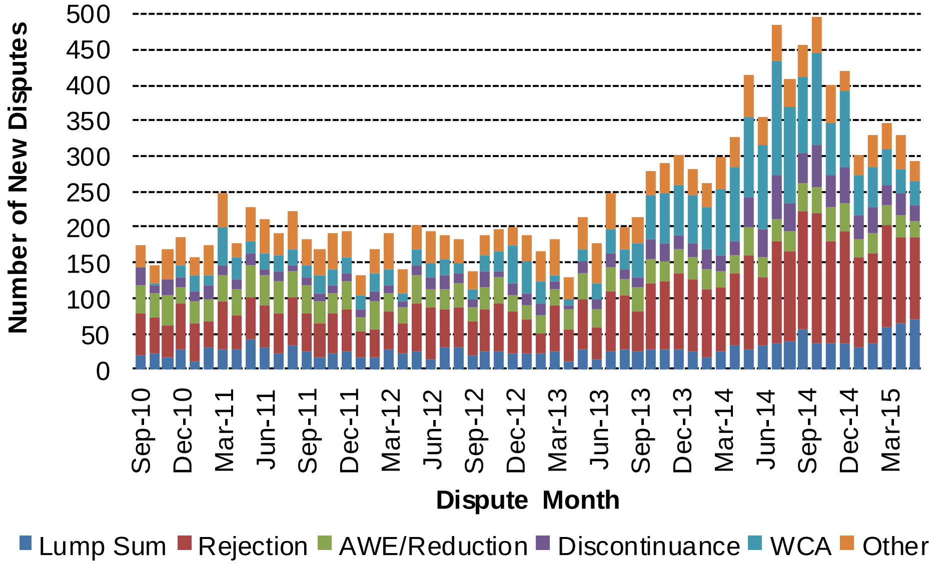


IS claim reports have trended down since late 2013 for all injury types, although there has been a slight increase in the latest quarter. The proportionate reduction is highest for mental injury claims (about a 50% drop).

3.2.3 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 and still over 300 per month now, 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 – that is a deliberate strategy to complete work capacity assessments on time and greater focus on the claim eligibility gateway for mental injury claims – as opposed to an increase in the dispute rate per decision.

There has also been a recent increase in the numbers of lump sum disputes, following the announcement of the RTW Act changes in late 2014 which place increasing importance on WPI assessments.

Recent settlement activity to target the increased number of disputes is discussed further in Section 3.2.5 below.

3.2.4 Improved Provider Management

ReturnToWorkSA have implemented a number of initiatives with the aim of improving outcomes from services provided by third parties and/or reducing over-servicing from such providers, including:

- A new outcome fee model for same employer RTW services, which commenced in the second half of 2013.
- Commencement of the mobile case manager initiative, as described above.
- 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 and psychologist 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’.

3.2.5 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 3.2.3, there have been a higher than normal 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 IS backpays, IS redemptions, retraining allowances and medical redemptions, in the last 6 to 12 months, with a number of in principle agreements also in place at 30 June 2015 although yet to be paid.

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 IS Entitlements

In late 2014 ReturnToWorkSA identified a group of almost 1,000 long duration claimants who were largely expected to continue to be entitled to IS payments until the cut-off date of 30 June 2017; these claimants are all over 130 entitlement weeks and with a completed WCA decision of 'payments to continue'.

ReturnToWorkSA has offered each of these claimants the opportunity to redeem future IS payments, with the redemption amount in each case calculated as the IS 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.

It was originally expected that all such redemptions would be completed prior to 30 June 2015, although there are still some claims where formal documentation is being completed and where payments will be made in coming months.

3.2.6 Payment Slowdown

In the last six months we have observed that durations between service provision and payment are increasing. We understand there are a number of reasons that have contributed to these delays, including the introduction of a new electronic document management system and additional staff training requirements in the lead up to commencement on the RTW Act provisions on 1 July.

An increasing processing delay results in an observed 'reduction' in payment levels, which means care needs to be taken when interpreting the claims experience. Table 3.1 below shows the increase in payment durations for the main treatment benefit groups.

Table 3.1 – Payment Duration Increases

Payment Type	Additional Delay (days)
Medical	+27
Other	+9
Hospital	+9
Rehabilitation	+10
Physical Therapy	+12
Travel	+26

Our key observations from the table above are as follows:

- Medical and Travel payment durations have increased by around one month over the last half-year. All else equal this would equate to payments in the six months reducing by around 15% below expected levels.
- Hospital, Rehabilitation, Physical Therapy and Other payments have slowed down by about a third of a month over the previous half-year. The impact on payment levels is likely to be smaller for these treatment costs, at around 5% of the expected levels.

4 Recent Claims Experience

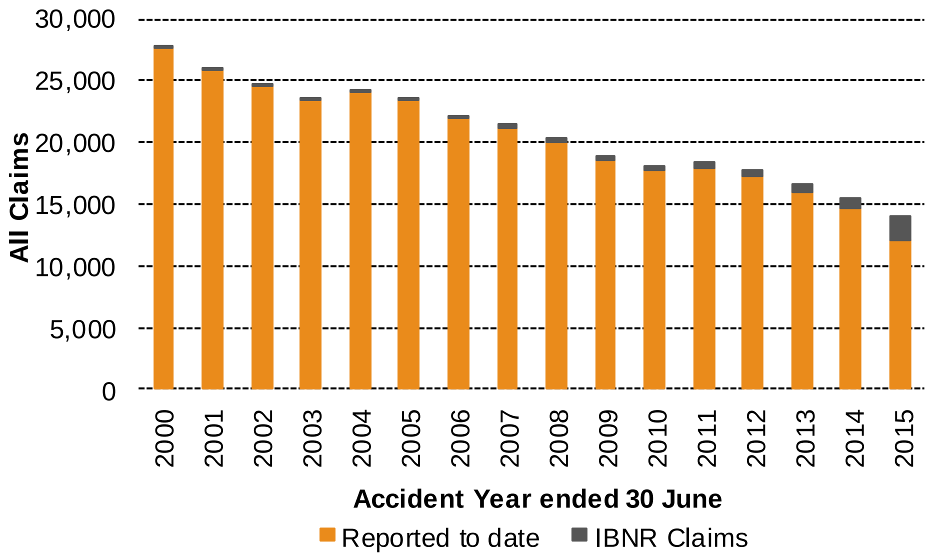
This section provides a high level analysis of Scheme experience, including the numbers of new claims and overall payment trends.

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 13,985 claims for the 2014/15 accident year is 10% 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 Support Claims

Income Support (IS) claims are those who receive more than 10 days of lost time benefits. In addition to the early RTW focus which aims to stop claims getting to 10 days of lost time, the current operational policy which focuses on tighter claim acceptance, which began in late 2013, has also reduced the number of IS claims for the 2013/14 and 2014/15 accident years.

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

Figure 4.2 – Ultimate IS Claim Numbers

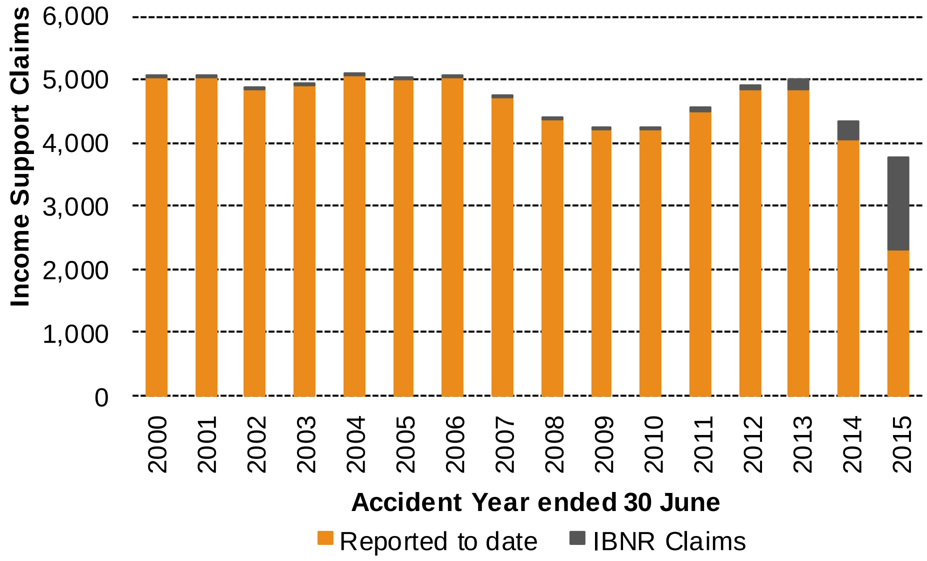


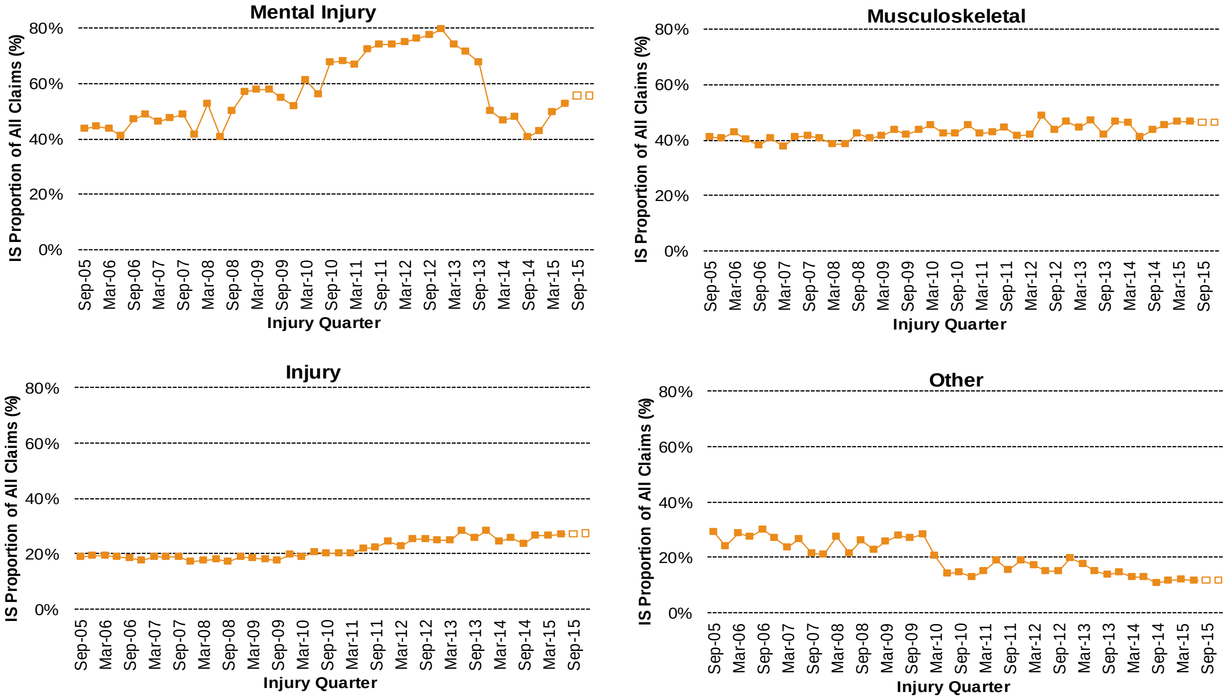
Figure 4.2 shows:

- Prior to 2007 IS claim numbers were reasonably stable, with around 5,000 claims per annum
- IS claim numbers dropped by 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 IS claim numbers are expected to reduce materially in 2013/14 (a 13% reduction) and again in 2014/15 (a 14% reduction). Our projection of 3,756 IS claims for the 2015 year is the lowest since the scheme commenced, and is 7% 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 IS 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 IS claim). The biggest change is the reduction in mental injury claims, which has dropped by 25-50%, with smaller reductions for 'Other' claims while musculoskeletal and injury claims have been relatively stable since 2013. This has important implications for long term IS claim costs as mental injury and other injury types tend to have longer average durations than the 'typical' IS claim; which implies that IS claim costs should reduce by at least as much as the reduction in numbers.

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

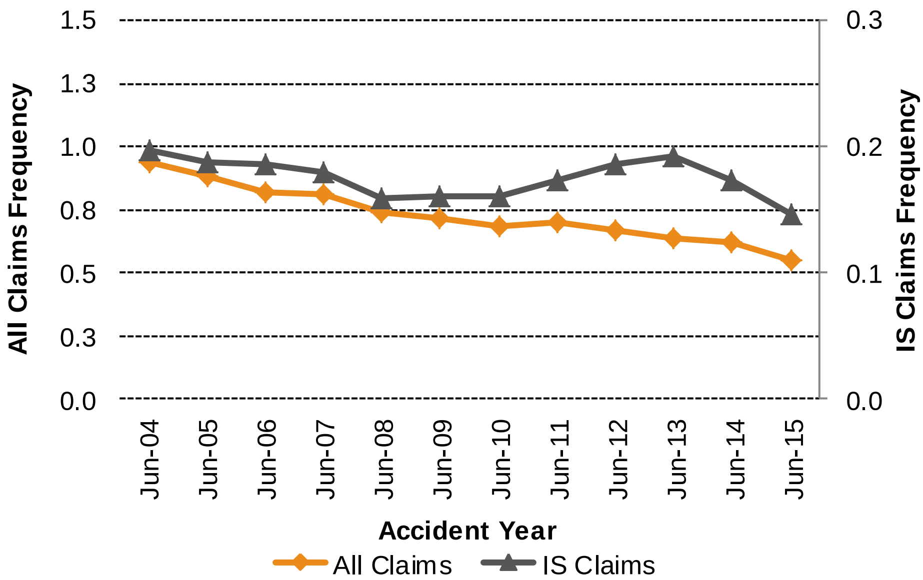


We also observe that the increase in the proportion of mental injury claims receiving IS in the last 6-12 months is not due to an increase in the number of IS claims, but rather a dramatic reduction (30%) in the reported number of mental injury claims in the last year. The absolute number of mental injury IS claims is the lowest it has been in almost 15 years.

4.1.3 Claims Frequency – All Claims and IS Claims

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

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

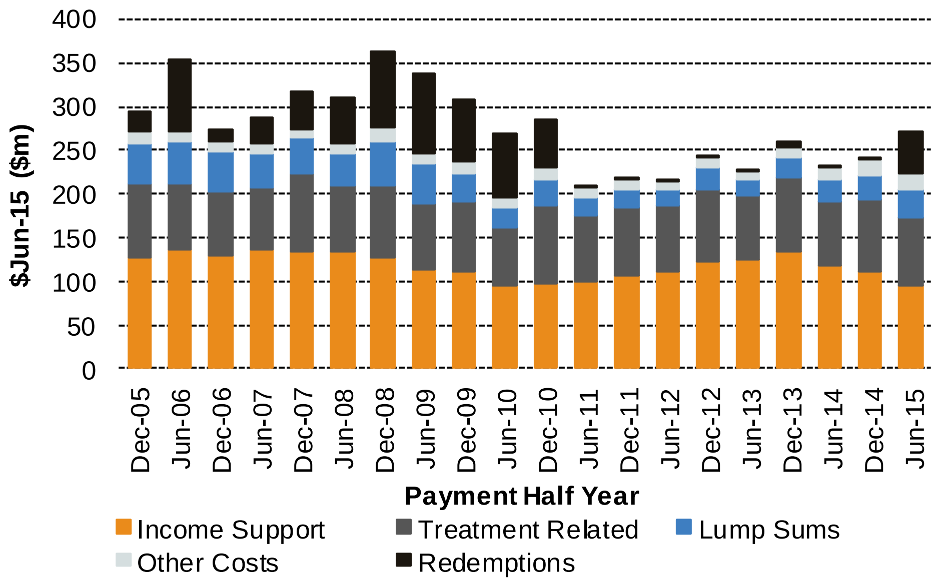


The IS claim frequency was on a similar trend to the all claims frequency until 2008, before diverging between 2008 and 2013. Following the improvement in IS claim numbers in the last two years the estimated frequencies for accidents in 2013/14 and 2014/15 are again moving in line for IS claims and all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

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 ($Jun15)



Gross payments of $269 million were 12% 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:

- There has been strong redemption activity over the last 6 months mostly associated with STCs. This is essentially a bringing forward of IS payments that would have occurred in the future and so does not indicate a deterioration of experience
- IS payments have steadily reduced since 2013 reflecting the success of the Tail Project, increases in on-time WCA, reductions in new IS claim numbers and, over the last 6 months, the commutation of IS payments via redemptions
- 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 2009, after the transition to the new assessment basis, although the last six months' payments were the highest since this change took place.

After allowing for recoveries of $11 million in the last six months, net claim payments of $259 million were $34 million (12%) 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 Jun-15				Split by Category	
Group	Actual	Expected	Act - Exp	Act/Exp	Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	94.4	124.9	-30.5	76%	-29.1	-1.4
Redemptions	47.7	43.2	4.5	111%	2.1	2.4
Lump sums	32.6	30.0	2.6	109%	7.3	-4.7
Worker legal	7.3	8.8	-1.6	82%	-1.7	0.1
Corporation legal	8.5	10.0	-1.5	85%	-1.4	-0.1
Medical	34.6	38.0	-3.4	91%	-2.0	-1.4
Hospital	6.4	6.8	-0.4	94%	-0.3	-0.1
Travel	3.4	3.7	-0.4	90%	-0.6	0.2
Rehabilitation	6.8	9.1	-2.3	75%	-1.9	-0.4
Physical therapy	4.7	6.4	-1.7	74%	-1.4	-0.2
Investigation	1.6	2.4	-0.8	67%	-0.7	0.0
Other	20.9	18.4	2.5	113%	3.0	-0.5
Common law	0.0	0.1	-0.1	0%	-0.1	0.0
LOEC	0.2	0.0	0.2	n/a	0.1	0.1
Commutation	0.2	0.5	-0.2	49%	-0.2	0.0
Gross Payments	269.3	302.5	-33.2	89%	-27.0	-6.2
Recoveries	-10.7	-9.8	-0.9	109%	-1.3	0.4
Net Payments	258.6	292.7	-34.1	88%	-28.4	-5.7

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

- The largest difference related to IS payments which were $31 million (24%) lower than expected, reflecting the increase in on-time WCA since late 2013, lower new IS claims and the Tail Project, but also some disputes being settled via redemption rather than income support payments
- Redemptions, Other and Lump Sum costs were collectively $9.6 million higher than expected, mostly driven by high levels of settlement activity over the last six months
- Treatment costs were $8 million (13%) lower than expected. These reductions are partly explained by recent management activity which has aimed to reduce over-servicing in some areas, but also partly by a slowdown in payment processing the lead up to June following the introduction of a new document management system
- Recoveries were $1 million (9%) higher than expected
- Payments on STCs can largely be explained by the commentary above. For SICs, most of the lower than expected payments related to timing differences with larger more one off costs such as lump sums, modifications and prosthesis taking longer than previously expected.

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

5 Income Support Entitlements – Short Term Claims

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

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments (including redemption of IS payments) since the December 2014 valuation.

Table 5.1 – Valuation Results: IS and Redemption

Dec-14 Valuation	$m	$m	$m
Estimated Liab at Dec-14	434.6		
Projected Liab at Jun-15	332.6		
Jun-15 Valuation		AvE pmts	Actl Release
Impact of experience/OSC - valuation release	(12.8)	(26.0)	38.8
Impact of Regulation change	16.1		
Estimated Liab at Jun-15 (Dec-14 eco assumptions)	**335.9**		
Impact of change in eco assumptions	(10.9)		
Estimated Liab at Jun-15 (Jun-15 eco assumptions)	**325.0**		

The main movements from our December 2014 projection of the June 2015 liability are:

1. An actuarial release of $38.8 million, reflecting the claims experience since December 2014 and our valuation response
2. An increase in the outstanding claims of $16.1 million as a result of recent Regulation changes – with IS payments after surgery now available to transitional claims under the RTW Act (claims with accident dates before 1 July 2015) beyond the two-year hard boundary.
3. The change in economic assumptions at the current valuation – principally the increase in the discount rate – reduces the estimated liability by $10.9 million.

The remainder of this section deals with first two impacts above. The impact of the change in economic assumptions is discussed in Section 11.3.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the **combined IS and redemption** payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection. The payments here include:

- Ongoing IS payments
- IS redemptions of two types:
  - Redemption of IS entitlements to 30 June 2017 – “two-year redemptions”, paid to claimants who have been assessed as entitled to IS until the hard boundary. These redemptions represent bringing forward of payments which would otherwise have been made over the period to June 2017

- Redemptions paid to claimants who have been in dispute; as mentioned Section 3.2.5, redemptions have been increasingly used as a tool to settle ongoing IS disputes and to extinguish any future IS liability
- Medical Redemption payments

- IS payments made to claimants whose liability has been settled via an FTRAIN payment; most of this group have received IS as part of the settlement.

Table 5.2 – Actual vs Expected Payments: IS and RED (includes ER Claims)

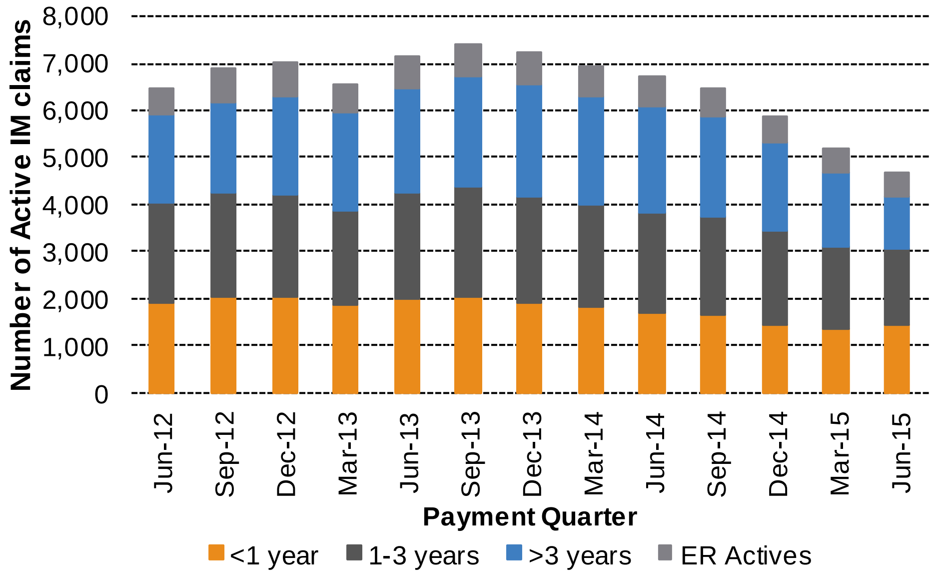
Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	7.2	11.5	(4.3)	63%
2005/06 - 2010/11	64.1	76.9	(12.8)	83%
2011/12 - 2012/13	31.9	38.8	(6.9)	82%
2013/14 - 2014/15	38.9	40.9	(2.0)	95%
Total	142.1	168.1	(26.0)	85%

Combined IS and Redemption payments in the six months were below expectations for all accident periods, and 15% lower than expected overall. The most notable difference is for pre-1 July 2005 accidents – with aggregate payments only 63% of expectation.

5.2.2 Active Claims and Exits

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

Figure 5.1 – Numbers of Active IS Claims



Active claim numbers have continued to fall dramatically as a result of ReturnToWorkSA's operational claim strategies; total IS actives fell by 12% in the March 2015 quarter and by 10% in the June quarter (total of 20% in the six months). The most significant falls have been for claims with duration over three years (down 42% in the six months), and claims between one and three years' duration (down 19%).

In Table 5.3 we compare the numbers of active IS claims at June 2015, WCA exits and exits by redemption in the last six months with our December 2014 valuation projection. 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			Redemptions		
Accident Period	Proj from Dec-14 Val	Actual Actives	Act *less* Proj	Diff as % Actual	Proj Dec-14 Val	Actual Exits	Additional Exits	Proj Dec-14 Val	Actual Reds	Additional Reds
Jun-06	48	43	-5	-10%	6	21	15	13	8	-5
Jun-07	101	88	-13	-13%	25	54	29	60	46	-14
Jun-08	134	89	-45	-34%	21	60	39	54	63	9
Jun-09	171	140	-31	-18%	35	74	39	77	73	-4
Jun-10	217	139	-78	-36%	30	99	69	79	83	4
Jun-11	304	222	-82	-27%	37	116	79	104	91	-13
Jun-12	334	276	-58	-17%	187	228	41	61	57	-4
Jun-13	831	695	-136	-16%	57	84	27	2	17	15
Jun-14	1,061	918	-143	-13%				0	4	4
Jun-15	1,464	1,438	-26	-2%				0	0	0
Total	4,665	4,048	-617	-13%	397	736	339	451	442	-9

Overall, active claim numbers at June 2015 are 13% below expectations, which is consistent with combined IS and redemption payments being 15% below expectations. Active claims are lower than expected for all accident periods, and are more than 15% lower than expected for accident years between 2007/08 and 2012/13.

There have been nearly twice as many WCA exits in the six months as we projected, with particularly favourable outcomes for years 2010/11 and earlier. Redemption numbers have been close to expectations.

5.2.3 Additional Exits

Dispute Settlements

Table 5.4 shows the numbers of dispute settlements during the six months to June 2015. This includes settlement of claims which were not active (receiving IS payments) at December 2014; that is, it includes claims which were in dispute at that date and claims which, for other reasons, had not received IS in the three months to December 2014.

