Scheme Actuarial Valuation as at 30 June 2022

ReturnToWorkSA

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finity

30 August 2022

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

Dear Mr McCarthy

Scheme Actuarial Valuation as at 30 June 2022

Enclosed is our report on the 30 June 2022 scheme actuarial valuation.

Our current projections result in a materially reduced liability from the December 2021 position, due to the combined impact of scheme reforms and improved economic assumptions (which we are required to use under ReturnToWorkSA's accounting standard). We caution though that there are higher than normal levels of uncertainty at this time, and so care should be taken when interpreting these results.

As context to the above comment we refer to two key observations that are made a number of times in our report: firstly, that dispute rates continue to be very high, and are impacting on interpretation of the Act; and secondly, that the early information on combining injuries (as we are only eight months into this as a feature of the scheme) suggests that more claims will make use of this change in rules than was previously assumed. Given there will most likely be further areas of legal challenge following the reforms, we expect it will take a number of years before we can confidently assess the ultimate post-reform costs.

More pleasingly, RTW rates have again continued to improve over the last six months, continuing the favourable trends seen over the last two years.

We would like to formally note our thanks to ReturnToWorkSA's internal subject matter experts who supported our work on this valuation, particularly as we stepped through the reform's transitional provisions to estimate their expected impacts over the next 12-18 months.

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

Yours sincerely

Andrew McInerney - FIAA
Tim Jeffrey - FIAA
Claire White - FIAA

Glossary

Active Claim	A claim is regarded as 'active' in the valuation models if it had a payment in the relevant period.
Actuarial Release	A 'like with like' measure of how claims management activity has impacted on scheme financial performance since the previous valuation. See Section 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.
Development Quarter or DQ	The number of quarters between the injury date of a claim and the relevant activity (whether a claim report or claim payment).
EnABLE	The internal claims management team at ReturnToWorkSA that manage Severe Traumatic Injury claims.
ER	Incentives for early reporting of claims, introduced in 2008.
General Claims	Claims lodged for all injuries other than Hearing Loss claims.
Hearing Loss claims	Claims lodged for noise induced hearing loss that has arisen from 'noisy work'. Also referred to as Noise Induced Hearing Loss claims.
IBNER	Incurred But Not Enough Reported – an allowance for cost growth on known claims in addition to the reported cost.
IBNR	Incurred But Not Reported – claims where the accident has occurred, but ReturnToWorkSA is yet to be notified.
IS	Income Support (also known as weekly benefits) payments.
NWE	Notional Weekly Earnings.
OSC	Outstanding claims liability.
PPAC	Payments per active claim.
PPCI	Payments per claim incurred.
RTW	Return to work.
RTW Act	The Return to Work Act 2014, which governs the scheme.
Serious Injury or Serious Injury claim	A claim that meets the definition of a "Serious Injury" under the RTW Act.
Short Term claim	A claim that does not meet the Serious Injury threshold.
WRCA ('old Act')	Workers Rehabilitation and Compensation Act 1986, the previous Act which governed the scheme.
WPI	Whole Person Impairment.

1 Executive summary

1.1 Introduction

Finity Consulting Pty Limited ("Finity") has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme ("the scheme") as at 30 June 2022.

Our previous actuarial review was as at 31 December 2021, and was documented in a report dated 14 March 2022.

1.2 Scope of the review

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

The primary purpose of the June review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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

1.3 Valuation approach

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

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

Our valuation work has been split into two stages:

1. Pre-Reform Valuation – what our liability would have been if not for the *Return to Work (Scheme Sustainability) Amendment Bill 2022*. This valuation incorporates the *Summerfield* legal decision – which allowed for the combining of injuries for WPI assessment purposes – and is based on the underlying scheme experience up to 30 June 2022; it is an equivalent basis to the '*Summerfield* Valuation' completed at 31 December 2021.
2. Reform Valuation – the overall liability estimate we have recommended at 30 June 2022 after including an allowance for the *Return to Work (Scheme Sustainability) Amendment Bill 2022 ('the reforms')*.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency. The risk margin has been updated to incorporate the additional range of uncertainties related to the reforms; we note that the reforms do not remove the "combining uncertainty" that was introduced after the *Summerfield* legal decision, but rather they modify it by introducing other elements of legislative change (each of which has their own uncertainties that need to be considered). We also expect that the reforms will provide new opportunities for challenge to the way the provisions of the Act are applied, adding to the uncertainty about how it will operate in practice.

1.3.1 Allowances for 'combining injuries'

While the approach to 'combining injuries' has now been codified in legislation via the *Return to Work (Scheme Sustainability) Amendment Bill 2022*, there is still significant uncertainty about the impacts that will result from it.

The combination of: (1) limited historical claims information that can be used to directly assess the financial impacts of undertaking WPI assessments this way, (2) the unknown extent to which behavioural responses will impact the real world implementation of the decision (whether by ReturnToWorkSA in attempting to mitigate the impact, or by legal providers who seek to maximise the impact), and (3) the absence of clear guidance on how these rules should operate in practice as 'an evaluative test that is to be applied adopting a common sense approach'[1] makes it difficult to assess the ultimate impact of this approach.

This is the first time there is meaningful actual experience in relation to combining injuries – previous allowances were primarily based on manual file reviews by ReturnToWorkSA, supported by limited analysis on past claims where there were multiple injuries recorded – and updating for this experience has been an important step in the valuation work. Experience in the six months is that more claims have been able to combine injuries than assumed, and that increases to lump sum average sizes are higher than expected; to date these impacts have been mitigated by fewer than expected claims exceeding the Serious Injury threshold (due to combining), but delays in dispute resolution mean this may just be a timing issue. Information on what we have learned about claims combining injuries is in Section 4.4.

1.3.2 Return to Work (Scheme Sustainability) Amendment Bill 2022

The *Return to Work (Scheme Sustainability) Amendment Bill 2022* was passed by both houses of parliament on 6 July 2022[2], with legal proclamation of the various provisions completed in July and August.

The key changes as a result of the reforms are:

- Combining of injuries has been codified as a feature of the scheme, aligning with the *Summerfield* legal decision
- The threshold for accessing Serious Injury benefits has been increased from 30% to 35% Whole Person Impairment (WPI) for physical injury claims
- Serious Injury claimants can elect to receive a s56 economic loss lump sum payment instead of ongoing income support, and the restriction on medical redemptions being available to Serious Injury claims has been removed
- A set of (complex) transitional rules have been included that prescribe how existing claims will be impacted by the reforms
- The operation of Impairment Assessment Guidelines will change, although it is not yet clear what impact this will have as Government is yet to state its intentions.

Importantly, the reforms were not designed to remove the ability to combine injuries for WPI assessment purposes that was introduced by the *Summerfield* legal decision – indeed, the reforms explicitly codify the ability to combine injuries into the legislation – but rather they make *other changes* that are intended to mitigate the financial impacts of combining injuries.

It will likely take a number of years before the real-world impacts of these changes can be observed, noting also that they will rely on other legal precedent cases that will emerge over time (the *Summerfield*

[1] Paraphrased from the Summerfield decision: Return To Work Corporation of South Australia v Summerfield, [2021] SASCFC 17

[2] We note that the Bill is considered an 'adjusting event after the reporting period' as per accounting standard AASB110, and as such its impacts are considered as part of the valuation assessment as at 30 June 2022.

decision in 2021 is an example of this, emerging six years after the Return To Work Act commenced in 2015). This means that the uncertainties introduced by combining injuries – in particular: (1) understanding where the boundaries lie re what can/can't be combined, and (2) the behavioural response from claimants and their advisors – remain as elements that need to be considered in the valuation work.

Additional description of our understanding of the reforms is provided in Section 4.1 and Section 13.

1.3.3 COVID-19 impacts

The experience over 2020 to 2022 has been used to guide the setting of the valuation assumptions as to the claims experience in a COVID-19 impacted world. When interpreting the recent claims experience we have been conscious to identify areas where the experience is not, or might not be, the best indicator of ongoing performance (for example where there was a large dip in claim numbers during the initial lockdown, and when hospital costs dropped as surgeries were restricted). Under this approach the valuation assumptions implicitly incorporate the impacts of COVID-19 to some extent.

Our valuation basis assumes that claims related to COVID-19 infections continue to remain low in South Australia and that there are no additional lockdowns, economic disruption or major impacts on business confidence that would materially impact on RTW outcomes.

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

1.4 Scheme environment

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

- **Real world information on the extent of claims combining injuries:** combining injuries has now been operational for eight months, meaning we now have actual outcomes on the first meaningfully sized group of claims whose WPI assessments have been undertaken in line with the new combining rules. The two key learnings to date are:
    - The proportion of lump sum claims impacted by combining is higher than our previously assumed level, with (to date) 25% of claims being impacted compared to our previous assumption of 17%-19% of claims being impacted.
    - Serious Injury claims have emerged at lower levels than expected. It seems that this is partly a timing difference in when claims emerge (as disputes are taking a long time to resolve), and partly that more claims are emerging below 30% WPI rather than above it (noting that in some cases this has been very deliberate to pursue specific lump sum benefits, with claimants withdrawing additional injuries to ensure they do not go above 30% WPI).
- **Legal precedent**: the RTW Act continues to be tested through the scheme's dispute resolution processes, and clear and accepted implementation of a number of key legislative provisions is still not in place. The result is that the real-world operation of the Act is still yet to be confidently known, and it is possible that more claims will access longer periods on benefits than has currently been projected. Of particular importance to our assessment are the provisions around WPI assessments, including the extent to which injuries can be combined to increase WPI scores and how and when a claim is determined to be a Serious Injury.
- **Dispute resolution and appeals**: related to the above, there has been a step-change increase in the number of new disputes in the last 18 months, the number of open disputes remains high, and the resolution of disputes is slow. The slow resolution appears to be related to the fact that

more claims are moving into the later stages of the dispute resolution process (including into appeal) following changes in the RTW Act that mean legal costs are no longer at risk until after the early stages of an appeal. As previously noted, disputes are continuing to emerge similarly to the pre-2015 'long tail' scheme, in part due to continued very late commencement of WPI assessments; there is no legal time limit that prevents claims seeking new assessments, nor the associated dispute activity that often results.

- **Increasing numbers of 'additional injuries' being added to claims:** using additional datasets, we have identified that there is already evidence of increases in both the number of claimants who seek to add an additional injury (as a medium term trend), and in the number of additional injuries per claim (as a more recent trend). June 2022 was, by some margin, the highest ever month for new additional injuries being claimed.
- **Evolution of the claims management model**: the claims management model continues to evolve in response to the scheme's emerging needs, including changes to WPI assessments, focusing on eligibility decisions, and additional focus on early and sustainable RTW. Pleasingly, we are still seeing clear signs that RTW rates have continued to improve.
- **Growth in Hearing Loss claim numbers:** there has been very rapid growth in the numbers of Hearing Loss claims over the last three years, which appears to be the result of targeted provider activity. The financial implications of this increase are growing, with almost $30m spent on hearing loss claims in FY2022 which is a 250% increase since FY2018.

1.5 Recent claim experience

The key features of the claims experience in the six months to 30 June 2022 were:

- For claims managed entirely under the RTW Act:
  - Overall new claim numbers reduced
  - RTW rates have continued to improve, although offsetting this somewhat is an apparent increase in average payment amounts for ongoing claims
  - Lump sum payments were very high, with higher than expected average sizes for both combining and non-combining claims
  - The number of new disputes per month continues to be high.
- For transitional claims, there continues to be ongoing activity across a range of areas, although for the first time in a while there were indications that some of this activity may be reducing.
- The level of Serious Injury activity (applications, disputes and new determinations) remains high, with many long duration claims still involved with the scheme.
  - Newly identified Serious Injury claims were however low, which at this stage we have attributed to a slowdown in activity (in the context of ReturnToWorkSA and its agents being very busy across a range of other areas) rather than a reduction.
  - Overall, there continues to be a high level of uncertainty about how many Serious Injury claims will ultimately emerge, which is compounded by the ability to combine injuries now along with new areas of legal challenge emerging over time. It remains possible that our estimates will prove to be too low, even without adverse legal decisions.
  - Medical and treatment costs for Serious Injury claims have continued to generally be lower in the periods after initial treatment is completed. As previously noted, the only qualitative explanation we have received for this is that claimants "no longer need to look sick" to remain on benefits.
  - Offsetting the above point, there continues to be a small number of Severe Traumatic Injury claims experiencing material increases in care needs, which is compounded by an

unexpectedly large increase in carer fee rates by the NDIS, which typically flow on to ReturnToWorkSA claimants.

Total net claim payments in the six months were $6m (2%) higher than projected at the previous valuation. Lump sums and legal payments were the key drivers of the higher than expected payments, with other payment groups generally being favourable.

1.6 Liability valuation results

1.6.1 Summary of results

Our central estimate of the scheme's outstanding claims liability for registered employers as at 30 June 2022 is $3,288m. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 19.3% (up from 15.8%) to produce a provision with a 75% probability of sufficiency, consistent with ReturnToWorkSA's policy, gives an outstanding claims provision of $3,923m, as shown in Table 1.1. The provision includes an allowance for future claims handling expenses equivalent to 9.9% of gross claim costs (up from 9.3%).

Table 1.1 – Recommended balance sheet provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	2,132		
Gross Claims Cost - Short Term Claims	925		
Claims Handling Expenses	303		
Gross Outstanding Claims Liability	3,361	649	4,010
Recoveries	-73	-14	-87
Net Outstanding Claims Liability	3,288	635	3,923

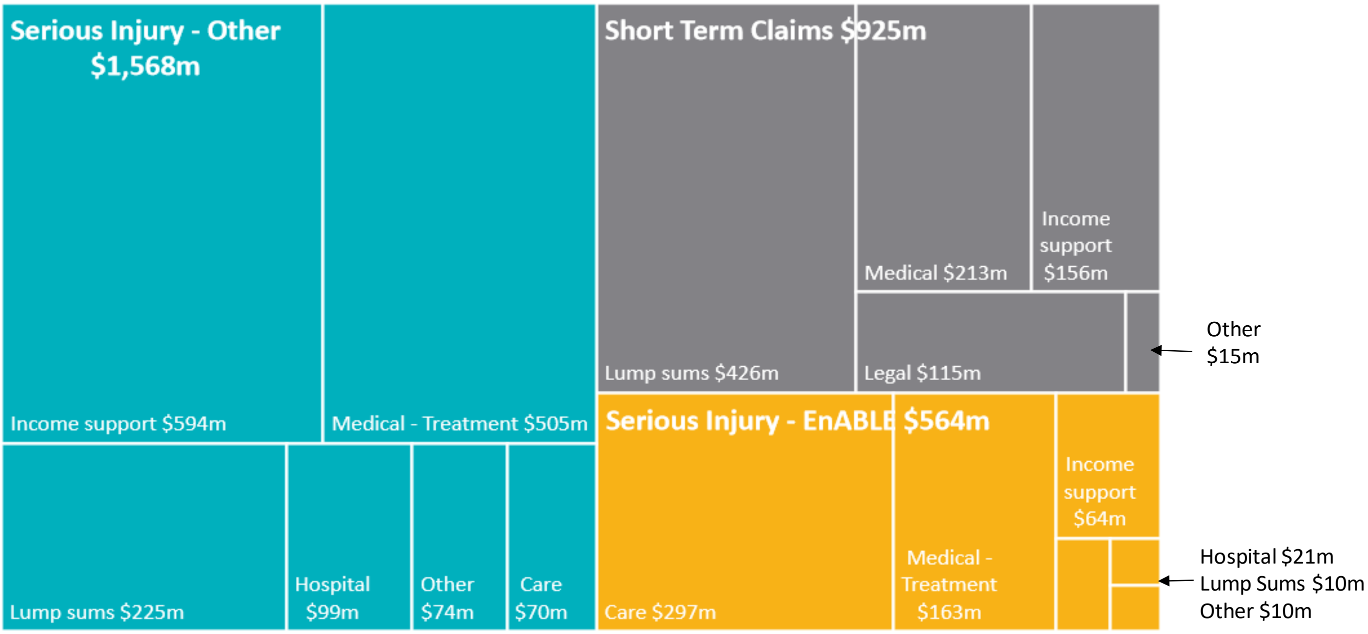
The risk margin loading is high for a scheme of this size, having been updated to incorporate the uncertainties related to the reforms that are in addition to the underlying variability in our projection of future claim costs – adopting this higher risk margin results in an additional $125m being held above the normal 'underlying' risk margin (which would have been 15.5%).

We note that if the reforms achieve their stated aims, i.e. without there being any material behavioural response or adverse legal decisions that undermine their intent, then we would expect the risk margin loading to reduce back toward (or even below) the underlying risk margin level over the next 12-18 months.

Figure 1.1 below shows a breakdown of the gross claims liability, which demonstrates that the majority of the outstanding claims liability relates to Serious Injuries, noting also that the liability has been split between EnABLE claims and other Serious Injuries.

If Serious Injury and Lump Sum costs are considered together then it is easy to see why the sustainability, or not, of WPI assessments will be key to determining the long term financial outcomes for the scheme. How changes are made to the Impairment Assessment Guidelines are important in this context.

Figure 1.1 – Gross central estimate (excl. expenses and risk margin) as at 30 June 2022



1.6.2 Movement in liability

Our net central estimate is $731m lower than projected at the previous valuation. We have broken down the change in central estimate to three components:

- Movement in liability due to claims experience – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions.
- Impact of reform – this covers the impact of the *Return to Work (Scheme Sustainability) Amendment Bill 2022* on the valuation liability.
- 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 performance relative to the previous valuation, as shown in Table 1.2 below.

Table 1.2 – June 2022 central estimate and determination of actuarial release/(strengthening)

	Central Estimate			Actuarial Release	
	Liability Estimate[1] *Excl. Reform*	Liability Estimate[1] impact of Reform	Liability Estimate[1] *Total*	AvE Payments in 6 mths to Jun-22	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m	$m	$m
Liability at Dec-21 Valuation	3,886	0	3,886		
Projected Liability at Jun-22 (from Dec-21 valuation)	4,019	0	4,019		
Claims Movement - Short Term Claims	101	106	206	22	-123
Claims Movement - Serious Injury	-56	-529	-586	-16	73
Impact of Change in economic assumptions			-351		
Recommended Liability at Jun-22			3,288		
Total Actuarial Strengthening					-50

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

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

There is an actuarial strengthening (increase) of $50m for the period, an unfavourable result for the scheme. Scheme reforms then reduced the liabilities by $424m (comprising a $529m reduction for

Serious Injuries, offset by a $106m increase for Short Term Claims). Finally, changes to the economic assumptions decreased the central estimate by $351m. Each of these items is discussed briefly below.

1.6.3 Components of the actuarial release/(strengthening)

Table 1.3 shows the $50m actuarial strengthening by entitlement group, split between Short Term Claims and Serious Injuries.

Table 1.3 – Actuarial release/(strengthening) by entitlement group

Entitlement Group	Short Term Claims[3]	Serious Injury Claims[3]	Total Actuarial Release [3]	Release (Strengthening) as %
	$m	$m	$m	
Income & Related	6	-21	-15	-1%
Lump Sums	-111	14	-97	-19%
Legals	-3	-15	-18	-13%
Treatment Related [1]	-2	78	76	4%
Rehabilitation	1	2	3	9%
Other Costs [2]	-3	0	-3	-37%
Recoveries	3	11	14	20%
Total Claim Costs	-109	70	-40	-1%
Expenses	-14	3	-11	-3%
Net Central Estimate	-123	73	-50	-1%

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

The major factors contributing to the $50m actuarial strengthening at the current valuation are:

- For **Short Term claims** there is an actuarial strengthening of $123m, which is the result of:
  - An increase of $111m for Lump Sum costs due to a combination of:
    - Higher payments in the six months (+$21m) due to a combination of higher average sizes for both combining and non-combining injuries, and a higher than expected proportion of claims combining injuries.
    - A $29m increase due to changes in the assumptions around combining: namely, more claims remaining as Short Term Claims rather than becoming Serious Injuries, and an increase in the assumed proportion of claims who can combine injuries.
    - A $21m increase for increased IBNR numbers for RTW Act claims, responding to the high tail development in the recent experience.
    - A $40m increase due to higher average lump sum sizes, impacting both combining and non-combining claims. Supporting the need for this increase is the observed increase in the average WPI score of approved assessments, which has increased from 12.4% to 14.1% over the last year.
  - An increase of $6m for Medical payments, which is mainly due to higher medico-legal assessment costs.
  - Income Support costs improved by $7m, with favourable RTW experience more than offsetting the impacts of higher average payment amounts for ongoing claims.
  - The movements in the remaining benefit groups are small and mainly reflect lower than expected claim numbers in the 2022 accident year.
- For **Serious Injury claims** there was a net actuarial release of $73m due to:

> Actual payments were $16m lower than expected, driven by fewer than expected combining Serious Injury claims emerging, most of which has been interpreted as being due to the slow resolution of disputes.

> Changes in the projected costs relating to claims who are combining injuries reduced the liability by $107m, due to:

  - A reduction of $124m due to fewer assumed claims reaching the Serious Injury threshold due to combining injuries (see Section 5.2.2)
  - An increase of $17m due to an increase in the assumed medical and treatment cost for combining Serious Injury claims relative to primary Serious Injury claims, based on emerging experience.

> A $40m increase due to higher assumed IBNR average size, largely related to an increase in the assumed Income Support average size, reflecting the experience for identified claims from more recent accident years.

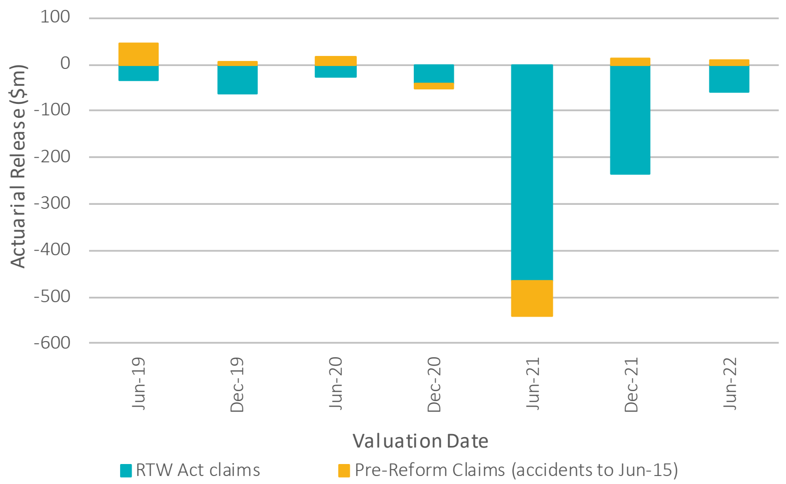
> A $10m increase due to unexpectedly large NDIS increases to care rates, which we have flowed through to higher care costs for ReturnToWorkSA; we assume that increases in care rates over the next few years will be lower than this, only just above normal wage inflation, and have temporarily lowered our allowances for above-inflationary growth to reflect this.

> There were minor changes to other areas of the valuation.

Other changes had more minor impacts on the scheme liability.

Figure 1.2 shows the actuarial release/(strengthening) at each valuation over the last few years. The current results are the eighth in a row where there has been underlying cost growth on RTW Act claims.

Figure 1.2 – History of actuarial releases/(strengthenings)



1.6.4 Allowances for scheme reform

The overall impact of reform is a reduction of $424m in the net central estimate. This consists of:

- A reduction of $529m for Serious Injury Claim costs, due to:

  > A $319m reduction due to fewer claims reaching the higher WPI threshold of 35% for physical injury Serious Injury claims.

  > A $172m reduction due to the introduction of s56A and redemptions for Serious Injury claims.

  > Flow on savings of $38m in expenses.

- An increase of $106m for Short Term Claim costs due to:
  - A $76m increase to allow for Lump Sum costs for claims with 30% to 34% WPI scores that are no longer eligible to receive Serious Injury benefits, and an allowance for some claims who previously resolved just below 30% WPI to now seek scores in the 30-34% WPI range
  - Increased medico-legal (+$8m) and dispute costs (+$8m)
  - Flow on costs of $14m in extra expenses.

As indicated by our recommendation to increase the risk margin, we emphasise that there is considerable uncertainty in relation to the anticipated reform savings. In particular, a significant portion of the valuation is based on assumed outcomes, rather than being based on a reliable history which is the usual approach for undertaking actuarial estimates, and so if any of the underlying assumptions prove to be incorrect then our estimates will need to be updated accordingly.

1.6.5 Impacts of economic assumption changes

Changes to inflation and discount rate assumptions decreased the net central estimate by $351m.