Table 5.4 – Dispute Settlements in Six Months to Jun-15

Accident Period	Dispute Settlements: FTRAIN	Dispute Settlements: Redemption
To 30 Jun 05	2	0
2005/06 - 2010/11	340	0
2011/12 - 2012/13	184	2
Total	526	2

In addition to large numbers of exits via redemption and WCA discussed above, 526 claims which had been in dispute were settled via an FTRAIN payment in the last six months; 75% of these claims received IS as part of their settlement. Two disputes were settled via redemption.

Known Future Exits

As at June 2015, a further 840 claims have either agreed to a two-year redemption, or agreed to settle via FTRAIN or redemption. These numbers are set out in Table 5.5; once again, some of the claims are active at June 2015 (received IS in the last three months), and some are not. The average agreed IS payment for each group is shown in the last row of the table.

Table 5.5 – Agreed Future Exits as at June 2015

IS Status at Jun-15	2 Yr Reds	Dispute Settlements FTRAIN	Dispute Settlements Red	Dispute Settlements Total	Total Reds + Settlem'ts
Active at Jun-15	231	11	148	159	390
Not active at Jun-15	5	126	319	445	450
Total number	**236**	**137**	**467**	**604**	**840**
Average IS Amt ($000)	89	17	62	52	62

The two-year redemptions (average $89,000), again, represent bringing forward of IS payments and are therefore relatively high in value. There are 137 agreed dispute settlements via 'FTRAIN' (average IS $17,000) and 467 agreed settlements by redemption ($62,000 on average). In contrast to the experience of the last six months (Table 5.4), settlements by redemption dominate the currently agreed settlements.

5.3 June 2015 Valuation

This section summarises the approach and basis we have taken for each claim cohort, working from the oldest accident periods to the most recent.

5.3.1 Pre-June 2005 Claims

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

Table 5.6 shows the movements between the numbers of claims valued at December 2014 and at June 2015, as well as the estimated liability as at June 2015. The liability figures shown here include ongoing IS payments to June 2017 or earlier retirement, with no allowance for future WCA, RTW or other non-mortality discontinuance. The OSC excludes our allowances for post-surgery IS payments and dependant payments beyond June 2017, in order to enable like-with-like comparison with our December 2014 estimates.

Table 5.6 – Valuation of Pre-June 2005 Claims

Status at Jun-15	Dec-14 Val	Serious Injury	2 Year Reds	Total Net Exits	Jun-15 Val	OSC Jun 15[1]
						$m
Claims valued at Dec-14	284	98	43	35	108	6.3
Reopened in six months	10	1	0	2	7	0.01
Claims valued Jun-15					115	6.4
IBNR allowance [2]						1.6
Total OSC Jun-15						8.0

[1] Using Jun-15 economic assumptions
[2] Rolled forward from Dec-14 allowance.

Of the 284 claims valued at December 2014, 98 are valued as Serious Injury claims (and so are separately quantified in the Serious Injury section), 43 have exited via a two-year redemption and 35 (12%) have exited by other means in the last six months. In addition, 10 claims which were not valued at December 2014 have reopened, with seven of these valued as ongoing claims at June 2015 (though for only very small amounts; we are essentially assuming no material ongoing IS payments at this stage).

In total we have valued 115 claims at June 2015, at an average value of $55,000 (the December 2014 average was $55,000).

5.3.2 Accident Years 2005/06 to 2012/13

Claims in accident periods 2005/06 to 2010/11 were subject to WCA reviews, but with assessments generally taking place at durations beyond 130 weeks. These cohorts were also subject to the Tail Project in the 2013 and 2014 calendar years. Accident years 2011/12 and 2012/13 were also subject to WCA reviews as they reached 130 weeks (‘on time’ assessment). We note that WCA activity has now ceased, with the RTW Act taking effect, and this means 2012/13 in particular did not experience the full WCA impact.

For these accident years, we projected exits from IS as follows:

- Redemptions and settlements agreed at June 2015 – we assumed all of these claims would exit in the next six months, in accordance with the terms of the agreements.
- We assumed outcomes on current disputes will be:
  - 20% resolved with no further IS payment
  - 60% resolved by a redemption (with assumed average payment amounts varying based on the claims’ characteristics)
  - 20% resolved in the claimant’s favour, with a further two years’ IS paid (average payment $90,000)
- We allowed for a very small number of future disputes to arise (e.g. from recent WCA determinations to cease), and have adopted the same 20:60:20 mix of outcomes for these future exits
- We allowed for some IS exits by other means, such as RTW; for more recent accident periods, we expect that claims will exit IS at rates similar to those observed in the Scheme’s recent history.

The projected exits by type, and the resulting numbers of claims projected to receive IS up to the hard boundary at two years, are set out in Table 5.7. Once again, we have divided the claims and their outcomes between claims currently active (received IS in the June 2015 quarter) and those who are not; most of the latter group are currently in dispute.

Table 5.7 – Projected Exits

Accident Period	Jun-15 Actives	Projected Exits and Outcomes: Agreed Settlem'ts	Additional Settlem't Reds	Other Exits	Jun-17 Projected Actives
Active Claims at Jun-15					
2006	43	8	1	4	30
2007	88	30	2	10	47
2008	89	29	3	3	54
2009	140	56	2	17	66
2010	139	40	3	13	83
2011	222	74	3	20	125
2012	276	53	15	32	176
2013	695	54	42	176	423
Total	1,692	344	70	275	1,003
Claims not Active at Jun-15					
2006		13	5		2
2007		36	12		4
2008		47	19		6
2009		39	19		6
2010		58	20		7
2011		56	28		9
2012		71	43		14
2013		47	35		12
Total		367	181		60
All Claims					
2006	43	21	6	4	32
2007	88	66	14	10	51
2008	89	76	22	3	61
2009	140	95	20	17	72
2010	139	98	23	13	89
2011	222	130	31	20	134
2012	276	124	57	32	190
2013	695	101	77	176	434
Total	1,692	711	251	275	1,063

We are projecting 251 settlement redemptions in addition to those already agreed.

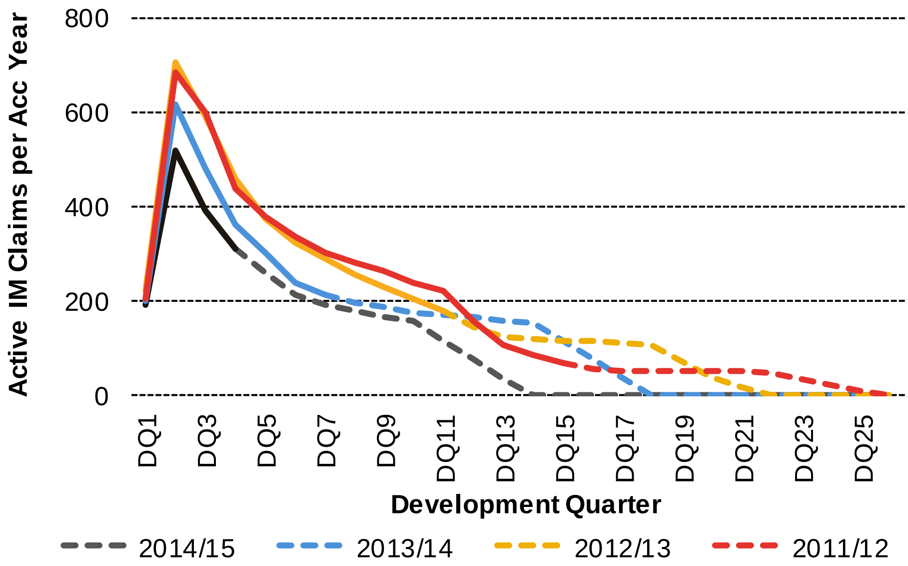
Almost 65% of the projected 275 ‘other’ exits – which, as noted above, represent non-settlement related exits – relate to the 2012/13 accident year.

5.3.3 Accident Years 2013/14 and 2014/15

Claims from these two accident years are being managed under the improved claims management approach of the last few years, which has a strong focus on active front-end management and will have impacted particularly on 2014/15 accidents. These claims have not been affected by WCA activity, having not reached 130 weeks while WCA was in operation.

Figure 5.2 shows the experience and our projection of active IS claims for these two accident years, with 2011/12 and 2012/13 included for comparison. The solid section of each line indicates past experience, and the dashed segment our projection.

Figure 5.2 – Active IS Claims and Projection: 2011/12 to 2014/15



Our comments on this graph are:

- For each year, the tailing off at the end represents when claims reach the June 2017 hard boundary (the years reach this boundary at different 'ages')
- The experience of 2011/12 and 2012/13 is similar as far as DQ11. After that point, 2011/12 claims were impacted significantly by WCA exits, whereas 2012/13 claims will not be to the same extent (due to the removal of WCA exits as part of the RTW Act), so after DQ12 the ongoing active claims for 2012/13 are higher than 2011/12
- The early experience of 2013/14 is lower than the two prior years, and that of 2014/15 is lower still. This reflects front-end claim initiatives and increasingly proactive claim management at early durations
- With no WCA activity, 2013/14 active claim numbers in the range DQ12 to DQ15 are projected to sit above the actives for 2011/12 and 2012/13, out to the time when the two-year hard boundary takes effect
- The projection for 2014/15 sits slightly under 2013/14, before hitting the two-year boundary at DQ10.

5.3.4 Payment per Active Claims

Our projection of future IS payments has used the same Payment per Active Claim assumptions as were adopted at our December 2014 valuation. The payments experience in the six months has been 'disrupted' due to settlement payments and other operational activity; this newest experience, being atypical, does not provide reliable indications of ongoing payment levels.

5.3.5 Other Valuation Changes

As described in Section 3.1, changes made to the operation of the RTW Act via Regulation will lead to increased IS payments for claimants accessing approved surgeries after the standard time boundaries. This change adds $16 million to the outstanding claims liability for IS at June 2015, which we have treated as an external impact in presentation of the valuation results; it is essentially an offset to some of the reform impact which was recognised at the previous valuation.

We have made an additional 'one-off' change at the current valuation, which increases the value attributed to IS payments to dependants of claimants who have died as a result of their work injury. This follows additional analysis which showed that we were projecting these costs to reduce more quickly than the experience indicates. This change increases the estimated IS liability by $15.6 million across all accident periods.

5.3.6 Valuation Results and Actuarial Release

Table 5.8 sets out the actuarial release resulting from our valuation of IS payments, including redemptions. The first column represents our projection from the December 2014 valuation.

Table 5.8 – Actuarial Release for IS and Redemptions

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumps	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	8.6	16.3	5.3	2.4	(4.3)	(1.0)	-11%
2005/06 - 2010/11	90.0	93.0	(1.2)	4.2	(12.8)	14.0	16%
2011/12 - 2012/13	80.6	83.7	(0.3)	3.3	(6.9)	7.2	9%
2013/14 - 2014/15	153.5	142.9	(16.7)	6.1	(2.0)	18.7	12%
Total	332.6	335.9	(12.8)	16.1	(26.0)	38.8	12%

The actuarial release of $38.8 million is made up of a $12.8 million reduction compared to the projected liability, and the shortfall of $26 million in payments in the six months. Table 5.9 breaks the actuarial release down further.

Table 5.9 – Components of Actuarial Release: IS and Redemptions

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(26.0)
Difference from projected liability		
AvE active claims	(17.1)	
Changes to Valuation Basis		
Projected exits	(15.0)	
Dependant benefits	15.6	
Medical redemptions	3.8	
Subtotal		(12.8)
Total		(38.8)

The $12.8 million reduction from the projected liability at June 2015 is composed of:

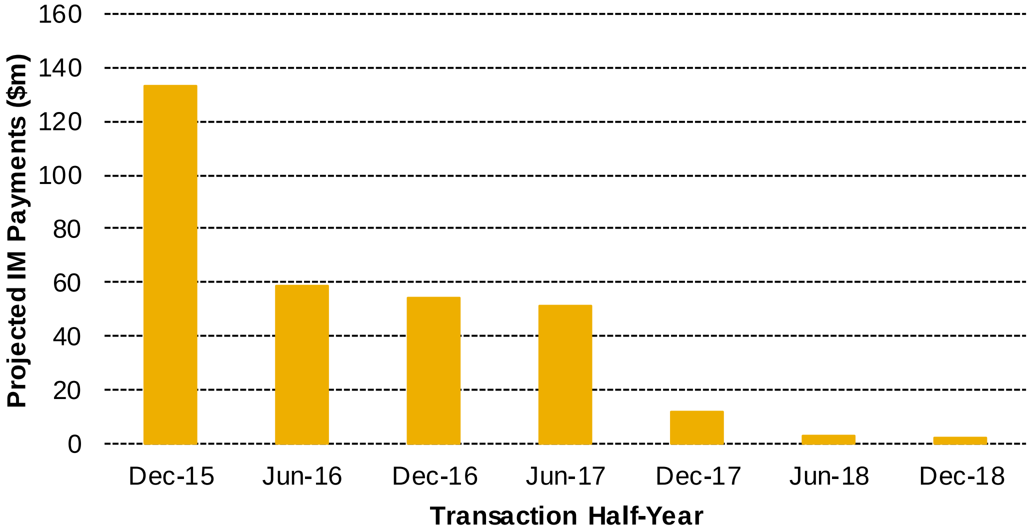
- A reduction of $17.1 million due to the **claims experience**, and in particular active claim numbers at 30 June 2015 being below expectations
- An increase of $4.3 million due to changes in the valuation basis:
  - A reduction of $15.0 million relating to additional projected exits is offset almost exactly by our additional allowance for dependant benefits
  - Additional medical redemption payments add $3.8 million.

5.4 Projected Outcomes

This section illustrates the high-level operational outcomes of our valuation of IS payments.

Our projection of IS payments for **accidents to 30 June 2015** (the 'run-off' of the current valuation) is shown in the graph below. Only small payments are projected after June 2017, due to the two-year hard boundary that applies to most claims.

Figure 5.3 – Projected IS Payment Run-Off – Short Term Claims



The high projected payments in the six months to December 2015 represents the bringing forward of payments via two-year redemptions of IS payments and the expected settlement of pending disputes (see Section 3.2.5).

After December 2015, significant IS payments are projected through to June 2017. This reflects the expectation that, based on past scheme performance, most claims at durations above one year who are currently entitled to IS will remain on benefits until they reach the hard boundary at June 2017; this is illustrated in Table 5.10.

Table 5.10 – Projected Exits and Actives

	Jun-15 Valuation			Dec-14 Valuation	
Acc Yr	Actives at Jun-15	Projected Actives at Jun-17	% still Active at Jun-17	Projected Actives at Jun-17	Change
2006	43	32	74%	35	-4
2007	88	51	57%	58	-8
2008	89	61	68%	96	-35
2009	140	72	51%	118	-46
2010	139	89	64%	151	-62
2011	222	134	60%	215	-81
2012	276	190	69%	243	-52
2013	695	434	63%	593	-159
2014	918	603	66%	699	-95
2015	1,438	619	43%	801	-182
Total	**4,048**	**2,286**	**56%**	**3,009**	**-723**
2006-2014	2,610	1,666	64%	2,208	-542

For accident years 2006 to 2014 combined, 64% of current active claims are expected to be receiving IS until the hard boundary (1,666 claims); this is a reduction of over 500 from our projection at December 2014. A further 619 active claims are projected at June 2017 for the 2015 accident year.

6 Lump Sums – Short Term Claims

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). Separate Lump Sums compensate claimants for non-economic loss and future economic loss, although compensation for future economic loss is only available to claims with injuries after 1 July 2015.

Introduction

We value lump sums in five 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).
    - Under the RTW Act it was expected that top up lump sums would no longer be available after 1 July 2015.
    - However, as part of the Regulation changes described in Section 3.1, under certain circumstances top up lump sums will continue to be allowable for claimants with injury dates prior to 1 July 2015.
- "Economic Loss" lump sums – Short Term Claims may receive an additional payment for loss of future earning capacity. This is a new benefit under the RTW Act and is available to new injuries from 1 July 2015.

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

6.1 Summary of Results

Table 6.1 summarises the movements in our liability estimates for lump sum payments since the December 2014 valuation.

Table 6.1 – Valuation Results: Lump Sums

Dec14 Valuation	$m	$m	$m
Estimated Liab at Dec-14	125.7		
Projected Liab at Jun-15	127.6		
Jun-15 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	(2.3)	7.3	(5.1)
Impact of regulation change	11.0		
Estimated Liab at Jun-15 (Dec-14 eco assumptions)	**136.3**		
Impact of change in eco assumptions	(0.1)		
Estimated Liab at Jun-15 (Jun-15 eco assumptions)	**136.2**		

The main movements from our December 2014 projection of the June 2015 liability are:

- An increase of $11.0 million following the recent Regulation changes, which re-introduced the opportunity for some claimants to seek top up lump sums.

- An actuarial strengthening of $5.1 million reflecting a decrease of $2.3 million in the liability, and higher claims payments of $7.3 million since December 2014.

The remainder of this section deals with the impacts noted above. The impact of the change in economic assumptions is discussed in Section 11.3.

6.2 Experience

Table 6.2 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	1.2	0.7	0.4	164%
2005/06 - 2008/09	2.7	(2.3)	5.0	-120%
2009/10 - 2011/12	10.2	6.2	4.0	164%
2012/13 and later [1]	11.5	13.6	(2.1)	84%
Total	25.5	18.2	7.3	140%

[1] Accidents to Jun15

Payments were higher than expected in the six months to 30 June 2015. This was mainly driven by First Paid lump sum payments arising from accident periods with high redemption and settlement activity, which we have interpreted as being a bringing forward of payments that previously would have taken longer to occur.

6.3 Valuation Basis

At the previous valuation lump sum liabilities were modelled inclusive of Serious Injury Claims, with an adjustment then made to apportion the total lump sum liabilities. For this valuation we have improved our approach and are separately modelling the lump sum liabilities for Short Term Claims and Serious Injury Claims; this section describes our approach and basis for Short Term Claims. Due to this change in approach comparisons with our previous basis are not like with like and therefore are not shown.

Valuation Basis for First Paid Lump Sums

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.

Over the previous 12 months, and the last six months in particular, there has been an increase in the number of payments made. We have interpreted this as a bringing forward of payments, rather than an increase in the ultimate number of claims with a lump sum payment, as some of the increase in payment numbers can be directly attributed to the high redemption and settlement activity over the last six months (where any lump sum payments are required to be finalised prior to any redemption or settlement).

In light of this, we have tended to rely on more recent experience when selecting the development pattern, resulting in higher chain ladder factors at earlier durations and lower factors at longer durations compared to the long term experience.

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 after adjusting for the removal of Serious Injury Claims (a reduction of around 60 claims per accident year).

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

Figure 6.1 – Ultimate Number of First Paid Lump Sums

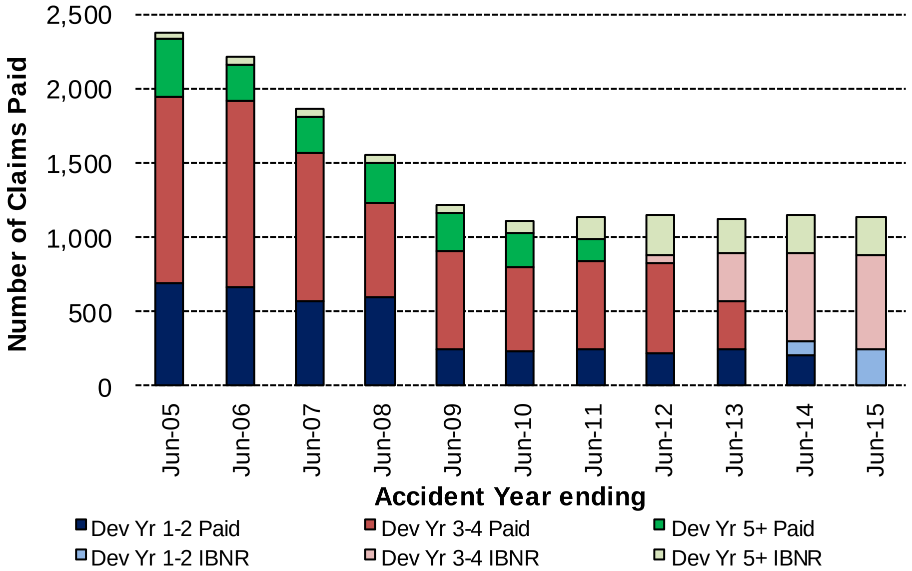
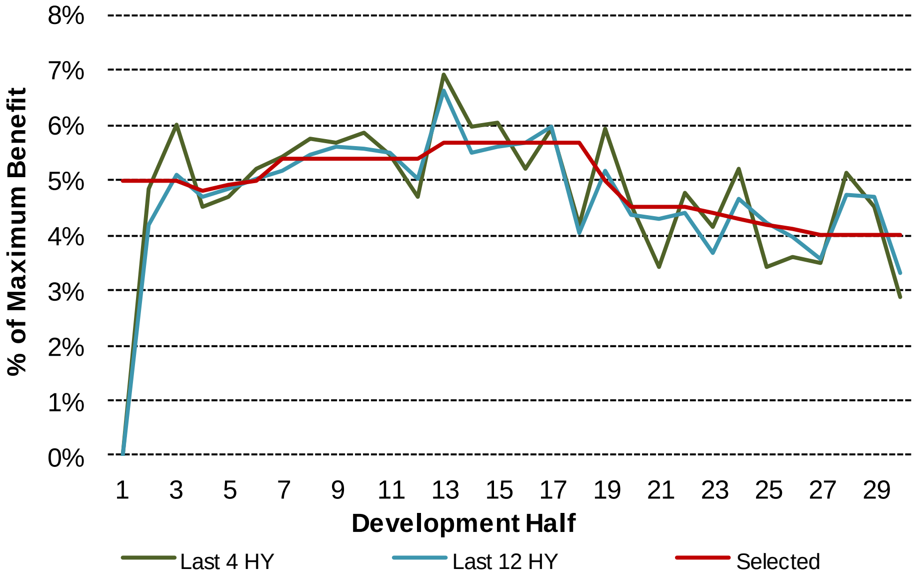


Figure 6.2 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury. The selected basis is in line with the observed experience.

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 5.1% of the prescribed maximum benefit, or around $23,000.

Valuation Basis for Top Up Lump Sums

The number of Top Up lump sums is projected as a percentage of the ultimate number of First Paid lump sums. Top Up lump sum payments were initially removed under the RTW Act changes, but following a Regulation change in June have now been added back in a restricted form as discussed in Section 3.1. Our initial analysis suggests that approximately one-third of the pre-RTW Act Top Up lump sums relate to a secondary injury, and so may potentially meet the criteria for access to a top up lump sum; we emphasise that the information available to support this allowance is limited, and so it is possible that outcomes could be significantly better or worse than has been assumed. We have adopted a basis consistent with this analysis.

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

Figure 6.3 – Ultimate Number of Top Up Lump Sum Claims

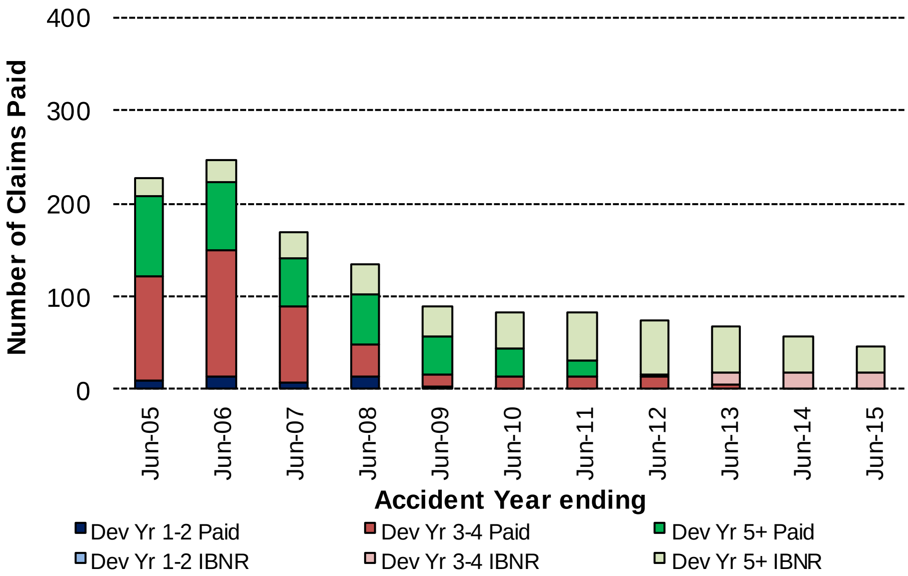


Figure 6.4 shows the average size of Top Up lump sum payments as a percentage of the maximum benefit available.

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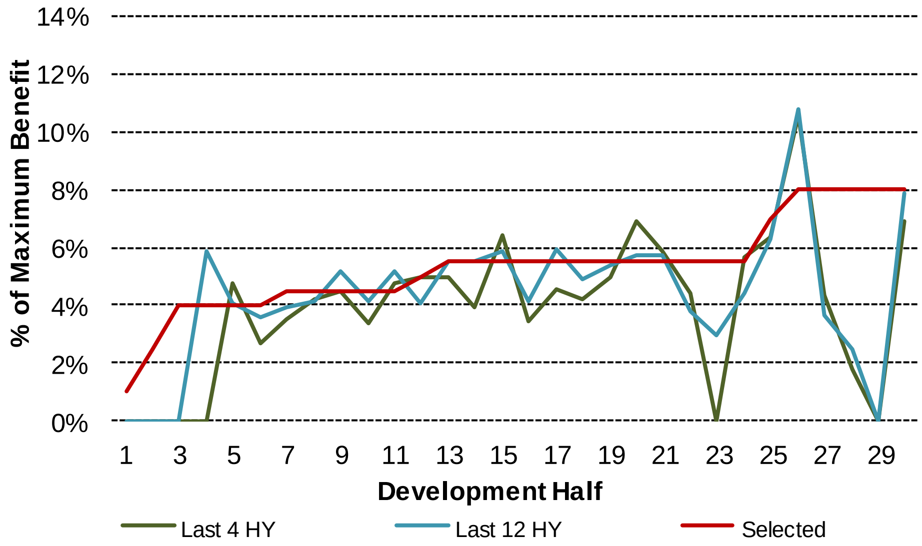
Figure 6.4 – Top Up Lump Sum Size by Development Half-Year (as a percentage of the maximum benefit)

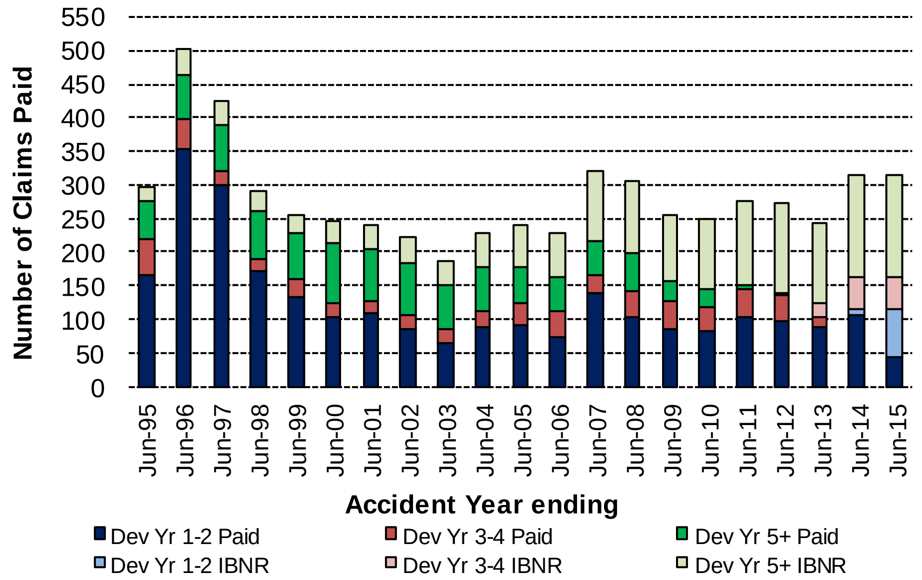


The average payment size has been volatile but increasing in the longer durations beyond six years. We have adopted a basis consistent with the long-term experience.

Valuation Basis for Deafness Lump Sums

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

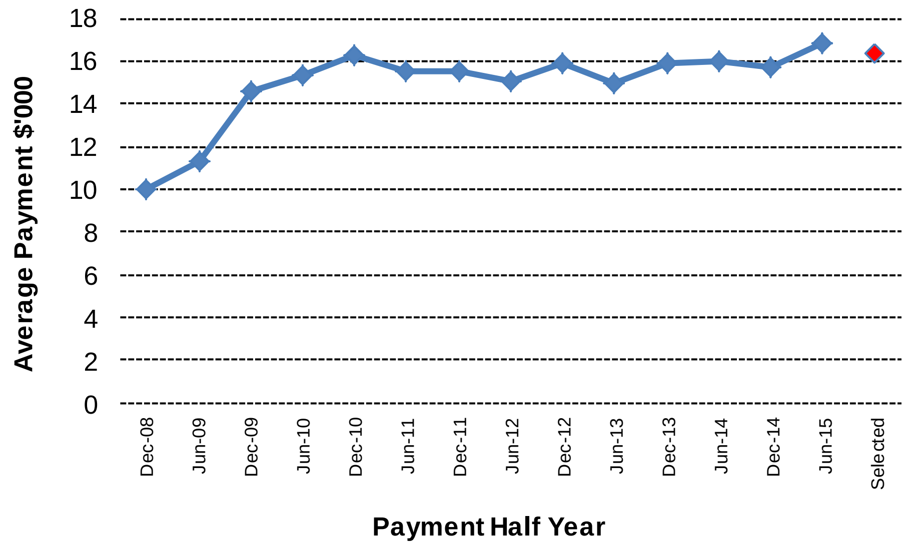
Figure 6.5 – Ultimate Number of Deafness Lump Sums



Experience in the previous six months shows Deafness lump sum payments are at a similar level to previous periods. We have adopted a claim reporting pattern consistent with our previous valuation.

Figure 6.6 shows the overall average benefit paid for a Deafness lump sum claim.

Figure 6.6 – Average Lump Sum Deafness Payment



The selected average Deafness benefit 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.

In addition to the underlying projection, we have allowed for one-off ex-gratia dependent benefit payments to occur in line with the RTW Act changes – we had previously assumed these would all happen in the previous six months, but this is not the case as claimants must first still apply for the payments which is expected to delay their payment; we have now assumed these additional payments will occur over the next two years. Figure 6.7 shows the numbers of Death lump sums by accident year.

Figure 6.7 – Ultimate Number of Death Lump Sums

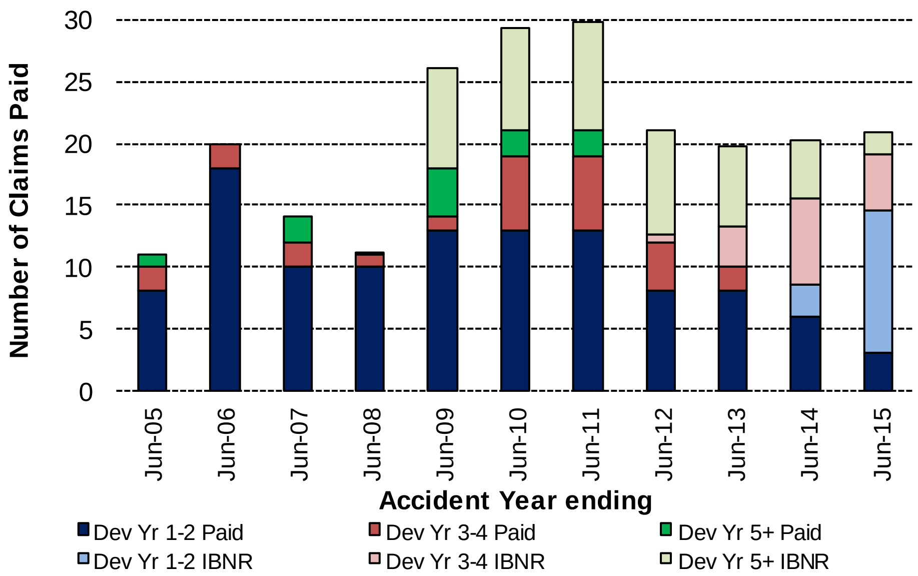
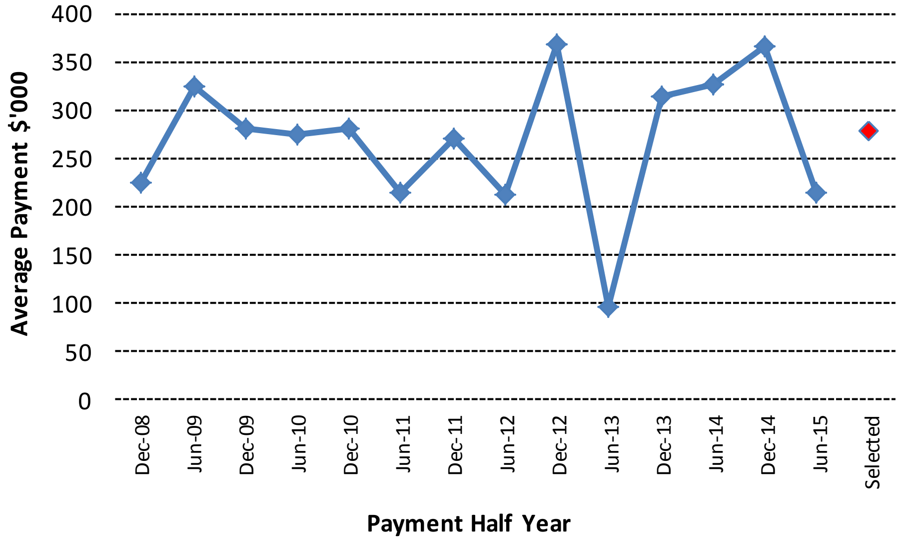


Figure 6.8 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.8 – Average Lump Sum Death Payment



The average size for Death (and funeral) lump sums in the six months to June 2015 has been low and reflects the higher proportion of funeral claims (which are smaller in size) paid out in the period. Given the volatility of the experience, we have adopted a size consistent with the long term average.

6.4 Valuation Results and Actuarial Release

Table 6.3 sets out the actuarial release resulting from our valuation of lump sum payments. The first column represents our projection from the December 2014 valuation.

Table 6.3 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	11.9	13.3	(1.7)	3.1	0.4	1.2	10%
2005/06 - 2008/09	10.7	12.1	(0.7)	2.2	5.0	(4.3)	-40%
2009/10 - 2011/12	26.6	26.8	(2.6)	2.8	4.0	(1.4)	-5%
2012/13 and later [1]	78.4	84.1	2.8	2.9	(2.1)	(0.6)	-1%
Total	127.6	136.3	(2.3)	11.0	7.3	(5.1)	-4%

[1] Accidents to Jun15

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

The $2.3 million decrease in projected liability combined with actual payments being $7.3 million more than expected results in an actuarial strengthening (increase) of $5.1 million.

Table 6.4 breaks down the actuarial release by source.

Table 6.4 – Components of Actuarial Release: Lump Sums

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(7.3)
Changes to Valuation Basis		
First Paid IBNR numbers	9.7	
Death IBNR numbers	(7.5)	
Subtotal		2.3
Total		(5.1)

Changes to the valuation basis to recognise the speeding up of lump sum payments reduce future IBNR claim numbers, offsetting the higher than expected payments and reducing the outstanding claims liability by $9.7 million. Timing changes for ex-gratia death benefits increases the liability by $7.5 million.

7 Treatment and Related Costs – Short Term Claims

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 December 2014 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
Dec14 Valuation	$m	$m	$m	$m	$m	$m	$m
Estimated Liab at Dec-14	162.3	12.0	10.6	29.3	15.3	30.8	260.4
Projected Liab at Jun-15	154.8	11.2	9.6	27.0	13.9	18.3	234.9
Jun-15 Valuation							
Impact of experience/OSC - Movement in liab	(20.0)	(0.1)	(0.0)	(6.9)	(2.1)	(2.3)	(31.4)
Impact of regulation change	4.4	5.1	0.0	0.0	0.0	0.0	9.6
Estimated Liab at Jun-15 (Dec-14 eco assumptions)	**139.3**	**16.3**	**9.6**	**20.1**	**11.8**	**16.0**	**213.0**
Impact of change in eco assumptions	(1.6)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(1.8)
Estimated Liab at Jun-15 (Jun-15 eco assumptions)	**137.7**	**16.1**	**9.5**	**20.1**	**11.8**	**15.9**	**211.1**
AvE Payments - six months to Jun-15	(2.0)	(0.3)	(0.6)	(1.9)	(1.4)	3.0	(3.2)
Actuarial Release at Jun-15	22.0	0.3	0.6	8.9	3.5	(0.6)	34.6

The main movements from our December 2014 projection of the June 2015 liability are:

- A decrease of $31.4 million in the liability, reflecting the claims experience since December 2014 and our valuation response. This produces an actuarial release of $34.6 million when combined with actual payments in the period being $3.2 million lower than expected.
- A Regulation change in June 2015 which reintroduced access to some treatment benefits, increasing the treatment related liabilities by $9.6 million.

The remainder of this section deals with the impacts described above. The impact of the change in economic assumptions is discussed in Section 11.3.

7.2 Valuation Approach

Under the RTW Act most treatment and related costs cease 12 months after income support ends. The two exceptions to this are payments for medical aids and appliances and payments related to approved surgeries. Following these changes we have simplified our modelling approach as described below:

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

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

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

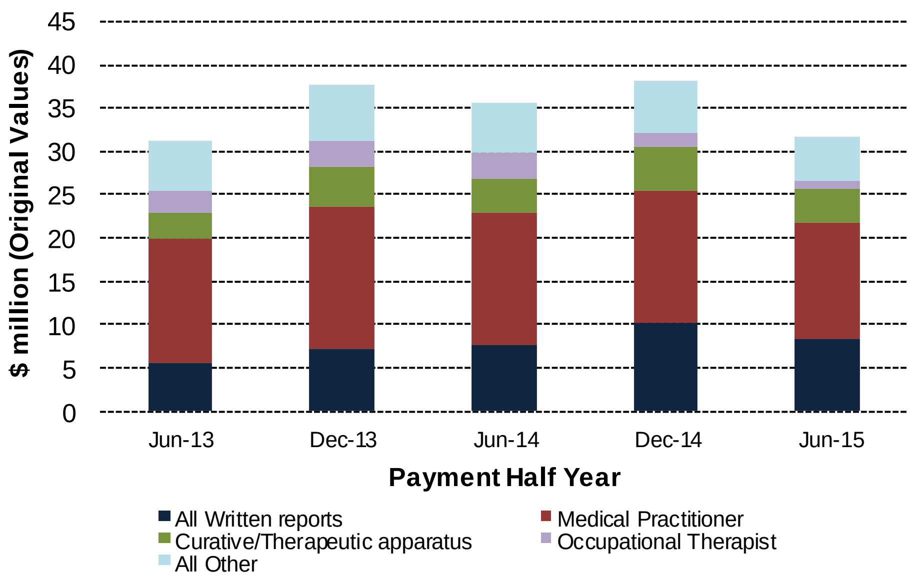
7.3 Medical

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

Payments vs Expectations

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

Figure 7.1 – Medical Half-Yearly Payments



As noted in Section 3.2.6, an important feature of the medical payment experience over the last six months is the increased delay for processing payments. This suggests the payment level observed in the last six months is likely to be missing around one months' worth of payments compared to the true underlying medical payments. While there is clear seasonality in half yearly payments, on average payments have been running at around $35 million per half year since June 2013.

The breakdown of medical payments by type shows there continued to be a high level written report activity in the last six months, which we understand is linked to the high levels of WCA activity. With the removal of WCA under the RTW Act, it is expected this will reduce in future.

Table 7.2 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	2.0	2.7	(0.7)	75%
2005/06 - 2008/09	4.0	3.4	0.6	118%
2009/10 - 2011/12	6.2	6.1	0.2	103%
2012/13 and later [1]	19.6	21.6	(2.0)	91%
Total	31.8	33.8	(2.0)	94%

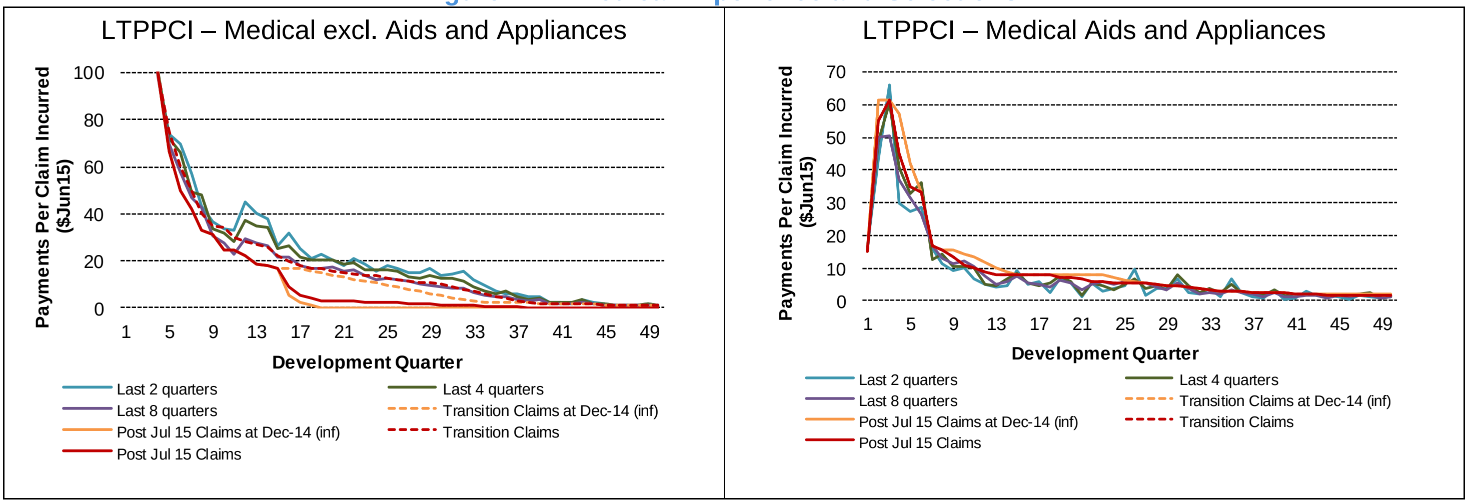
[1] Accidents to Jun15

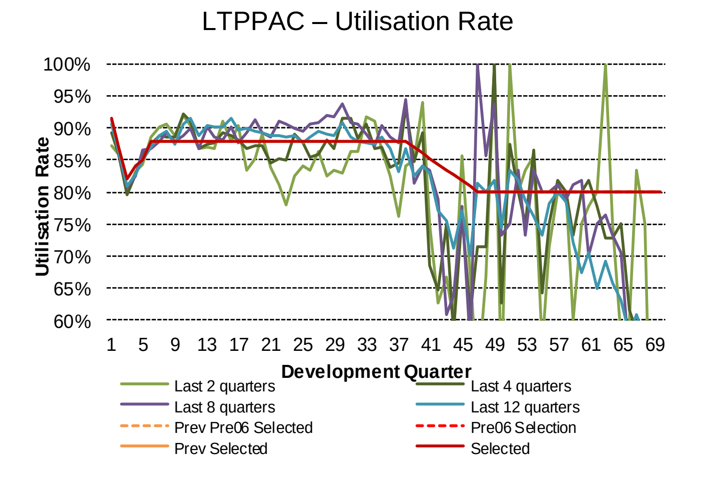
Overall, payments were $2.0 million (6%) lower than expected. The lower than expected payments were driven by more recent accident periods. Our analysis suggests that had there not been an increase in the payment processing delay, medical payments would have been higher than expected in the period.

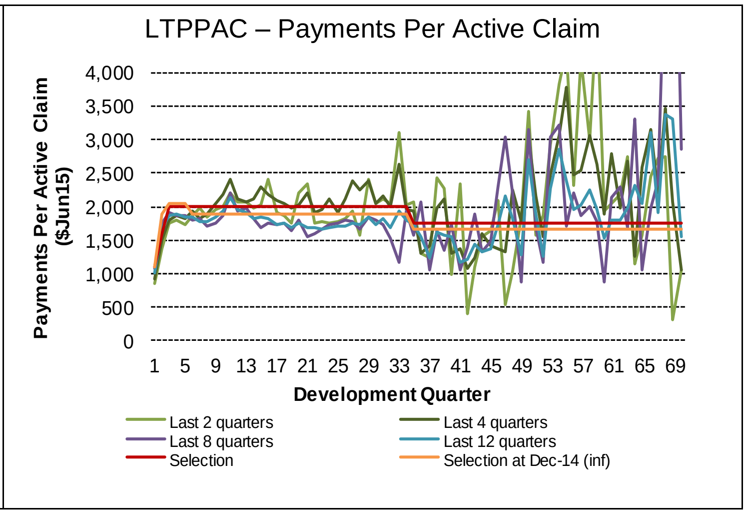
Valuation Basis

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

Figure 7.2 – Medical Experience and Selections







Our comments on the experience and selected assumptions are:

- LTPPCI (excl. aids and appliances):
  - these payments relate to claims no longer receiving an IS payment and have continued to increase over the last six months. This appears to be largely driven by higher number of payments for written medical reports, following recent high levels of 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.
  - From 1 July 2015 the capping of benefits under the RTW Act commences, and our selected PPCIs reduce significantly by 4.5 years duration. The Regulation changes in the last six months have resulted in medical related surgery costs continuing to exist beyond the duration boundary for accidents prior to July 2015, and we have increased the adopted PPCI selections for these claims accordingly.
- LTPPAC: this model represents a large part of the medical liability.
  - Utilisation has been high in mid durations due to higher written medical report activity, although again we expect this to be temporary. As a result, the utilisation assumption is unchanged at this valuation.
  - Payments per active claim have increased across all durations. A contributing factor (but not all) to the increase appears to be a change in the mix of ongoing claims, with the recent redemption activity reducing the number of claims with low medical sizes (therefore increasing the average size of those who remain). We have increased our selected PPAC at this valuation in response to the underlying experience.
- Medical aids and appliances payments have reduced in the last six months although part of the reduction can be attributed to the payment delays. We have partially reflected the experience and reduced our selected basis at this valuation. We note that these payments are not impacted by the duration cap under the RTW Act.

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.

Valuation Results and Actuarial Release

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

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	25.0	23.7	(2.1)	0.8	(0.7)	2.8	11%
2005/06 - 2008/09	22.5	18.2	(4.9)	0.7	0.6	4.3	19%
2009/10 - 2011/12	33.7	27.8	(6.8)	0.9	0.2	6.7	20%
2012/13 and later [1]	73.6	69.5	(6.2)	2.1	(2.0)	8.2	11%
Total	154.8	139.3	(20.0)	4.4	(2.0)	22.0	14%

[1] Accidents to Jun15

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

The $20.0 million decrease in the projected liability combined with actual payments being $2.0 million less than expected results in an actuarial release of $22.0 million. A large part of the release falls in accident periods (2005/06 to 2011/12) where there has been high redemption and settlement activity.

Table 7.4 breaks down the actuarial release by source.

Table 7.4 – Components of Actuarial Release: Medical

Release (strengthening) due to		
	$m	$m
AvE payments in six months		2.0
Changes to Valuation Basis		
IS active proj	24.1	
Ultimate claims	0.3	
Long term assumptions	(4.4)	
Subtotal		20.0
Total		22.0

The favourable IS active claim number experience reduces the Medical liability by $24.1 million. This is partially offset by increases in the medical valuation basis of $4.4 million as the ongoing claimants appear to have slightly higher average costs than those who have ceased benefits.

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). There has been a high level of activity around dispute settlements and redemptions, which has led to a higher utilisation of medical redemptions.

At this valuation, we have increased the utilisation to reflect the recent experience while the size remains unchanged ($4,900). The undiscounted liability for medical redemptions is $6.1 million.

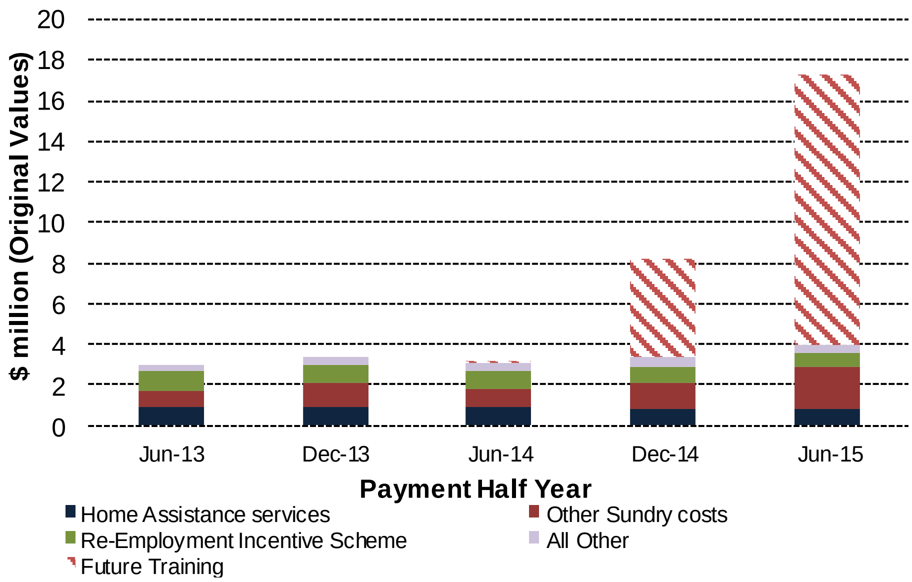
7.4 Other

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

Payments vs Expectations

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

Figure 7.3 – Other Half-Yearly Payments



Other payments have increased significantly in the last year due to 'future training and education' benefits paid to workers as part of the recent dispute settlement activity. After excluding the future training and education payments, 'other' payments are still higher than previous half-years driven by increases in Other Sundry Costs. Other payments have also been impacted by the delay in the payment processing although to a lesser extent compared to Medical payments.