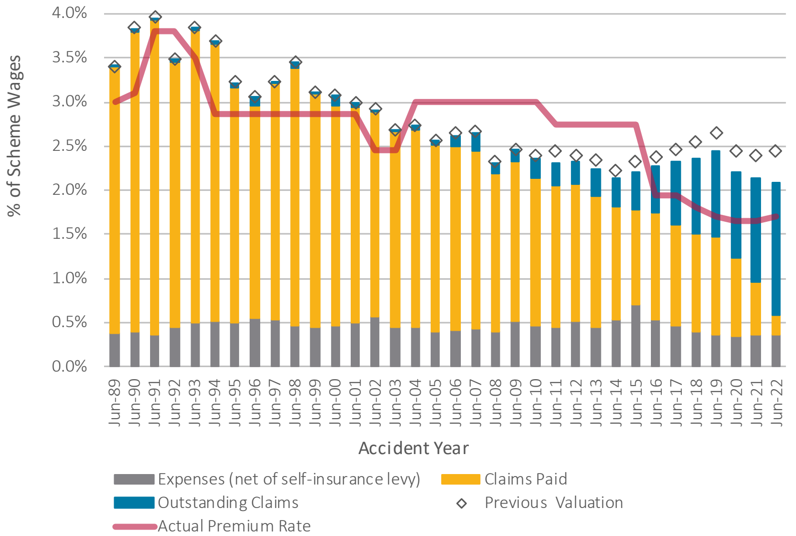
Overall, the gap between discount and inflation rates has increased significantly compared to what was adopted at the December 2021 valuation. The main contributor is an increase in the government bond yield curve at all durations, which has not been fully offset by increases in inflation expectations.

1.7 Historical scheme costs

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

Figure 1.3 shows a summary of the estimated BEPs, including a comparison with the estimates at our previous valuation and the scheme's actual average premium rate charged for each year.

Figure 1.3 – Break Even Premium rate* and actual premium rate charged



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

The main points to note are:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to under 2.5% of wages.
- For accident years between 2011 and 2014 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- The combined impact of reform and improved economic assumptions drives the reduction in BEP estimates from the previous valuation for the RTW Act periods, with the size of the reduction being largest for more recent accident years.
- The 2019 year is developing as a high cost year, due to a combination of high Income Support claim numbers, poor early RTW outcomes and a higher than normal Serious Injury cost (due to a number of very expensive Severe Traumatic Injury claims). The BEP estimates for 2020 and 2021 are lower than the 2019 BEP, due to fewer Severe Traumatic Injury claims and improved RTW rates.
- The current estimate of the BEP (using risk free rates) for the 2022 accident year is 2.08% of wages, down from 2.45% at the December 2021 valuation. The reduction is primarily due to the impact of reform and improved economic assumptions, with additional (but more minor) improvements as a result of a lower claim frequency and improved RTW outcomes.

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

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. Compounding the uncertainty is the impact of reform which is subject to a high degree of estimation uncertainty. We also note that the adopted wages figure for 2022 involves a degree of estimation.

1.8 Key uncertainties

There is considerable uncertainty in the projected future claim costs, in particular around how and when claims are determined to be Serious Injuries. Section 11 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:

- **Reform impacts** – rather than removing the ability to combine injuries, the reforms have introduced other changes that attempt to manage the financial consequences of claimants getting higher WPI scores. As a result, the uncertainty relating to the impact of combining injuries is now compounded by the uncertainty around the success of the reforms in removing costs from other areas. This means a significant portion of the valuation is largely based on assumed outcomes, rather than being based on a reliable history which is the usual approach for undertaking actuarial estimates. While we believe our assumptions and projections are reasonable given the information available, the uncertainty is elevated compared to normal valuations.
- **Behavioural risk** – related to the above, the ultimate outcomes that emerge will directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past, now that it has been made clear that combining injuries is a feature of the scheme; given the high level of legal involvement in the scheme, the risk of adverse behavioural change is high. As an example of this, we are already observing signs of claimants changing their behaviour by seeking to add more injuries to their claim.
- **Legal precedent risk** – risks here relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. Given the very high volume of open disputes, despite a number of apparently 'key cases' having resolved over recent years, this risk is also assessed as high. Until a clear and decisive legal position is established as to how the scheme should operate in practice, this risk will remain. Compounding this:
  - With the introduction of new legislative provisions there will inevitably be new areas of challenge to their operation
  - The real world boundaries on how and when injuries can be combined are still to be established.
- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the Serious Injury WPI threshold and those below, and even for those below the threshold small changes in the WPI score can equate to many tens of thousands of dollars in some cases. The scheme will face significant financial consequences if this leads to any form of 'WPI creep'.

  We observe that the reforms do not address the 'tail risks' that have eventuated from behaviour changes since the RTW Act commenced, and so there is a real chance that outcomes will be different to expected. Indeed, the inclusion of higher lump sum amounts in conjunction with the ability to combine injuries over time arguably creates an environment which encourages claimants to delay their WPI assessments in pursuit of higher WPI scores.
- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, meaning deviations from our assumptions could therefore compound across multiple years. For the current valuation the key uncertainties (beyond reform specific uncertainties) are:
  - **Ultimate numbers of claims** – there are several areas of uncertainty in relation to Serious Injury claim numbers. These include the impact of late emerging claimants (whether due to delayed WPI assessments, late surgeries, etc) as well as the number of outstanding Serious Injury application disputes and other WPI related disputes that could see claims ultimately meet the Serious Injury threshold.

> **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections.

> **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. A current example is the potential increase in costs for care related specialists due to competition with the NDIS, as seen at the current valuation.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process at which much higher legal costs eventuate.
- **Hearing loss claim numbers** – there has been unprecedented growth in hearing loss claim numbers in the last few years, and the valuation basis has until recently been lagging this growth. If the upward pressure continues then further increases are likely.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results. While employment related impacts have been less significant than originally feared they might be, there is still a higher than normal risk that the economic environment could change in adverse ways.
- **COVID-19 impacts** – while the impacts on claim outcomes to date have been modest, there is still uncertainty about how COVID-19 will impact over time. If the health and/or economic situation changes for any reason, for example if there is an unexpected spike in infections linked to the workplace, this could potentially lead to material disruption to claim outcomes.

As context to our remarks above, it is important to remember that on current reporting patterns it takes around eight years for most Serious Injury claims to be identified – as such, in assessing the potential uncertainties that impact on current liability assessments it is necessary to consider not just currently occurring behaviours, but also what is likely to occur over (say) the next decade.

As demonstrated by outcomes in the last year, there are still key areas of the RTW Act that are being tested in the courts, even though the RTW Act provisions commenced seven years ago. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience will differ materially from our current expectations.

To place these uncertainties and risks in context, Figure 1.4 shows some of the key risks and uncertainties in the central estimate (orange), as summarised in Section 11 of the report, relative to the risk margin adopted in the liability reserves (blue). The risk areas below are largely independent of each other, so it is possible that a number of these risks could crystallise at the same time.

Figure 1.4 – Comparison of reserving risk margin to key risks and uncertainties

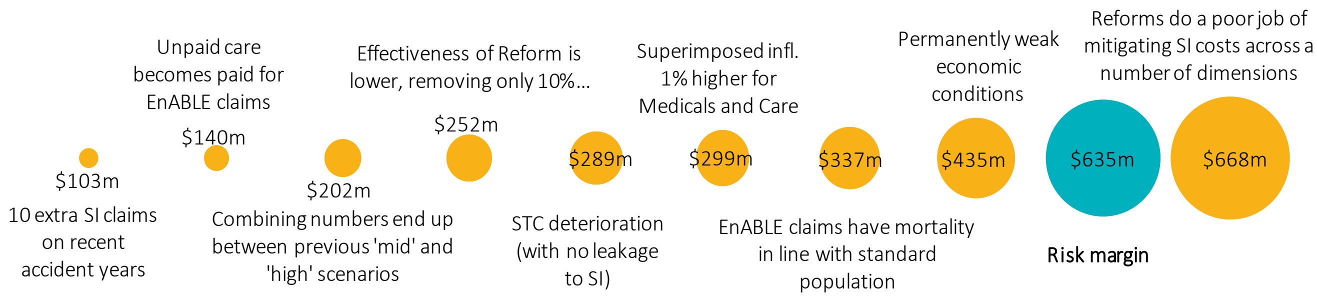


Figure 1.4 indicates that there are a range of plausible scenarios that could see the liability move by several hundreds of millions of dollars. While the most significant scenarios relate to long term economic conditions (which will most likely continue to be the case now for the fund given its very long mean term

of liabilities) and reform outcomes, most of the other scenarios relate primarily to Serious Injury claim numbers and/or costs.

We observe that while most of the larger uncertainties would emerge over the long term, a significant increase in the liability reserves could occur more quickly – in particular, any change that led to more claims meeting the criteria for Serious Injury benefits would have immediate consequences for the liability, as demonstrated by the *Summerfield* case.

1.9 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 12 thereof.

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 2. At ReturnToWorkSA's request, we consent to the release of our report to the public, subject to the reliances and limitations noted in the report.

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

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

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

2 Introduction and scope

2.1 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 2022.

Our previous actuarial review was as at 31 December 2021, and was documented in a report dated 14 March 2022.

2.2 Scope of the review

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

The primary purpose of the June review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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

2.3 Compliance with standards

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

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

2.4 Control processes and review

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

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

2.5 Structure of this Report

Section 3	Describes the approach we have taken to the valuation, and provides a brief overview of the information provided to us.
Section 4	Summarises the current operational landscape impacting on the scheme.
Section 5	Summarises high level recent claims experience.
Sections 6 to 8	Detail our analysis of scheme experience and the valuation assumptions for different segments of the portfolio, including our allowances for scheme reform impacts where relevant.
Section 9	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 10	Shows detailed tabulations of the outstanding claims valuation results.
Section 11	Provides sensitivity analysis of the valuation to key assumptions and highlights some of the key uncertainties in our projections.
Section 12	Sets out important reliances and limitations.
Section 13	Summarises the key events and changes in the South Australian scheme over time.

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

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

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

3 Approach and information used

3.1 Approach

Under the Return to Work Act 2014 ("RTW Act"), Serious Injury claims have very different entitlements from other claims, as such we have modelled these claims separately. The remaining claims are described as 'Short Term claims' and are modelled in two segments: 'General Claims' and 'Hearing Loss claims'.

Serious Injury Claims are valued using an individual claim-based approach by payment type, and Short Term Claims are valued using aggregate methods, by payment type.

Our valuation work has been split into two stages:

1. Pre-Reform Valuation – what our liability would have been if not for the *Return to Work (Scheme Sustainability) Amendment Bill 2022*. This valuation incorporates the *Summerfield* legal decision – which allowed for the combining of injuries for WPI assessment purposes – and is based on the underlying scheme experience up to 30 June 2022; it is an equivalent basis to the '*Summerfield* Valuation' completed at 31 December 2021.
2. Reform Valuation – the overall liability estimate we have recommended at 30 June 2022 after including an allowance for the *Return to Work (Scheme Sustainability) Amendment Bill 2022 ('the reforms')*.

The Reform and its implications are briefly described in Section 4.1, before the details of our *Reform* valuation allowance are summarised in subsections of Sections 6 to 8. Table 3.1 summarises where the entitlement and claim cohorts are documented in this report.

Table 3.1 – Report Structure by Claim Cohort

	General Short Term Claims	Hearing Loss Short Term Claims	Serious Injury Claims	Other Assumptions	Overall Results
Valuation Basis and Results	Section 6	Section 7	Section 8	Section 9	Section 10
Economic Impacts	Section 9 (basis) and Section 10 (results)				

Our approach to undertaking the 'Pre-Reform valuation' and 'Reform valuation' are summarised below. Additional technical detail is provided in the appendices.

3.1.1 Terminology: 'combining'

With codification of the *Summerfield* legal decision in the legislation via the *Return to Work (Scheme Sustainability) Amendment Bill 2022,* we have updated our terminology to reflect the concept of 'combining injuries' in relation to WPI assessments.

Unless otherwise specifically stated, any use of the term 'combining' is intended to be consistent with previous discussions of the *Summerfield* legal decision.

3.1.2 Pre-Reform valuation and underlying Scheme experience

The pre-reform valuation is consistent with the approach used to determine ReturnToWorkSA's valuation results at 31 December 2021, updated for the claims experience in the six months to 30 June 2022. This incorporates the rules for combining injuries for WPI assessments, and allows quantification of the underlying claims experience before the impacts of the *Return to Work (Scheme Sustainability) Amendment Bill 2022* are incorporated.

This is the first time there is meaningful actual experience in relation to combining injuries – previous allowances were primarily based on manual file reviews by ReturnToWorkSA – and updating for this experience is a key step in the pre-reform valuation. Even though six months' data is still very early days in terms of understanding the ultimate impacts of combining injuries for WPI purposes, it is a start that we can track and respond to.

Experience in the six months is that more claims have been able to combine injuries than assumed, and that increases to lump sum average sizes are higher than expected; to date these impacts have been mitigated by fewer than expected claims exceeding the Serious Injury threshold (due to combining), but delays in dispute resolution mean this may just be a timing issue.

Our approach to quantifying the potential financial impacts and determining the recommended pre-reform central estimate and provision are explained in detail in Sections 6 to 8.

3.1.3 Reform valuation

The *Return to Work (Scheme Sustainability) Amendment Bill 2022* was initially passed by the Legislative Assembly on 16 June 2022, before being finally passed (with some minor amendments) on 6 July 2022; formal proclamations were completed in July and August 2022.

The key changes to scheme benefits as a result of the bill are described in Section 4.1. These changes are expected to materially impact on claim outcomes for some claimants and we have estimated the resulting impacts as part of our 'reform valuation' that determines the final valuation results. Our allowances for the expected reform impacts are explained in Sections 6 to 8.

3.1.4 Basis of the valuation

Our estimate of outstanding claims is a central estimate of the liabilities.

This means that the valuation assumptions have been selected such that our estimates contain no deliberate bias towards either overstatement or understatement. The estimates are shown discounted to allow for the time value of money using a risk free discount rate, consistent with accounting standards. In a technical sense, the central estimate is 'intended to be an unbiased estimate of the mean (statistical expectation) of the outstanding claims liability', having considered the relevant experience of the entity and taking into account any special features in the claims experience.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency. Given the limited information that is currently available on combining injuries, along with the additional uncertainty introduced by the reforms, sensitivity analysis and scenario testing have been used to support quantification of the risk margin allowances as they are not be derivable using normal quantitative techniques.

We emphasise that the adopted risk margin loading has **not** been set at a level that would guarantee coverage of all potential future costs of claims. It is also worth observing that despite a number of apparently 'key legal cases' resolving over recent years, provisions of the RTW Act have continued to be challenged over time, in particular in relation to the operation of WPI assessments. The introduction of further new reforms is likely to see this continue.

3.2 Information

3.2.1 Standard data extracts

Claims data was provided in the form of a transaction file with complete scheme history to 30 June 2022. We have not independently verified or audited the data, but we have reviewed it for general reasonableness and consistency, including reconciliations to the previous actuarial review information and to information from ReturnToWorkSA's financial statements. The claims data appears to be of high quality and contains extensive detail.

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

Appendix B shows summaries of the claims data, including data reconciliations.

3.2.2 Qualitative and additional information

In addition to the standard data extracts, we obtained additional information from ReturnToWorkSA and its claims agents EML and Gallagher Bassett. This included briefing sessions in early June 2022 and operational information that was provided separately.

The additional information we received included:

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

- Additional information including:
  - List of pre-approved surgeries and current status
  - Remuneration projections for 2021/22 and onwards
- Specific information on combining injuries
  - Serious Injury determinations since 5 November 2021 have been reviewed and flagged as reaching the threshold due to combining of injuries where appropriate
  - Serious Injury manual reviews since 5 November 2021 have considered the impacted on combining and flagged claims that are now believed will reach the Serious Injury threshold due to combining
  - Lump sum assessments since 5 November 2021 have been flagged as whether they are impacted by combining
  - We have received updates on the progress of the pool of open combining disputes as at 5 November
  - We have discussed combining impacts and outcomes with ReturnToWorkSA's operational team
- Information on the number of claims adding additional injuries and the total number of additional injuries being added.

3.2.3 Additional information relating to the *Amendment Bill*

To support our work in relation to the valuing the changes resulting from the *Return to Work (Scheme Sustainability) Amendment Bill 2022* we have required a range of additional information:

- WPI assessment data by individual injury including
  - WPI approval status and date
  - Disputation status of claims
  - Combining category, split between Serious Injury and Short Term Claims
  - Payment amounts

  This information was then matched to our payments data and an algorithm was developed to identify the final WPI score(s) for each claim. This was used to develop our pre-reform WPI distribution; given the focus on changing WPI thresholds in the reforms, this was an essential input into estimating reform impacts
- Economic loss lump sum deduction information file reviews
- Other pieces of information we receive for the pre-reform valuation were also utilised to assist with the reform estimates.

4 Scheme environment

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

4.1 Legislation and scheme rules

The *Return to Work (Scheme Sustainability) Amendment Bill 2022* was passed in July 2022, which makes material changes to benefit entitlements for some claimants. Key provisions were retrospective (i.e. they will apply to some existing claims) and begin taking effect across a rolling set of dates beginning from 1 August 2022. As such, they will lead to changes in the expected financial outcomes that need to be considered in our work.

Importantly, the legislative reforms have **not** been designed to remove the ability to combine injuries for WPI assessment purposes that was introduced by the *Summerfield* legal decision, but rather they make other changes that are intended to mitigate the financial impacts of combining; the reforms explicitly codify the ability to combine injuries into the legislation.

The key changes relate to:

- Codifying combining injuries for assessment of WPI is allowed, which impacts on lump sum entitlements and serious injury eligibility
- Increasing the serious injury threshold to 35% WPI for physical injuries
- Extending the WPI scale for economic loss lump sum benefits, by specifying the scale between 30% and 34% WPI, to support the increase of the serious injury threshold
- Allowing seriously injured workers to elect to receive an economic loss lump sum (as per the economic loss lump sum scale) rather than ongoing income support payments
- Allowing seriously injured workers to negotiate a redemption settlement of their medical entitlements, rather than receiving ongoing benefit coverage
- Removing the concept of 'once and for all' impairment assessments, by allowing additional injuries to be assessed if they occur after an earlier impairment assessment is completed; any such additional injuries cannot be combined with the earlier assessment (i.e. they will be separately assessed, and are subject to the lump sum threshold).
- Changing the rules regarding the Impairment Assessment Guidelines (IAGs) that govern WPI assessments, so that a single set of Guidelines will apply regardless of the injury date.

A complicated set of transitional rules prescribe how the different elements of the above changes will apply to existing claims. Our valuation work has needed to consider these transitional rules and, generalising somewhat, we have approached this by considering three key claim cohorts:

1. Claimants who have completed their WPI assessments, including already determined serious injuries: these claims are not impacted by the changes in WPI assessment nor the increase in thresholds for serious injury eligibility.
    a. We have made allowances for some already determined serious injury claims to take an economic loss lump sum and/or a redemption. Our allowances consider the interaction of the transitional rules with the specific circumstances of these claims; for example, we consider the financial attractiveness of the prescribed lump sum compared to the claimant's current income support payments when estimating the likelihood of a claimant electing to take the lump sum.

2 Claimants who will not commence a WPI assessment until after the new rules are fully operational: these claims will be fully under the new legislative rules.

3 Claimants who are currently part way through the WPI assessment process, or who will commence a WPI assessment before the new rules are fully operational: different rules will apply to different claims, depending on where in the WPI assessment process they are up to and whether or not they have been recognised as an interim serious injury.

Additional, and more (financially) minor, changes were also included as part of the reforms. A full summary of the amendment bill is included in Section 13.

Our allowances for these changes to impact on future claim costs are detailed in the relevant sections of our report that follow.

4.2 Legal precedent under the RTW Act

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

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

- The extent to which combining injuries is allowed for in WPI assessments – the *Summerfield* decision described the interpretation as needing to be 'an evaluative test that is to be applied adopting a common sense approach', and how these rules should operate in practice is yet to be determined.
- Technical details related to WPI assessments, such as how deductions should be made for prior impairments, precise quantification of what constitutes a specific body part (e.g. the spine, a knee joint, etc).
- Whether employment is the significant cause of secondary injuries or injuries away from the workplace – these types of cases have the potential to extend the benefit eligibility period beyond the 104 week cap by 're-starting the clock' on account of a new injury being recognised.

Given the lack of clarity that still remains about how the RTW Act boundaries apply in practice – in no small part due to the continued emergence of new legal challenge to the legislative rules, and then slow rate of dispute resolution thereafter – and acknowledging that new areas of challenge will now emerge following the reforms to key elements of the legislation, it will be a number of years before there is confidence about how the various RTW Act legislative provisions apply in practice.

4.2.1 *Jackermis* case[3]

A recent decision of the Full Bench of the South Australian Employment Tribunal runs counter to the way ReturnToWorkSA has been applying 'deductions' when a claim has a second (or further) future economic loss lump sum amount.

We are advised that ReturnToWorkSA has appealed this decision to the South Australian Court of Appeal. At this point we have not incorporated the impact of the Full Bench's decision in our estimates, which

[3] Jackermis v Woolworths (SA) Pty Ltd and Return to Work Corporation of South Australia, [2022] SAET 74

means that if ReturnToWorkSA is not successful with its appeal then we will need to increase our cost estimates; this has been considered as part of the risk margin loading we have adopted.

4.3 COVID-19 impacts

The COVID-19 pandemic and related health and economic response has been an evolving issue over the last few years. The unique set of circumstances associated with the COVID-19 pandemic means there is greater than normal uncertainty in relation to the broader financial and economic landscape, although thankfully the impacts in South Australia to date have been less severe than in other places.

Key uncertainties at this time include the length of the pandemic and effectiveness of vaccination programs in containing and preventing infection, the potential for 'later waves' of outbreak, the related impacts of any slow-down in the broader economy, and the effectiveness of government initiatives to mitigate these impacts.

Depending on how these issues play out in South Australia, ReturnToWorkSA's liabilities may be impacted. While the impacts to date have been small, it is possible that this could change.

Current assessment of impacts from COVID-19

Table 4.1 summarises a number of areas where COVID-19 has or may impact on the scheme's operations, and our assessment of the current impact of each.

Table 4.1 – Assessment of COVID-19 impacts

Impact	What we know
Actual COVID-19 claims	Few actual COVID-19 claims have been reported. Given the fast rate of notification to date, IBNR cases should be trivial in relation to the overall valuation; any future outbreak could impact future premiums.
Disruption to patterns of work	There have been industries with major changes to work patterns, including a shift to working from home at times. At an overall level, the insured workforce has grown by more than expected, despite these disruptions. It largely appears that South Australia is at normal work operations across most employment indicators, albeit with some disruptions when brief lockdown restrictions have been in place.
Changes in RTW opportunities	We are not aware of any material ongoing impacts in relation to the availability of suitable duties as a result of COVID restrictions.
Claims processing disruptions	Mobile claim management has at times been temporarily suspended during lockdown periods throughout the last three years, with the claims management workforce utilising working from home arrangements. Claims management processes have evolved to incorporate 'telehealth' and 'remote' meetings where face to face opportunities are not currently available. Dispute resolution slowed in some cases due to restrictions on cases being heard in person, but more recently the rate of finalisation has increased.
Delays to treatment	We are not aware of any material levels of treatment delay at this time.
Cost escalation	Some treatment and assessment providers are charging RTWSA additional fees for remote consultations. We expect these additional fees will be limited and not have ongoing cost implications.

Economic factors	There has been major disruption to investment markets and the economic outlook. The inflation expectations and risk free yields incorporate this outlook as explained in Section 9.

Allowances for COVID-19 impacts in the valuation

The experience over 2020 to 2022 has been used to guide the setting of the valuation assumptions as to the claims experience in a COVID-19 impacted world. When interpreting the recent claims experience we have been conscious to identify areas where the experience is not, or might not be, the best indicator of ongoing performance (for example where there was a large dip in claim numbers during the initial lockdown, and when hospital costs dropped as surgeries were restricted). Under this approach the valuation assumptions implicitly incorporate the impacts of COVID-19 to some extent.

Our valuation basis assumes that claims related to COVID-19 infections continue to remain low in South Australia and that there are no additional lockdowns, economic disruption or major impacts on business confidence that would materially impact on RTW outcomes.

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

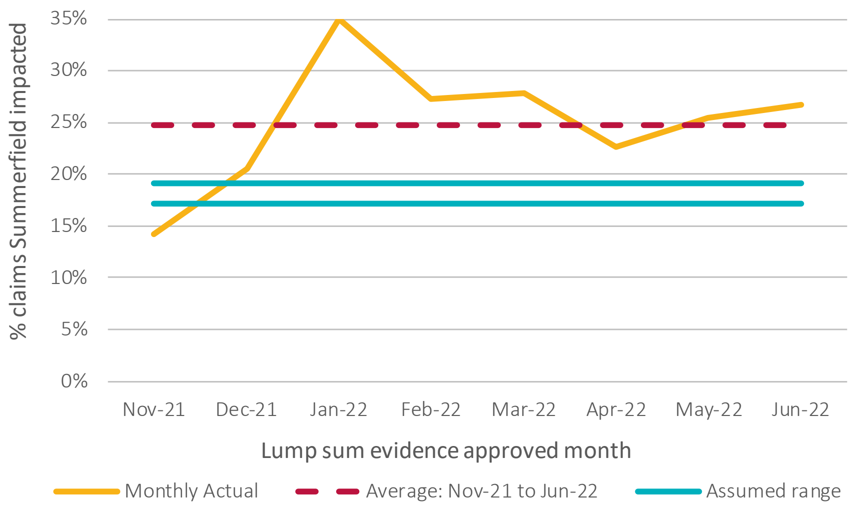
4.4 Other operational and environmental changes

This section describes recent trends in the scheme environment. Section 13 provides an overview of earlier operational and legislative changes which are useful in understanding the scheme's historical experience.

4.4.1 Initial real-world data on combining injuries

Combining injuries has now been operational for eight months, meaning we can now see the actual outcomes on the first meaningfully sized group of claims whose WPI assessments are in line with the new combining rules. Figure 4.1 shows the proportion of recently approved lump sums that are impacted by combining, and compares this with our previous assumption.

Figure 4.1 – Proportion of lump sums impacted by combining



Our observations, which are supported by discussions with ReturnToWorkSA operational staff, are as follows:

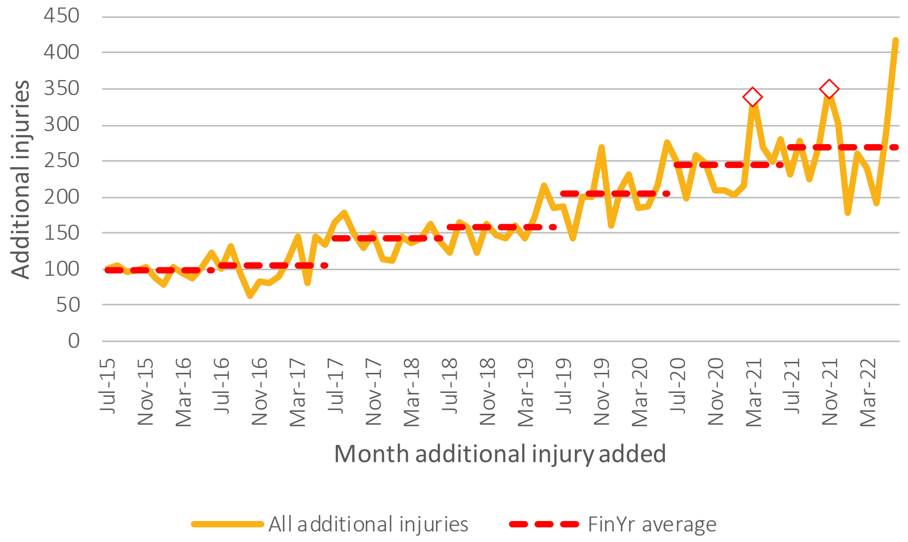
- It took a couple of months after the High Court decision for the claims agents to operationalise this new approach to combining injuries, which led to low percentages of claims being impacted in November and December 2021 (noting also that these months were impacted by COVID restrictions and the normal Christmas disruption).
- There was then somewhat of a catch-up in January 2022, with February and March somewhat similar.
- The proportion of claims impacted in recent months has been more stable, averaging around 25%. ReturnToWorkSA expect this is likely to be more indicative of the long-term level.
- Overall, it appears that the proportion of lump sum claims being impacted by combining (roughly 25%) is higher than our previously assumed level of 17%-19% of claims being impacted.

While it is still 'early days', this confirms that combining injuries will impact a significant proportion of claims that enter the lump sum process. We expect it will take a number of years to be definitive about the long-term level, and note that where combining impacts ultimately settle will also depend on claimant and legal provider behaviour over time which we discuss in the following section.

4.4.2 Claims seeking to add additional injuries

As combining injuries has now been codified into the legislation, we are conscious of the potential for claimant and legal provider behaviour to change as they attempt to increase WPI scores. We have identified additional information that shows the number of additional injuries being added to their claim over time as a lead indicator of such behavioural changes; this is shown in Figure 4.2 below.

Figure 4.2 – Number of additional injuries added per month



Note: there was an operational change that coincides with the start of FY2020 that creates an inconsistency in the data recording. We have chosen to show the full history though, as it is worth noting that in periods with consistent recording practices (i.e. whether pre-July 2019 or post-July 2019) there is a clear year-on-year increase in the number of additional injuries.

This demonstrates that behavioural changes are already being observed, as claimants seek to add additional injuries to their claim in pursuit of increased benefits; the two diamond markers indicate the timing of the Supreme Court decision and High Court special leave decision for *Summerfield* respectively, which were the two highest months on record up to May 2022.

While the number of additional injuries being added initially subsided in the second half of FY2022, they increased in May 2022 and again in June 2022, with June 2022 now being the highest month on record;

this coincides with public announcements on potential reforms that would have unwound the ability to combine injuries. This seems to indicate that there is awareness among claimants and legal providers around the impacts of combining injuries, and this has influenced the number of additional injuries being received.

There are some indications that this growth is driven by a subset of claims seeking to add more injuries over time, rather than a broad group of claims seeking to add say one extra injury.

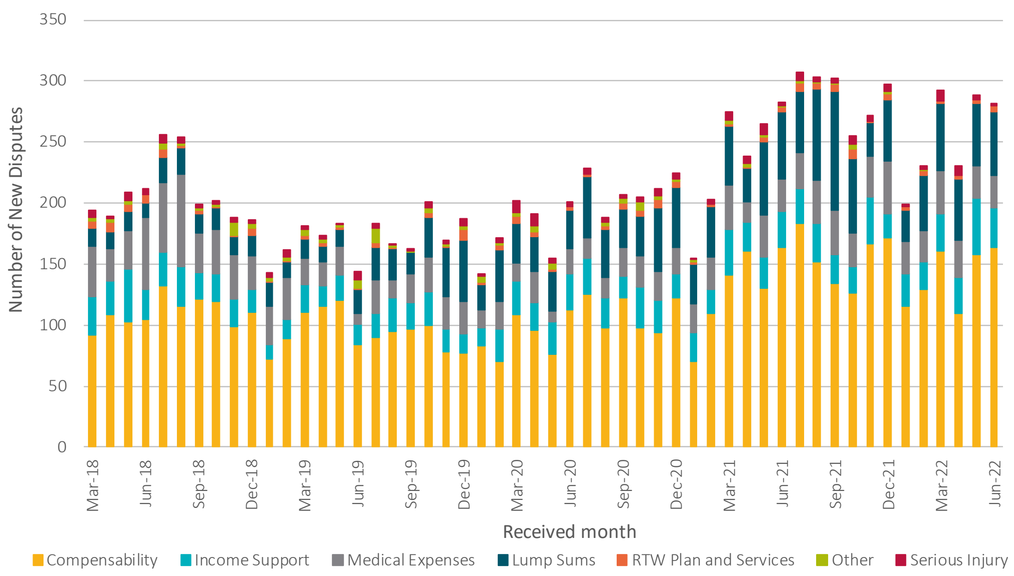
The increased incentives as a result of being able to combine injuries along with the consistent upward trend in the annual number of additional injuries means this is an area that requires ongoing consideration.

4.4.3 Dispute numbers and dispute resolution

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

However, dispute volumes increased in March 2021, and have since averaged around 270 per month, as shown in Figure 4.3. There was a dip in the number of disputes during the March 2022 quarter which is thought to be temporary due to COVID-19 disruptions from the Omicron wave.

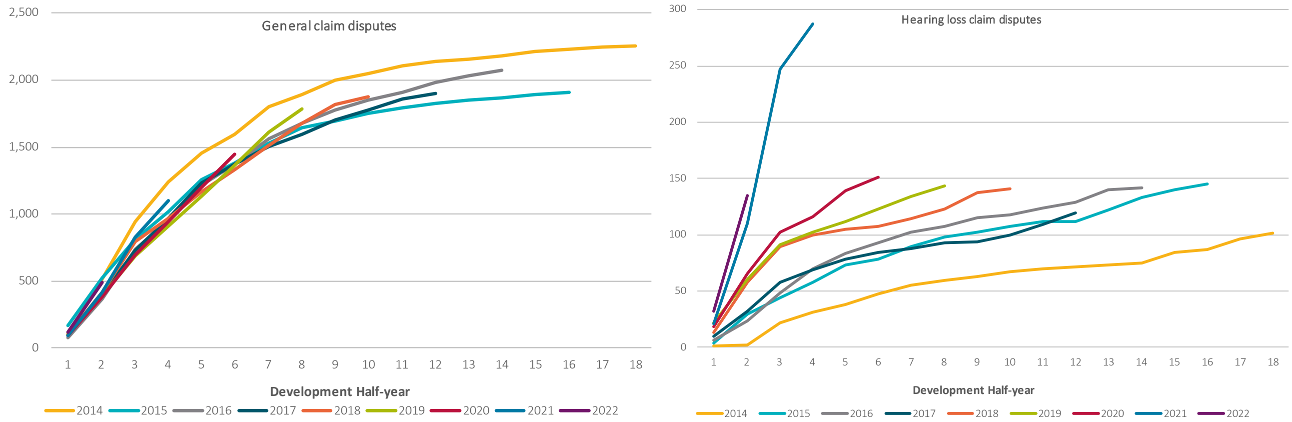
Figure 4.3 – New Disputes by Dispute Type (monthly)



The increase in disputes relates primarily to 'compensability' and 'lump sum' disputes and can be linked to an increased operational focus on compensability decisions, including more claims that are seeking to add on 'additional injuries' to their claim, which follows recent legal precedent decisions allowing people to combine additional injuries over time in certain circumstances. Growing volumes of Hearing Loss claims have also been a key driver of increased dispute activity.

Figure 4.4 below shows the cumulative number of disputes for each accident year since 2014. The trends continued to escalate in the six months to June 2022.

Figure 4.4 – Number of disputes commenced by accident year



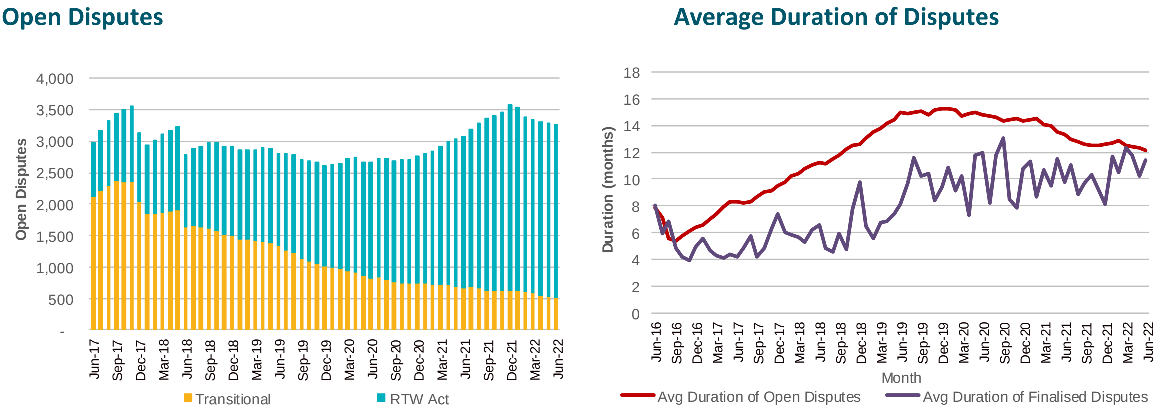
The key features to note are:

- Hearing loss related disputes have been increasing year-on-year, with the last two years being particularly high.
- For non-hearing loss claims:
  - > The number of disputes initially reduced under the RTW Act, with 2015 developing lower than 2014.
  - > Accident years 2016 to 2019 all started lower still than 2015 (each is lower than the 2015 line out to development half-year 6). This gave weight to the view that dispute numbers were likely to be lower under the RTW Act.
  - > However, each of the years 2016 to 2019 has now developed to be at a higher level than the 2015 year was at the same development stage. On current trajectories, dispute numbers for these years appear likely to end up closer to the 2014 (pre-reform) level than to 2015.
  - > 2020 and later years continue to emerge higher year-on-year, closing the gap to the 2014 level.
  - > Importantly, we observe that many disputes are occurring after claims have ceased income support benefits (which typically occurs at around development half-year 5). This suggests significant disputation is related to WPI assessments.

Compounding this, there has been a clear shift in dispute finalisation patterns, with far fewer disputes resolving at or before conciliation. More claims extending into the later stages of dispute extends the duration of disputes and increases the legal expenditure, resulting in a higher average legal spend per dispute.

The significant growth in the number of disputes moving beyond conciliation has led to a considerable lengthening of dispute timeframes over the last few years. The result is that the number of open disputes remains high, albeit with some recent reductions as ReturnToWorkSA has sought to proactively settle some matters. Figure 4.5 shows the number of open disputes over time, split between RTW Act claims and transitional claims (left hand chart), and the average duration of open and finalised disputes (right hand chart).

Figure 4.5 – Open disputes and duration



Our observations are:

- The number of open RTW Act disputes has stabilised since February 2022 at around 2750 disputes. It is too early to say if the new scheme is at a 'steady state' yet particularly given the new avenues of disputation introduced by the reforms.
- Open transitional claim disputes are slowly reducing. There are still over 500 disputes open for transitional claims.

The duration for open disputes has more than doubled since 2017, from around six months to over 14 months in 2020. Even though the growth in duration has tempered in recent months, it is nevertheless the case that since income support benefits for most claims are capped under the RTW Act, even a 10-12 month dispute resolution timeframe is considered slow.

4.4.4 Increasing cost of attendant care for EnABLE claims

ReturnToWorkSA funds attendant care at market rates, which is essentially the rates being adopted for disability support workers by the National Disability Insurance Scheme.

From 1 July 2022 the NDIS increased the disability support worker care rates by 9%, and unexpectedly large amount, which reflects[1] a:

- 5.1% wage inflation increase, following the Social, Community, Home care and Disability Services Award (SCHADS) minimum wage and superannuation guarantee charge increase
- 1.7% increase to base prices which we infer from the Annual Pricing Review relates to SCHADS agreement changes and cost increases caused by introduction of NDIS Quality and Safeguards Commission and improved quality of support flowing from its measures
- 2% 'temporary loading' which we infer from the NDIS Annual Pricing Review relates to COVID cost pressures. NDIA notes this is expected to remain included in prices for the medium to long term.

In addition, the NDIA have highlighted the significant workforce pressure in the aged and disabled carers sector, with significant growth in the number of vacant positions despite also having workforce growth that is well above total employment growth.

[1] https://www.ndis.gov.au/providers/pricing-arrangements/pricing-updates (Pricing updates – announced 22 June 2022)

https://www.ndis.gov.au/providers/pricing-arrangements/making-pricing-decisions/annual-pricing-review#annual-pricing-review-2021-22

In this context, we expect ReturnToWorkSA will be pressured by its providers to continue paying for care at rates similar to NDIS rates, or else its suppliers will be unable to maintain staffing levels.

We have consequently assumed that ReturnToWorkSA will have a one-off increase in its care rates of 9%. Partially offsetting this increase, we have assumed that this step change increase will result in superimposed inflation being lower than our long-term assumption of 1.5% per annum over the next few years, before it progressively reverts back to our long term rate of 1.5% per annum of above inflationary cost increase. This is discussed further in Section 8.

5 Recent claims experience

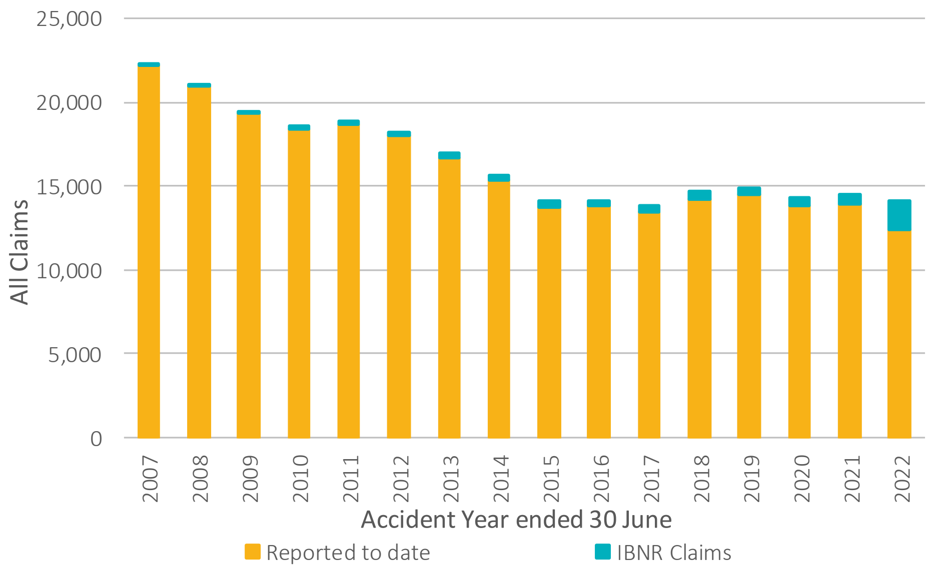
This section provides a high-level analysis of scheme experience, including the numbers of new claims and overall payment trends.

5.1 Claim incidence

5.1.1 All claims

Figure 5.1 shows the estimated numbers of claims incurred in recent accident years (excluding reports which are determined as 'incidents'). The graph separates the actual numbers reported to date and our projection of claims incurred but not yet reported (IBNR).

Figure 5.1 – Ultimate number of claims (all claims)



After a long period of trending downwards, claim numbers flattened out between 2015 and 2017. 2018 to 2021 had consistently higher claim numbers than the 2015 to 2017 level. There was then another reduction in claim numbers in 2022, which is currently projected to have the lowest number of claims since 2017.

The primary factors driving the recent claim numbers are:

- Reduction in Injury (Physical Trauma) and Musculoskeletal claim numbers, which is attributed to fewer low severity/low value claims being lodged
- Management of Mental Injury claims acceptance in line with the legislation resulted in higher rejection rates in recent years, and that has now led to lower claim volumes being reported which is attributed to an improved understanding of the eligibility rules in the community.

Higher claim numbers in 2018 to 2021 were caused by:

- Claim frequency deteriorations in the construction and manufacturing industries
- Big growth in the numbers of hearing loss claims, and in early years mental injury claims as well
- Higher exposure growth, after an extended period of lower wages growth
- Partially offsetting these trends were lower claim numbers during periods of COVID-19 restrictions in 2020 and 2021.

Our estimate of ultimate claim numbers for 2022 has decreased by 5.4% since the previous valuation; other accident years are largely unchanged from our previous estimates. There were offsetting movements in our underlying valuation response which reflect the following observations:

- Hearing Loss claims emerged at a lower level over the last six months after a period of continued growth. We attribute the lower numbers to disruptions brought on by COVID-19 and have allowed the lower experience to flow through to lower ultimate claim numbers for the March 2022 and June 2022 quarters. Our basis is unchanged for future periods as we expect the disruption to claim numbers to be temporary.
- Mental injuries for 2022 reduced significantly (24%) from previous estimates, which we attribute to a lower level of claims activity due to broader understanding of eligibility rules in place. Projected claim numbers for 2022 and future years have reduced by around 18% in response to the emerging experience.
- For Physical Injury claims the emerging experience has reduced significantly from previous years and was well below expectations. We attribute reduction in claim numbers to fewer nil/low value claims being lodged. In response, the projected claim numbers have been reduced by 9% for 2022.
- Similar to Physical Injury claims, the experience for Musculoskeletal claims has been favourable, with lower than expected claims emerging to date for 2022. The projected claim numbers have reduced by 14% for 2022.
- 'Other' injuries saw a material uptick for the March 2022 and June 2022 quarters due to COVID-19 claim reports. In response, we have increased the claim frequency selection resulting in an increase of 21% for 2022. Beyond 2022, we have allowed for around 40 COVID claims per quarter up to the end of December 2022.

5.1.2 Income support claims

Income Support (IS) claims in the valuation work are those which receive more than 10 business days of lost time benefits. This means they are already a 'more serious claim' given they have been off work for at least two weeks.

Figure 5.2 shows our projected ultimate numbers of IS claims, split into those who have already received an IS payment and those who are expected to receive their first IS payment in future (IBNR).

Figure 5.2 - Ultimate IS claim numbers

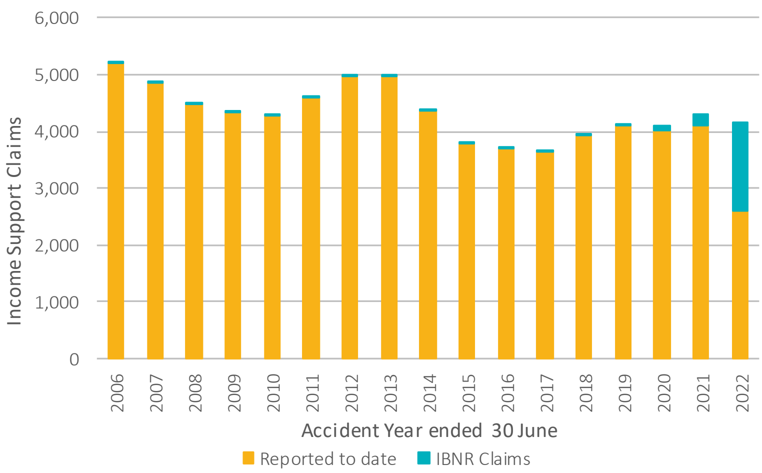
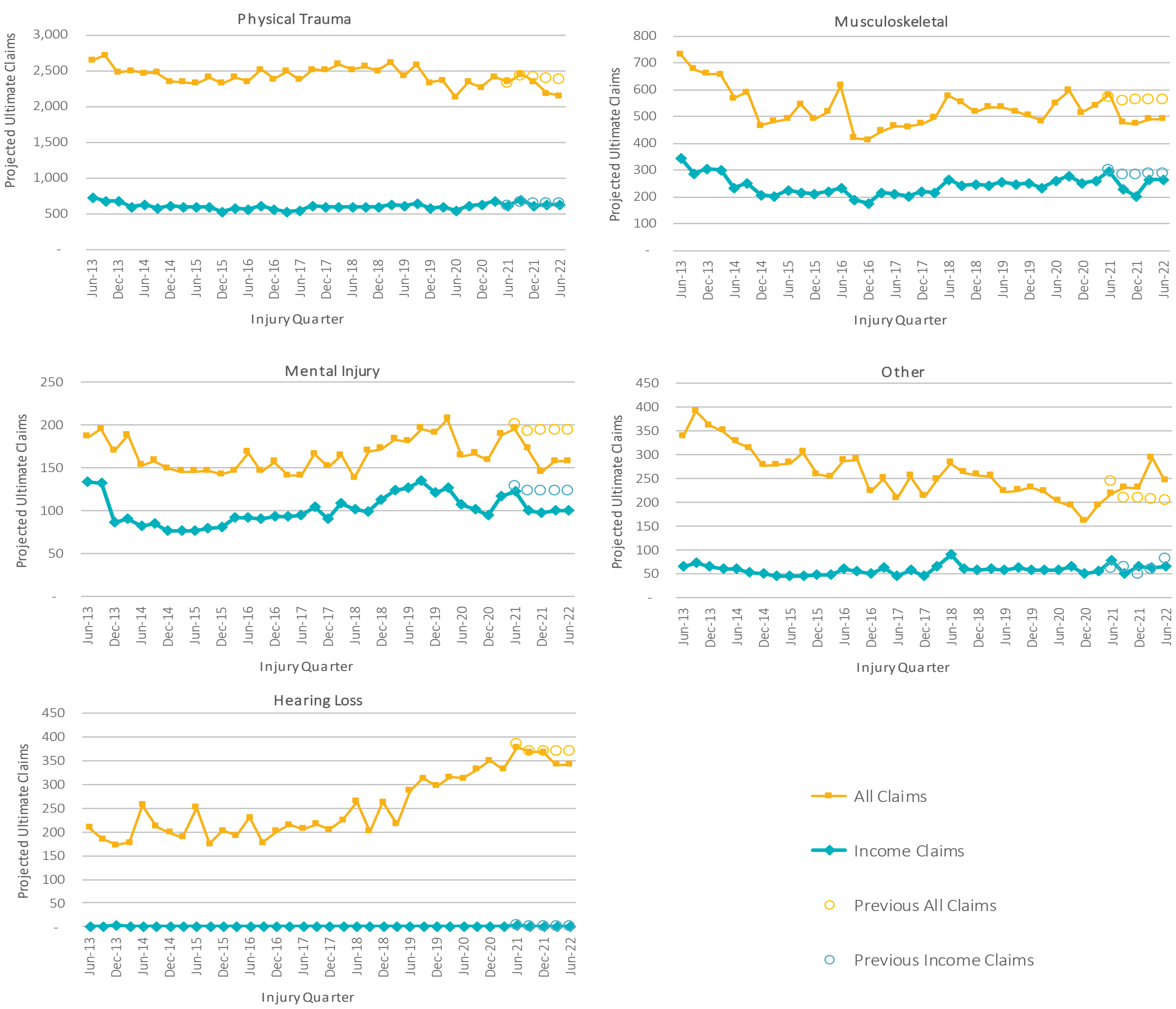


Figure 5.2 shows:

- IS claim numbers dropped by 17% between 2006 and 2010, and then rose again over the next two years to sit at about 5,000 claims p.a. in 2012 and 2013.
- IS claim numbers reduced again in 2014 and in 2015, and were then sitting around 3,700 p.a. for three years; this experience represents the lowest level since the scheme commenced.
- Between 2017 and 2019, IS claim numbers rose quite noticeably. The estimate of IS claim numbers for 2018 is 9% higher than 2017, and the 2019 estimate is 4% higher than 2018.
- For the 2020 injury year, and despite it being significantly impacted by COVID-19 and having lower claim numbers overall, we have still seen a similar number of Income Support claims as 2019 – this means the proportion of claims getting Income Support has increased, which may also indicate that the reduction in claim numbers during COVID-19 disruptions was more to do with people choosing not to report more minor injuries.
- 2021 has emerged even higher again, continuing the upward trend in IS claim numbers since 2017. However, there are early indications numbers in 2022 have started to decrease driven by lower front-end claim reports. As seen in the graph, considerable development of claim numbers is still expected for the latest accident year (i.e. a lot of the projection still sits as IBNR claims), and so there is more uncertainty around the ultimate outcomes for this year.