Table 7.5 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.5	(0.3)	46%
2005/06 - 2008/09	5.1	4.5	0.5	112%
2009/10 - 2011/12	7.9	6.3	1.5	124%
2012/13 and later [1]	4.1	2.9	1.2	141%
Total	17.3	14.3	3.0	121%

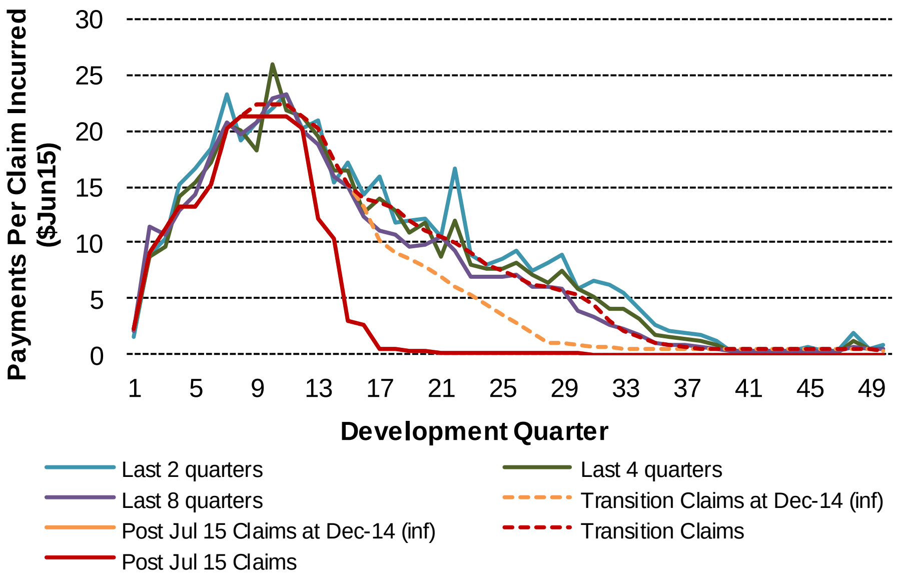
[1] Accidents to Jun15

Overall, payments were $3.0 million (21%) greater than expected. This was driven by accidents post June 2005.

Valuation Basis

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

Figure 7.4 – PPCI Experience and Selections: Other



The adopted PPCIs for transition claims for 'other' have been increased at this valuation to reflect the recent underlying experience. The valuation basis for post 1 July 2015 claims is unchanged.

The allowance made for 'future training and development' at this valuation is lower than allowed for at the previous valuation, as the number of disputes remaining to be settled has reduced significantly.

Valuation Results and Actuarial Release

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

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.6	0.3	(0.3)	0.0	(0.3)	0.6	93%
2005/06 - 2008/09	3.2	1.6	(1.6)	0.0	0.5	1.1	33%
2009/10 - 2011/12	5.8	5.1	(0.7)	0.0	1.5	(0.8)	-14%
2012/13 and later [1]	8.6	8.9	0.3	0.0	1.2	(1.5)	-17%
Total	18.3	16.0	(2.3)	0.0	3.0	(0.6)	-4%

[1] Accidents to Jun15

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

The $2.3 million decrease in the projected liability combined with actual payments being $3.0 million more than expected results in an actuarial increase of $0.6 million.

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	$m	$m
AvE payments in six months		(3.0)
Changes to Valuation Basis		
Ultimate claims	0.0	
Long term assumptions	2.3	
Subtotal		2.3
Total		(0.6)

The increase in the liability due to higher PPCI selections is more than offset by the reduction in the allowance for 'future training and development' resulting in a reduction in the 'other' liability of $2.3 million.

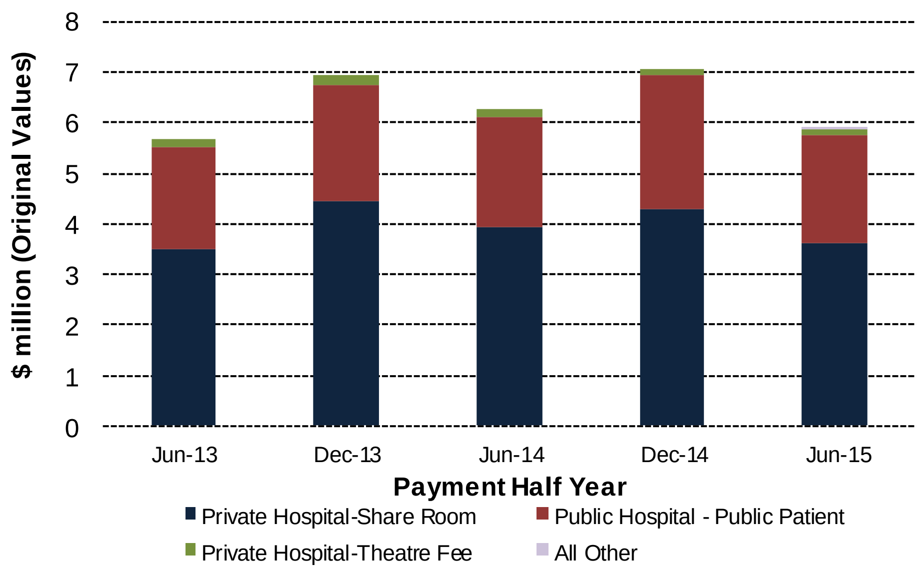
7.5 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs Expectations

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

Figure 7.5 – Hospital Half-Yearly Payments



Hospital payments have also been impacted by the delay in the payment processing although to a lesser extent compared to Medical payments. Changes in purchasing arrangements and coding practices make trend analysis by components difficult. Although there is clear seasonality, average payment levels have been fairly steady over the past two and half years.

Table 7.8 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.8 – Actual vs Expected Payments: Hospital

Accident Period	Payments in Six Months to Jun 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.1	0.0	133%
2005/06 - 2008/09	0.4	0.3	0.1	146%
2009/10 - 2011/12	0.5	0.6	(0.1)	83%
2012/13 and later [1]	4.8	5.2	(0.3)	93%
Total	5.9	6.2	(0.3)	96%

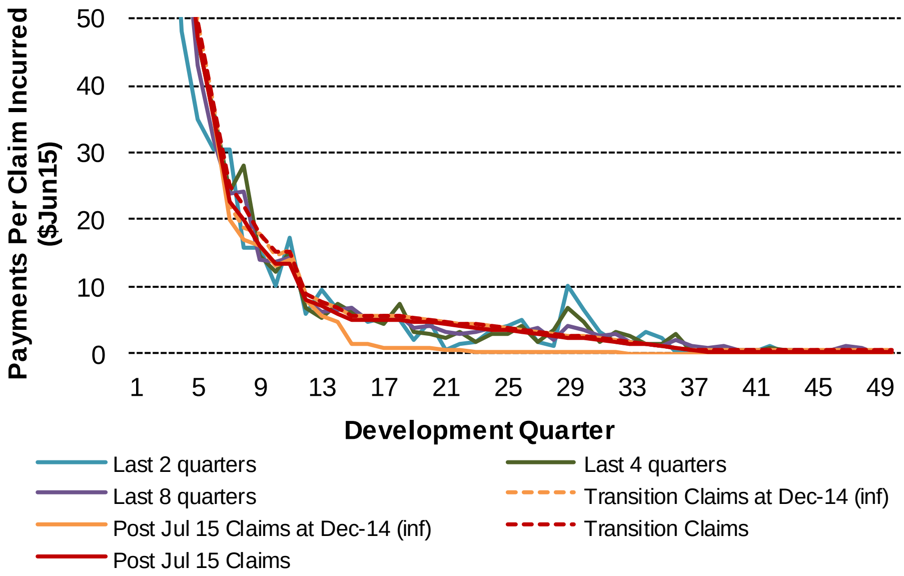
[1] Accidents to Jun15

Payments in the last six months were close to expected ($0.3 million lower). Lower payments in more recent accident periods were offset by higher payments in older accident periods.

Valuation Basis

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

Figure 7.6 – Hospital Experience and Selections



The adopted PPCIs for transition claims have been adjusted to reflect the emerging experience. For earlier durations they are largely unchanged from the previous valuation basis.

Regulation changes that allow surgery costs to continue beyond the duration boundary for accidents prior to July 2015 have led to an increase in our longer duration allowances for transition claims. For this additional surgery cost, we have made an allowance equivalent to 60% of the pre-boundary hospital costs based on:

- Surgery costs being approximately 90% of hospital payments
- A one-third reduction in expected claim numbers as a result of high redemption activity in recent periods, as such claims will not be able to apply for additional surgeries.

Valuation Results and Actuarial Release

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

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.4	1.6	0.2	0.9	0.0	(0.2)	-49%
2005/06 - 2008/09	0.7	1.4	(0.0)	0.7	0.1	(0.1)	-20%
2009/10 - 2011/12	1.8	3.1	0.0	1.3	(0.1)	0.1	5%
2012/13 and later [1]	8.3	10.2	(0.2)	2.2	(0.3)	0.6	7%
Total	11.2	16.3	(0.1)	5.1	(0.3)	0.3	3%

[1] Accidents to Jun15

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

The $0.1 million decrease in the projected liability combines with actual payments being $0.3 million less than expected resulting in an actuarial release of $0.3 million.

Table 7.10 breaks down the actuarial release by source, which shows that apart from the Regulation change that has separately been allowed for the movements in the Hospital basis are minor.

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	$m	$m
AvE payments in six months		0.3
Changes to Valuation Basis		
Ultimate claims	0.0	
Long term assumptions	0.0	
Subtotal		0.1
Total		0.3

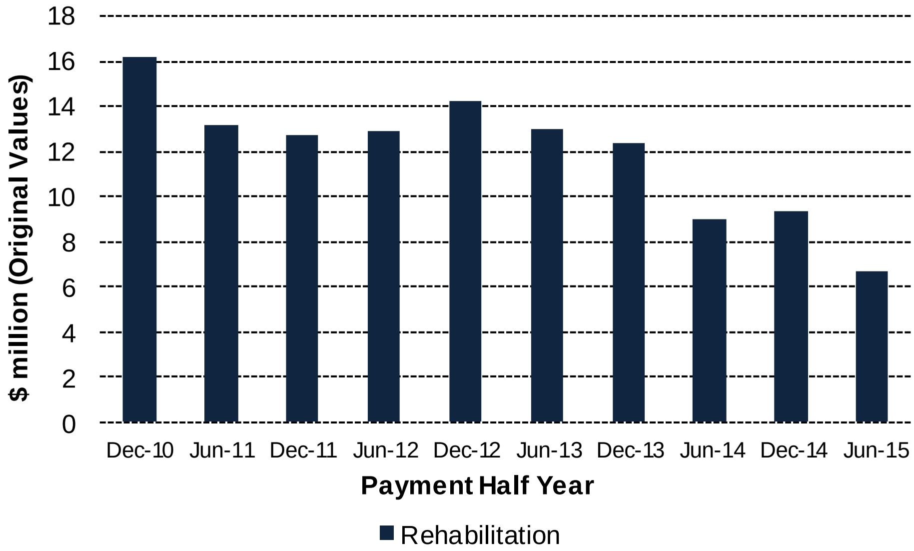
7.6 Rehabilitation

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

Payments vs Expectations

Figure 7.7 below shows rehabilitation payments by six month period.

Figure 7.7 – Rehabilitation Half-Yearly Payments



Payment levels have reduced further in the last six months reflecting the impact of recent ReturnToWorkSA initiatives. However, rehabilitation payments have also been impacted by the delay in payment processing, albeit to a lesser extent compared to Medical payments.

Table 7.11 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	854%
2005/06 - 2008/09	0.1	0.7	(0.5)	22%
2009/10 - 2011/12	0.7	2.2	(1.6)	30%
2012/13 and later [1]	5.8	5.7	0.1	102%
Total	6.7	8.6	(1.9)	78%

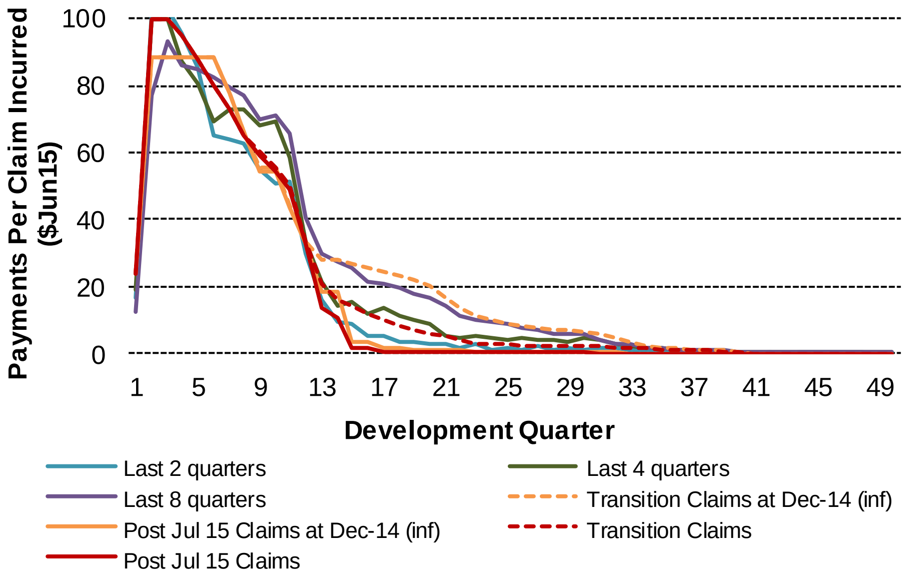
[1] Accidents to Jun15

Overall, payments were $1.9 million (22%) lower than expected driven by pre-2012 accident years with payments for more recent accident years slightly above expected.

Valuation Basis

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

Figure 7.8 – Rehabilitation Experience and Selections



The adopted PPCIs for rehabilitation for transition claims have been reduced to reflect the emerging experience after allowing for payment processing delays. The basis for claims made after 1 July 2015 has also been reduced slightly at longer durations, along with a small increase at very short durations.

Valuation Results and Actuarial Release

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

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release[2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	0.0	(0.0)	-630%
2005/06 - 2008/09	1.3	0.6	(0.7)	0.0	(0.5)	1.2	97%
2009/10 - 2011/12	6.0	2.0	(4.0)	0.0	(1.6)	5.6	92%
2012/13 and later[1]	19.7	17.5	(2.2)	0.0	0.1	2.1	11%
Total	27.0	20.1	(6.9)	0.0	(1.9)	8.9	33%

[1] Accidents to Jun15

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

The $6.9 million decrease in the projected liability combined with actual payments being $1.9 million less than expected results in an actuarial release of $8.9 million. The release falls mainly in the accident periods after 2005.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of Actuarial Release: Rehabilitation

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.9
Changes to Valuation Basis		
Ultimate claims	0.1	
Long term assumptions	6.8	
Subtotal		6.9
Total		8.9

The release is driven by changes in long term assumptions, which reduce the rehabilitation liability by $6.8 million.

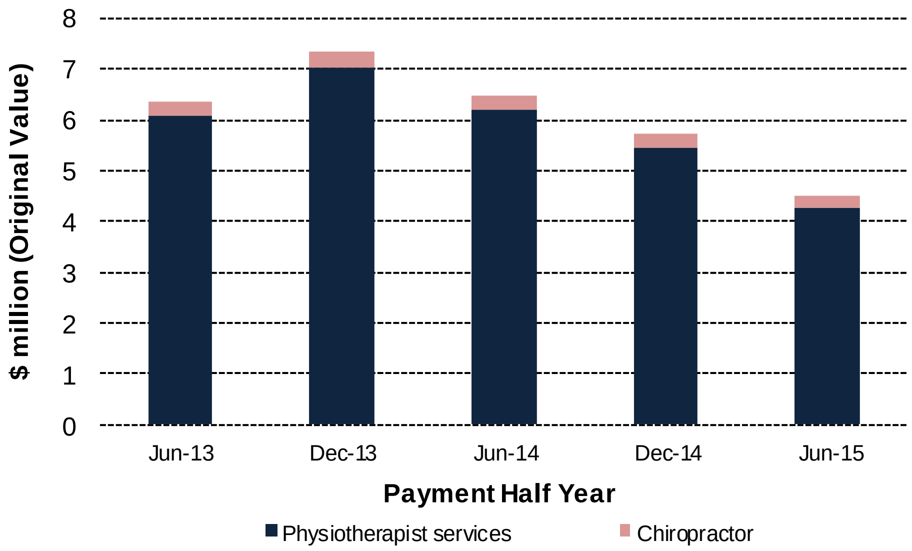
7.7 Physical Therapy

Physical therapy payments include payments made to physiotherapists and chiropractors.

Payments vs Expectations

Figure 7.9 below shows physical therapy payments by six month period.

Figure 7.9 – Physical Therapy Half-Yearly Payments



Physical therapy payments have continued to decrease in the last six months, which follows recent ReturnToWorkSA initiatives targeting over-servicing. Physical therapy payments have also been affected by payment processing delays in the last six months although to a lesser extent than Medical payments.

Table 7.14 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident Period	Payments in Six Months to Jun 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	(0.0)	83%
2005/06 - 2008/09	0.3	0.4	(0.1)	78%
2009/10 - 2011/12	0.6	0.9	(0.3)	67%
2012/13 and later [1]	3.4	4.4	(1.0)	77%
Total	4.5	6.0	(1.4)	76%

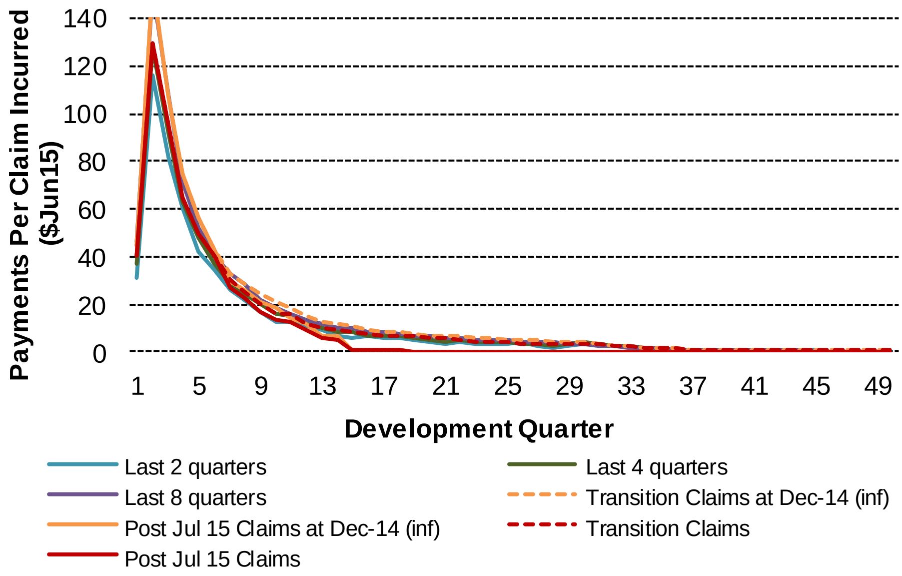
[1] Accidents to Jun15

Overall, payments were $1.4 million (24%) lower than expected driven by the more recent accident periods.

Valuation Basis

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

Figure 7.10 – Physical Therapy Experience and Selections



The adopted PPCIs for physical therapy for both transition claims and claims after 1 July 2015 have been reduced consistent with the emerging experience.

Valuation Results and Actuarial Release

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

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.7	0.7	0.0	0.0	(0.0)	0.0	5%
2005/06 - 2008/09	1.0	0.9	(0.0)	0.0	(0.1)	0.1	15%
2009/10 - 2011/12	2.6	2.1	(0.5)	0.0	(0.3)	0.8	30%
2012/13 and later [1]	9.6	8.1	(1.5)	0.0	(1.0)	2.5	26%
Total	13.9	11.8	(2.1)	0.0	(1.4)	3.5	25%

[1] Accidents to Jun15

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

The $2.1 million decrease in the projected liability combined with actual payments being $1.4 million lower than expected results in an actuarial release of $3.5 million. The actuarial release falls in more recent accident periods where the bulk of the liability lies.

Table 7.16 breaks down the actuarial release by source.

Table 7.16 – Components of Actuarial Release: Physical Therapy

Release (strengthening) due to		
	$m	$m
AvE payments in six months		1.4
Changes to Valuation Basis		
Ultimate claims	0.0	
Long term assumptions	2.0	
Subtotal		2.1
Total		3.5

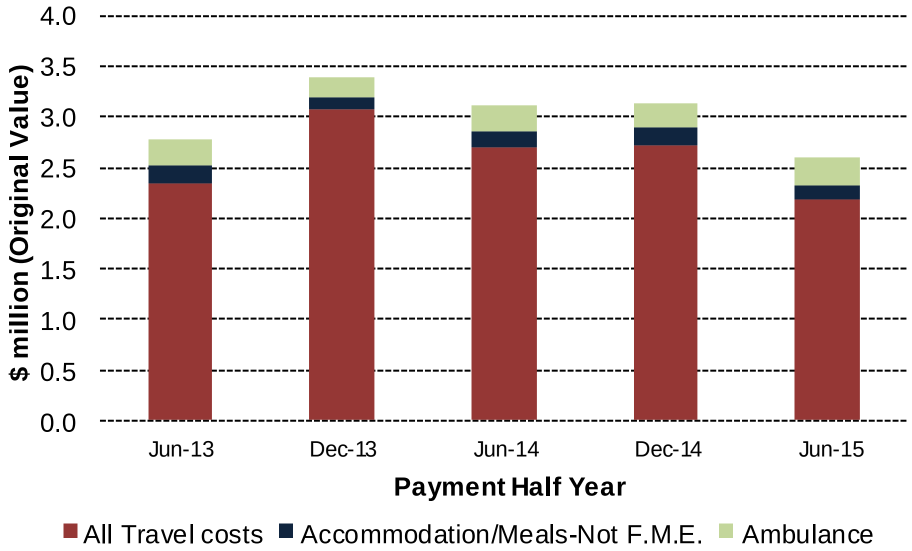
7.8 Travel

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

Payments vs Expectations

Figure 7.11 below shows travel payments by six month period.

Figure 7.11 – Travel Half-Yearly Payments



Similar to Medical payments, the level of Travel payments in the last six months have been impacted by payment delays, which suggests the payment amount is likely to be missing around one months' worth of payments compared to the true underlying travel payments. Taking this into account, travel costs have been relatively stable with around $3 million paid per half year.

Table 7.17 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.1	(0.0)	63%
2005/06 - 2008/09	0.3	0.3	0.0	101%
2009/10 - 2011/12	0.5	0.8	(0.3)	65%
2012/13 and later [1]	1.7	1.9	(0.2)	88%
Total	2.6	3.2	(0.6)	82%

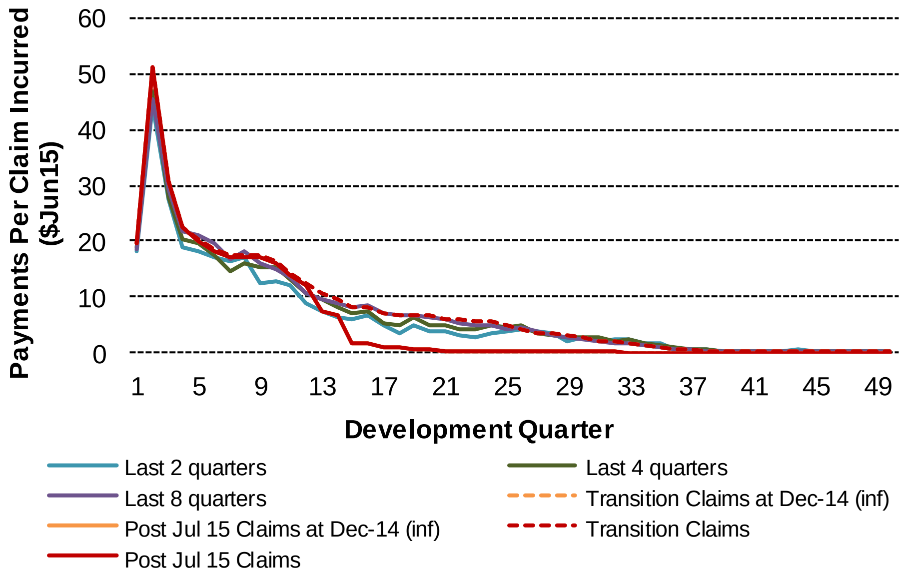
[1] Accidents to Jun15

Payments in the last six months were $0.6 million (18%) lower than expected. Had there been no payment processing delay, actual payments would have been similar to expected.

Valuation Basis

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

Figure 7.12 – Travel Experience and Selections



The adopted PPCIs for travel for both transition and claims after 1 July 2015 are unchanged as we believe the lower emerging experience is a timing issue rather than a change in the underlying payment levels.

Valuation Results and Actuarial Release

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

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.5	0.5	0.0	0.0	(0.0)	0.0	11%
2005/06 - 2008/09	0.6	0.6	(0.0)	0.0	0.0	(0.0)	0%
2009/10 - 2011/12	2.4	2.4	0.0	0.0	(0.3)	0.3	12%
2012/13 and later [1]	6.1	6.1	(0.0)	0.0	(0.2)	0.3	4%
Total	9.6	9.6	(0.0)	0.0	(0.6)	0.6	6%

[1] Accidents to Jun15

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

The actuarial release of $0.6 million reflects actual payments being $0.6 million lower than expected. The release falls in more recent accident periods.