In order to better understand the trends in IS claim numbers, we separately model claim numbers by type of injury. Figure 5.3 by injury type, the total numbers of claims as well as IS claim numbers.

Figure 5.3 – All claims and IS claims by type of injury



The key features we note from Figure 5.3 are:

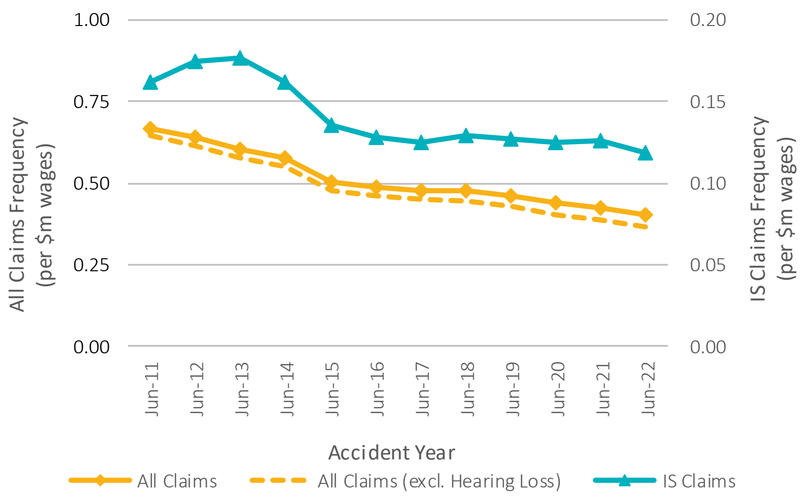
- "All" claim numbers dropped off significantly for Physical Injury and Musculoskeletal claims due to a reduction in the number of minor claims being reported. This has also translated to a reduction in "IS" claims, although to a smaller degree.
- Following a period of strong growth over the two years to December 2019, Mental Injury claims experienced a significant drop-off in the number of "All" and IS claims. For the March 2021 and June 2021 quarters, numbers increased briefly but have since reduced further for the three latest quarters. The reduction in "All" claims has translated to a similar reduction for IS claims.
- Hearing Loss claims steadily increased from June 2018, before appearing to have flattened off over the past year; however, there is still a significant number of IBNR claims to come for these injury periods. Hearing Loss claims now represent around 10% of all claims expected to be received from a new injury year, compared to more like 5-6% just three years ago.
- Other claims saw a significant increase during 2022 due to COVID-19 claims. However, this has not translated to higher IS claims as the COVID claims reported to date are minor and generally do not have any IS costs attached.

The mix of claims by injury type has important implications for longer term IS claim costs, as there are noticeable differences in claim durations between the different groups.

5.1.3 Claim frequency – All claims and IS claims

Figure 5.4 compares the trends in (1) total claim frequency ('all claims' numbers from Section 5.1.1), (2) total claim frequency excluding hearing loss claims, and (3) IS claim frequency (IS numbers; Section 5.1.2). 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 5.4 – Claim frequency (claims per $m wages)



The IS claim frequency diverged from the all claims frequency between 2010 and 2013. After the steep improvement in the IS claim frequency between 2013 and 2015, trends in the IS claim and all claim frequencies were broadly in line until 2018, when the IS claim frequency began to deteriorate again. While the overall claim frequency has been reducing strongly in recent years, it has not been the same for IS claims with the gap between the two lines only starting to narrow slightly in the latest year.

The trend in all claim numbers frequency is broken down further in Table 5.1.

Table 5.1 – Projected ultimate claim frequency: comparison to previous

	All claims (excl. hearing loss)				Hearing Loss Claims			
Accident Year	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Freq	Change from Prev	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Freq	Change from Prev
Jun-19	0.43	-4%	0.43	0.0%	0.03	1%	0.03	0.1%
Jun-20	0.40	-7%	0.40	-0.1%	0.04	27%	0.04	0.1%
Jun-21	0.38	-4%	0.38	1.3%	0.04	8%	0.04	-1.9%
Jun-22	0.36	-5%	0.37	-2.0%	0.04	-1%	0.04	-4.0%

5.2 Serious Injury claims

Sections 5.2.1 and 5.2.2 describe Serious Injury claim number experience and projections prior to reforms. Section 5.2.3 summarises our post-reform Serious Injury claim number projection.

5.2.1 Serious Injury Claims – primary injuries

All experience noted in this section relates to claims that reach the Serious Injury threshold on their primary injury. Section 5.2.2 discusses claims who are reliant on combining injuries to reach the Serious Injury threshold.

Identification of Serious Injury claims

The Serious Injury threshold of 30% WPI (prior to reforms) is the most material scheme boundary from a financial perspective. The table below lists the sources used to identify Serious Injury claims for the valuation, along with commentary about the status of claims in each of those sources.

Table 5.2 – Serious Injury sources

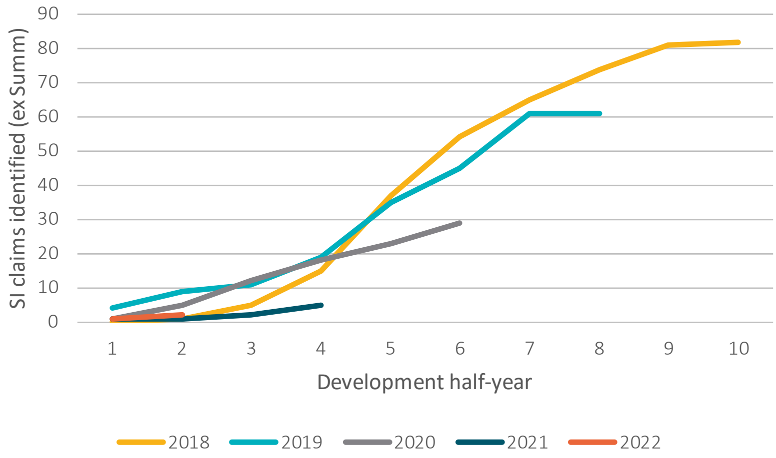
Source	Commentary
Serious Injury determinations	Claims are identified in this source following a formal Serious Injury determination. This decision cannot be reversed.
Serious Injury interim determinations	Claims are identified in this source following a Serious Injury interim determination. Serious Injury interim determinations provide access to Serious Injury benefits for claims who ReturnToWorkSA deem as likely to reach the Serious Injury threshold, but who cannot have a WPI assessment at this point (due to reasons such as not being at maximum medical improvement). It is possible that some claims in this cohort ultimately won't reach the Serious Injury threshold when their WPI is completed; however, ReturnToWorkSA only make interim determinations where there is strong evidence of reaching the 30% threshold, so we expect most claims will ultimately be determined as a Serious Injury.
Manual reviews	ReturnToWorkSA perform monthly reviews of claims with characteristics that indicate they are a high risk of becoming Serious Injury, and make an assessment on the likelihood of them becoming Serious Injury. Those that are reviewed as 'confirmed', 'very high probability' or 'pending' are included in the valuation. Given the long period of time it can take for a formal Serious Injury determination to be made this provides a forward looking view of the number of Serious Injury claims emerging. Because the likelihood of a claim reaching the Serious Injury threshold will evolve over time as more information emerges, some claims from this cohort will not ultimately be determined as Serious Injury.
Other sources	Most claims identified through other sources have some lump sum information that indicates they would have reached the Serious Injury threshold; however, the majority of these claims relate to older (2013 and prior) accident periods and disengaged with the Scheme prior to the commencement of the RTW Act so will never have a formal Serious Injury determination. There are a small cohort of claims from RTW Act periods with some WPI information on file that indicates a WPI of at least 30%, but the WPI is not formally approved or is in dispute. Once the WPI information is finalised they will have their Serious Injury determination.

Recent experience

Since the RTW Act commenced there has (unexpectedly) been continued emergence of additional Serious Injury claims well beyond the two year Income Support and three year medical caps. Given the significant cost associated with Serious Injury claims, this has been a source of financial strain to the Scheme across recent valuations; prior to the *Summerfield* decision that allowed combining of injuries, the ultimate number of Serious Injury claims was the biggest source of valuation uncertainty.

The last six months has seen a reversal of this, with newly identified primary Serious Injury claims being much lower than normal. Figure 5.5 shows the emergence of primary Serious Injury claims for 2018 and more recent accident years.

Figure 5.5 – Serious Injury emergence (primary serious injury claims only) for recent accident years

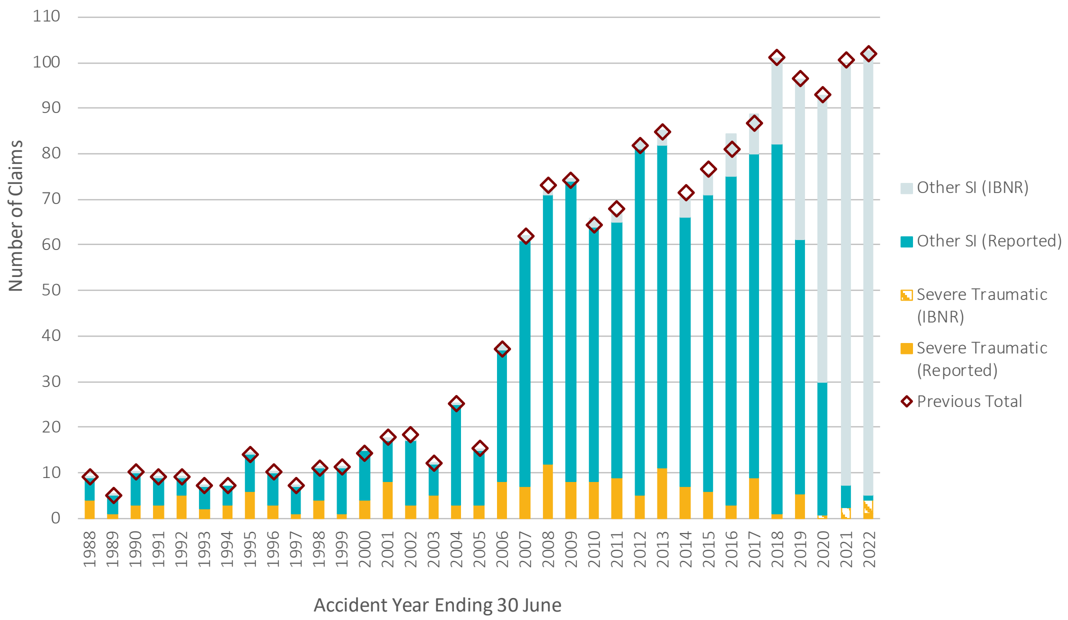


As can be seen, the 2019 and 2020 accident years were initially emerging a higher level than 2018, but emergence has slowed over the past 6-12 months, with both these years now lower than 2018 at equivalent durations. The 2021 accident year is also emerging lower than preceding years. Given the significant operational distractions for ReturnToWorkSA and its external claim agents since the *Summerfield* decision, combined with the longer term upward pressure on Serious Injury numbers, we are interpreting this as a slowdown in emergence rather than a reduction at the current valuation.

Projected ultimate Serious Injury numbers

Given the above, we have largely rolled forward our previous estimates of ultimate claim numbers as shown in Figure 5.6.

Figure 5.6 – Serious Injury claim numbers (primary serious injury claims only) by accident year



The key features we note from this are:

- The number of identified Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- For Severe Traumatic Injuries, which tend to be identified quickly, the estimates for each accident year generally give credibility to experience to date. The 2018, 2020, 2021 and 2022 years look like being very low years for Severe Traumatic Injuries, whereas the 2017 and 2019 years look higher (although they are still lower than the average of the 2007 to 2013 years).

Overall, we have allowed for 355 IBNR claims in our projections, which equates to 3.5 injury years' worth of claims.

Despite the low emergence of Serious Injury claims over the last six months, we continue to view the late emergence of Serious Injury claims as a key risk to valuation.

Serious Injury number uncertainty

To put our allowances for future Serious Injury claim numbers into context, we compare the remaining IBNR allowance for each accident year with the number of claims sitting in each 'IBNR pool' and other remaining open claims in Table 5.3 below.

Table 5.3 – Serious Injury IBNR (primary SI only) vs remaining open claims (2019 and prior accident years)

Accident Period	SI Application[1]	WPI Activity[2]	Other Open	Total Open Claims[3]	Serious Injury IBNR	% of open claims
Prior	6	72	185	263	3	1.2%
2007	1	9	18	28	1	3.8%
2008	2	7	26	35	1	2.9%
2009	1	11	28	40	1	1.3%
2010	5	17	20	42	2	4.6%
2011	3	18	22	43	2	4.6%
2012	3	11	26	40	2	4.5%
2013	5	32	32	69	3	4.5%
2014	4	33	52	89	4	5.0%
2015	8	36	50	94	5	5.1%
2016	5	85	133	223	9	4.2%
2017	9	115	158	282	9	3.1%
2018	8	227	259	494	19	3.8%
2019	12	279	436	727	35	4.8%
Total	72	952	1,445	2,469	96	3.9%

[1]Either in SI application dispute, or recent application without decision
[2]WPI assessment not completed, or WPI/s7 dispute
[2]Excluding claims already counted as SI and NIHL

Table 5.3 demonstrates that we are currently only allowing for a small proportion of the remaining open claims to reach the Serious Injury threshold; it would take only small deviations from this to have large consequences for the outstanding claims liability – particularly for the 2019 accident year where over 700 claims remain open. There is therefore more risk that our IBNR is too low than too high.

Given the high value of Serious Injury benefits, higher than expected Serious Injury claim numbers would materially increase the liability.

5.2.2 Serious Injury Claims – combining injuries

Recap and approach

Our previous two valuations included an allowance for additional Serious Injury claims to arise from claims being able to combine injuries as per the *Summerfield* decision; however, given the *Summerfield* decision continued to be appealed until 5 November 2021 there was little real world information on the impact of being able to combine injuries. As a result, our allowance for the number of additional Serious Injury claims relied primarily on manual file reviews of high risk segments of claims.

Post the High Court's refusal to allow Special Leave to appeal, the combining of injuries for WPI assessments has now been operational for around eight months, and ReturnToWorkSA and their external claims agents have been flagging new Serious Injury claims that have reached the threshold purely due to combining injuries (i.e. these are claims who only reach Serious Injury as a result of being able to combine injuries). Given this, our current valuation approach to estimating the additional number of Serious Injury claims due to combining has been as follows:

1. Start with the estimates from the previous valuation
2. Review how experience to date has emerged relative to those estimates
3. Adjust the previous estimates considering the volume and reliability of experience to date.

As the combining of injuries is now operational, we are relying on the actual emerging experience to reassess our previous estimates, rather than file reviews as was the case for previous valuations.

Experience to date

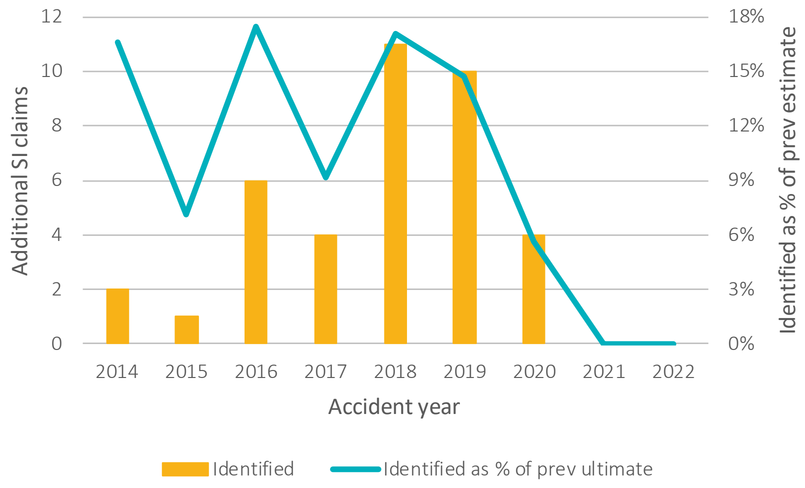
We note the following high level features of experience to date:

- Resolution of the open combination disputes that existed as at 5 November 2021 has been slower than expected, with fewer than half these disputes resolved as at 30 June 2022. Discussions with ReturnToWorkSA operational staff indicate that many of these claims have multiple open disputes that extend beyond combining of injuries, resulting in them being time consuming to resolve. As a result of this there may be some bias towards simpler disputes having been resolved to date.
- Through the dispute resolution process it appears that some claims have elected to concede compensability disputes on some of the additional injuries they had claimed, in order for their WPI to fall just below the Serious Injury threshold so they can receive a large future economic loss lump sum rather than the ongoing periodic benefit stream that the Serious Injury package provides.
- The identification of additional Serious Injury claims from our previous high risk segments has been lower than expected to date, noting the comments above on dispute resolution as context for this feature
- A higher than expected proportion of additional Serious Injury claims have come from outside our high risk segments, which all else equal would add to our previous estimates.

Overall, early indications are that fewer additional Serious Injury claims are emerging as a result of combining; however, we are cautious in interpreting this experience given we are only eight months into the combining of injuries being operationalised and noting that most such claims are and will emerge from the dispute resolution system where resolution times remain slow.

Figure 5.7 below shows the total number of additional Serious Injury claims identified to date, along with how this compares to our previous ultimately expected additional Serious Injury claims.

Figure 5.7 – Additional combining related Serious Injury claims to date

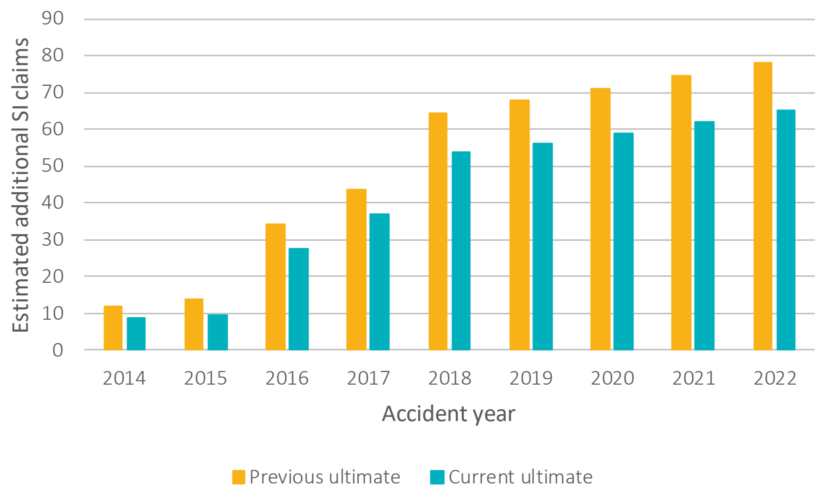


To date, 41 additional Serious Injury claims have been identified as a result of combining. For 2014-2019 accident years, roughly between 5% and 20% of our previous allowance has been used up. Given the long-tail on the emergence of Serious Injury claims it is not surprising that only a modest portion of claims have been identified to date; however, this is lower than we anticipated at this point.

Estimated additional Serious Injury claims from combining injuries

Figure 5.8 shows our previous and current estimated additional Serious Injury claims due to combining.

Figure 5.8 – Estimated additional Serious Injury claims due to combining



Overall, we have reduced our estimated numbers of additional Serious Injury claims by around 15% in light of experience to date.

5.2.3 Serious Injury Claims – expected reform impact

Approach

One of the key reform amendments is the raising of the Serious Injury threshold from 30% to 35% WPI for physical injuries. Our approach to estimating the impacts of this change is as follows:

1. Analyse WPI scores on identified Serious Injury claims to estimate to proportion of Serious Injury claims that currently fall between 30% and 34% WPI.

2 Estimate what proportion of the claims that historically fell between 30% and 34% that will now be able to change behaviour to reach the new 35% threshold, given combining injuries is now possible.

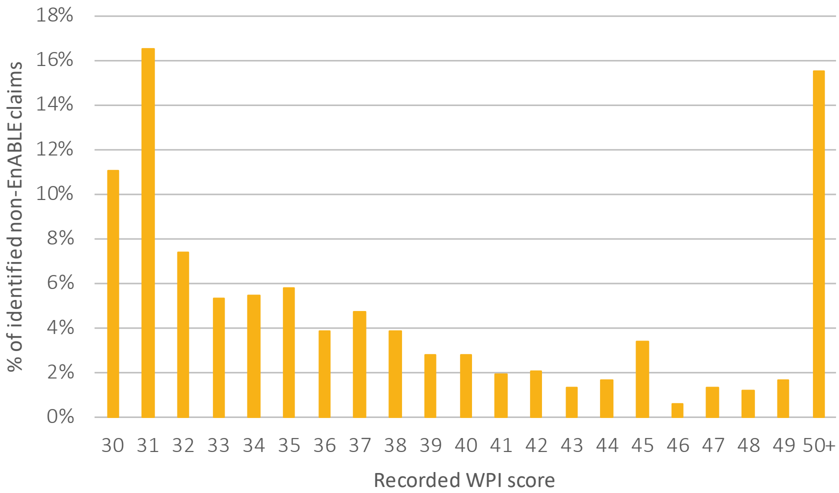
3 Combine (1) and (2) to determine the estimated reduction in Serious Injury claims for a new accident year.

4 Translate the above reduction for a new accident year across existing accident years, considering the current status of claims and estimates of how many claims will be able to be assessed in accordance with the reform's transitional rules. The rules governing whether current claims fall under the 30% or 35% threshold is covered below.

WPI distribution – pre-behaviour changes

Figure 5.9 shows the WPI distribution for identified Serious Injury claims (excluding the Severe Traumatic Injury cohort). We note that changes in operational practices mean WPI has not always been recorded entirely consistently over time.

Figure 5.9 – WPI distribution for recorded claims



Based on this, we estimate that between 40% and 45% of Serious Injury claims currently have a WPI of 30-34%.

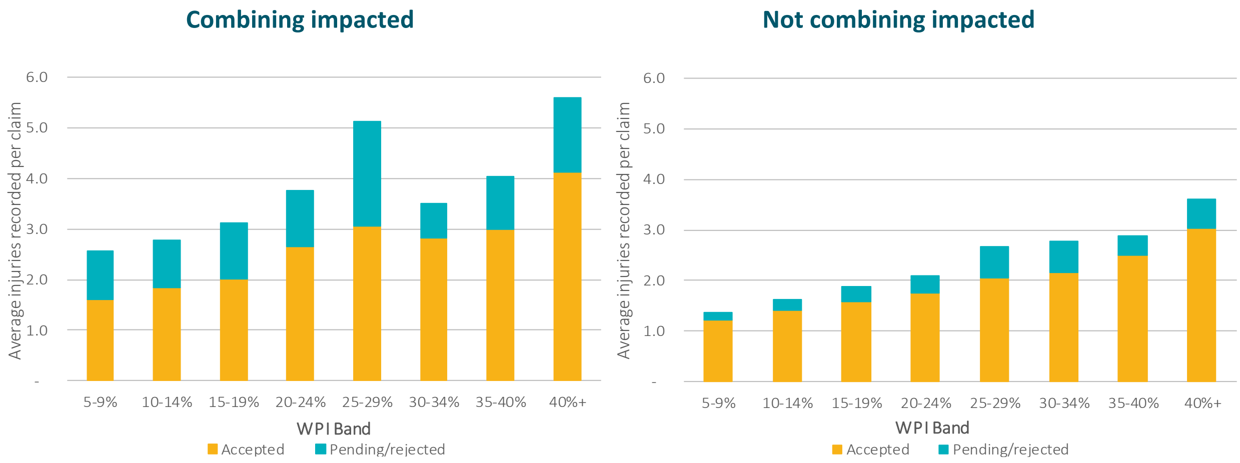
Behavioural change allowances

Put simply, an important part of our work is assessing whether the proposed reforms are likely to achieve their intended aims, or else whether claimants will be able to 'maximise their benefits' by changing their own behaviour. The most important part of this assessment is estimating how many claims will be able to achieve higher WPI scores than they otherwise would have.

Because the ability to combine injuries is a new feature of the South Australian workers compensation scheme, there is only limited information we can use to anticipate how claimants and their advisors will respond to the higher WPI threshold. Indeed, it is still very early days since the *Summerfield* decision, and the information on additional injuries in Figure 4.2 suggests that many claimants and their advisors seem to still be working out their approach to combining injuries.

To consider this further we have constructed a number of metrics using the additional injuries data (as discussed in Section 4.4.2) and the claims identified as being impacted by combining. Figure 5.10 shows the number of accepted injuries there are on a claim, split by WPI band, separately for 'combining impacted' and 'not combining impacted' claims.

Figure 5.10 – Average number of injuries recorded per claim split by WPI band



There are two key conclusions we draw from this analysis:

1 As WPI scores increase, it is more likely that claims will have additional injuries (as evidenced by the upward slope in the graphs). Noting the reforms are targeted at high WPI claims, seemingly then this is the group who would be best placed to attempt to maximise their benefits by changing their behaviour.

2 Combining impacted claims are making far greater use of including additional injuries in their claim than non-combining impacted claims; they also seem to have more injuries that have been rejected (due to being assessed as 'non-compensable'). Perhaps related to this, we observe that over 85% of known combining impacted claims have an identified legal representative, which compares to more like 10% of claims being legally represented for other claims.

After considering the combined impact of the above analysis and earlier work relating to the growth in claims seeking to add additional injuries (particularly since key legal precedents emerged), and viewed in the context of a range of past adverse behavioural changes that have been seen in the South Australian workers compensation scheme, we see no reason not to anticipate that there will be some level of behavioural change that will undermine some of the expected impacts of the Bill.

Ultimately, we assume that around one-third of Serious Injury claims will be removed for a **new accident year** due to the increased threshold once behavioural changes are allowed for. The impact on outstanding claims for accident years already on risk is less than this due to the transition rules in place which are discussed further below.

Transition rules

The transitional rules on what Serious Injury threshold applies to claims are described in Table 5.4 below.

Table 5.4 – Serious Injury transitional rules

Type of claim[1]		1 Jul-22	1 Jan-23	1 Jul-23	1 Jan-24
Already Determined Serious Injuries		No change - remain as Serious Injuries	No change - remain as Serious Injuries	No change - remain as Serious Injuries	No change - remain as Serious Injuries
Category 1 Interim Serious Injuries (i.e. currently interim SI, or become interim SI by 1/1/23)	a. if 'assessment is completed' by 1/1/24	30% WPI	30% WPI	30% WPI	
	b. if 'assessment is completed' after 1/1/24				35% WPI
	c. if 'assessment is not completed' by 1/1/24				Interim SI ends if not likely to be 35% WPI
Category 2 Interim Serious Injuries (i.e. become interim SI after 1/1/23)	a. assessment must be after 1/1/23		35% WPI	35% WPI	35% WPI
Workers not yet assessed:	a. if 'assessment is completed' by 1/1/23	30% WPI			
	b. if 'final examination[2]' by 1/1/23	30% WPI			
	c. if 'final examination[2]' is after 1/1/23		35% WPI	35% WPI	35% WPI

[1] Note that the table is for physical injuries only; for primary psychological claims there is no change to the Serious Injury WPI threshold

[2] 'Final examination' is when no further attendance is required with at least one assessor who is part of the WPI assessment process (i.e. attendance may still be required for some assessors in the case where there are multiple assessors involved). The formal determination can come after this date.

At a high level, the transition rules can be described as follows:

- Claims that have a Serious Injury determination or their final WPI assessment prior to 1 January 2023 continue to have the 30% threshold applied to them.
- The exception are claims with an interim Serious Injury determination prior to 1 January 2023. The 30% threshold continues to apply to these claims provided they have their WPI assessment prior to 1 January 2024. Claims that do not have their WPI assessment prior to 1 January 2024 are able to have their interim status re-assessed against the 35% threshold.

Accident year impact

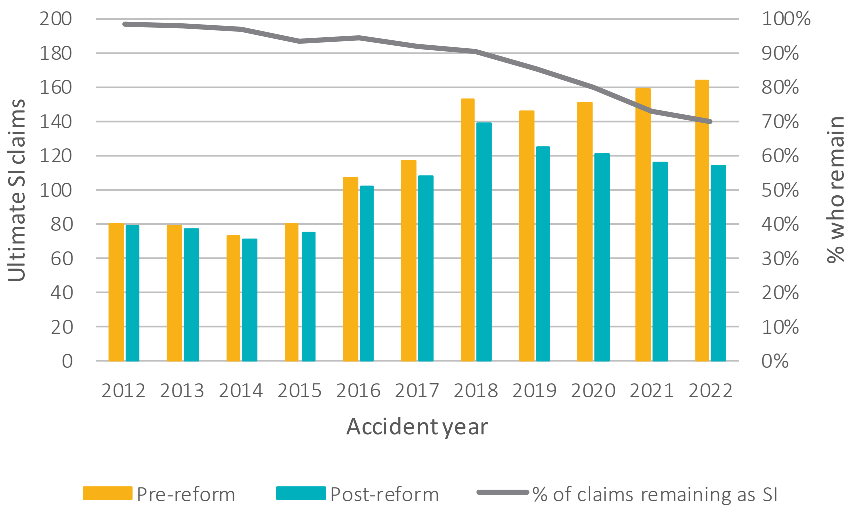
Given the transition rules described above, we categorised our pre-reform Serious Injury ultimate claims into the following categories and considered how the transitional rules apply to them:

- Known claims split between
  - Serious Injury determinations
  - Interim Serious Injury determinations
  - Claims identified through manual reviews
  - Claims identified through other high risk sources
- IBNR claims split between the following high risk segments
  - Serious Injury disputes
  - Open Serious Injury applications
  - Section 7 and non-economic loss disputes
  - Open WPI assessments
  - IBNR claims from outside these sources.

For each segment we adopted an assumed proportion that will fall under the 30% threshold, that allowed us to split our current estimate of Serious Injury claims into those that will be governed by the 30% threshold and those that will be governed by the 35% threshold. For those that are governed by the 35% threshold we assume that one-third of them will be removed.

Figure 5.11 below shows the resulting impact on the projected ultimate number of Serious Injury claims by accident year.

Figure 5.11 – Projected ultimate number of Serious Injury claims – pre and post reform

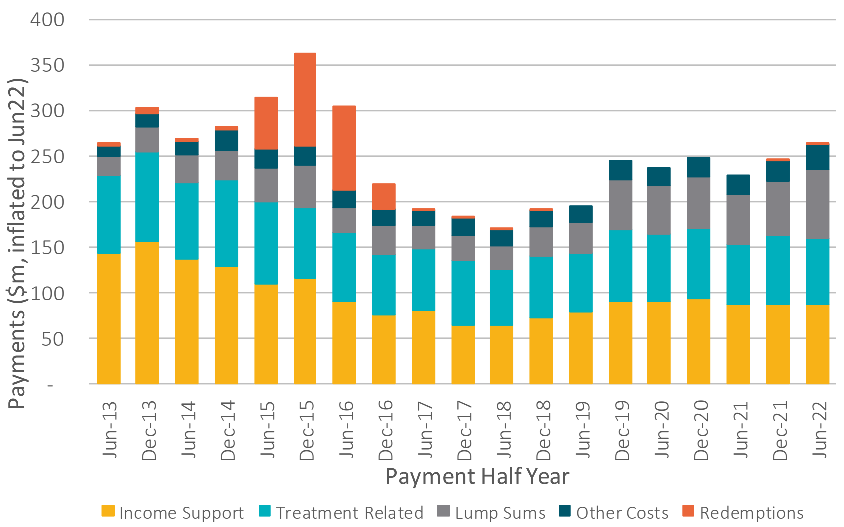


As expected, the proportion of claims removed reduces as accident years get more mature. Overall, we anticipate that the reforms will prevent 189 Serious Injury claims from emerging that otherwise would have. We emphasise that there is a high level of uncertainty around this number, and outcomes that are higher or lower than this could result.

5.3 Overall payment experience

Figure 5.12 shows gross claim payments (before recoveries) in half-yearly periods over the last ten years, inflated to current values.

Figure 5.12 – Gross Claim Payments ($Jun22)



Gross payments of $261m in the last six months were up 7% from the previous period, with increases across most payment types:

- Income Support payments were essentially steady (up 1%) over the past six months, remaining fairly stable over the last three years. There are three offsetting factors impacting this: increases in the number of Serious Injury claims (as the cohort is still growing over time), improved RTW rates at mid to longer durations that are reducing payment levels, and higher payments per active claim.

- Treatment related costs decreased by 6%, following a 14% increase in the previous period. The recent decreases are driven by lower hospital, allied health and rehabilitation spending, although medic-legal costs continue to be high (and increasing).
- Lump sum payments increased by 30%, following a 7% increase in the previous period. This follows material increases in average sizes for lump sums emerging in the experience.

After allowing for recoveries of $8.9m in the last six months, net claim payments of $252.4m were $5.8m (2%) higher than projected at the previous valuation. Table 5.5 shows the breakdown.

Table 5.5 – Payments: Actual vs Expected

Entitlement	Six Months to Jun-22				Split by Category	
Group	Actual	Expected	Act - Exp	% A - E	Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	86.6	95.3	-8.8	-9%	-0.9	-7.8
Redemptions	0.8	0.0	0.8	n/a	0.8	0.0
Lump sums	75.9	63.7	12.2	19%	21.0	-8.9
Legal - Non-contract	13.2	10.3	2.8	27%	1.7	1.1
Contract Legal	10.5	11.6	-1.1	-10%	-0.7	-0.4
Medical	32.1	31.9	0.1	0%	1.2	-1.1
Allied Health	14.2	14.8	-0.6	-4%	-0.2	-0.4
Hospital	9.2	9.7	-0.5	-5%	-0.3	-0.2
Travel	2.8	2.9	-0.1	-4%	0.0	-0.1
Rehabilitation	4.5	4.9	-0.4	-8%	-0.3	0.0
Investigation	1.0	1.2	-0.2	-17%	-0.2	0.0
Other	2.2	2.1	0.1	4%	-0.2	0.3
Care	6.6	6.1	0.4	7%	0.0	0.5
Common law	0.0	0.1	-0.1	-100%	-0.1	0.0
LOEC	0.1	0.1	0.0	0%	0.0	0.0
Commutation	1.7	0.2	1.5	689%	1.5	0.0
All Payments	261.3	255.1	6.2	2%	23.3	-17.0
Recoveries	-8.9	-8.5	-0.4	5%	-1.0	0.6
Net Payments	252.4	246.6	5.8	2%	22.3	-16.5

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

- Income support payments were below expected, driven by lower than expected numbers of active claims and fewer than expected backpays (which follow the resolution of disputes) for new post-combining Serious Injury claims, which was partly offset by higher average payment sizes.
- Lump sum payments were significantly higher than expected due to higher average payment sizes. Other contributing factors were:
  - A higher than expected proportion of claims were combining injuries
  - Some claims shifted from Serious Injury Claims to Short Term Claims after consciously seeking to be assessed below 30% WPI to access a large lump sum payment
  - Fewer than expected new post-combining Serious Injury claims emerged, due to the slow rate of dispute resolution
- Treatment costs were below expected due to lower than expected Allied Health, Hospital and Rehabilitation payments
- Worker legal costs were significantly higher than expected due to a high number of dispute settlements for both transitional and RTW Act claims.

Our valuation basis for General Short Term Claims is discussed in Section 6 and Hearing Loss claims in Section 7. Section 8 discusses our valuation of Serious Injury claims.

6 'General' Short Term Claims

The following section summarises the Short Term Claims results for all claims other than Hearing Loss claims; we refer to these as "General Claims". Hearing Loss claims are separately identified in Section 7.

We note that the valuation assumptions and impact are described separately for the 'Pre-reform valuation' and 'Reform valuation' (see Section 3.1 for more information); most Short Term Claims benefit types are not impacted by the reforms, with Lump Sums, Legal costs and Medicals (for medico-legal assessment) being the areas that are impacted.

6.1 Valuation approach

6.1.1 Income Support

Pre-Reform Valuation

Income support payments are modelled separately for Physical Trauma, Mental Injury, Musculoskeletal, Hearing Loss claims and Other. Hearing Loss claims are not included in this section of the report as there are only a handful of claims entitled to Income Support.

IS payments in the first three years after injury are valued using a PPAC model. For payments beyond three years after injury, a PPCI model is used. The Income Support liability includes payments to dependants, back-pay and Income Support payments for late surgeries.

Reform Valuation

There are no anticipated changes in Income Support costs for General Short Term Claims.

6.1.2 Lump Sums

Pre-Reform Valuation

We value lump sums in four segments: First Paid (non-economic loss), Economic Loss, Death and Hearing Loss. Hearing loss claims are covered in Section 7.

Our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency-based approach for more recent accident periods where there is less experience and there have been changes in the pattern of payments. More information on these methods is provided in Appendix A.

Reform Valuation

Increasing the Serious Injury threshold from 30% to 35% for physical injuries will WPI will result in additional lump sum claims being paid as 'General' Short Term Claims. We have estimated the number of impacted IBNR claims by accident year, as per the allowances explained in Section 5.2.3.

An allowance has also been made for an increase in the average size of lump sums over time due to behavioural changes leading to higher WPI scores, consistent with the Serious Injury claim number projections. We have implemented this allowance as a superimposed inflation loading.

6.1.3 Legal and Treatment Related Costs

Pre-Reform Valuation

Under the RTW Act most treatment and related costs cease 12 months after Income Support ends. The exceptions to this are payments for medical aids and appliances and medico-legal costs (for example related to medical assessments for WPI). Our modelling approach captures these features using:

- Long term model (PPCI) – this is a quarterly model used for the valuation of all treatment and Worker Legal liabilities.
- In some cases, we have shown two sets of valuation assumptions, namely:
  > "RTW Act claims" ‐ claims occurring after the RTW Act provisions commenced on 1 July 2015.

  > "Transitional claims" – those that occurred prior to 30 June 2015. The "Transitional claims" selections generally only apply for a small number of projection quarters before reverting to the "RTW Act claims" selections.

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

Reform Valuation

Codifying the combination rules in conjunction with the higher lump sums that are now available is expected to lead to increases in claims seeking to add additional injuries, leading to higher medico-legal assessment costs and additional disputes. Removal of the 'once and for all' WPI assessment rules is also expected to result in some claimants reopening for subsequent WPI assessments, as is currently occurring with some old transitional claims who are seeking WPI assessments many years after they initially closed (which also results in a significant proportion of assessments ending in disputation).

An adjustment is made to the PPCI to incorporate the expected additional cost of worker legal and medico-legal expenditure.

6.2 Short Term Claims – General Claims Results

This section summarises the results across the General Short Term Claims, separately identifying the Pre-Reform and Reform impacts.

Table 6.1 – Short Term Claims: General Claims results

	Income Support	Lump sum	Worker Legal	Contract Legal	Medical	Allied Health	Hospital	Rehab	Travel	Other	Care	Rest[1]	Recoveries	Total General Claims
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Estimated liability at Dec-21	160.9	225.9	60.4	39.7	63.3	25.9	17.2	12.8	6.0	5.1	2.1	6.3	(35.0)	590.4
Projected liability at Jun-22	161.8	229.1	59.3	39.2	63.6	26.2	17.5	13.0	6.1	5.1	2.1	6.2	(34.8)	594.3
Jun-22 valuation														
Movement in liability due to claims performance	(5.7)	91.0	0.7	1.6	(1.8)	(0.5)	(0.4)	(1.0)	(0.3)	(0.6)	(0.2)	2.1	(2.3)	82.7
Movement in liability due to reform	-	76.0	7.6	-	7.7	-	-	-	-	-	-	-	-	91.4
Estimated liability at Jun-22 (Dec-21 ecos)	**156.1**	**396.1**	**67.6**	**40.8**	**69.5**	**25.7**	**17.1**	**12.0**	**5.7**	**4.6**	**1.9**	**8.3**	**(37.1)**	**768.4**
Impact of change in economic assumptions	0.4	(17.3)	(1.7)	(0.1)	(1.2)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.0)	(0.5)	0.9	(20.3)
Estimated liability at Jun-22 (Jun-22 ecos)	**156.5**	**378.8**	**65.9**	**40.7**	**68.3**	**25.5**	**16.7**	**11.9**	**5.7**	**4.5**	**1.9**	**7.8**	**(36.2)**	**748.1**
[1] Rest includes: Investigation, Commutation, Common Law and LOEC														
AvE payments - six months to Jun-22	(1.1)	18.2	1.8	(0.8)	(0.5)	(0.2)	(0.3)	(0.3)	(0.1)	(0.2)	(0.0)	2.0	(0.9)	17.5
Actuarial release at Jun-22	6.7	(109.2)	(2.5)	(0.9)	2.3	0.7	0.8	1.3	0.4	0.8	0.2	(4.1)	3.3	(100.2)

At a total level, there is an actuarial strengthening of $100.2m for General Short Term Claims valuation (this increases to $116.2m after including expenses, as shown in Section 10.3). This is comprised of an increase of $82.7m in the liability estimate and $17.5m of higher payments than expected over the past six months. The key movements in the liability estimate are discussed below:

- Income Support – an actuarial release of $6.7m due to lower new claims and improved continuance rates following improved RTW performance, partially offset by higher average sizes for ongoing claims.
- Lump Sums – an actuarial strengthening of $109.2m which can be attributed to:
  > Higher payments in the period of $18.2m. This was due to higher average sizes for *non*-combining injuries, higher average sizes for combining injuries, and a greater than expected proportion of claims with a combining injury (where the average sizes are higher).

> A $29m increase due to changes in the assumptions around combining: namely, more claims remaining as STC rather than becoming Serious Injuries (there is an offsetting saving for this group in the Serious Injury part of the valuation), and an increase in the assumed proportion of claims who can combine injuries.

> A $21m increase due to higher than expected numbers of claims receiving lump sum entitlements in the 2015 to 2019 accident years, with a small flow on to the expectations for later years

> A $40m increase due to higher average lump sum sizes, impacting both combining and non-combining claims. Supporting the need for this increase is the observed increase in the average WPI score of approved assessments, which has increased from 12.4% to 14.1% over the last year.

- Legal – an actuarial strengthening of $3.4m in the liability which can be attributed to:
  > Worker Legal – a minor increase in response to continued high dispute numbers for RTW Act claims.

  > Corporation Legal – a 5% increase in the negotiated contract with ReturnToWorkSA's suppliers and an increase in the allowance for complex disputes due to the high levels of legal activity current in the system.
- Commutations (part of Rest) – an actuarial strengthening of $4.1m in the liability due to an increase in commutation use over the last six months and our valuation response; this is essentially a shift in cost from Income Support for dependant benefits to the Commutations payment group.
- Recoveries – an actuarial release following of $3.3m reflecting higher than expected recoveries over the last six months along with our valuation response.
- The movements in the remaining benefit groups are small and add up to an actuarial release of around $6.4m and broadly reflect lower claim numbers in the 2022 accident year than expected.

In addition to the actuarial strengthening there have been two other movements in the valuation result:

- Movement due to reform: an increase in the liability of $91.4 m, due to:
  > Lump sums: a $76.0m increase, reflecting the increased serious injury threshold from 30% to 35%, which shifts some claims into the Short Term Claims cohort. In addition, there is an expectation of some WPI creep as a result of behaviour change and claimants adding more injuries to maximise their Lump Sums.

  > Worker legal: $7.7m increase reflecting an expectation of higher disputes.

  > Medical: $7.6m increase reflecting increased medico-legal assessments.
- Movement due to economics: result in a $20.3 m reduction in the liability.

Table 6.2 below shows the actuarial release for Short Term Claims by accident period.

Table 6.2 – Short Term Claims: actuarial release by accident period

Accident Period	Income Support	Medical and Allied Health	Hospital	Rehabilitation	Travel	Investigation	Other and Care Subtotal	Worker Legal	Lump sums	Common law	LOEC	Commutation	Redemptions	Recoveries	Contract Legal	Total incl. Contract Legal
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Pre Jun-15	-0.5	-0.3	0.0	0.0	0.0	0.0	-0.1	0.3	-6.9	0.1	0.0	-2.3	-0.6	0.2	-2.0	-12.3
Jun-16	-0.7	-0.2	0.0	0.0	0.0	0.0	0.0	-0.5	-12.0	0.0	0.0	-0.4	0.0	-0.1	-0.8	-14.8
Jun-17	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	-0.6	-11.7	0.0	0.0	-0.1	0.0	1.3	-1.0	-12.2
Jun-18	0.5	-0.2	-0.1	0.0	0.0	0.0	0.0	-0.7	-19.9	0.0	0.0	-0.1	0.0	0.3	-0.6	-20.8
Jun-19	0.8	-0.1	0.1	0.0	0.0	0.0	0.0	-0.6	-16.9	0.0	0.0	-0.1	0.0	0.4	-0.2	-16.6
Jun-20	0.0	0.0	-0.2	0.0	0.0	0.0	0.2	-0.1	-14.6	0.0	0.0	-0.2	0.0	0.5	1.0	-13.5
Jun-21	-0.1	-0.1	0.2	0.6	0.1	0.1	0.2	-0.5	-15.9	0.0	0.0	-0.2	-0.1	0.6	1.5	-13.8
Jun-22	6.9	4.1	0.8	0.7	0.2	0.3	0.6	0.3	-11.3	0.0	0.0	-0.2	0.0	0.1	1.3	3.9
Total	6.7	3.0	0.8	1.3	0.4	0.4	1.0	-2.5	-109.2	0.1	0.0	-3.8	-0.8	3.3	-0.9	-100.2

The movement is similar across accident years with the exception of the June 2022 accident year, where reductions in claim numbers and improved RTW performance have been sufficient to offset the impact of higher Lump Sums.

The remainder of this section deals with the payment experience and valuation basis.

6.3 Income support

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

6.3.1 Summary of results

Table 6.3 summarises the movements in our liability estimates for IS payments since the December 2021 valuation.

Table 6.3 – Valuation Results: Income Support

Valuation Results: STC Income Support			
Dec-21 Valuation	$m	$m	$m
Estimated Liab at Dec-21	160.9		
Projected Liab at Jun-22	161.8		
Jun-22 Valuation		AvE pmts	Actl Release
Movement in liability due to claims performance	(5.7)	(0.9)	6.6
Movement in liability due to reform	0.0		
Estimated Liab at Jun-22 (Dec-21 eco assumptions)	**156.1**		
Impact of change in eco assumptions	0.4		
Estimated Liab at Jun-22 (Jun-22 eco assumptions)	**156.5**		

At June 2022 there is an actuarial release of $6.6m, reflecting the claims experience since December 2021 and our valuation response to this. The impact of economic assumptions is minor.

6.3.2 Experience vs expectations

Payments

Table 6.4 compares the IS payments in the six months to 30 June 2022 with the expected payments from our December 2021 valuation projection.