8 Other Entitlements – Short Term Claims

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

8.1 Summary of Results

Table 8.1 summarises the movements in our liability estimates for the remaining entitlement groups since the December 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 Dec-14	67.9	81.3	8.7	2.1	0.0	4.8	(48.6)	116.2
Projected Liab at Jun-15	65.9	78.9	7.9	2.2	0.0	4.9	(46.3)	113.4
Jun-15 Valuation								
Impact of experience/OSC - Movement in liab	0.2	(36.8)	(1.1)	(0.0)	1.4	(2.5)	3.0	(35.8)
Impact of regulation change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Estimated Liab at Jun-15 (Dec-14 eco assumptions)	**66.1**	**42.1**	**6.8**	**2.2**	**1.4**	**2.4**	**(43.3)**	**77.7**
Impact of change in eco assumptions	(0.8)	(0.1)	(0.3)	(0.1)	(0.0)	(0.3)	0.4	(1.0)
Estimated Liab at Jun-15 (Jun-15 eco assumptions)	**65.4**	**42.0**	**6.5**	**2.1**	**1.4**	**2.1**	**(42.9)**	**76.7**
AvE Payments - six months to Jun-15	(1.7)	(1.4)	(0.7)	(0.1)	0.1	(0.2)	(1.3)	(5.5)
Actuarial Release at Jun-15	1.5	38.3	1.8	0.1	(1.5)	2.7	(1.7)	41.3

The movements from our December 2014 projection of the June 2015 liability are:

1. A decrease of $35.8 million in the liability, reflecting the claims experience since December 2014 and our valuation response. Combining this with payments being $5.5 million lower than expected produces and actuarial release of $41.3 million.
2. The change in economic assumptions at the current valuation – principally the increase in the discount rate – decreases the estimated liability by $1.0 million.

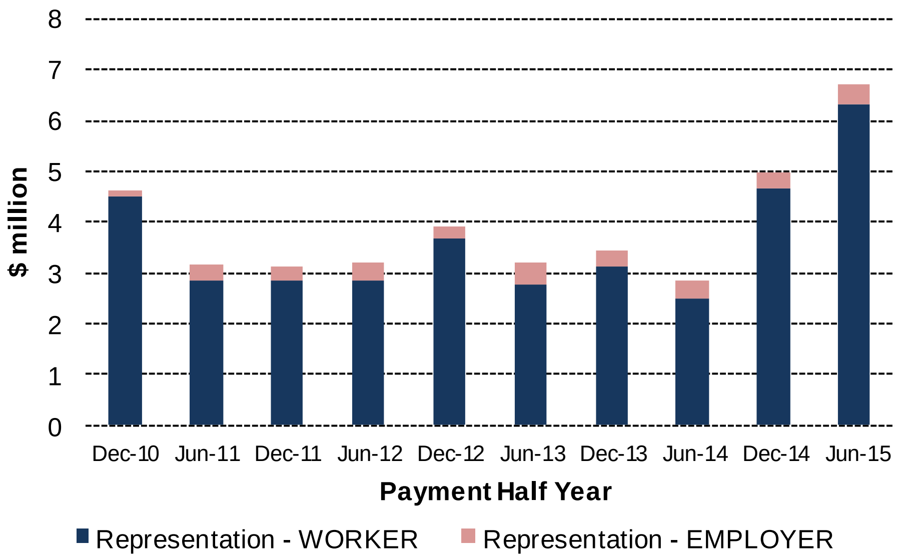
8.2 Worker Legal

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 Experience

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

Figure 8.1 – Worker Legal Half Yearly Payments



Payments have continued to increase the last six months following high levels of dispute activity over the last two years as shown in Section 3.2.3. Since worker legal accounts are generally only submitted upon completion of the dispute, the higher dispute numbers over the last two years are only starting to translate 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 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

Accident Period	Payments in Six Months to Jun 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.8	(0.6)	29%
2005/06 - 2008/09	1.7	2.6	(0.9)	66%
2009/10 - 2011/12	2.7	3.2	(0.6)	83%
2012/13 and later [1]	2.1	1.8	0.3	115%
Total	6.7	8.4	(1.7)	80%

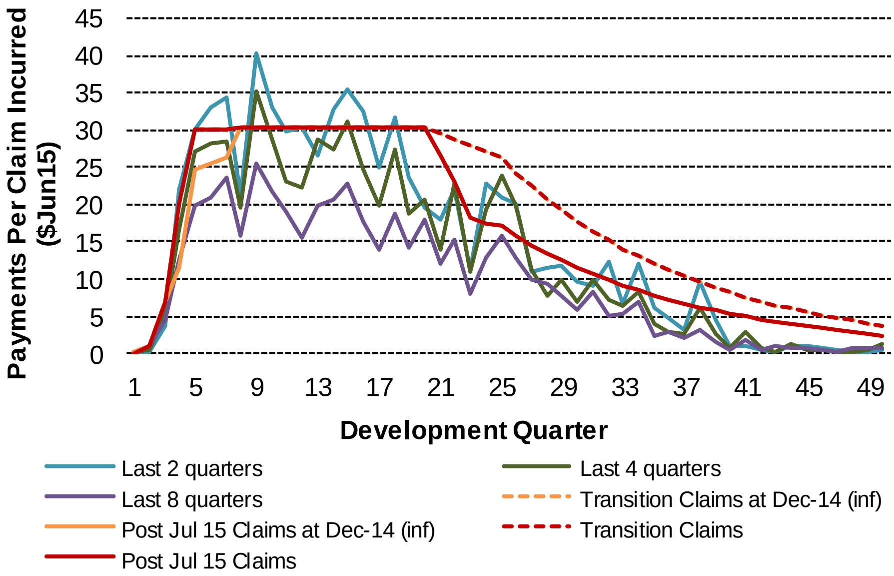
[1] Accidents to Jun15

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

8.2.2 Valuation Basis

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

Figure 8.2 – Worker Legal Experience and Selections



The adopted PPCIs for transition claims are above the long term experience, in recognition of the expected additional payments as a result of the higher number of disputes currently in the system. At the current valuation, the selected PPCI has been reshaped slightly at early durations to reflect the emerging experience.

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. The selected PPCI has been reshaped at this valuation consistent with the basis for transition claims.

8.2.3 Valuation Results and Actuarial Release

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

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	1.9	1.9	(0.0)	0.0	(0.6)	0.6	29%
2005/06 - 2008/09	10.7	10.7	(0.0)	0.0	(0.9)	0.9	9%
2009/10 - 2011/12	21.1	21.1	0.0	0.0	(0.6)	0.6	3%
2012/13 and later [1]	32.2	32.5	0.2	0.0	0.3	(0.5)	-2%
Total	65.9	66.1	0.2	0.0	(1.7)	1.5	2%

[1] Accidents to Jun15

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

The $0.2 million increase in the projected liability offset by actual payments being $1.7 million less than expected results in an actuarial release of $1.5 million. The release falls in accident periods prior to 2012/13.

Table 8.4 breaks down the actuarial release by source.

Table 8.4 – Components of Actuarial Release: Worker Legal

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

Favourable claim number experience reduces the liability by $0.1 million while long term assumption changes add $0.3 million back into the liability.

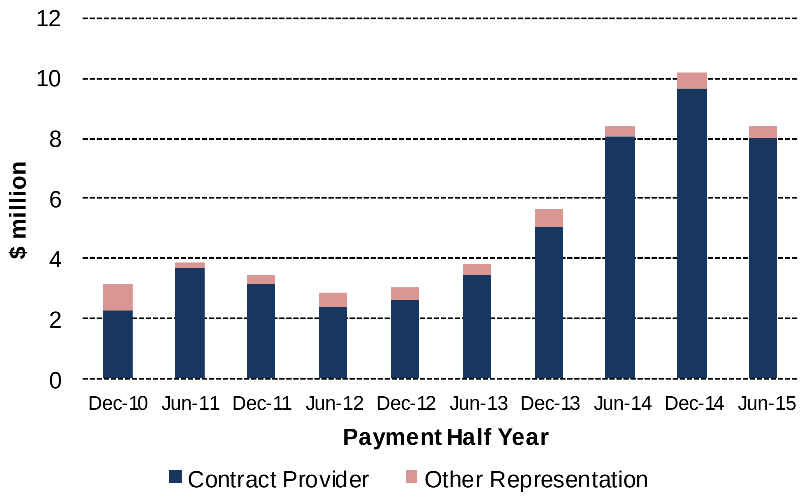
8.3 Corporation Legal

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 Experience

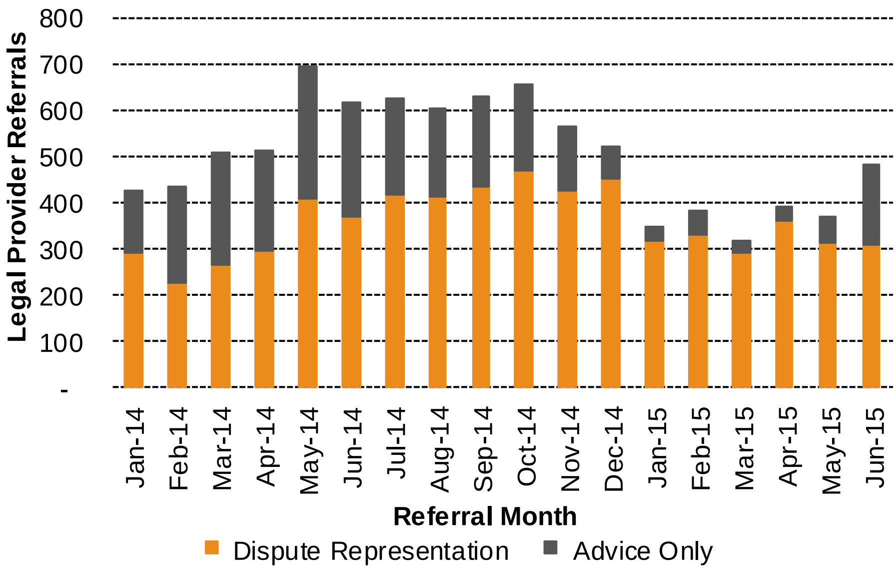
Figure 8.3 below shows corporation legal payments in each six month period since December 2010.

Figure 8.3 – Corporation Legal Half Yearly Payments



For the first time in a number of years, payments for corporation legal reduced in the last six months following the decreasing dispute numbers observed in Section 3.2.4; despite this reduction, payments are still around 2.5 times earlier levels. As Corporation Legal payments are paid on notification of a dispute, the lower number of disputes in the last six months translates directly to lower Corporation Legal costs. Figure 8.4 below shows the number of referrals by type since January 2014.

Figure 8.4 – Referrals to ReturnToWorkSA Legal Providers



The number of 'advice only matters' has fallen significantly in the last six months, with 'dispute representations', which are higher in cost also decreasing. There are clear indications the level of referrals have begun to reduce.

Table 8.5 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 8.5 – Actual vs Expected Payments: Worker Legal

	Payments in Six Months to Jun 15			
	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
Total	8.4	9.9	(1.4)	85%

Overall, actual payments were $1.4 million (15%) less than expected. A breakdown by accident period is not possible given the data constraints around contract legal payments.

8.3.2 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 81% of the projected payments for Worker Legal.

At this valuation, we have:

- Reduced the number of "advice only" and "dispute representation" matters in the short term (over the next six months) in line with the lower number of claims remaining to be disputed due to high redemption activity recently.
- Maintained the mid-term 'steady state' level of "dispute representations" within the contract period.
- Reduced the number of expected long-term matters beyond the contract period. Previously we allowed for a high number of matters in the long term due to the uncertainty around how the new SAET would function and the types of disputes that would be handled, particularly given the size of the ongoing claim and pending disputes groups. Since our previous valuation, additional information has emerged around SAET, in particular its Rules indicate a focus on resolving disputes in a timely and efficient manner.

Table 8.6 shows the actual and projected number of matters for the current contract period.

Table 8.6 – Actual and Projected Matters

	Half Year	Advice Only	Dispute Representation	Supreme Court Rep'n
		Number of Matters		
Actual	Jun-13	146	942	-
Actual	Dec-13	702	1,369	-
Actual	Jun-14	1,337	1,861	-
Actual	Dec-14	994	2,616	-
Actual	Jun-15	368	1,929	-
Projected	Dec-15	600	1,700	2
Projected	Jun-16	500	1,200	1
Projected	Dec-16	400	1,200	1
Projected	Jun-17	400	1,200	1
Projected	Dec-17	400	1,200	1

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

8.3.3 Valuation Results and Actuarial Release

Table 8.7 sets out the actuarial release resulting from our valuation of corporation legal payments. The first column represents our projection from the December 2014 valuation.

Table 8.7 – Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	4.4	0.1	(4.3)	0.0	0.4	3.9	88%
2005/06 - 2008/09	11.0	1.1	(9.9)	0.0	1.6	8.3	76%
2009/10 - 2011/12	24.5	10.8	(13.7)	0.0	(1.6)	15.3	62%
2012/13 and later [1]	39.1	30.1	(9.0)	0.0	(1.8)	10.8	28%
Total	78.9	42.1	(36.8)	0.0	(1.4)	38.3	48%

[1] Accidents toJun15

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

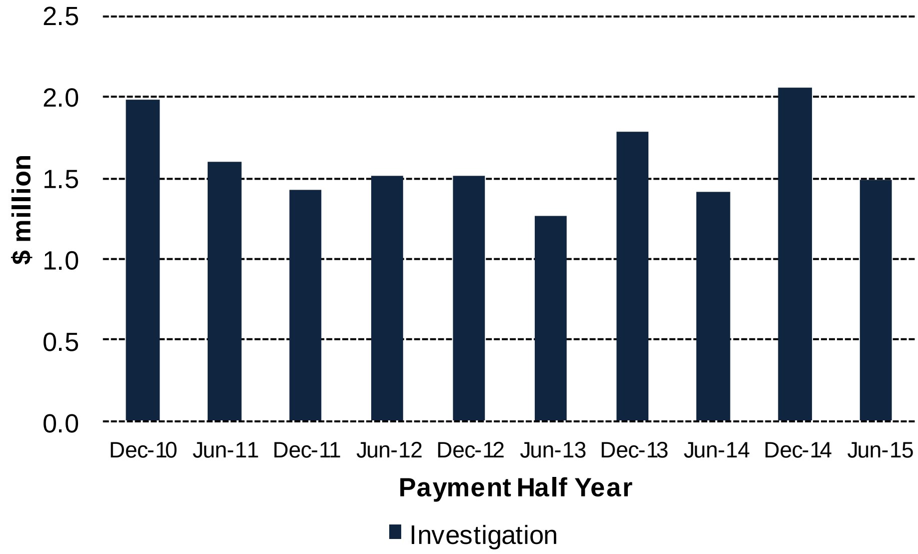
The $36.8 million decrease in the projected liability combined with actual payments being $1.4 million less than expected results in an actuarial release of $38.3 million.

8.4 Investigation

8.4.1 Experience

Figure 8.5 below shows investigation payments in each six month period since December 2010.

Figure 8.5 – Investigation Half Yearly Payments



Payments have reduced in the last six months to around $1.5 million, following on from the recent period of high WCA activity.

Table 8.8 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	(0.0)	42%
2005/06 - 2008/09	0.1	0.4	(0.3)	30%
2009/10 - 2011/12	0.2	0.5	(0.3)	45%
2012/13 and later [1]	1.1	1.2	(0.1)	89%
Total	1.5	2.2	(0.7)	67%

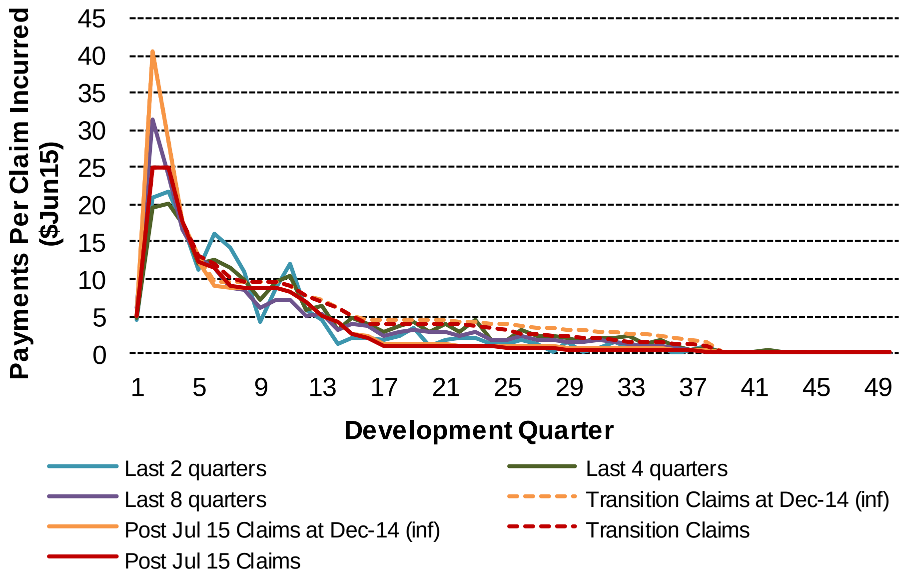
[1] Accidents to Jun15

Overall, actual payments were $0.7 million less than expected across all accident periods.

8.4.2 Valuation Basis

A PPCI model is used to value investigation payments. Figure 8.6 below shows the recent experience and selected basis.

Figure 8.6 – PPCI Experience and Selections: Investigation



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

8.4.3 Valuation Results and Actuarial Release

Table 8.9 sets out the actuarial release resulting from our valuation of investigation payments. The first column represents our projection from the December 2014 valuation.

Table 8.9 – Actuarial Release for Investigation

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	0.2	0.2	0.0	0.0	(0.0)	0.0	17%
2005/06 - 2008/09	1.0	0.7	(0.4)	0.0	(0.3)	0.6	63%
2009/10 - 2011/12	2.2	1.8	(0.5)	0.0	(0.3)	0.8	34%
2012/13 and later [1]	4.5	4.2	(0.3)	0.0	(0.1)	0.4	9%
Total	7.9	6.8	(1.1)	0.0	(0.7)	1.8	23%

[1] Accidents to Jun15

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

The $1.1 million decrease in the projected liability combined with actual payments being $0.7 million less than expected results in an actuarial release of $1.8 million. The release falls in accident periods after 2005 where the bulk of the investigation liability lies.

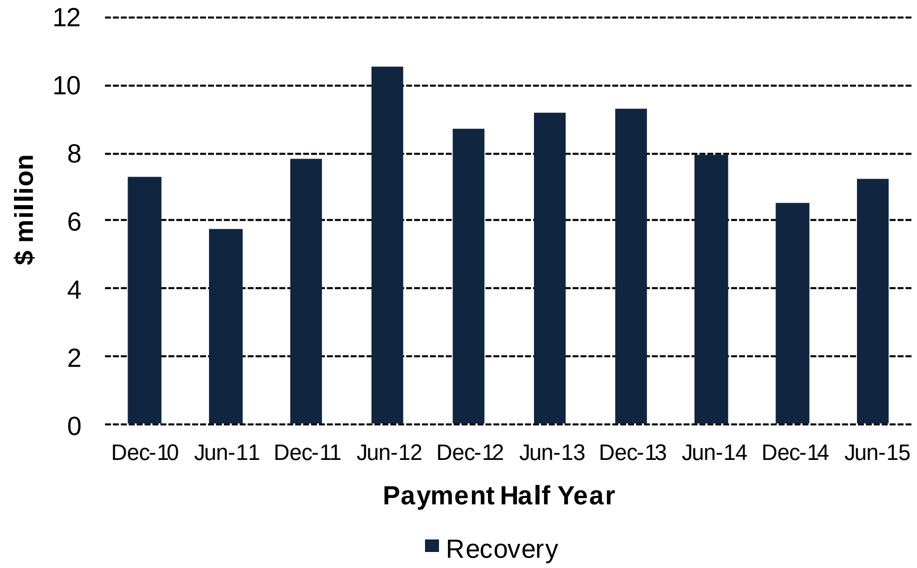
8.5 Recoveries

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

8.5.1 Experience

Figure 8.7 below shows recovery payments in each six month period since December 2010.

Figure 8.7 – Recovery Half Yearly Payments



Recovery payments in the last six months were above the previous six months but still below the average of the previous two years.

Table 8.10 compares the payments in the six months to 30 June 2015 with the expected payments from our December 2014 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

Accident	Payments in Six Months to Jun 15			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	(0.1)	(0.3)	0.2	44%
2005/06 - 2008/09	(2.7)	(1.9)	(0.8)	139%
2009/10 - 2011/12	(3.3)	(3.1)	(0.3)	109%
2012/13 and later [1]	(1.1)	(0.6)	(0.5)	178%
Total	(7.2)	(5.9)	(1.3)	123%

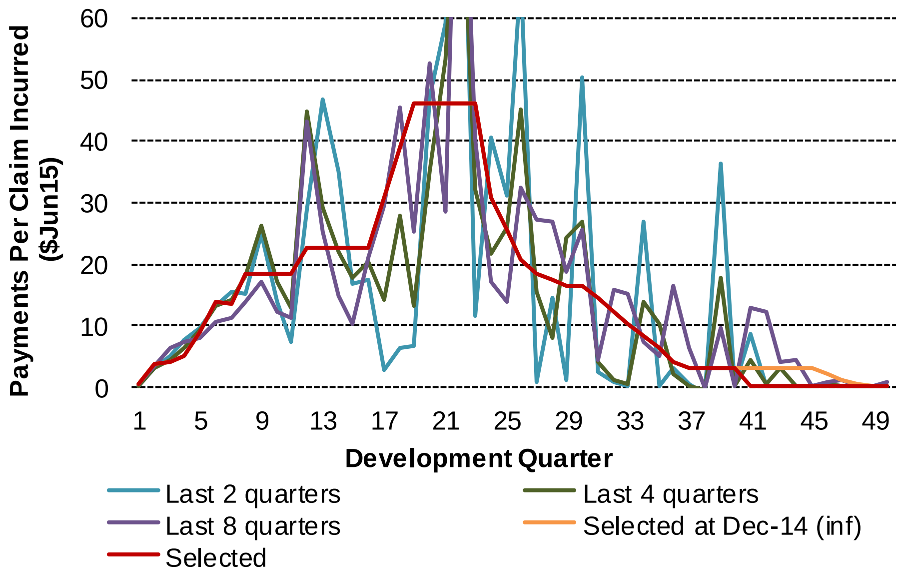
[1] Accidents to Jun15

Overall, actual recovery payments were $1.3 million greater than expected.

8.5.2 Valuation Basis

A PPCI model is used for recovery payments. Figure 8.8 below shows the recent experience and selected basis.

Figure 8.8 – PPCI Experience and Selections: Recoveries



We have reduced the adopted recovery PPCIs in the tail as the reduction in the gross tail liability from other entitlement types due to recent redemption activity will likely reduce future expected recoveries.

8.5.3 Valuation Results and Actuarial Release

Table 8.11 sets out the actuarial release resulting from our valuation of recovery payments. The first column represents our projection from the December 2014 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation¹	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	(1.4)	0.0	1.4	0.0	0.2	(1.6)	111%
2005/06 - 2008/09	(6.4)	(4.3)	2.1	0.0	(0.8)	(1.3)	21%
2009/10 - 2011/12	(19.0)	(17.8)	1.2	0.0	(0.3)	(0.9)	5%
2012/13 and later [1]	(19.6)	(21.2)	(1.6)	0.0	(0.5)	2.1	-11%
Total	(46.3)	(43.3)	3.0	0.0	(1.3)	(1.7)	4%

[1] Accidents to Jun15

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

The decrease in recoveries asset of $3.0 million offset by actual recoveries being $1.3 million above expectations results in an overall actuarial increase of $1.7 million.

8.6 LOEC, Commutations, and Common Law

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

8.6.1 LOEC

LOEC claims were previously valued with Serious Injury claims and therefore no liability was held for LOEC in Short Term Claims. At this valuation we have been advised that this treatment was incorrect and so the liability has been transferred back into Short Term Claims. The basis is unchanged from our previous valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependent benefits. There were a small number of commutation payments ($0.2 million) during the last six months. These payments follow a similar level of payments made in the previous six month and are well below our expectations ($0.5 million).

Having considered the number of claimants receiving dependent benefits in more detail as part of the IS valuation in Section 5.3.5, we have approximately halved the commutation liabilities at this valuation.

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 valuation 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.

9 Serious Injury claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 30 June 2015, and the movement in our liability estimates since the December 2014 valuation. Note, these liability estimates use our December 2014 economic assumptions, with the impact of changes in economic assumptions discussed later in Section 11.3.

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

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabilitation	Physical Therapy	Investigation	Legal - Non-Contract	Legal Contract	Lump sums	Redemptions	Recoveries	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Dec14 Valuation														
Estimated Liab at Dec-14	254	402	329	65	53	60	39	0	1	0	36	0	-21	1,218
Projected Liab at Jun-15	263	419	344	69	55	62	41	0	1	0	28	0	-19	1,264
Jun15 Valuation														
Impact of experience/basis change	-32	-1	-7	-7	-5	-21	-8	1	3	3	6	7	-1	-62
Impact of Regulation change	12	13	2	2	1	2	1	0	0	0	3	0	-1	35
Estimated Liab at Jun15 (Dec14 ecos)	**242**	**431**	**339**	**64**	**52**	**43**	**34**	**2**	**3**	**4**	**38**	**7**	**-20**	**1,238**
Estimated Liab at Jun15 (Jun15 ecos)	**236**	**414**	**326**	**61**	**50**	**42**	**33**	**2**	**3**	**4**	**38**	**7**	**-20**	**1,195**
AvE Payments - six months to Jun15	-1	-1	-1	0	0	0	0	0	0	0	-5	2	0	-6
Actuarial Release at Jun15	34	2	8	7	5	21	9	-1	-3	-3	-2	-10	0	67

The outstanding claims cost for Serious Injury claims is $1,195 million at 30 June 2015. The three main movements from our December 2014 projection of the June 2015 liability are:

- An actuarial release of $67 million reflecting the claims experience since December 2014 and our valuation response
- This is somewhat offset by a $35 million increase due to the impact of Regulation changes (as discussed above in Section 3.1)
- The change in economic assumptions at the current valuation – principally the increase in the discount rate – which decreases the estimated liability by $43 million. The impact of the change in economic assumptions is discussed in Section 11.3.