Table 6.4 – Actual vs Expected Payments: IS

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	Difference
	$m	$m	$m	
To 30 Jun 05	0.2	0.3	(0.0)	-8%
2005/06 - 2014/15	1.0	0.7	0.3	50%
2015/16 - 2018/19	2.2	3.1	(0.9)	-29%
2019/20 - 2020/21	33.6	33.3	0.3	1%
2021/22	29.3	30.0	(0.7)	-2%
Total	66.3	67.3	(0.9)	-1%

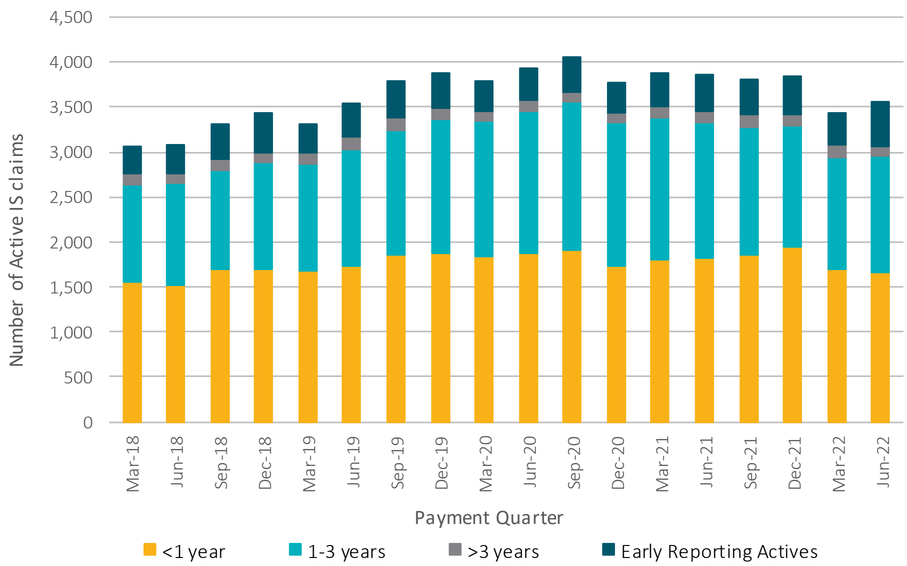
IS payments were 1% ($0.9m) lower than expected overall in the six months to December 2021. This was due to:

- $0.4m of lower payments across the 2019/20 to 2021/22 accident years following improved return to work rates (lower active claims) being partially offset by higher average payment sizes.
- $0.6m of lower payments for 2018/19 and prior years relating to late entitlement income support payments (eg. to late surgeries).

Active claims and exits

Table 6.1 shows the numbers of (quarterly) active IS claims, split by duration.

Figure 6.1 – Numbers of Active IS Claims



From June 2018 to September 2020, active claim numbers steadily increased, from just over 3,000 claims per quarter to over 4,000 in September 2020. This increase was due to a combination of higher exposure, deteriorating claim frequency and longer claim durations. The fastest growth was in 1-3 year actives, which grew by more than 40% between September 2018 and September 2020.

The December 2020 quarter then saw a significant improvement in the number of active claims, dropping from above 4,000 in September to around 3,800 active claims in December 2020 due to fewer <1 year duration claims. Active claims were then relatively stable until there was another significant improvement in active claims in March 2022 primarily driven by lower <1 year actives.

In Table 6.5 we compare the numbers of active IS claims at June 2022 with our December 2021 valuation projection. This has been done only for periods where we projected future active claims at the December 2021 valuation (accident quarters September 2019 and later). Overall active claim numbers were below expectations, with almost every quarter experiencing a reduction.

Table 6.5 – AvE Active Claims

Accident Quarter	Proj from Dec-21 Val	Actual Actives	Act *less* Proj	Diff as % Proj
Sep-19	19	16	-3	-16%
Dec-19	31	18	-13	-42%
Mar-20	72	65	-7	-9%
Jun-20	164	174	10	6%
Sep-20	221	193	-28	-13%
Dec-20	210	202	-8	-4%
Mar-21	292	281	-11	-4%
Jun-21	366	342	-24	-7%
Sep-21	431	389	-42	-10%
Dec-21	560	491	-69	-12%
Mar-22	703	619	-84	-12%
Jun-22	200	162	-38	-19%
Total	3,269	2,952	-317	-10%

Table 6.6 compares the AvE payments and actives for the three accident years where the PPAC model is used. While the number of active claims were significantly below expectation, particularly for the 2022 accident year, the payments were only marginally below expectation.

Table 6.6 – Income Support Payments and Actives

	Payments %	Actives %
2020	7%	-4%
2021	-1%	-7%
2022	-2%	-12%

The lower number of claims receiving income benefits was partially offset by the higher average payments made on these claims.

6.3.3 Modelling of STC Income Support payments

Our modelling approach for IS payments involves:

- **For all IS payments in the first three years after injury (development years 1 to 3) – a PPAC model** which models all IS entitlements at these durations; this includes IS payments to dependants, late IS payments (back-pay), claims with 'late starting incapacity' and IS payments made following surgery where the claimant would not otherwise have been entitled to IS.
    - > We model IS entitlements separately for five main injury groups: Physical Trauma, Musculoskeletal, Mental Injury, Hearing Loss and Other. The split allows us to better reflect the specific continuance and average size profiles of each claim segment, and allow for the changing mix of injuries over time.
- **For all IS payments more than three years after injury (development years 4 and later) – a PPCI model**, which splits out IS payments to dependants from other IS payments (mostly back-pay and IS payments following late surgeries). This PPCI model uses total claim numbers excluding Hearing Loss claims (not just IS claims) as the base.

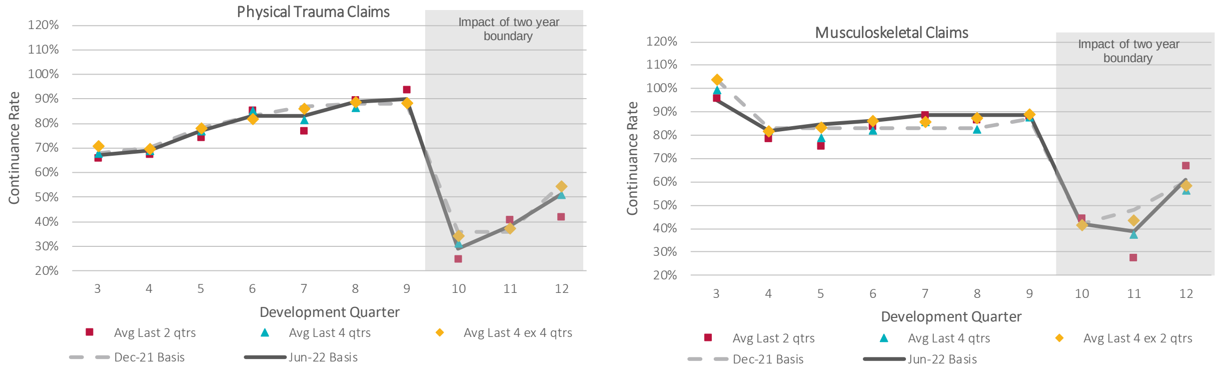
The Hearing Loss claim assumptions are not provided in this section on materiality grounds, and can be found in Appendix F.

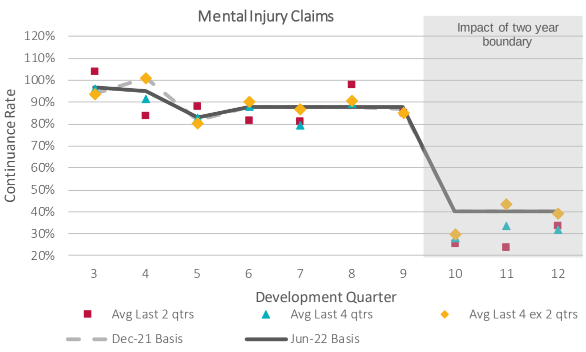
6.3.4 Valuation basis: IS payments in years 1-3: PPAC model

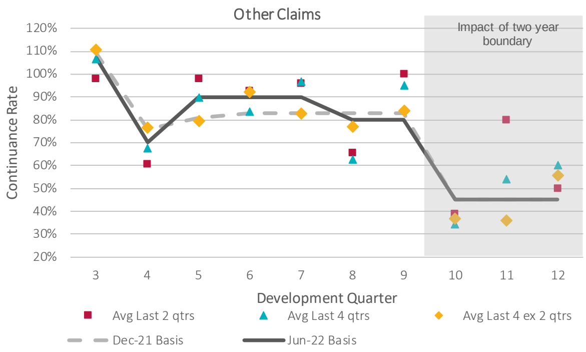
Projection of active claims

Figure 6.2 below shows the recent continuance rate experience and our adopted bases at the current and previous valuation for each injury segment.

Figure 6.2 – Continuance rates – by injury group





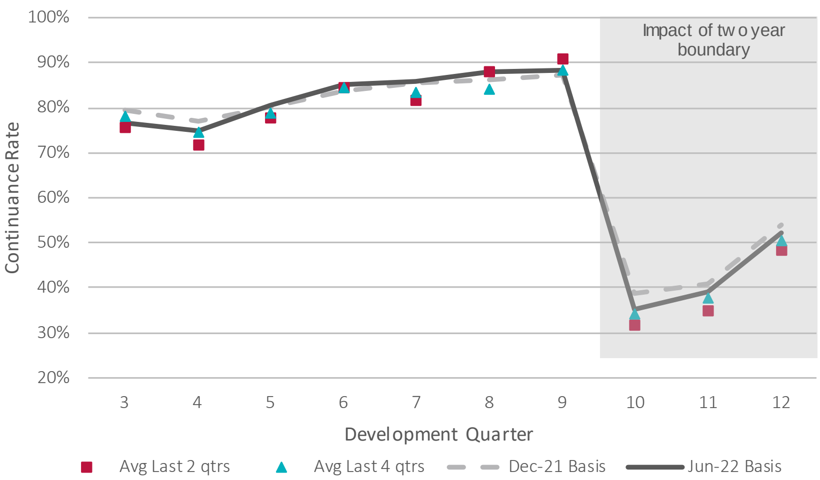


The valuation basis has been set close to the latest experience (as represented by the averages of the last 4 quarters). The 'average 4 excluding 2' metric shows the experience for the 12 months to December 2021. The key take-outs from Figure 6.2 include:

- There was an improvement (i.e. reduction) in the continuances rates from Injury (Physical Trauma) and Mental injury claims.
- Musculoskeletal had a reduction in continuance rates for early durations and an increase for longer durations. Significant work has been done to reduce the cohort of musculoskeletal claims that commence Income Support benefits, and this seems to be resulting in a 'harder core' of claims remaining on benefits in the second year.
- Other claims continue to have a longer duration on Income Support, although this is a small cohort of claims.

Figure 6.3 shows the combined continuance rates compared to those selected at December 2021.

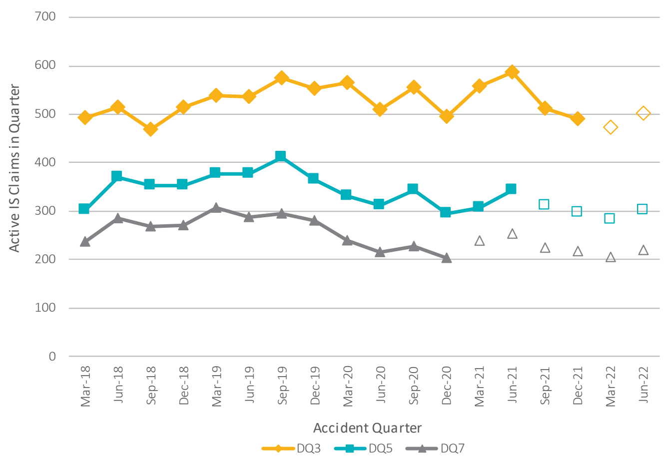
Figure 6.3 – Continuance rates – implied overall assumptions



The overall average continuance rates are lower at this valuation, reflecting the improvement in continuance rate experience over the last six months. The main area of improvement has been at early (first year post injury) durations, with continuance rates increased marginally out to development quarter nine.

Figure 6.4 below shows the outworking of our projection of active claims at development quarters 3, 5 and 7. The solid lines show the actual number of active claims and the dots show our projection.

Figure 6.4 – Income Support claims reaching specified durations

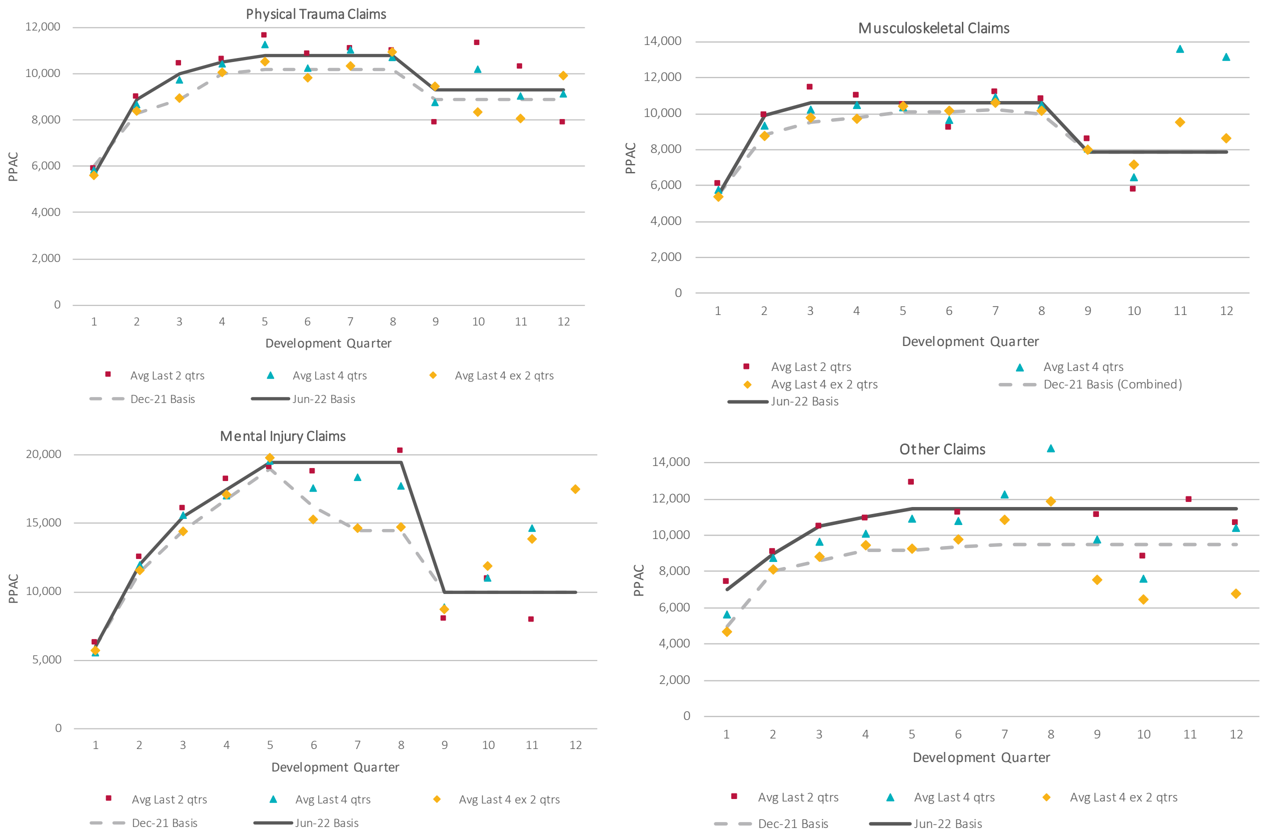


As Figure 6.4 shows, our projections suggest that active claim numbers at DQ5 and DQ7 are improving, with the projections continuing to move lower than the recent peaks. The March 2022 and later quarters are expected to further reduce on the back of recent reductions in new claim reports.

Payments per active claim

Figure 6.5 below shows the recent PPAC experience and our adopted bases for each injury segment. There are clear differences in payment levels for the different injury type segments.

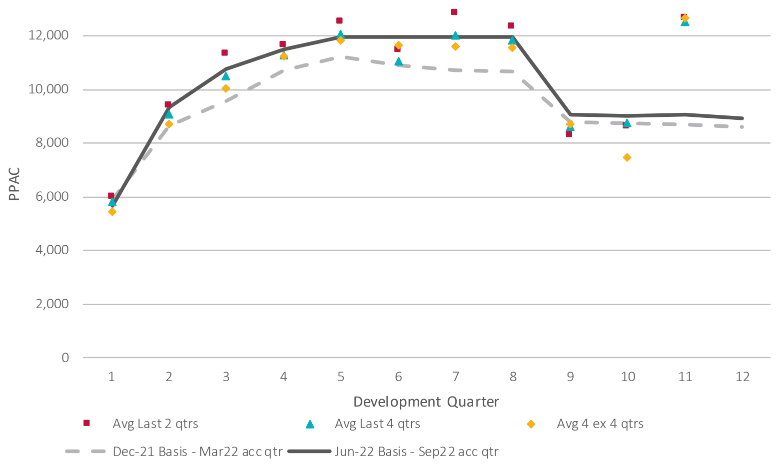
Figure 6.5 – Payments per active claim ($Jun-22): by injury group



The selected PPAC basis across all injury types has increased with the most recent experience (shown by the average 4 blue triangles and average 2 red squares) noticeably higher than observed at the December 2021 valuation (shown by the yellow diamonds). The increase in size has partially offset the reduction in the number of active claims, particularly for those claims reaching longer durations. This suggests the claims remaining on benefits are more severe or higher cost claims.

Figure 6.6 shows the implied average size across all injury types.

Figure 6.6 – Payments per active claim ($Jun-22): implied overall assumption



The recent overall PPAC experience is emerging higher than our December 2021 basis, and we have responded with an overall increase in our adopted PPACs as shown.

6.3.5 Valuation Basis: IS payments after year 3: PPCI model

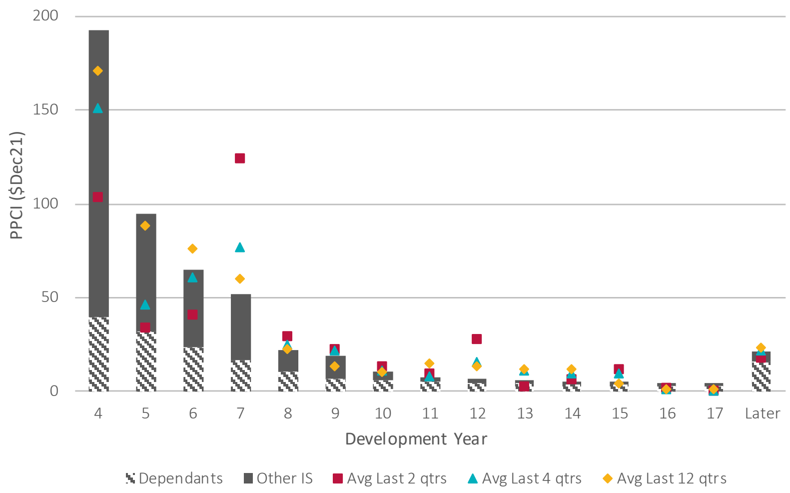
IS payments after 3 years are modelled using a PPCI model based on the ultimate number of non-Hearing Loss claims. The overall adopted average PPCI size of $518 per reported claim is 4% lower than our December 2021 assumption ($538) and is made up of two components:

- The allowance for ongoing dependant benefits of $178 per reported claim (unchanged from December 2021)
- An allowance for post-surgery IS payments, claims with 'late starting incapacity' and claims with back-pay (usually after a dispute is resolved), of about $340 per reported claim (reduced from $361 at December 2021).

The reduction in average income support payments reflects lower than expected 'late starting incapacity' payments in the experience; dependent benefit payments have continued near to expected levels.

Figure 6.7 shows the adopted PPCI basis and its components. As this shows, the selected basis is consistent with the average over the last 3 years; given the number of claims with payments is relatively small we are generally less responsive to short term variability in this segment of the modelling.

Figure 6.7 – Adopted Income Support PPCI basis (average IS cost per reported claim)



6.4 Lump sums

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

We value these lump sums in three segments:

- "First Paid" lump sums[4] – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Hearing Loss claims); this is for non-economic loss only
- "Death" and funeral claims
- "Economic Loss" lump sums – Short Term claims may receive an additional payment for loss of future earning capacity (only available under the RTW Act to new injuries from 1 July 2015).

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

6.4.1 Summary of results

Table 6.7 summarises the movements in our liability estimates for lump sum payments since the December 2021 valuation.

[4] Payments for "Top Up" lump sums were previously separated out, but now that very few such claims remain (all of which are claimants with injury dates prior to 1 July 2015 who lodged an application prior to 30 June 2016) this has been combined into the First Paid model.

Table 6.7 – Valuation results: lump sums

Valuation Results: Lump Sum (General Claims)			
Dec21 Valuation	$m	$m	$m
Estimated Liab at Dec-21	225.9		
Projected Liab at Jun-22	229.1		
Jun-22 Valuation		AvE pmts	Release
Movement in liability due to claims performance	91.0	18.2	(109.2)
Movement in liability due to reform	76.0		
Estimated Liab at Jun-22 (Dec-21 eco assumptions)	**396.1**		
Impact of change in eco assumptions	(17.3)		
Estimated Liab at Jun-22 (Jun-22 eco assumptions)	**378.8**		

The June 2022 liability shows an actuarial strengthening of $109.2m since December 2021, reflecting an increase of $91.0m in the liability and $18.2m of higher claims payments. The impact of reforms add an additional $76.0m to the liability, while changes to economic assumptions reduce the liability by $17.3m. Economic assumptions are discussed in Section 9.

6.4.2 Payment experience

Table 6.8 compares the payments in the six months to 30 June 2022 with the expected payments from our December 2021 valuation projection.

Table 6.8 – Actual vs expected payments: lump sums

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Difference
	$m	$m	$m	
To 30 Jun 05	0.2	0.2	(0.0)	0%
2005/06 - 2014/15	2.6	1.3	1.3	101%
2015/16 - 2018/19	37.0	15.6	21.4	137%
2019/20 - 2020/21	13.2	16.0	(2.8)	-18%
2021/22	0.2	1.8	(1.7)	-90%
Total	53.1	34.9	18.2	52%

Payments were 52% higher than expected in the six months to 30 June 2022, with higher payments for 2018/19 and prior injury periods partly offset by lower payments in more recent periods. The higher payments were driven by higher settlement sizes for First Paid and Economic Loss lump sums. We had expected to see higher average sizes emerge due to combining of injuries, however the payment experience over the last six months was significantly higher than expected – this was due to: a higher than expected proportion of claims having combination injuries, higher average settlement sizes for claims that had combination of injuries, and higher average sizes for claims that did *not* combine injuries.

6.4.3 First Paid lump sums

Pre-reform Valuation basis

Our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency-based approach for more recent accident periods where there is less experience and there have been changes in the pattern of payments. Table 6.9 below compares the actual and expected number of First Paid lump sums paid in the six months to June 2022.

Table 6.9 – Actual vs expected numbers: First Paid lump sums

Accident	Number of Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Difference
To 30 Jun 05	11	14	-3	-23%
2005/06 - 2014/15	57	61	-4	-7%
2015/16 - 2018/19	319	214	105	49%
2019/20 - 2020/21	190	272	-82	-30%
2021/22	4	3	1	48%
Total	581	564	17	3%

The number of First Paid lump sums in the last six months was 3% higher than expected. Significantly higher numbers of claims were paid for the 2015/16 to 2018/19 injury periods, partly offset by fewer claim numbers elsewhere.

At the previous valuation we included a sizeable strengthening for transitional claims due to the ongoing number of claims starting the WPI assessment process. There are early signs that the number of claims starting WPI has dropped off over the last six months. We have maintained our previous valuation basis which allows for 1,100 WPI assessments to commence in future, along with the current in progress cohort and those in dispute. This allows for the current level of new assessments to continue for 12 months at around 60 per month before tailing off. Based on current conversion rates, in total this translates to an additional 270 lump sum payments from these yet to commence assessments.

As a test of the reasonableness of our valuation basis for more developed accident years, Figure 6.8 below summarises a breakdown of open and potential claims by their current status in the WPI assessment process (left-side bar) which is compared with the IBNR allowance for First Paid lump sums (right-side bar) for each accident year up to 2019.

Figure 6.8 – Comparison of Identified Potential Future Lump Sum Claims and Model IBNR Allowance (for accident periods up to June 2019)

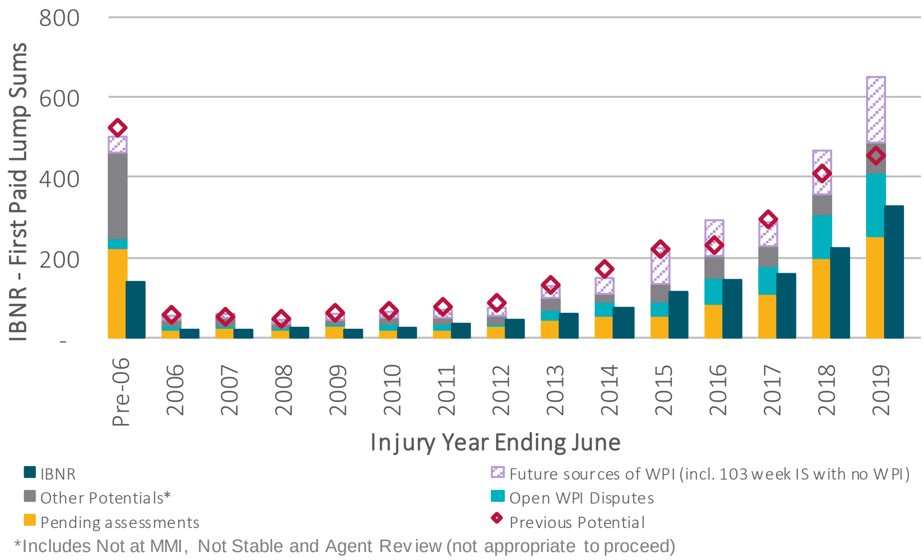


Figure 6.8 shows that:

- The number of identified potential future lump sum claims has generally only marginally reduced from six months ago, due to a combination of lump sum settlements being partly offset by the inflow of new WPI applications.

- Pre-2006 accident periods have a high number of WPI assessments in progress. We understand this is linked to activity by ReturnToWorkSA to undertake WPI assessments for all 'prior claims' on workers currently having a WPI assessment. Many of these assessments are expected to end up with a WPI lower than 5% and therefore not be entitled to a lump sum payment. The selected basis allows for around 30% of open disputes and 13% of currently pending and expected future assessments to be successful, consistent with the recent outcomes on transitional claims.
- For accident years 2006 to 2014, there are a large number of claims with pending WPI assessments, open disputes or potential future assessments. Our IBNR allowances are unchanged allows for around 30% of open disputes and 30% of pending and future assessments to receive a lump sum.
- For the 2015 and later accident years the level of pending and potential future sources of WPI have not really decreased, despite significant payment activity, and there remains considerable development in the tail beyond the cessation of IS payments. We have increased our projections over this period by around 300 claims, consisting of around 165 claims for the 2018 and 2019 years where WPI assessments appear to have ramped up over the last six months and around 20 claims extra per year for other years. Despite the increase, our selected basis still assumes the proportion of Income Support claims who receive a lump sum payment is trending down over the longer term, which we note is consistent with the earlier scheme history.

Figure 6.9 shows the projected ultimate numbers of First Paid lump sums, split into paid and IBNR claims. The 2015 to 2017 years show the impact of the noticeable slowdown in lump sum payments, with the number paid up to the end of the fourth development year (the height of the aqua part of the bar) being much lower than occurred historically.

Figure 6.9 – Projected Ultimate Numbers of First Paid Lump Sums

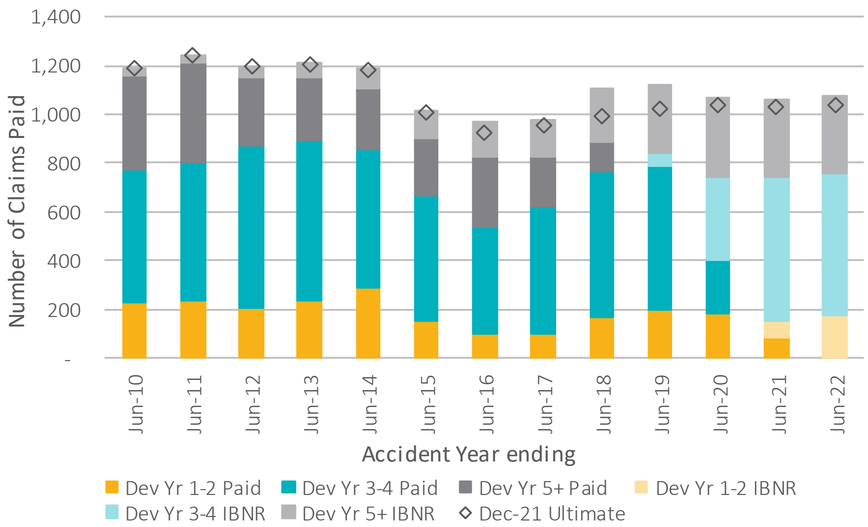
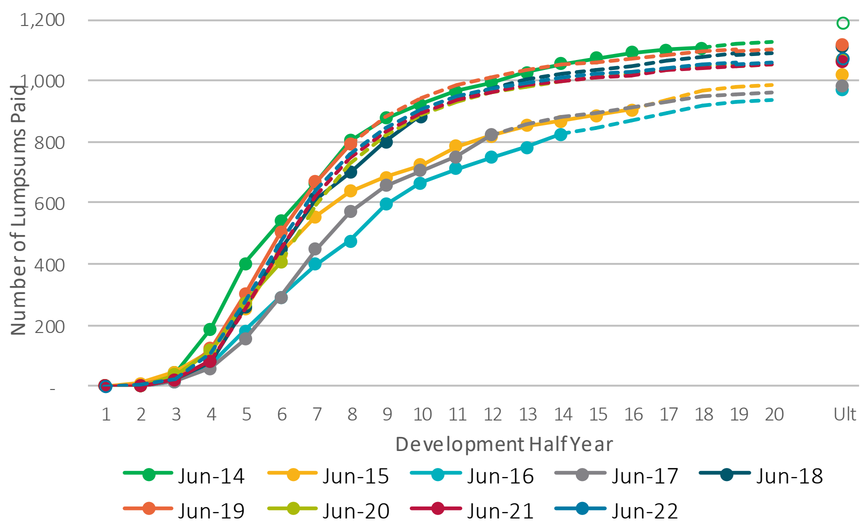


Figure 6.10 shows the cumulative number of First Paid lump sums by development year for accident years 2014 to 2022. The dotted line represents the projected development based on our selected payment pattern.

Figure 6.10 – First Paid Lump Sums Development

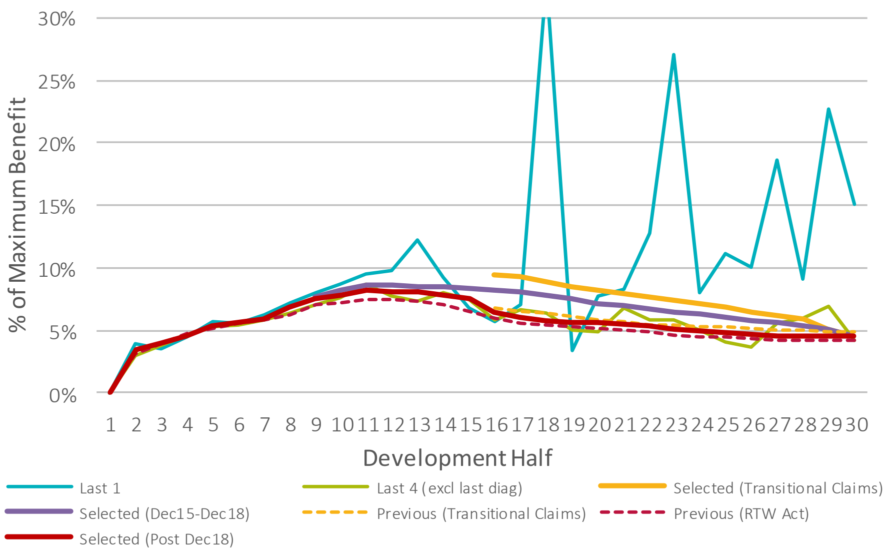


As Figure 6.10 shows, lump sum payments for accident years immediately following the introduction of the RTW Act are currently sitting below the pre-reform experience (as demonstrated by the Jun-14 line). For 2018 and later years, the emerging experience suggests a faster payment pattern (more like the pre-reform experience) is occurring compared to 2015 to 2017. Our selected payment pattern up to development half-year 10 reflects this faster payment experience.

Figure 6.11 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

Figure 6.11 – First Paid Lump Sums by Development Half-Year

(as a percentage of the maximum benefit)



At this valuation, we have increased our adopted sizes for all cohorts, following significantly increased average sizes in the last half-year as demonstrated by the blue line on the graph.

Sizes for transitional claims have been increased by around 7% overall from the previous basis. The emerging experience over the last six months shows a significantly higher average size and is partly due to a higher proportion of claims with combined injuries which tend to cost more. The selected basis gives some weight to this experience and allows for around 30% of remaining payments to combine injuries.

For injury half-years December 2015 to December 2018, we anticipate that over half of the remaining outstanding claims will contain some form of injury combining – this implies that the 'harder' combining cases have largely been awaiting finalisation in recent years. We have increased our selected size basis by around 17% from the previous valuation, giving weight to the experience over the last six months.

For injury periods after December 2018, we expect around 20% of claims will have combined injuries. The emerging experience shows a material uptick in average sizes, which surprisingly is due to increasing average sizes for *non*-combining injury claims. Our selected size basis has been increased by around 9% from the previous valuation, and is similar to the average over the last four quarters to December 2021 with the exception of development halves 8 to 15 where we have given more weight to the high average sizes observed over the last six months.

At an overall level, the average First Paid lump sum is expected to be 6.3% of the prescribed maximum benefit, or around $31,800.

Reform Valuation basis

One of the key reform amendments is the raising of the Serious Injury threshold from 30% to 35% for physical injuries. As discussed in Section 5.2.3, we estimate around 190 claims will fall between 30% to 34% and therefore receive a First Paid lump sums as part of the Short Term Claims cohort.

The First Paid lump sum benefit available for claims with WPIs between 30% and 34% range between $135,000 to $185,000 (in 2022 values). Applying the WPI distribution observed for this cohort of claims in Figure 5.9 translates to an average size of $155,000. This results in a total additional cost of $29m in 2022 values (i.e. before discounting).

We have also allowed for the average size of claims with WPIs between 25% and 29% to increase due to behaviour changes brought on by greater incentives to combine injuries under the reforms, as the threshold for Short Term Claim lump sums has now increased to 34%. We have modelled this additional cost in the form of a superimposed inflation applied to the average claim size at a rate of 0.5% p.a. This adds an additional $2m to the liability.

6.4.4 Economic loss lump sums

Pre-Reform Valuation basis

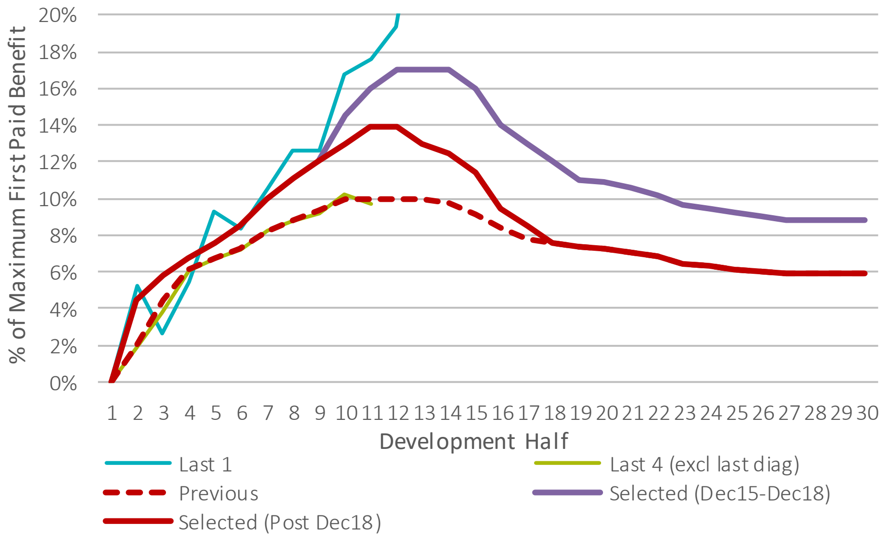
Economic Loss lump sums are paid to a worker for loss of future earning capacity. This benefit is only available under the RTW Act and is available to injuries from 1 July 2015.

The number of future Economic Loss lump sum payments are modelled as a percentage of First Paid lump sums. Only a small group of claims are not entitled to an Economic Loss lump sum, where the hours worked formula ends up being nil (this can occur for several reasons, including deductions for prior Economic Loss lump sums paid for the same worker or claims related to subsequent injuries). We assume that 5.5% of claims will not get the Economic Loss lump sum, unchanged from our previous basis. This is consistent with the emerging gap between the number of non-economic loss lump sums and economic loss lump sums paid to date for more developed injury periods.

Figure 6.12 shows the average size of Economic Loss lump sum payments as a percentage of the maximum benefit available for First Paid lump sums. As for non-economic loss lump sums, the emerging experience shows a material uptick in average sizes, which is due to increasing average sizes for both combining and *non*-combining injury claims, as well as a higher proportion of claims with combined injuries.

Figure 6.12 – Economic loss lump sum size by development half-year

(as a percentage of maximum First Paid benefit)



Our revised basis is consistent with the changes for First Paid lump sums, albeit with a slightly lower overall impact.

Reform Valuation basis

Similar to First Paid lump sums, we estimate around 190 additional claims will receive an Economic Loss lump sum as part of the Short Term Claims cohort due to the Serious Injury threshold increasing from 30% to 35% under the reform amendments.

The Economic Loss lump sum benefit available for claims with WPIs between 30% and 34% is $416,000 to $487,000 (in 2022 values). Applying the WPI distribution observed for this cohort of claims in Figure 5.9 translates to an average size of $445,000 prior to deductions. Economic loss lump sums are subject to deductions in the form of (1) Hours Worked Factor and (2) Age Factor. Based on observed experience to date for this cohort of claims, we have adopted a combined deduction factor of 60%. The resulting average size of Economic Loss lump sum payments is $267,000 for claims with WPIs between 30% and 34%. This equates to an additional cost of $50m in 2022 values (i.e. before discounting).

We also anticipate the average size of claims with WPIs between 25% and 29% will increase due to behaviour changes brought on by greater incentives to combine injuries under the reforms, as the threshold for Short Term Claim lump sums have now increased to 34%. Compared to First Paid lump sums, the incentives to combine injuries are even greater for Economic Loss lump sums due to the larger benefit increase per percentage point of WPI. We have modelled this additional cost in the form of a superimposed inflation applied to the average claim size at a rate of 1% p.a. This adds an additional $5m to the liability.

6.4.5 Death lump sums

Death (and funeral) lump sum payment numbers were lower than expectations due to fewer payments for the 2022 year. Payments were 39% lower than expected due to a lower proportion of the paid claims being full death benefits, rather than just a funeral benefit.

Figure 6.13 shows the projected numbers of Death lump sums by accident year.

Figure 6.13 – Projected ultimate numbers of death lump sums

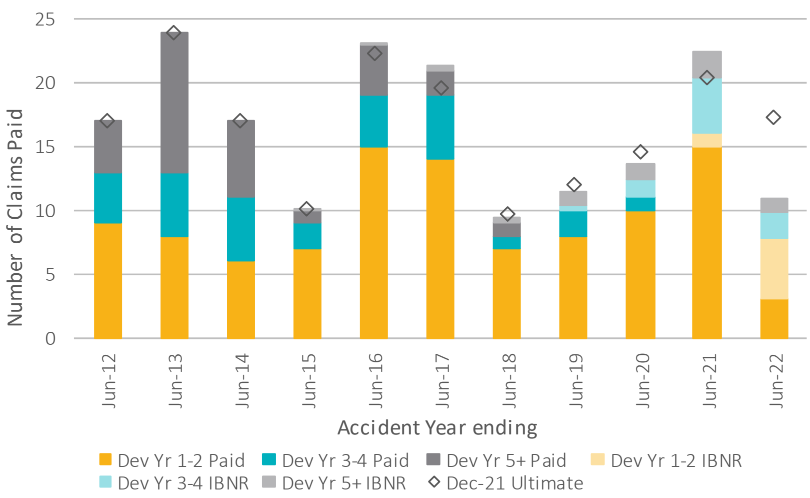
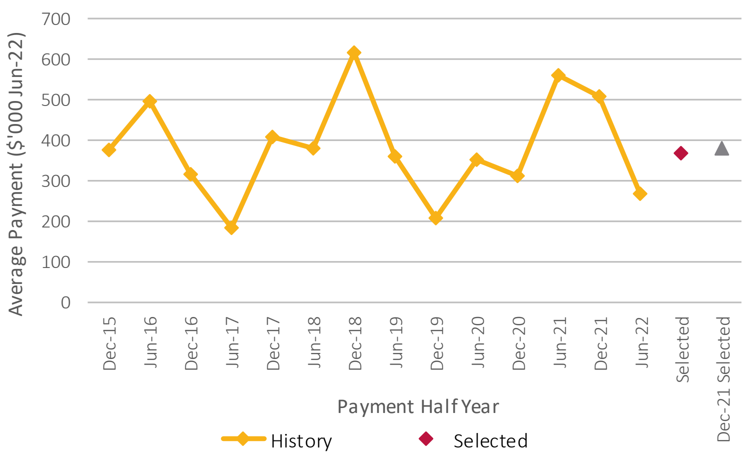


Figure 6.14 shows the average benefit paid to a Death lump sum claim, by payment half year.

Figure 6.14 – Average lump sum death payment ($Jun-22)



Our adopted average size is unchanged at this valuation.

The reforms are not expected to impact on Death and Funeral lump sums.

6.5 Treatment and related costs

Workers who suffer a compensable injury are entitled to compensation for a range of medical and other treatment related costs. For the valuation we split these entitlements into the following groups: Medical (including medico-legal assessment), Allied Health, Hospital, Rehabilitation (Vocational Rehabilitation), Travel, Care and 'Other'. Medical payments are the most significant of these entitlements.

6.5.1 Medical

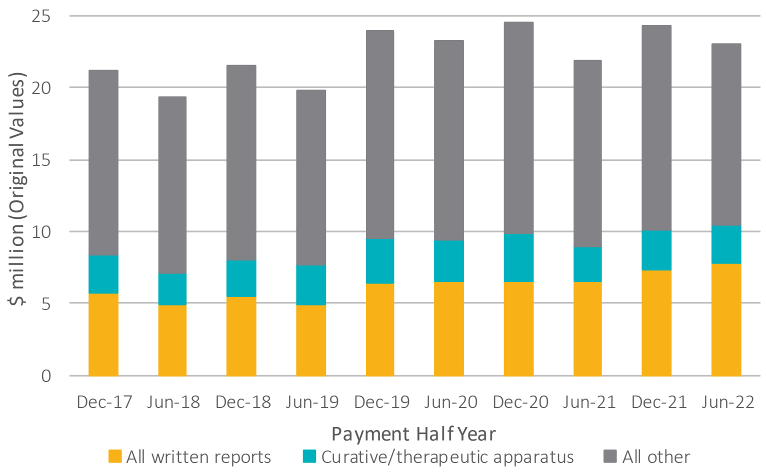
Pre-reform Valuation basis

Medical payments include payments for treating doctors, written medical reports, therapeutic devices, pharmaceuticals, and dentist costs, including medico-legal costs.

Payments vs expectations

Figure 6.15 below shows medical payments by six-month period, split by the type of service.

Figure 6.15 – Medical half-yearly payments



Medical payments have remained high for the past three years. The June 2021 half-year was impacted by payment delays which resulted in a subsequent 'catch-up' in payments for the December 2021 half-year. While the higher payments of late are evident across all the main types of services, written reports stand out as a main contributor to this experience.

Table 6.10 shows that there were $23m in payments in the last 6 months which was 2% below expectation. Tail claim payments were proportionately much higher than expected.

Table 6.10 – Medical AvE Payments

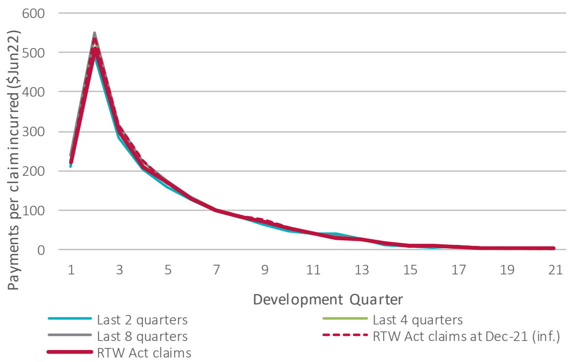
Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.1	0.1	111%
2005/06 - 2014/15	0.6	0.5	0.1	27%
2015/16 - 2018/19	3.0	2.4	0.6	27%
2019/20 - 2020/21	9.2	9.2	(0.1)	-1%
2021/22	10.0	11.3	(1.3)	-12%
Total	23.0	23.5	(0.5)	-2%

Valuation basis

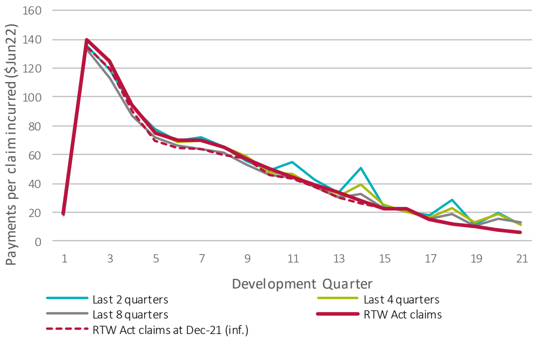
Figure 6.16 below shows the recent experience and selected basis for medical payments.

Figure 6.16 – Medical experience and selections

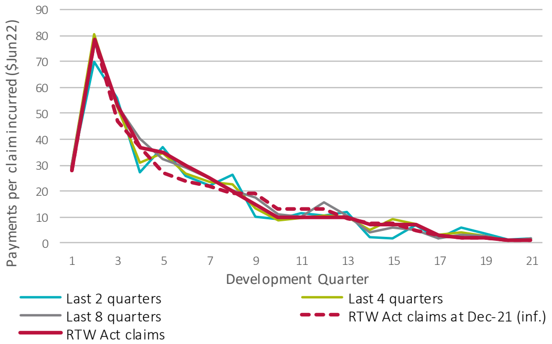
PPCI – Medical other



PPCI – Medical written reports



PPCI – Medical aids and appliances



Our comments on the experience and selected assumptions are:

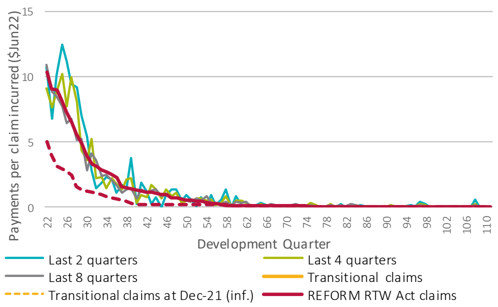
- PPCI (Medical other): the selected basis is in line with the average of payments over the last 2 quarters and responds to lower active claims flowing on to lower medical costs.
- PPCI (Medical aids and appliances): the basis has been reshaped up to DQ17 which is broadly cost neutral. The selected basis is consistent with the average over the last 4 quarters.
- PPCI (Medical written reports): as noted earlier, costs associated with written medical reports have increased steadily over the last three years. The main drivers of this experience are: (1) increased use of medical reports at early durations to manage serious injury boundaries later in the life of a claim, and (2) high volumes of disputes and WPI assessments currently in the scheme leading to more medico-legal costs. The selected basis:
  - Is consistent with the average experience over the last 2 quarters up to DQ18.
  - Beyond DQ18, we are anticipating that the RTW Act basis should reduce, as the current high levels of WPI activity on Old Act claims ought not continue.
  - For Old Act claims, the selected basis has been kept higher, due to the high volumes of WPI assessments continuing to commence and is consistent with the recent payment experience.

Reform Valuation basis

The removal of the ‘once and for all’ WPI assessment provision is expected to result in claimants reopening for subsequent WPI assessments, we are seeing this experience in the current scheme with the reopening of older WC Act claims for WPI assessments many years after they had initially closed.

Figure 6.17 below shows the selected basis for medical payments when considering the impact of reform, where we have allowed for the 'tail' of medical report costs to remain in line with the recent experience a cross all accident years.

Figure 6.17 – Medical experience and reform selections



6.5.2 Allied Health

Allied Health are payments to Allied Health practitioners and includes physiotherapists, chiropractors, exercise physiologists, osteopathy, psychology, remedial massage and speech pathology.

Payments vs expectations

Figure 6.18 below shows AvE allied health payments since the December 2021 valuation.