The remainder of this section deals with the first two points above.

9.2 Background

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

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

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

- Other (potential) Serious Injury claims – these are claims who have not yet had a WPI assessment of 30% or more, but who may do so at some point in future; we have been provided a list of such claims by ReturnToWorkSA, which is based on claims profiling and medical review which 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 and so this uncertainty should reduce over the next two to three years.

9.3 Valuation Approach

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

Due to significant differences in the level of incapacity and associated treatment and care costs, we have separately modelled 'Severe Traumatic Injury' claims and 'Other Serious Injury' claims, and our assumptions have been set as described in Appendix A.7 and summarised in the following table.

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

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a. (down from 2% previously). Mortality loadings for claims with high care needs (reducing life expectancy by 19 years) and for moderate care needs (reducing life expectancy by 8 years).	Mortality improvement of 1.5% p.a. (down from 2% previously).
Income Support	To retirement age on all operationally active claims. 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 an assumed average WPI if no assessment has been undertaken as yet.	
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.	Applied an ultimate recovery proportion net of recoveries to date.
Common Law	Not available to pre-1 July 2015 claims.	
Future cost escalation	WCI: IS AWE: Recoveries, Treatment and Other,	WCI: IS AWE: Recoveries, Treatment and Other,

	Severe Traumatic Injuries	Other Serious Injury
	Legal and Investigation Superimposed: 3% p.a. on Treatment and Other	Legal and Investigation 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 claims.	IBNR claims in the latest seven accident years, reflecting the impact of Regulation changes (allowing 'top-ups' for secondary injuries) and potential Serious Injury claims with assessments of over 30% which are not yet included in the Serious Injury list. Claim size based on historical experience on current known and potential claims.

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

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

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

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

9.4 Claim Numbers

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

Table 9.3 – Serious Injury Claim Numbers

	Severe Traumatic	Other SI	Total
Known Serious Injuries	150	240	390
plus Potential Serious Injury claims[1]	0	327	327
Total Identified Serious Injuries	150	567	717
less Claims not on ongoing benefit[2]	32	119	151
plus Future Serious Injury (IBNR)	10	99	109
Serious Injury Claims Valued at Jun15	128	547	675

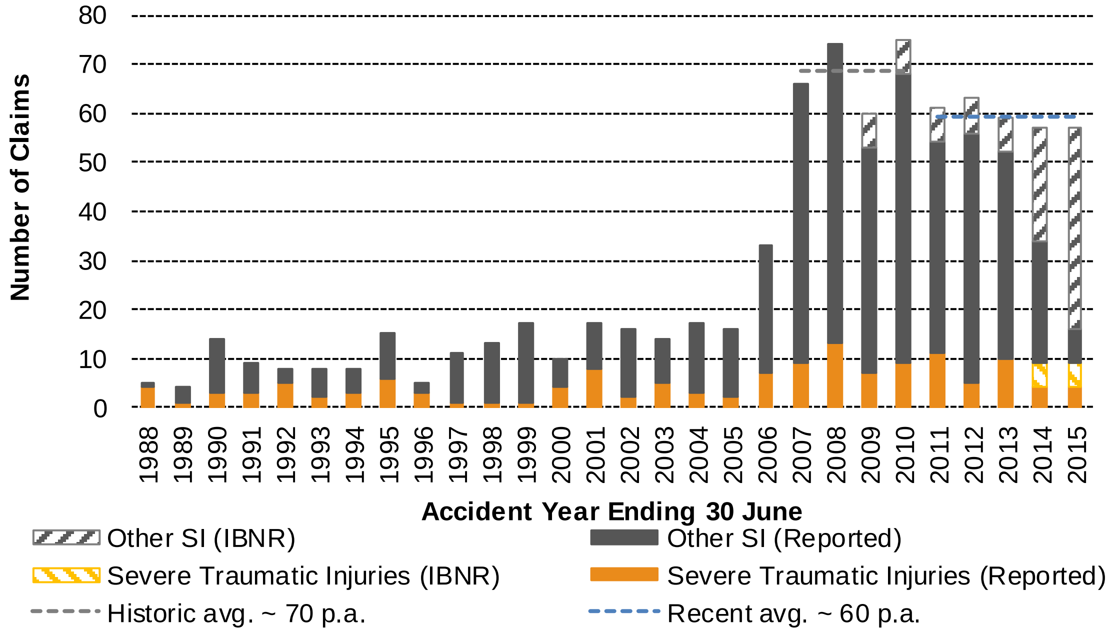
[1] Identified by ReturnToWorkSA.

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

Our Serious Injury projection incorporates 717 claims identified by ReturnToWorkSA (noting 151 of these are excluded from our valuation as are deceased, rejected, or redeemed). In addition, we allow for a further 109 IBNR claims as at 30 June 2015.

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

Figure 9.1 – Serious Injury Claim Numbers by Accident Year



The key features we note from this are:

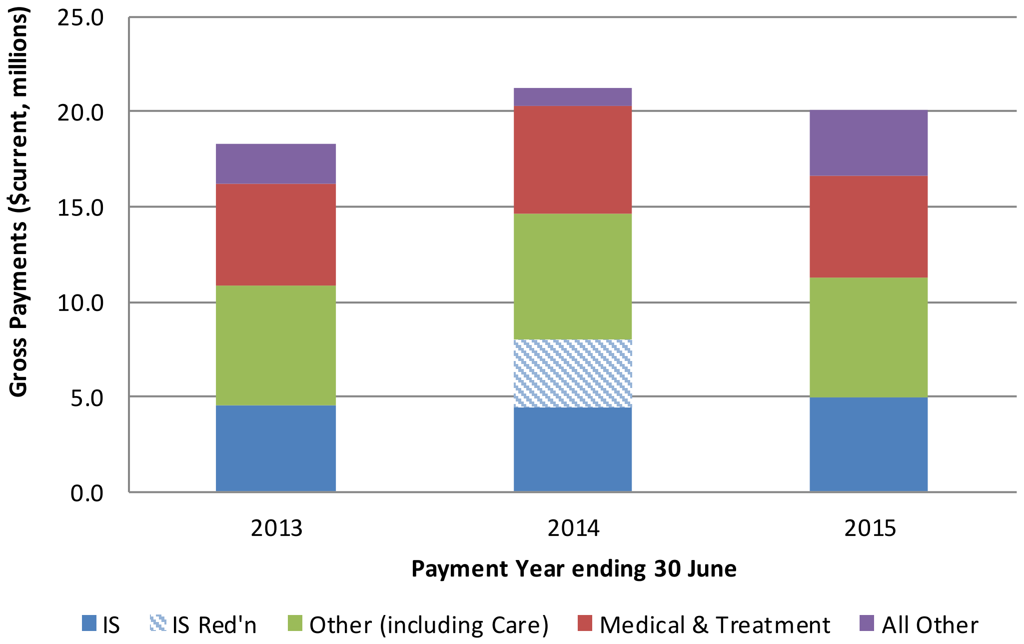
- The number of Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- In the period 2007 to 2010 there average nearly 70 Serious Injury claims per year. However, this includes around 10 'top-up' claims (i.e. deteriorations or aggravations) per year which are no longer expected under the RTW Act due to the requirement for 'once and for all' WPI assessments.
- 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.
- The Regulation changes introduced in June 2015 mean that claimants with multiple injuries may apply for subsequent WPI assessments, up until 30 June 2016, if some of the injuries have not yet been assessed; we estimate there are around 5 such claims per year in recent accident years, although the information used to support this assumption is limited.
  - In total, we have allowed for 25 extra IBNR claims to eventuate across the 5 most recent accident years as a result of the June 2015 Regulation change.
- 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 60 Serious Injury claims per year (of which 9 are expected to be Severe Traumatic Injuries), and have allowed for 109 IBNR claims in the 2008/09 to 2014/15 accident years based on this ultimate view.

9.5 Valuation of Severe Traumatic Injury claims

9.5.1 Payments by Type

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

Figure 9.2 – Severe Traumatic Injury Claim Payments ($Jun-15)



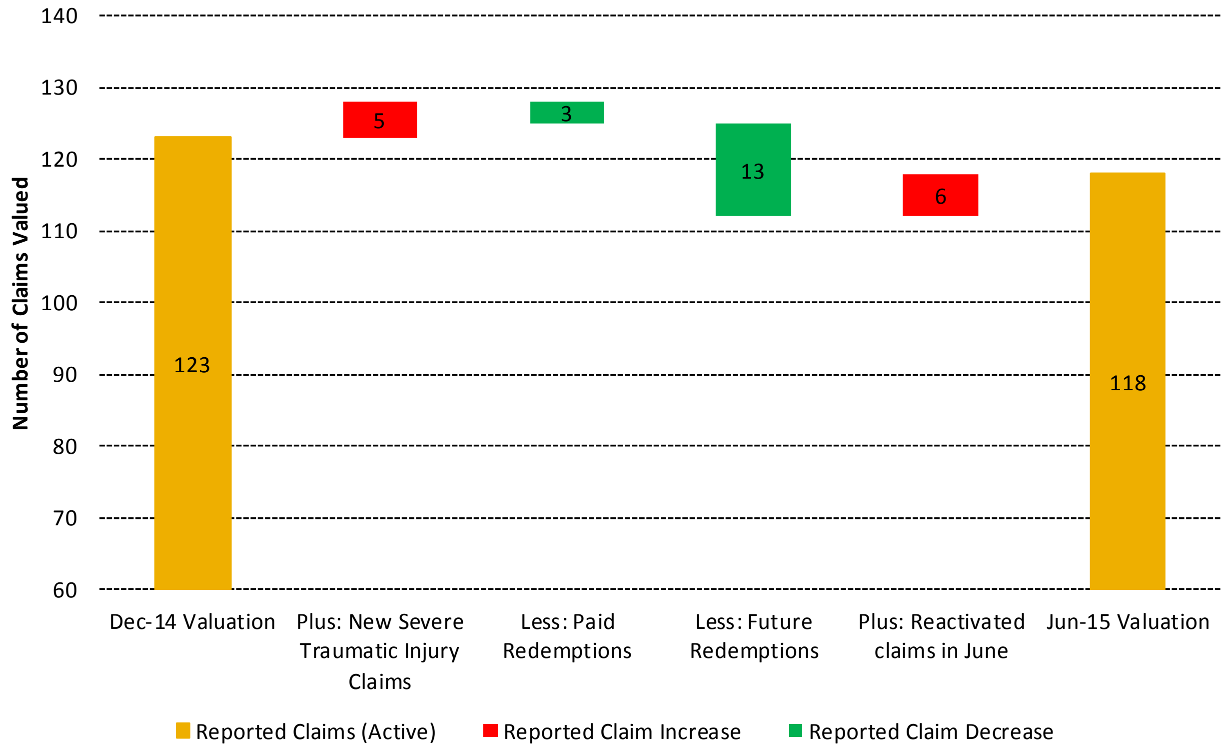
Around $60 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of almost $13 million over this same period, this equates to an average of around $16 million per annum in net claim payments to (inflated to 30 June 2015 values), comprising around:

- $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 Support
- $3.0 million per annum in lump sums
- Small amounts of legal and investigation payments ($0.2 million per annum)
- $4.0 million per annum in recoveries.

9.5.2 Claimant Profile

Figure 9.3 shows the number of Severe Traumatic Injury claims at the current and previous valuations, along with the reasons for movement in the number of claims being valued.

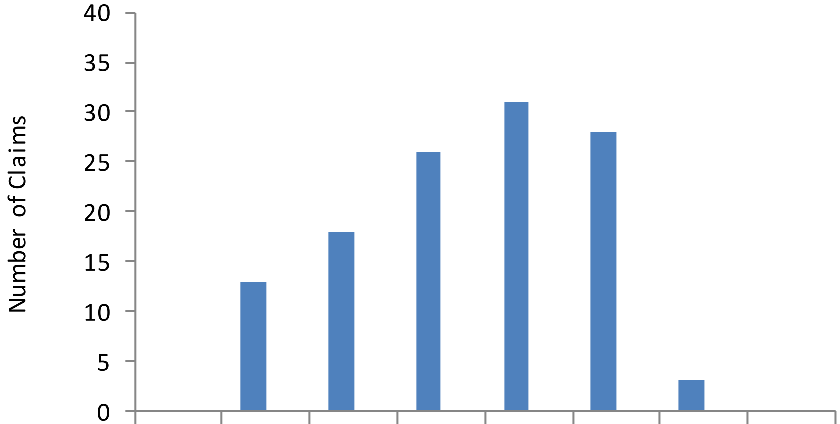
Figure 9.3 – Movement in Severe Traumatic Injury Claim Numbers



There are 118 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at June 2015, compared to 123 at the previous valuation. The largest movement is due to a group of 16 redemptions that have occurred or been agreed, which acts to reduce the number of claims that we project ongoing payments for (agreed redemptions are valued for the known redemption amount).

Figure 9.4 shows the age and life expectancy of the current Severe Traumatic Injuries.

Figure 9.4 – Average Age and Life Expectancy for Severe Traumatic Injury claims



	<20	20s	30s	40s	50s	60s	70s	>70
Number of Claims	0	13	18	26	31	28	3	0
Loaded Life Expectancy	0	60	47	35	26	20	9	0

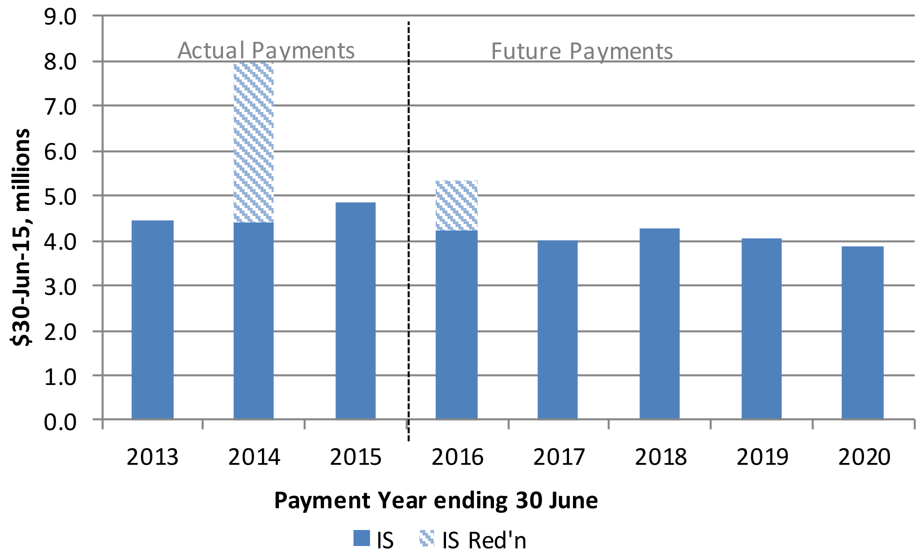
Severe Traumatic Injury claimants are currently around 50 years old on average, with an expected future life expectancy of around 35 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was 38 years.

Only around half the current Severe Traumatic 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, 16 of these claims have been assessed as being less than 30% impaired. The average impairment level excluding these low assessments is around 65%, which is consistent with the high care needs for this group.

9.5.3 Income Support

Figure 9.5 shows historic and projected Income Support payments for Severe Traumatic Injury claims (including IBNR claims, but only on existing accident years).

Figure 9.5 – IS Payments – Severe Traumatic Injury claims ($Jun-15)

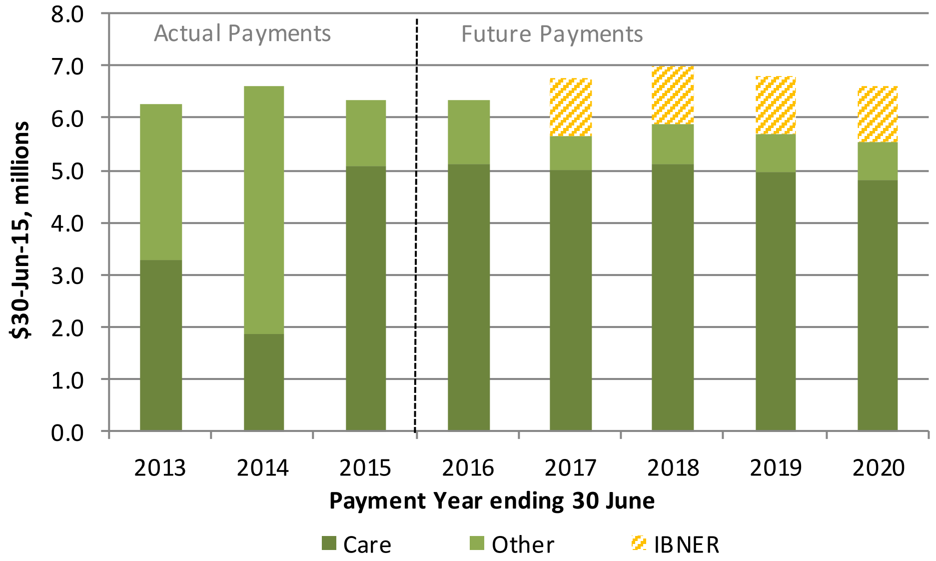


We estimate around $4.0 million will be paid in Income Support to Severe Traumatic Injury claims in 2016 and a further $1.1 million will be paid in Income Support redemptions. Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 19 years of the 2015 payments.

9.5.4 Care and Other Costs

Figure 9.6 shows historic and projected care and other payments for Severe Traumatic Injury claims (including IBNR claims).

Figure 9.6 – Other (incl. Care) Payments – Severe Traumatic Injury claims ($Jun-15)

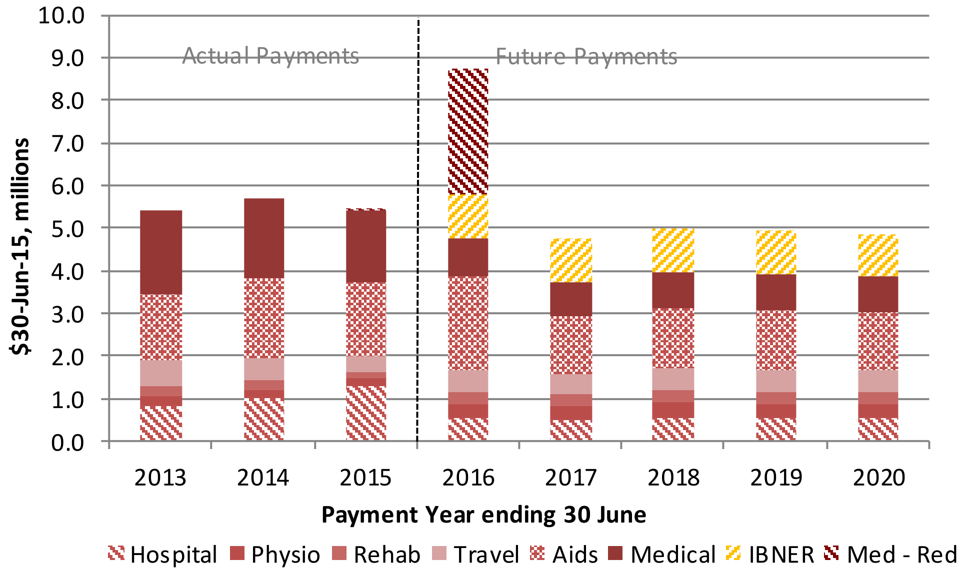


We expect just over $6.0 million of other and care payments in 2016, in line with the 2015 year. Payments then increase in the short term due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture annualised other benefits (primarily modifications). These increases are slowly offset by reductions due to mortality.

9.5.5 Treatment and Related Costs

Figure 9.7 shows historic and projected treatment and related costs for Severe Traumatic Injury claims (including IBNR claims).

Figure 9.7 – Treatment and Related Payments – Severe Traumatic Injury claims ($Jun-15)

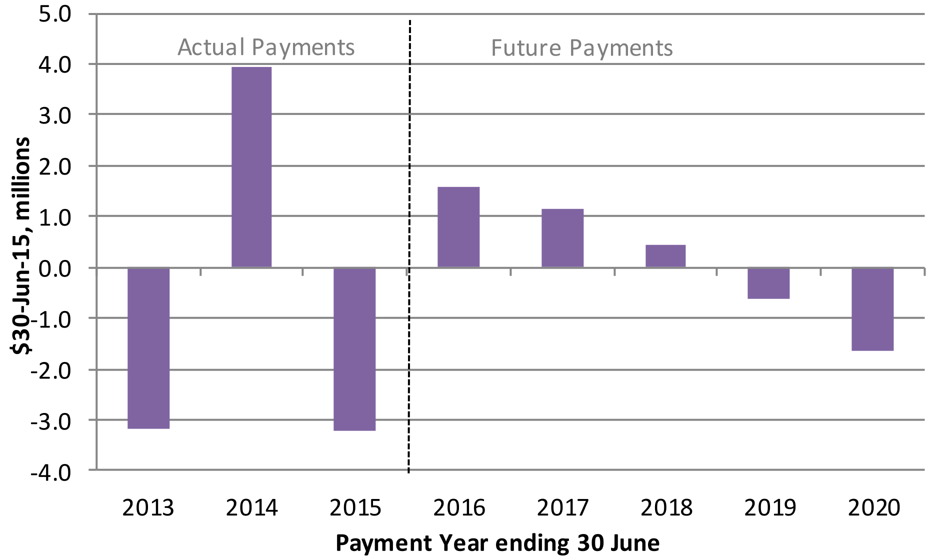


We expect future treatment and related payments of $8.7 million in 2016 comprising around $3.0 million in redemptions and a further $5.8 million in regular treatment and related payments. The regular cost is up 7% relative to payments in 2015, reflecting ReturnToWorkSA estimates including anticipated upcoming one-off spend on prosthetics and known surgeries (which did not occur in 2015, contributing to the reduction in payments below expected), and our allowance for IBNER.

9.5.6 All Other Payments

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

Figure 9.8 – All Other Payments – Severe Traumatic Injury claims ($Jun-15)



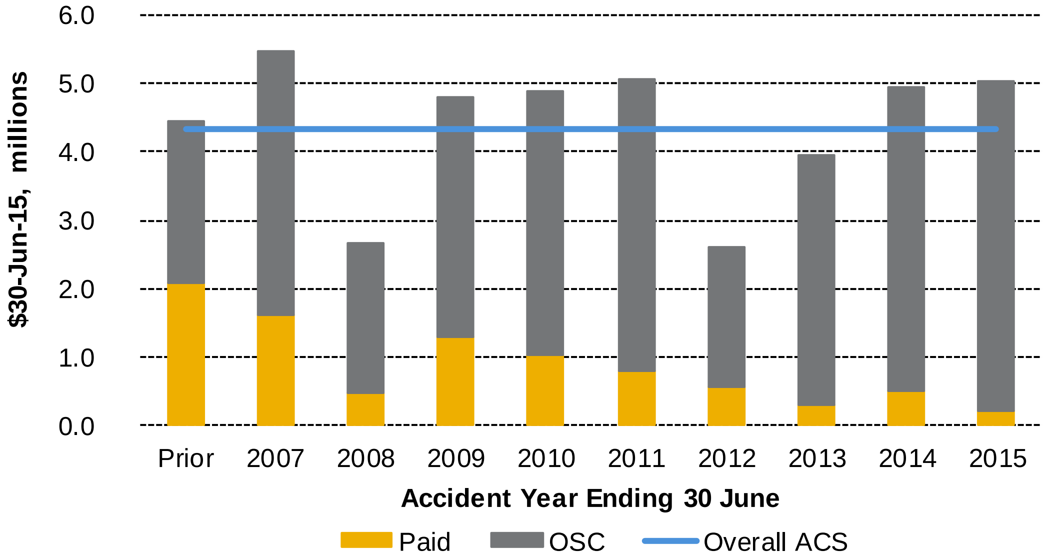
In the three years to 31 December 2014, a net amount of -$2.4 million of other benefits was received for Severe Traumatic Injury claims. Our future projections include:

- Lump sum benefits of $10.8 million paid to current Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $1.7 million
- Recoveries of $11.7 million, for those claims where ReturnToWorkSA have identified recovery potential. The ultimate recovery rate on all Severe Traumatic Injury claims is 5%.

9.5.7 Overall Results and Implications

Figure 9.9 shows the net ultimate average claim size across current Severe Traumatic Injury claims. As this shows, there is still a large share of the cost that is due to projected future payments, and so there is greater uncertainty about ultimate costs than in other areas of the valuation.

Figure 9.9 – Average Claim Size (Reported Claims) – Severe Traumatic Injury claims ($Jun-15)



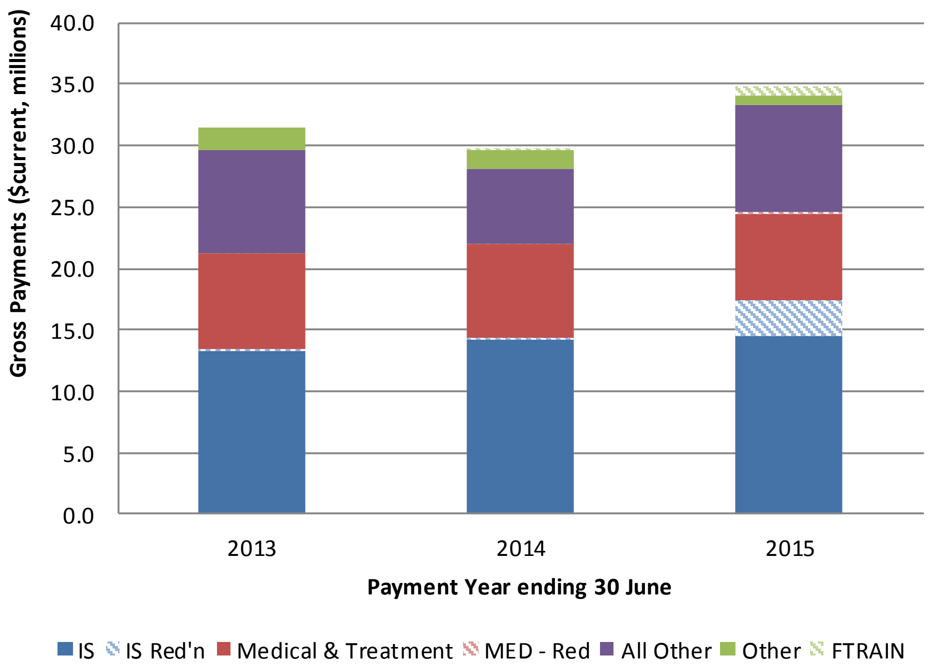
The average claim size across current Severe Traumatic Injury claims is around $4.3 million in current dollar values. This is essentially unchanged since the previous valuation. We observe that the average cost for ongoing claims is slightly higher than this amount, which is not surprising.

9.6 Valuation of Other Serious Injury claims

9.6.1 Payments by Type

Figure 9.10 shows claim payments over the past three years for the Other Serious Injury claims (i.e. excluding the Severe Traumatic Injuries).

Figure 9.10 – Other Serious Injury Claim Payments ($Jun-15)



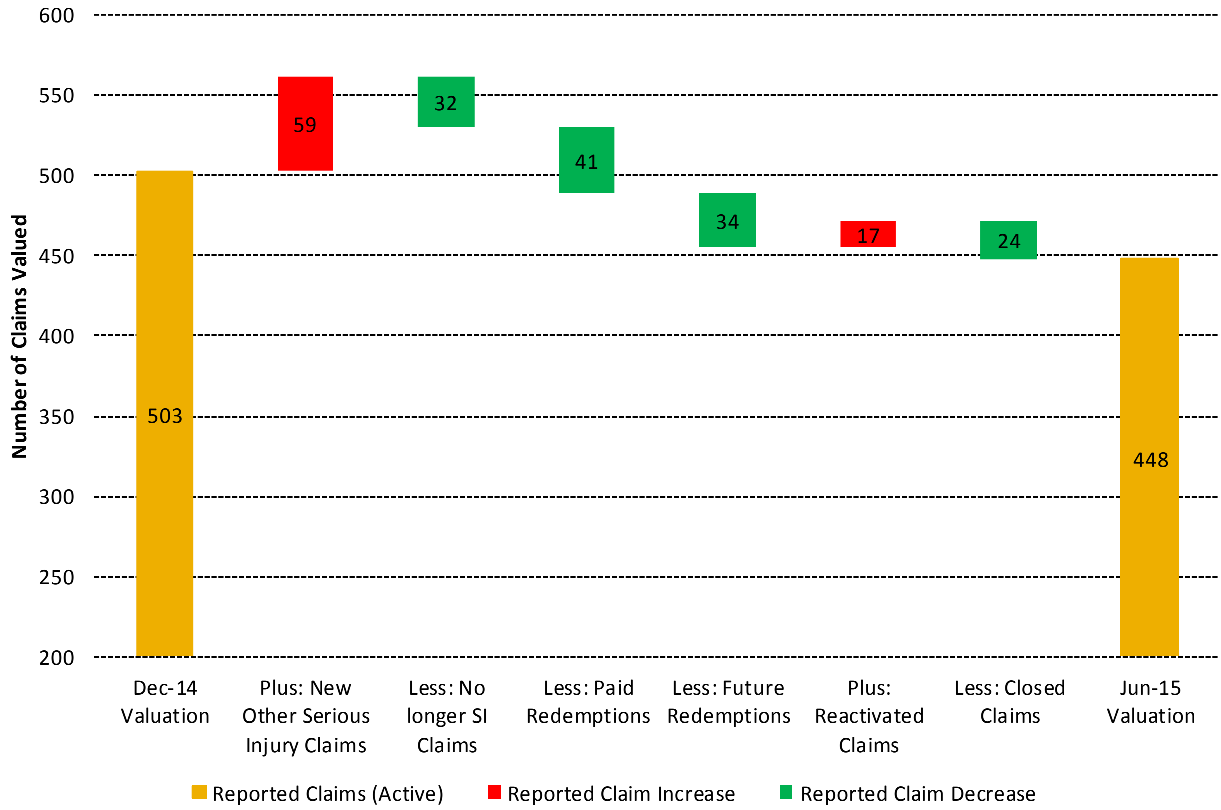
Around $96 million has been paid to Other Serious Injury claims in the last three years. After allowing for recoveries of around $4 million over this same period, this equates to an average of around $31 million per annum in net claim payments (inflated to 30 June 2015 values), comprising:

- $14.0 million per annum in Income Support
- $7.5 million per annum in medical, treatment and related benefits
- $8.0 million per annum in lump sums
- Only small amounts of other benefits ($1.0 million).

9.6.2 Claimant Profile

Figure 9.3 shows the number of Other Injury claims at the current and previous valuations.

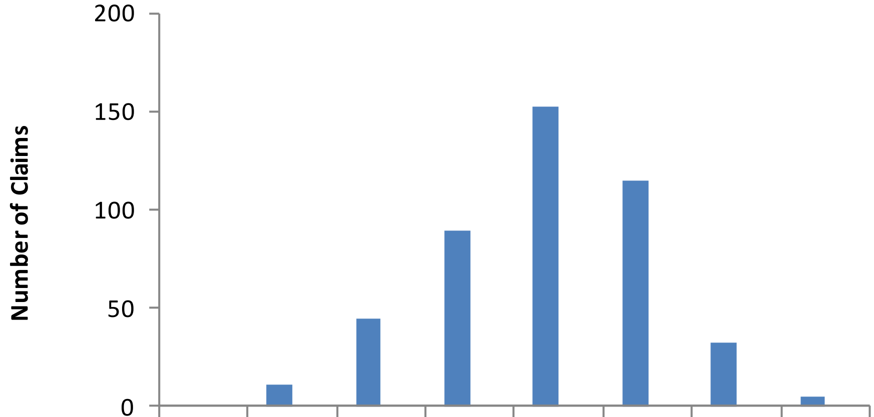
Figure 9.11 – Movement in Other Serious Injury Claim Numbers



There are 448 active (i.e. with expected ongoing benefits) Other Serious Injury claims at June 2015, compared to 503 at the previous valuation.

Figure 9.12 shows the current age and life expectancy of the known and potential Other Serious Injury claims.

Figure 9.12 – Average Age and Life Expectancy for Other Serious Injury claims



	<20	20s	30s	40s	50s	60s	70s	>70
Number of Claims	0	11	44	89	152	115	32	5
Standard Life Expectancy	0	62	52	41	31	22	14	9

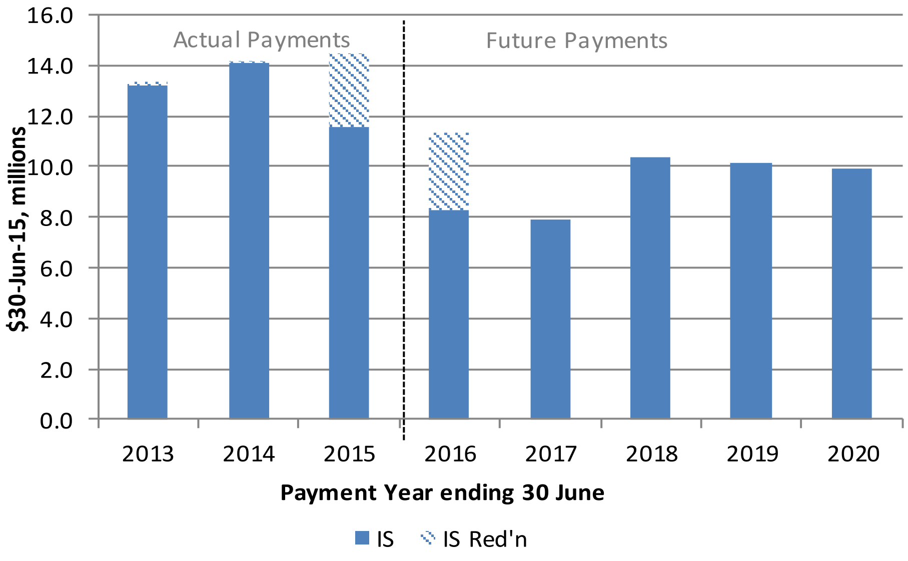
The Other Serious Injury claims are currently around 55 years old, with an expected future life expectancy of just over 30 years (after allowing for mortality, including mortality improvements). We note the average age at injury was around 45 years.

Just over 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 Support

Figure 9.13 shows historic and projected Income Support payments for Other Serious Injury claims (including IBNR claims).

Figure 9.13 – IS Payments – Other Serious Injury claims ($Jun-15)

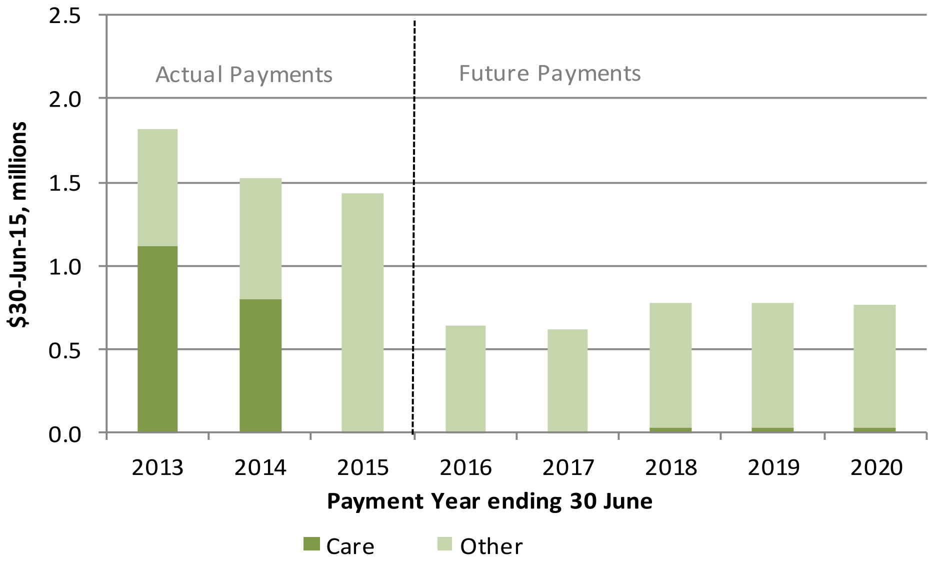


We estimate around $8.3 million will be paid in Income Support and a further $3.0 million in Income Support redemptions will be paid to Other Serious Injury claims in 2016. Future payments will generally reduce over time in line with expected mortality and retirement, although there is a stepwise change between 2017 and 2018 as additional IBNR claims are assumed to move into the serious injury group at two years duration.

9.6.4 Care and Other Costs

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

Figure 9.14 – Other (incl. Care) Payments – Other Serious Injury claims ($Jun-15)



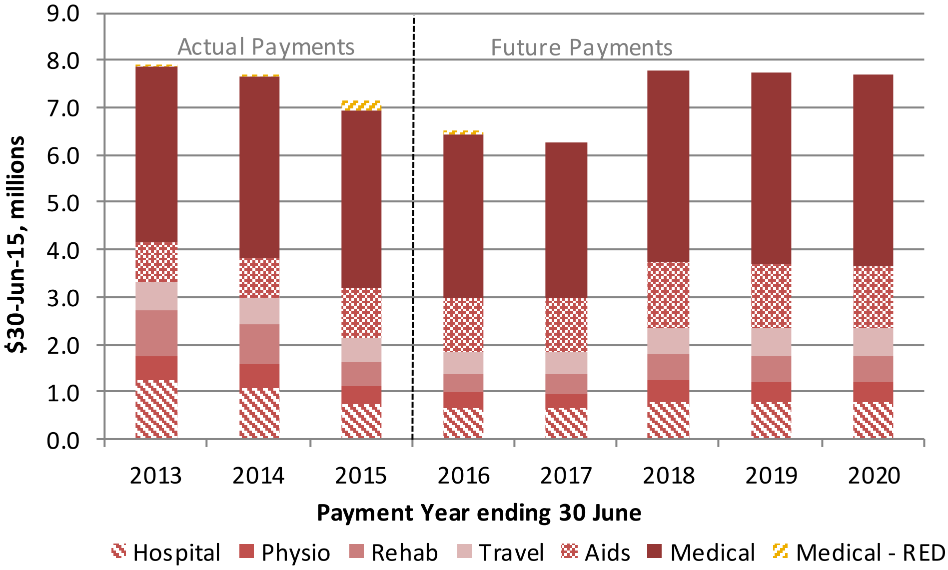
Other Serious Injury claims receive very little in care costs (almost all the care paid in the last three years related to a claimant who is now deceased).

We expect around $0.6 million in other payments in 2016, in line with the average across the last three years. Payments thereafter increase due to IBNR claims offset by reductions line with mortality.

9.6.5 Treatment and Related Costs

Figure 9.15 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims).

Figure 9.15 – Treatment and Related Payments – Other Serious Injury claims ($Jun-15)

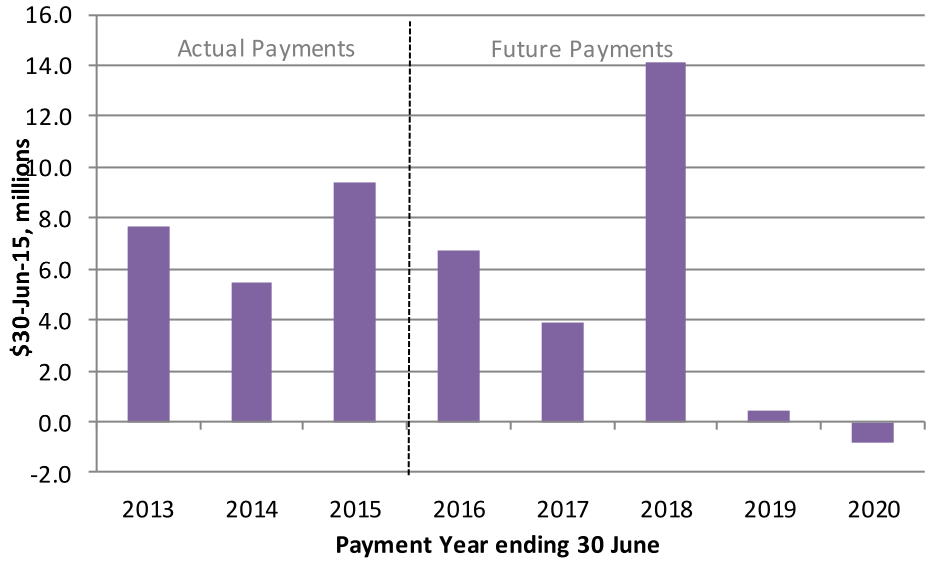


We expect treatment and related payments of $6.3 million in 2016 (including around $0.1 million of medical redemptions). Payments thereafter increase due to IBNR claims offset by reductions line with mortality.

9.6.6 All Other Payments

Figure 9.16 shows historic and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 9.16 – All Other Payments – Other Serious Injury claims ($Jun-15)



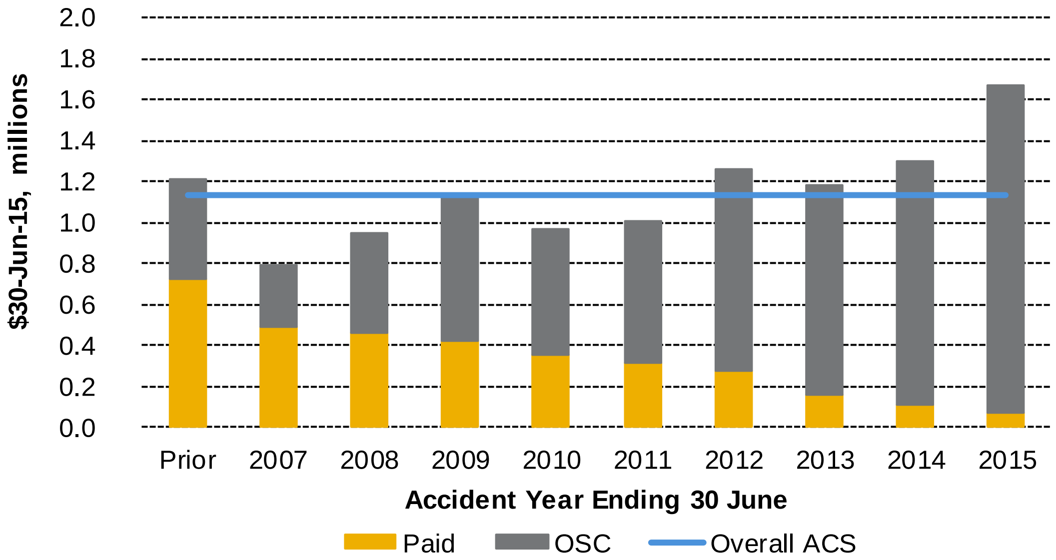
Our future projections include:

- Lump sum benefits of $26.9 million paid to current Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of $6.6 million
- Recoveries of $8.3 million.

9.6.7 Overall Results and Implications

Figure 9.17 shows the net ultimate average claim size (inflated to 30 June 2015 values) across current Other Serious Injury claims.

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



The overall average size for current Other Serious Injury claims is around $1.1 million, which compares to $1.3 million assessed at the previous valuation. The decrease follows the recent favourable redemption and settlement activity, which we do not expect will be continued in future. We have therefore adopted an average claim size of $1.3 million for IBNR Other Serious Injury claims (unchanged since the previous valuation).

9.7 Valuation Results and Actuarial Release

Table 9.4 shows the actuarial release by accident period for Serious Injury claims. The majority of the release relates to periods occurring from 2006 to 2012 which is where most Serious Injury claims sit, and where most of the claim closures in the last six months have been from.

Table 9.4 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Jun 15 from Dec 14 Valuation[1]	Jun 15 Estimate on Dec 14 Eco Assumptions	Difference from Projected Liability	Impact of Regulation Change	Act v Exp Pmts in 6 mths to Jun 15	Actuarial Release [2]	Release as %
	$m	$m	$m	$m	$m	$m	
To 30 Jun 05	248.3	255.0	6.7	0.0	0.7	(7.4)	-3%
2005/06 - 2008/09	315.8	294.3	(26.5)	5.0	(6.1)	32.6	10%
2009/10 - 2011/12	334.1	315.7	(33.5)	15.1	0.9	32.6	10%
2012/13 and later [1]	365.8	372.6	(8.5)	15.3	(1.2)	9.7	3%
Total	1,264.0	1,237.6	(61.7)	35.4	(5.7)	67.5	5%

[1] Accidents to Jun15

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

Table 9.5 shows the drivers of the actuarial release for Serious Injury claims. As this shows the movements are driven by: (1) changes in the claims identified as Serious Injury (a net $81 million increase), which is likely to continue over the next one to two years as assessments are completed, and

(2) the closure of a large number of Serious Injury claims following recent WCA and transition settlement activity (a $134 million reduction).

Table 9.5 – Components of Actuarial Release: Serious Injury Claims

Release (strengthening) due to		
	$m	$m
AvE payments in six months		6
Difference from projected liability		
Changes to Valuation Basis		
Extra SI claims	(124)	
Claims no longer SI	43	
Closure of SI claims	134	
Other basis changes	9	
Subtotal		62
Total		67

10 Economic and Other Assumptions

10.1 Discount Rate

10.1.1 Approach

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

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

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

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

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

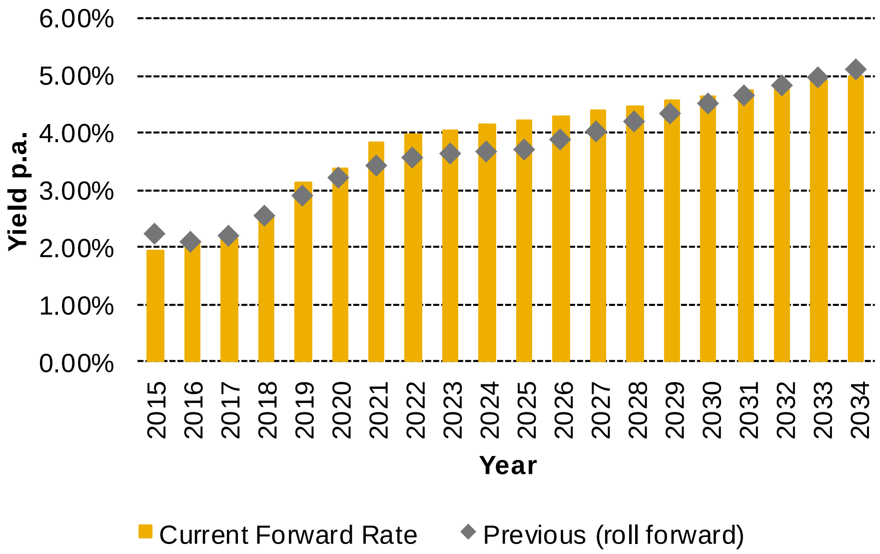
The resulting forward rates are applied to the projected cashflows for each future period. When discounting using forward rates, the relevant rates must be ‘chained’ together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

Government bond yields at June 2015 are higher than at December 2014 for durations between 2 and 18 years. Despite this, at the current valuation we have reduced the forward rate to 5.25% 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 0.25% p.a. from the previous valuation and reflects further reductions in the yields of long-term bonds as well as the continuation of a 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 increased for all durations with the equivalent single discount rate increasing from 4.0% p.a. at 31 December 2014 to 4.1% p.a. at 30 June 2015.

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:

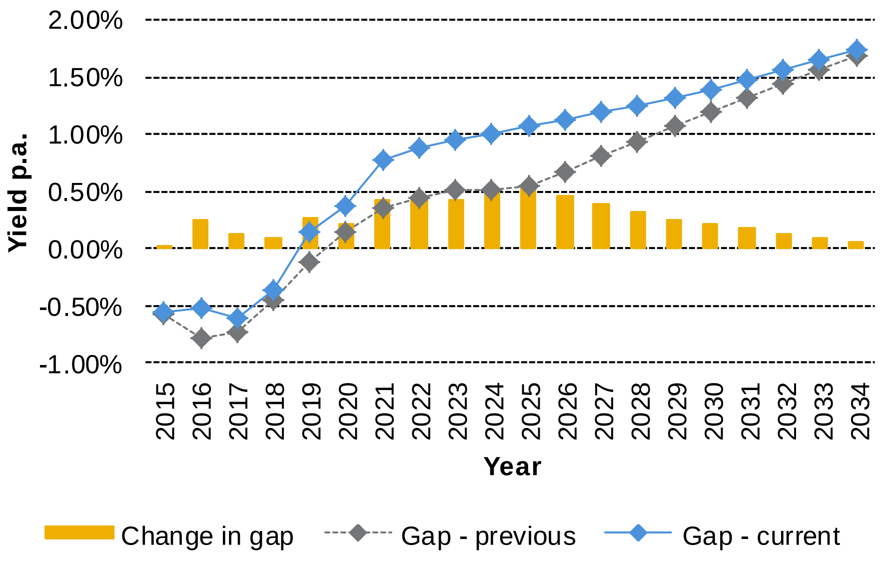
- Wage Price Inflation has been assumed to be 2.5% p.a. for the coming year, increasing to 3.0% after five years. This is a reflection of both current forecasts and the current low interest rate environment.
- Wage Price Inflation assumptions gradually increase from this level to 3.25% over the next 18 years, where a gap of 2% p.a. is maintained between Wage Price Inflation and forward discount rates. This gap is consistent with the December 2014 valuation.
- 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 an increase in the ‘gap’ between inflation and discount rates, as shown in Figure 10.2.

Figure 10.2 – Gap between Adopted AWE and Discount Rates



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

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

- IS entitlements and related expenditure for Short Term Claims have no inflation applied for the current cohort of claims, consistent with the RTW Act. AWE is initially applied for future injuries
- IS entitlements and related expenditure for Serious Injury claims 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%, unchanged from the previous valuation.

(ii) For Short Term Claims, we have estimated the expenses of running off those claims until the end of 2017/18 when the transition will be largely complete, based on preliminary budget information from ReturnToWorkSA – the claims handling allowance for this component is $196 million.

(iii) For future Short Term Claims 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 expense allowances will need to be updated regularly during the transition period to reflect changes in the claims mix and expected future costs. Given the significant changes being undertaken by ReturnToWorkSA to implement the RTW Act, and the resulting changes in claimant profile over the next 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 the current valuation we have been asked to provide risk margins at both a 65% probability of sufficiency, consistent with the previous reserving approach, and a 75% probability of sufficiency which is referenced in the RTW Act for use in the Scheme Adjustment Mechanism.

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

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

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

Table 10.1 – Coefficient of Variation

Risk Margin Group	Total CV Jun-15	Total CV Dec-14
Serious Injury	26.5%	25.5%
Short Term Claims		
IS + Redemption	14.5%	13.4%
Lump Sums	23.0%	19.8%
Legal + Investigation	25.8%	25.8%
Medical and Other Treatment	17.0%	14.8%
Recoveries	22.4%	22.4%
Total (Undiversified)	23.0%	21.2%
Total (Diversified)	**18.1%**	**16.4%**
Diversification	21.4%	22.8%

The movements in the CVs since our previous valuation are:

- IS and Redemption has increased due to higher uncertainty around data error as we have relied more on data sources other than our standard extract at the current valuation. This is expected to be a temporary feature.
- Lump Sum has increased due to a higher CV for internal systemic error as a result the uncertainty around parameter selection for the recent Regulation changes. The Regulation change to allow top ups for existing claims (albeit on a limited basis) increases the risk of adverse behavioural responses which increases the external systemic risk as well.
- Medical and Other Treatment has increased due to greater uncertainty around parameter selection and specification error as a result of the Regulation changes for additional surgery costs.
- Serious Injury has increased due to the re-introduction of top up lump sums (in limited circumstances), which adds to the uncertainty on the number of serious injury claims.
- The diversification benefit is reducing over time, in line with the increasing proportion of the liabilities that relate to serious injuries.

Based on a coefficient of variation of 18.1% and our modelled distribution (which is a blend between a normal and lognormal distribution), we recommend the following risk margins:

- For a 65% probability of sufficiency – a risk margin of 6.5%. This compares to 6.0% adopted at the previous valuation.
- For a 75% probability of sufficiency – a risk margin of 11.5%. This compares to an equivalent risk margin of 10.5% at the previous valuation.

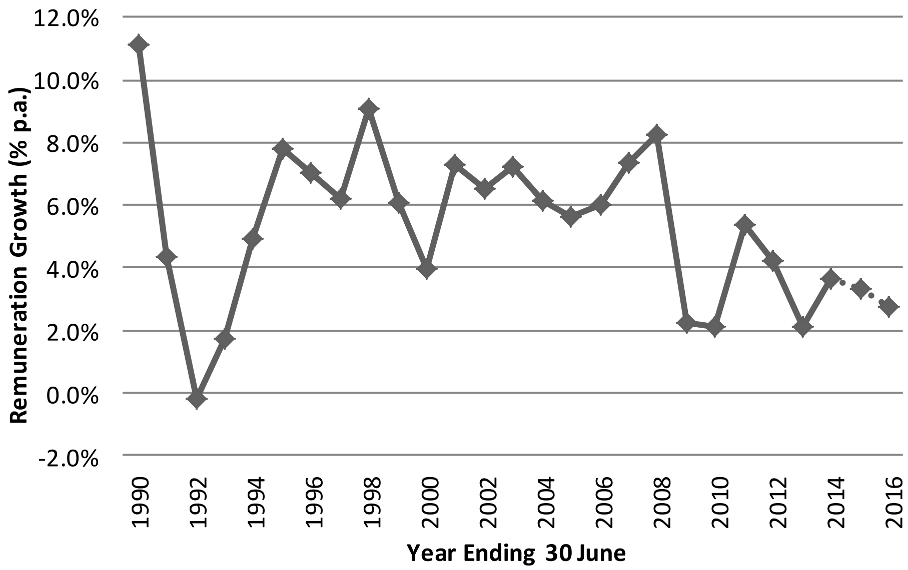
10.6 Non-Exempt Remuneration

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

The movement in the remuneration pool over time is the net result of a number of influences: (1) growth in average weekly earnings, (2) 'natural' growth in the number of employees and (3) movements of firms out of/into the Scheme due to 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 10.3 – Non-Exempt Leviable Remuneration: Annual Growth



We have adopted ReturnToWorkSA's remuneration projection of $25.2 billion for 2014/15, noting that it is still subject to estimation as premium returns are yet to be completed for the current year. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
    - The global financial crisis – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
    - A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.
- Despite remuneration growth briefly heading up to more 'normal' historic levels in 2011 and 2012, wage growth has since headed down towards levels seen during 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 30 June 2015
- Our recommended balance sheet provisions under AASB1023, depending on the probability of sufficiency adopted by ReturnToWorkSA
- Movement in the central estimate compared to what was projected at the previous valuation
- Estimated historical scheme costs
- Projected future cashflows for the current outstanding claims
- Projected outstanding claims as at 31 December 2015 and 30 June 2016
- Reconciliation of results with 31 December 2014 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2015 is set out in Table 11.1. This liability relates to all claims which occurred on or before 30 June 2015 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	255	236	492	22%
Redemptions	70	7	77	3%
Lump sums	136	38	174	8%
Worker legal	65	3	69	3%
Corporation legal	42	4	46	2%
Medical	138	414	552	25%
Hospital	16	61	77	3%
Travel	10	50	59	3%
Rehabilitation	20	42	62	3%
Physical Therapy	12	33	45	2%
Investigation	7	2	8	0%
Other	16	326	342	15%
Common law	2	0	2	0%
LOEC	1	0	1	0%
Commutation	2	0	2	0%
Gross Liability	792	1,215	2,007	90%
Recoveries	-43	-20	-63	-3%
Expenses	191	103	295	13%
Net Central Estimate	940	1,298	2,239	

The outstanding claims liability before recoveries and expenses is estimated to be $2,007 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $2,239 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	59	247	306	14%
Jun-06	13	63	76	3%
Jun-07	21	70	91	4%
Jun-08	26	74	101	5%
Jun-09	34	80	114	5%
Jun-10	42	103	145	6%
Jun-11	59	122	181	8%
Jun-12	76	85	161	7%
Jun-13	115	117	233	10%
Jun-14	152	126	278	12%
Jun-15	194	128	321	14%
Gross Liability	792	1,215	2,007	90%
Recoveries	-43	-20	-63	-3%
Expenses	191	103	295	13%
Net Central Estimate	940	1,298	2,239	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	3,979	995	4,973
Inflated and Discounted	1,298	940	2,239
Ratio	33%	95%	45%

11.2 Provision for Outstanding Claims

We have been asked to provide recommended provisions at two probabilities of sufficiency, those being:

- A 65% probability of sufficiency, consistent with ReturnToWorkSA's previous reserving policy, which would require a margin of 6.5% to give an outstanding claims provision of $2,384 million
- A 75% probability of sufficiency, which would require a margin of 11.5% to give an outstanding claims provision of $2,496 million

A breakdown of our recommended provisions depending on the probability of sufficiency adopted is shown in Table 11.4 below.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	65% Prob of Sufficiency Risk Margin	65% Prob of Sufficiency Recommended Provision	75% Prob of Sufficiency Risk Margin	75% Prob of Sufficiency Recommended Provision
	$m	$m	$m	$m	$m
Gross Claims Cost - Serious Injuries	1,215				
Gross Claims Cost - Short Term Claims	792				
Claims Handling Expenses	295				
Gross Outstanding Claims Liability	2,302	150	2,451	265	2,566
Recoveries	-63	-4	-67	-7	-70
Net Outstanding Claims Liability	2,239	146	2,384	257	2,496

11.3 Movement in Liability

Our central estimate is $154 million lower than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 - Movement from Previous Valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at 31-12-14	2,224	-69	361	2,516
Less Expected Payments to 30-06-15	302	-10	51	343
Plus Interest (unwinding of discount)	26	-1	4	29
Plus liability for claims incurred in the period	190	-5	5	190
Liability Projected from Previous Valuation	2,138	-65	320	2,392
Current Valuation	2,007	-63	295	2,239
Difference	-131	2	-25	-154

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

- Movement in liability due to claims experience – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions
- Movement in liability due to Regulation changes – this contains the additional costs that we estimate will result following the Regulation changes in June 2015; this is essentially an external impact that offsets some of the reform savings recognised in December 2014.
- 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 Jun-15 Liability[1]	AvE Payments in 6 mths to Jun 15	Actuarial Release [2]
	$m	$m	$m
Liability at Dec-14 Valuation	2,516		
Projected Liability at Jun-15 (from Dec-14 valuation)	2,392		
Movement in liability due to claims performance	-166	-34	200
Movement in liability due to Regulation changes	72		
Impact of Change in economic assumptions	-59		
Recommended Liability at Jun-15	2,239		

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

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

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at June 2015

The actuarial release over the period is a release (favourable result) of $200 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 Jun 15	Actuarial Release [1]	Release %
	$m	$m	$m	%
Income	-95.2	-30.5	125.7	21.9%
Redemptions	56.7	4.5	-61.2	-297.3%
Combined	*-38.5*	*-26.0*	*64.5*	*10.8%*
Lump Sums	4.2	2.6	-6.8	-4.3%
Worker legal	2.7	-1.6	-1.2	-1.8%
Corporation legal	-33.7	-1.5	35.2	44.5%
Investigation	0.3	-0.8	0.4	5.5%
Medical	-20.9	-3.4	24.3	4.2%
Other	-9.5	2.5	7.0	1.9%
Hospital	-7.4	-0.4	7.8	9.7%
Travel	-5.0	-0.4	5.4	8.3%
Physical therapy	-10.4	-1.7	12.1	21.9%
Rehabilitation	-28.0	-2.3	30.3	33.9%
Common Law	0.0	-0.1	0.1	5.8%
LOEC	1.4	0.2	-1.6	0.0%
Commutation	-2.5	-0.2	2.7	56.3%
Gross Liability	-147.2	-33.2	180.4	8.4%
Recoveries	2.5	-0.9	-1.6	2.4%
Expenses	-21.5	0.0	21.5	6.7%
Net Central Estimate	-166.3	-34.1	200.4	8.4%

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

The major factors contributing to the $200 million actuarial release at the current valuation are:

- Income Support (and related) liability releases $64 million following reductions in claim numbers across most cohorts, reflecting improved front end claim management, on time WCA use and transition related settlement activity on legacy disputes. There were also material reductions in the number of ongoing Serious Injury claims.

The offsetting movements between income and redemptions reflects the changes in payment structure with the various transition strategies currently being undertaken.

- Legal costs decreased by $35 million, following a reassessment of the expected cost of running disputes in SAET as details of its operating model became known (very little was known about SAET at the time of the previous review).
- Rehabilitation and Physiotherapy costs have reduced by $30 million and $12 million respectively, following targeted activity by ReturnToWorkSA in the last 12-18 months, which includes some savings from the Serious Injury cohort.
- Other Treatment and related costs have reduced by around $45 million, mostly as a flow on reduction from the reductions in ongoing IS claims.

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.

The actuarial release resulted from both Serious Injury claims ($70 million release) and Short Term Claims ($130 million release).

11.3.2 Impact of Regulation Change

Table 11.8 shows the impact of the Regulation changes on the June 2015 outstanding claims liability.

Table 11.8 – Impact of Regulation Changes at June 2015

		$m
Additional lump sum assessments		
- extra lump sum cost	11.0	
- extra Serious Injury claims cost	35.4	
		46
Surgery payments on existing claims		
- extra hospital cost	5.1	
- extra flow on medical costs	4.4	
- additional IS with surgery	16.1	
		26
Total impact of Regulation changes		72

We emphasise that there is considerable uncertainty in the impacts of these Regulations, particularly for the change to allow additional lump sum assessments. This is discussed further in our uncertainties and sensitivities analysis in Section 12.

11.3.3 Impact of Economic Assumption Changes

Changes to inflation and discount rate assumptions decreased the central estimate by $59 million.

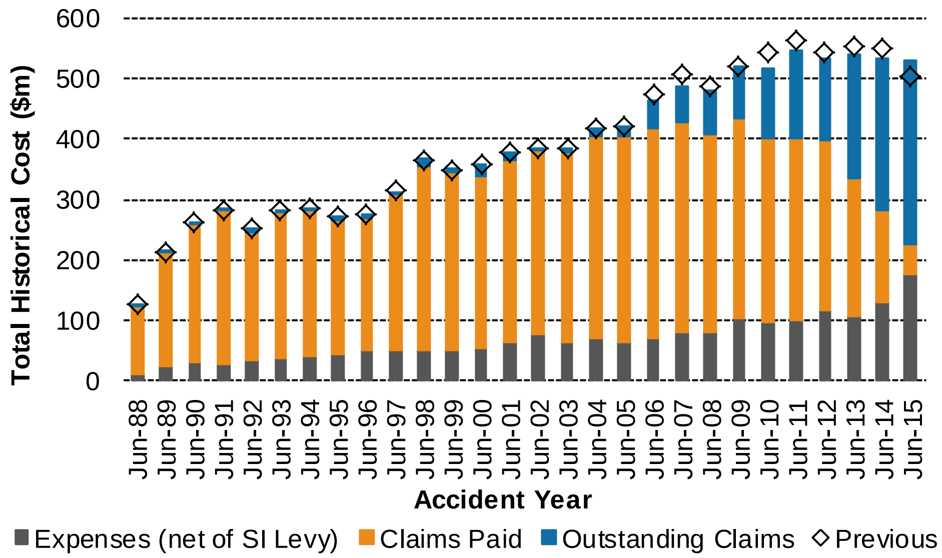
As discussed in Section 10.1 there have been increases in discount rates for most durations, an event which is outside ReturnToWorkSA's control, which has led to this decrease in the OSC liability.

11.4 Historical Scheme Costs

As part of our valuation we have estimated the 'historical cost' for each past accident year. This represents our estimate of total projected costs for the accident year, including expenses, and is discounted to the start of the accident year. Historical claims handling, operating expense and self-insurer levy figures are taken from ReturnToWorkSA's published annual accounts and the latest information from ReturnToWorkSA for 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 million to $550 million range, breaking the strong upward trend seen in recent years. Scheme expenses are particularly high in the current year as a result of the additional transition related expenses being incurred at the current time.

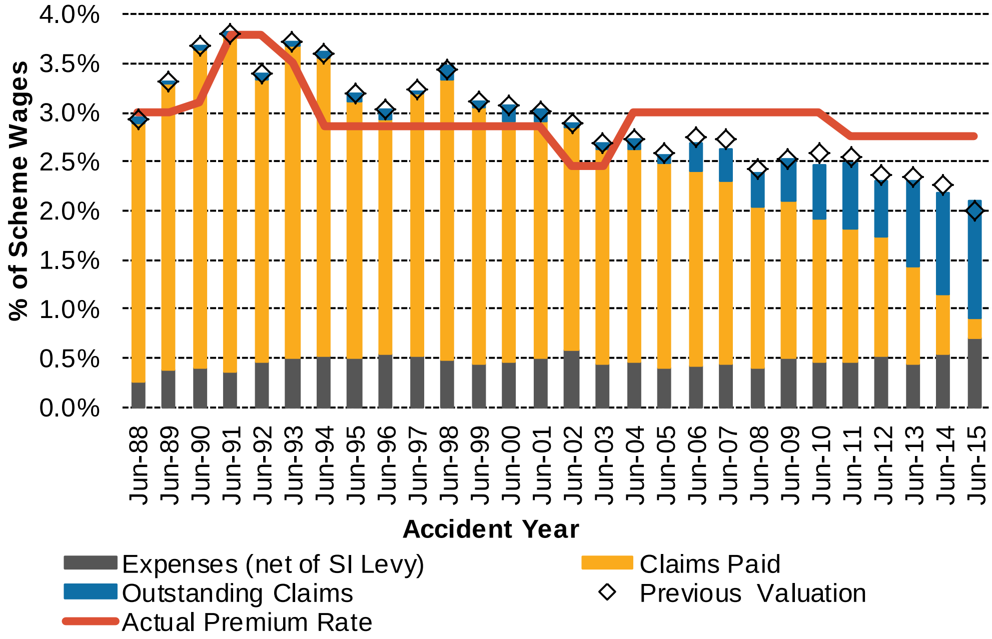
Figure 11.1 – Historical Cost Discounted to Accident Year



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:

- Introduction of the RTW Act has reduced the BEP for accident years between 2008 and 2011 to around 2.5% of wages, with the most recent accident years reducing below 2.5%.
- In the last six months there have been reductions of around 0.1% for injury years between 2006 and 2014, reflecting the improved scheme performance described above.
- The current estimate of the BEP for the 2015 accident year is 2.10%. This estimate has increased from 2.00% since the December 2014 valuation, due to an offsetting combination of:
  - An increase in scheme expenses of 0.18%, reflecting planned transition costs in the current year.
  - Claim improvements, net of an offsetting impact for Regulation changes, reducing the BEP by 0.04% of wages.
  - Economic assumption changes reducing the BEP by 0.03% of wages.

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			
	Jun-15 to Dec-15	Dec-15 to Jun-16	Jun-16 to Dec-16	Dec-16 to Jun-17
	$m	$m	$m	$m
Income Support & Redemption	153.0	85.2	92.0	98.9
Medical	33.5	34.9	35.9	36.5
Lump sums	29.8	23.6	27.3	28.8
Rehabilitation	7.6	7.4	7.5	7.3
Physical Therapy	5.4	5.3	5.3	5.2
Hospital	6.7	6.6	6.8	6.7
Worker legal	8.9	8.8	8.7	8.5
Other	9.6	7.3	7.4	7.4
Corporation legal	7.0	5.7	5.0	5.6
Travel	3.6	3.6	3.6	3.6
Investigation	2.1	2.0	2.0	1.9
Commutation	0.2	0.2	0.2	0.2
LOEC	0.1	0.1	0.1	0.1
Common law	0.1	0.1	0.1	0.1
Recoveries	-8.2	-5.7	-6.1	-7.8
Net Claims Cost - Total	259.6	185.2	195.7	203.2
Net Claims Cost - Serious Injuries	29.0	18.9	20.1	17.1
Net Claims Cost - Short Term Claims	230.6	166.3	175.6	186.1

11.6 Projected Outstanding Claims

Table 11.10 shows the outstanding claims projected to 31 December 2015 and 30 June 2016. 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 31 December 2015 and 30 June 2016

	Half year ending	
	Dec-15	Jun-16
	$m	$m
Central Estimate at Period Start	2,239	2,164
Plus Additional Liability Incurred in Period	211	215
Less Expected Payments in Period	-308	-236
Plus Interest (unwind of discount)	22	22
Projected Central Estimate at Period End	2,164	2,165

We project the central estimate for the net outstanding claims liability at 31 December 2015 to be $2,164 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 July 2015 to 31 December 2015.

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

The projected *decrease* in the liabilities relates to the fact that the additional liability incurred on new accidents is less than the expected payments on existing Short Term Claims.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 31 December 2014 valuation we projected an additional claim cost liability of $185 million would be incurred from claims arising in the January to June 2015 half-year. Our current projection for the ultimate value of this liability is $169 million, a reduction of 8.6%. This decrease is mainly due to lower claims numbers and higher discount rates.

Table 11.11 – Comparison of December 2014 projections to Current Valuation

For period 01 Jan 2015 to 30 Jun 2015		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-14 Valuation	185	
Incurred (current valuation)	169	-8.6%
Incurred New Claims (all claims, excl Incidents):		
Projected in Dec-14 Valuation	7,168	
Incurred (current estimate)	6,849	-4.5%
Incurred New IS Claims (excl ER):		
Projected in Dec-14 Valuation	2,079	
Incurred (current estimate)	1,873	-9.9%

12 Uncertainty and Sensitivity Analysis

12.1 Risk and Uncertainty

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

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

We have considered the uncertainty in four broad categories:

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

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

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

12.2 Economic Scenarios

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

Table 12.1 – Economic Scenarios

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

[1] Difference between inflation and discount rate

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

Table 12.2 – Economic Sensitivities

30 Jun 15 OSC estimate (Including risk margin at 65% POS)	2,384	
Strong Economic Scenario (3% gap between inflation and discount rate)	-507	-21%
Weak Economic Conditions (0% gap)	+271	+11%
Economic assumptions return to pre-2008 levels over the next 5 years	-172	-7%

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

12.3 Legal Risk Scenarios

As discussed in section 3.2.3, we have recently seen high numbers of disputes in the scheme. 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 12.3 – Legal Sensitivities

	Impact	
	$m	%
30 Jun 15 OSC estimate (Including risk margin at 65% POS)	2,384	
Front end: higher rate of overturn on rejection disputes; most additional disputes are overturned	+11	+0%
More favourable dispute outcomes (current and future disputes): 50% of disputes resolved without settlement and 50% resolved with IS Redemption	-14	-1%
Higher proportion of WPI assessments disputing, approximately 400 extra per year	+33	+1%

Specific sensitivities on current legal issues are relatively minor, although it is likely that provisions in the RTW Act will soon begin to be challenged. If several adverse outcomes occur together (legal culture) then the impact could be more than $100 million. There is improvement potential of a similar amount if favourable resolution trends continue and the number of disputes drops as a result.

12.4 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 changes in the scheme's experience might not be sustained if patterns of behaviour revert towards those of past years. It is also possible that the scheme experience might outperform the current projections, because of the extent of the changes in expectations and behaviour of scheme participants.

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

- Changes in 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 and 'WPI creep')
- Long-term cost escalation and/or utilisation changes for medical and treatment related expenditure.

Table 12.4 – Behavioural Sensitivities

	Impact	
	$m	%
30 Jun 15 OSC estimate (Including risk margin at 65% POS)	2,384	
Compensability & Claim Acceptance		
Reduction in new IM claims for accident year 2015 (down a further 4%)	-3	-0%
RTW		
Higher RTW rates for accident years 2012/13 to 2014/15 over next two years; assumes WCA exits essentially replaced by a new path to exit for these claims - driven by claimant behaviour or management initiative(s). Reduction of 600 active claims reaching Jun-17.	-32	-1%
Deterioration in RTW performance; front end claim numbers return to levels seen 12 months ago.	+19	+1%
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.	+117	+5%
Restrictions on multiple assessments ('top ups') do not work as expected.	+109	+5%
Treatment Utilisation		
Longer tail on medical aids and appliances costs than assumed, doubling the payments in the tail	+59	+2%
Reductions in Physiotherapy and Rehabilitation spend are not maintained.	+21	+1%
Surgery costs emerge more than expected, approximately double the current allowance	+24	+1%

Significant changes to the valuation basis at June 2015 have been made to reflect improving claim experience. As such, claim number and acceptance changes shown above only have a small additional impact on the OSC.

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

The WPI scenarios tested highlight the growing importance of WPI as the Serious Injury gateway and the leveraged payment of future economic loss.

The treatment utilisation scenario tested here relates only to Short Term Claims – the payments that continue after twelve months beyond IS. 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.

Serious Injury Scenarios

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

Table 12.5 – Serious Injury Sensitivities

	Impact	
	$m	%
30 Jun 15 OSC estimate (Including risk margin at 65% POS)	2,384	
Uncertainty around numbers, as such claims have not previously been identified. Here we consider the impact of an extra 10 (non-catastrophic) Serious Injury claims p.a.	+97	+4%
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).	+312	+13%
Superimposed inflation is 1% p.a. higher than assumed for medical and care, whether due to higher utilisation of services such as care and treatment, or from increasingly expensive treatments, above average award wage increases for carers, increased pressure as current unpaid family carers age, etc.	+354	+15%

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

12.5 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** – under the RTW Act, there are significant difference between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the new lump for future economic loss payable to Short Term Claims, means that 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.

  Indeed there has already been some relaxing of these rules via Regulation since our previous valuation, to allow the reintroduction of additional lump sums under some circumstances; if the restrictions on how and when these additional assessments can be done do not operate as intended then the cost implications will be significant.

- **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, poses a very real risk. One example is the extent to which care costs which are currently not compensated by the Scheme may become compensable in future as family based carers age and claimants increasingly require paid attendant care and/or residential care facilities. Another example is the potential increase in 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.

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

- **Compensability and claim acceptance** – there is potential for further reductions in new claim numbers following changes to compensability rules. However, it will be crucial to ensure existing claims cannot come back onto benefits – for example, to ensure that past Work Capacity discontinuances do not start new claims or 'restarting 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** – management's actions will determine the extent to which redemptions and other types of exit act to reduce the number of claims that remain on long term benefits.

With the RTW Act provisions commencing on 1 July 2015, the current valuation basis reflects our best estimate of how the post-reform experience will eventuate. Over time, our basis will reflect the actual post-reform experience as it emerges. It is possible that the experience could differ, perhaps materially, from our current expectations

13 Reliances and Limitations

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

13.1 Reliance on Data and Other Information

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

13.2 Uncertainty

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

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

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

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the RTW Act. The RTW Act makes very significant changes to the Scheme and its key features have only come into effect from 1 July 2015.

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

13.3 Latent Claims

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

13.4 Reinsurance

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

13.5 Limitations on Use

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

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

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

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

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

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

14 RTW Act and Scheme History

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

14.1 Return to Work Act 2014

The RTW Act was passed in late 2014 and the key provisions 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.

14.1.1 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, generally of lower direct financial significance. Table 14.1 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 14.1 – 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 Support 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 Support (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 • IS payments cannot fall below the relevant Federal Minimum Wage
Medical and Related services	• Paid for a maximum of 12 months after injury or IS 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 • IS support payable to the retirement age of dependents (as per serious injury support)
Early intervention	• RTW plans to be developed if IS 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’

	• IS payments continue for disputes regarding cessation or reduction in benefits • Medical panels replaced with ISAs 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).

14.1.2 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.
  - NB: these provisions have been amended via Regulation, as discussed in Section 3.1
- 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 IS benefits will begin from 1 July 2015.
- The following replacement ratios for Income Support will apply:

Table 14.2 – Income Support 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.

14.2 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 IS claims; a Work Capacity Assessment to determine entitlement to ongoing IS compensation beyond 130 weeks; changes to non economic loss payments; changes to the dispute resolution framework (including the introduction of Medical Panels); system of provisional liability.

2009-10

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

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

2010-11

- Bonus/Penalty Scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

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

2014-15

- Introduction of the new RTW Act, with key provisions to commence from 1 July 2015.