Figure 6.18 – Allied Health AvE payments

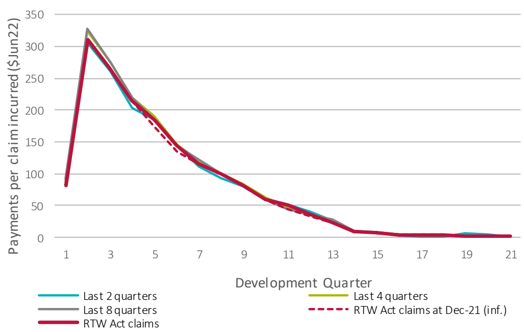
Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.0	0.1	391%
2005/06 - 2014/15	0.1	0.1	0.0	41%
2015/16 - 2018/19	0.6	0.6	0.0	4%
2019/20 - 2020/21	5.5	5.4	0.0	1%
2021/22	4.8	5.2	(0.4)	-7%
Total	11.0	11.2	(0.2)	-2%

Payments were broadly in line with expectation.

Valuation basis

Figure 6.19 below shows the recent experience and selected basis for Allied Health payments.

Figure 6.19 – Allied Health experience and selections



Our adopted basis at this valuation is consistent with the average of the last 2 quarters.

The reforms are not expected to impact on allied health costs.

6.5.3 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs expectations

Table 6.11 below shows actual verses expected payments for hospital in the 6 months to June 2022, which are 4% below expectation.

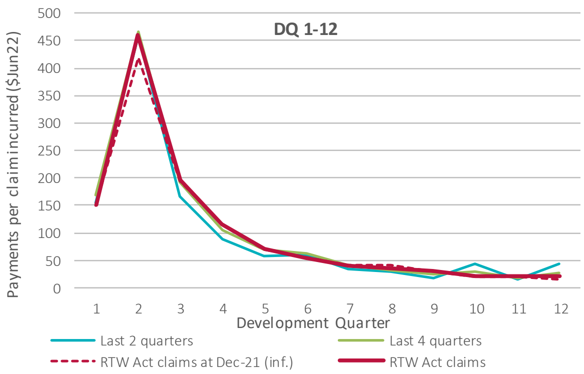
Table 6.11 – Hospital AvE payments

Accident Period	Payments in Six Months to Jun 22			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.0	0.0	78%
2005/06 - 2014/15	0.1	0.1	0.0	16%
2015/16 - 2018/19	0.4	0.4	(0.1)	-13%
2019/20 - 2020/21	2.2	2.2	0.0	0%
2021/22	5.2	5.5	(0.3)	-6%
Total	8.0	8.3	(0.3)	-4%

Valuation basis

Figure 6.20 below shows the recent experience and selected basis for hospital payments.

Figure 6.20 – Hospital experience and selections



The adopted basis is in line with the experience over the last four quarters.

The reforms are not expected to impact on hospital costs.

6.5.4 Rehabilitation

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

Payments vs expectations

Table 6.12 shows actual verses expected rehabilitation payments by in the 6 months to June 2022.

Table 6.12 – Rehabilitation AvE payments

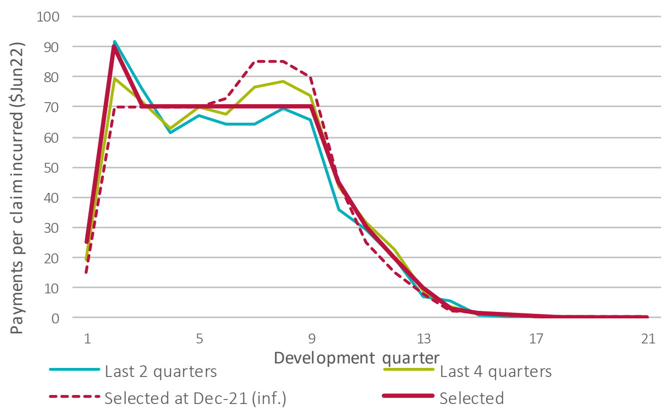
Accident Period	Payments in Six Months to Jun 22			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-100%
2015/16 - 2018/19	0.1	0.1	(0.0)	-1%
2019/20 - 2020/21	2.8	3.3	(0.5)	-14%
2021/22	1.4	1.3	0.2	12%
Total	4.4	4.7	(0.3)	-7%

Increased management oversight led to a decrease in the number of new rehabilitation referrals since late 2020, which has seen a sustained lower expenditure on rehabilitation.

Valuation basis

Figure 6.21 below shows the recent experience and selected basis for rehabilitation payments.

Figure 6.21 – Rehabilitation experience and selections



We have smoothed the experience of the last 2 quarters between development quarters 2 and 9 in the selected basis.

The reforms are not expected to impact on rehabilitation costs.

6.5.5 Travel

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

Payments vs expectations

Table 6.13 shows actual verses expected travel payments by in the 6 months to June 2022 which are 2% below expectation.

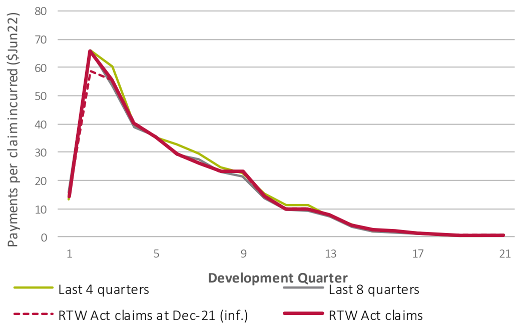
Table 6.13 – Travel AvE payments

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	0.0	13%
2015/16 - 2018/19	0.1	0.2	(0.0)	-24%
2019/20 - 2020/21	1.2	1.2	(0.0)	-2%
2021/22	1.0	1.0	0.0	1%
Total	2.4	2.4	(0.1)	-2%

Valuation basis

Figure 6.22 below shows the recent experience and selected basis for travel payments.

Figure 6.22 – Travel experience and selections



The selected PPCIs are consistent with the emerging experience over the last 4 quarters. At longer durations, PPCI assumptions for RTW Act claims out past development quarter 30 allow for a reduction relative to the experience for Transitional claims. This is due to our assumption that WPI assessments will not continue for so long under the RTW Act, and therefore result in a bringing forward of cost. We are also allowing for temporary additional costs for transitional claims for the next 18 months in response to the high volumes of WPI activity for Transitional claims.

The reforms are not expected to impact on travel costs.

6.5.6 Other Costs

The Other payment type includes payments on claimant training, Re-Employment Incentive Scheme (RISE), interpreter costs and other sundry costs.

Payments vs expectations

Table 6.14 below shows actual verses expected other payments by in the 6 months to June 2022 which are 13% below expectation.

Table 6.14 – Other half-yearly payments

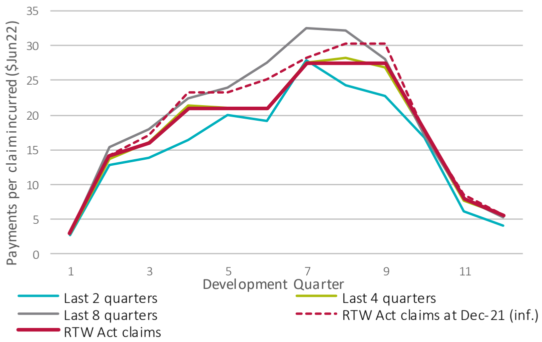
Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.1	0.0	0.1	786%
2015/16 - 2018/19	0.1	0.1	(0.0)	-25%
2019/20 - 2020/21	0.9	1.1	(0.2)	-18%
2021/22	0.2	0.3	(0.1)	-22%
Total	1.4	1.6	(0.2)	-13%

Other payments have remained low, due to an easing-off of 'Claimant Training' and RISE payments.

Valuation basis

Figure 6.23 below shows the recent experience and selected basis for Other payments.

Figure 6.23 – PPCI experience and selections: Other



Our PPCI selections are generally consistent with the average of the last 2 quarters. There is a clear reduction in payment levels compared to the average over the last 8 quarters (grey line).

The reforms are not expected to impact on Other costs.

6.5.7 Care

The Care payment type includes payments on domestic help and residential care and accommodation costs.

Payments vs expectations

Table 6.15 below shows actual verses expected Care payments in the 6 months to June 2022 which are 7% below expectation.

Table 6.15 – Care half-yearly payments

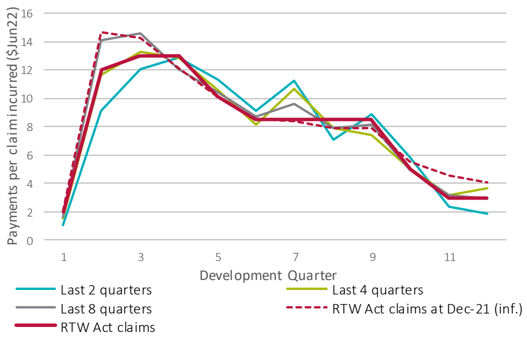
Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	293%
2005/06 - 2014/15	0.0	0.0	0.0	92%
2015/16 - 2018/19	0.0	0.0	(0.0)	-14%
2019/20 - 2020/21	0.4	0.4	0.0	2%
2021/22	0.2	0.2	(0.1)	-27%
Total	0.7	0.7	(0.0)	-7%

Care payments have remained relatively stable at around $0.7m per half year. The majority of payments relate to Claimant Domestic Help costs.

Valuation basis

Figure 6.24 below shows the recent experience and selected basis for Care payments.

Figure 6.24 – PPCI experience and selections: Care



The selected basis is consistent with the average experience over the last 4 quarters which is a reduction from our previous basis. There are very few costs beyond development quarter 17.

The reforms are not expected to impact on Care costs.

6.6 Legal costs, other entitlements and Recoveries

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

6.6.1 Worker Legal

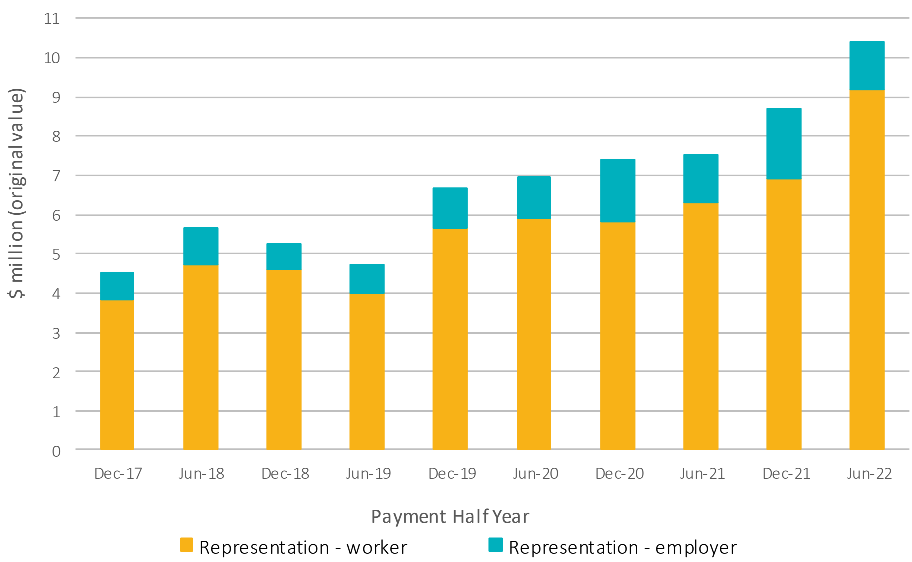
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'Corporation Legal', and legal fees paid to workers' representatives and employers, which we call 'Worker Legal'. This section describes the Worker Legal results, with Section 6.6.2 discussing ReturnToWorkSA's legal costs.

Disputes are the main driver of expenditure for both worker and Corporation Legal fees, and were discussed in Section 4.4.3. Worker Legal accounts are generally only submitted upon completion of the dispute and therefore any changes in dispute numbers will usually involve a delay before they are translated into changes in Worker Legal costs.

Experience

Figure 6.25 below shows Worker Legal payments in each six-month period over the last five years.

Figure 6.25 – Worker Legal Half Yearly Payments



Worker legal expenditure continues to grow significantly, now reaching more than $10m paid for the six months to June 2022. The dispute resolution program has resulted in an increased closure rate for existing disputes, which upon resolution will have their legal fees paid, which will be contributing to the significant jump in worker legal costs recently. As shown in Section 4.4.3, new dispute numbers have increased and there remains a large number of open disputes in the scheme, and so we expect that payments will continue to be high.

As also noted in Section 4.4.3, recently finalised disputes are also progressing to later stages of the dispute resolution process than they previously did, which translates to higher legal costs as the fees paid to lawyers increase significantly as you move through the dispute process.

Table 6.16 below shows actual verses expected Worker Legal payments by in the six months to June 2022 which are 21% above expectation.

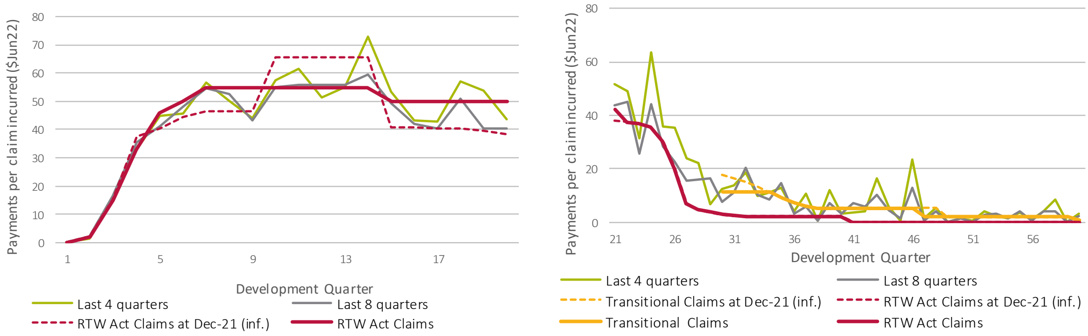
Table 6.16 – AvE Worker Legal Payments

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.2	0.1	0.1	37%
2005/06 - 2014/15	1.7	1.5	0.2	14%
2015/16 - 2018/19	5.6	4.1	1.5	36%
2019/20 - 2020/21	2.7	2.7	0.1	3%
2021/22	0.2	0.2	(0.0)	-20%
Total	10.4	8.6	1.8	21%

Pre-reform valuation basis

A PPCI model is used to value Worker Legal fees. Figure 6.26 below shows the recent experience and selected basis for Worker Legal payments.

Figure 6.26 – Worker Legal experience and selections



The selected RTW Act basis is consistent with the average experience over the last 4 quarters.

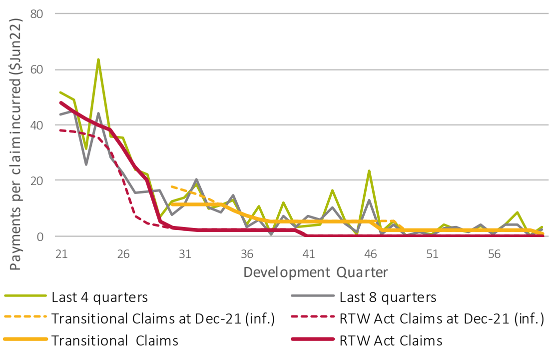
For transitional claims, we have selected a basis which is consistent with the level of payments observed over the last 4 quarters. This translates into a valuation estimate of around $9.4m (discounted) for Transitional Worker Legal costs and allows for:

- Some further progression of the currently 400 open disputes,
- A further 400 new disputes to be lodged (at a lower cost) in relation to WPI assessments. There are currently 420 pending WPI assessments and an assumed 1,100 future assessments. The 400 new dispute allowance implies a disputation rate of 25%, consistent with the recent experience for Transitional claims.

Reform valuation basis

As described earlier, we expect that the reforms will lead to higher ongoing legal costs. Figure 6.27 below shows the recent experience and selected basis for legal payments when considering the impact of reform.

Figure 6.27 – Worker Legal experience and reform selections



We have allowed for the ‘tail’ of legal costs currently experienced in the scheme to be an enduring feature, bringing future worker legal costs in line with the recent experience across all accident years.

6.6.2 Corporation Legal

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

Beginning in 2016, an annual contract was agreed upon whereby the contracted legal advisers would be paid a pre-determined fixed fee each month throughout the contract period. Fees for advice and representation pertaining to complex cases are paid at the same rate outlined in the previous contract in addition to the fixed fee each month. This contract has been extended each year since with revised fixed fees.

A performance fee is also payable at the end of each contract half-year based on the achievement of certain performance outcomes. This fee is has increased by 5% for the FY23 contract.

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

Actual v Expected Experience

Corporation legals were $10.0m paid in the 6 months to June 2022 which was $0.68m lower than expected (6%).

There continues to be high amounts of "non-contract" fees related to recoveries activity, and a higher number of matters in the Supreme Court as mentioned in Section 4.4.3.

Valuation basis

Under the current contract, a fixed amount is paid to each legal provider each month regardless of the number of non-complex matters referred. Table 6.17 below summarises the payments applicable under the current contract.

Table 6.17 – Corporation Legal contract components

	Contract Terms
Matter Type	Current
Advice only Dispute representation	Fixed Fee per month
Complex matters	Paid per matter
Performance Fee	Paid at the end of year

To project the future costs of Corporation Legal we have:

- Adopted the fixed monthly fees payable to each provider under the contract
  - > The fixed fee per month has been increased by 5.1% for the December 2022 half-year in accordance with the current contract. Beyond the current contract we have only allowed for fees to increase with CPI inflation, reflecting the relative stability in the contract costs to date despite increasing levels of disputes in the scheme, and noting that ReturnToWorkSA management are strongly of the view that these costs are not expected to increase at future contract renewals.
- Estimated the number of complex matters that will be referred each year for the duration of the contract and multiplied this by the relevant fees as specified in the contract terms.
  - > We have made an allowance for payments of $120,000 per half-year consistent with the experience over the last year.
- Allowed for payment of additional performance fees as specified in the terms of the contract as well as outstanding performance fees payable under the previous contract.
- Allocated the cash flows in each payment year across accident periods.
- Estimated a separate allowance for matters handled by "non-contract" providers.
  - > Our base allowance of $1.2m per half year is unchanged from our previous valuation and reflects the high volume of complex cases in recent years.

> An additional loading of $1.5m per half-year starting in December 2022 and running down to $0.25m by June 2025 is also included to allow for the resolution of current and likely Supreme Court matters.

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

The allocation of cash flows across accident periods is based on the observed experience in Worker Legal costs, with an adjustment to reflect the quicker payment pattern of Corporation Legal costs. We also assume that as transition claims eventually run-off, dispute lodgements will occur slightly earlier due to the shorter duration of claims under the RTW Act.

The reforms are not expected to impact on Corporation Legal costs.

6.6.3 Investigation costs

Experience

Table 6.18 below shows actual verses expected Investigation payments by in the six months to June 2022 which are 21% below expectation.

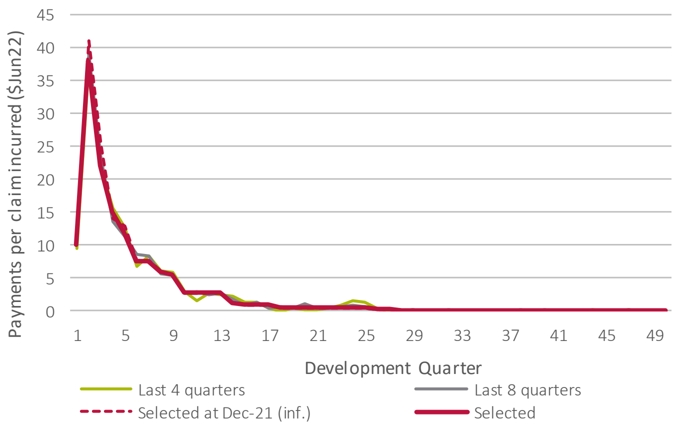
Table 6.18 – Investigation half yearly payments

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-48%
2015/16 - 2018/19	0.1	0.1	0.0	23%
2019/20 - 2020/21	0.3	0.4	(0.1)	-18%
2021/22	0.4	0.6	(0.2)	-29%
Total	0.8	1.0	(0.2)	-21%

Valuation basis

A PPCI model is used to value investigation payments. Figure 6.28 below shows the recent experience and selected basis.

Figure 6.28 – PPCI experience and selections: Investigation



The selected basis is in line with the average over the last 4 quarters which is a small reduction from the last valuation. The pattern shows that most of the investigation cost is paid within the first year after injury.

The reforms are not expected to impact on Investigation costs.

6.6.4 Recoveries

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

Experience

Table 6.19 below shows actual verses expected Recovery payments by in the 6 months to June 2022 which are 21% above expectation.

Table 6.19 – Recovery half yearly payments received

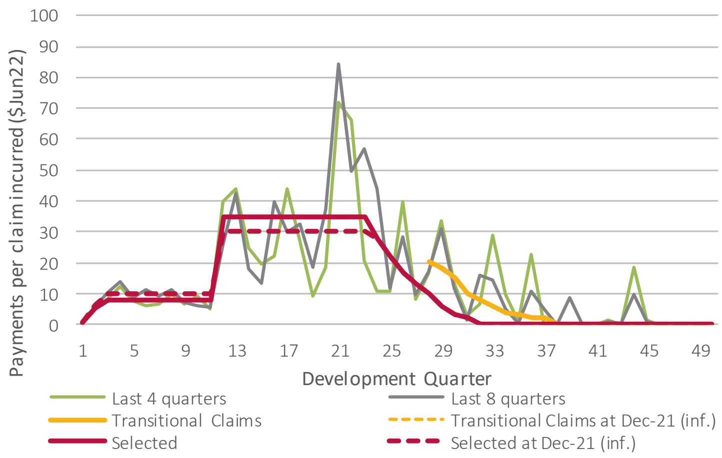
Accident Period	Payments in Six Months to Jun 22			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	(0.0)	(0.0)	0.0	-76%
2005/06 - 2014/15	(0.7)	(0.6)	(0.2)	32%
2015/16 - 2018/19	(4.1)	(3.1)	(1.0)	34%
2019/20 - 2020/21	(0.4)	(0.7)	0.3	-41%
2021/22	(0.2)	(0.2)	(0.0)	4%
Total	(5.4)	(4.5)	(0.9)	21%

Valuation basis

A PPCI model is used for recovery payments.

Figure 6.29 below shows the recent experience and selected basis. We note that for the Recoveries PPCI model, all Claims incurred is defined as all reports including hearing loss claims.

Figure 6.29 – PPCI experience and selections: Recoveries



The selected recovery PPCI assumptions have been reshaped at this valuation and give some weight to the emerging payment pattern being higher. As recovery payments tend to be volatile, we have taken a longer-term view when selecting our basis.

In addition, our expectation is for lower recoverability of costs under the RTW Act (where gross payments are lower), and following CTP reforms in 2014. Therefore, our selection does not fully reflect the recent experience at longer durations, where larger than expected recoveries have mostly come from older, transitional claim accident periods.

The reforms are not expected to impact on Recoveries.

6.6.5 LOEC

Loss of Earning Capacity (LOEC) claims are a legacy feature of the portfolio, and are valued together with Short Term claims. At 30 June 2022, there are only two remaining claims. Our valuation basis is unchanged at this valuation.

6.6.6 Commutations

Commutation payments relate to claims receiving dependant benefits.

Experience

Table 6.20 below shows actual verses expected Commutation payments in the six months to June 2022 which are $1.5m above expectation; payments can be volatile.

Table 6.20 – AvE Commutations

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	Act/Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.0	0.1	n/a
2005/06 - 2014/15	1.2	0.1	1.1	1615%
2015/16 - 2018/19	0.4	0.1	0.3	406%
2019/20 - 2020/21	0.0	0.0	(0.0)	-100%
2021/22	0.0	0.0	(0.0)	-100%
Total	1.7	0.2	1.5	689%

Valuation basis

A PPCF model is used for Commutation payments. The model adopts an ultimate number of commutations with an expected payment pattern, and an average payment size. At this valuation we have increased the expected number of commutations to be paid in light of a renewed operational focus.

The valuation basis expects seven commutations to be paid per accident year (for a new accident year). The actual number will vary significantly between accident years depending on the fatality and dependent rate. The average cost of each commutation is expected to be $114,000.

The reforms are not expected to impact on Commutation costs.

6.6.7 Common Law

There were no common law payments in the last six months, with the last payment made in June 2009 to a claim from the 2005 accident year. The common law entitlement for short term claims relates to a small number of infrequent but relatively large claims related to other jurisdictions, and needs to be considered over long-time horizons. Our basis is unchanged at this valuation.

Potential common law entitlements for Serious Injury claims are considered in Section 8.

The reforms are not expected to impact on Common Law costs.

7 Noise Induced Hearing Loss Claims

Workers who suffer a compensable hearing loss injury are entitled to hearing aids and other treatment costs, and (depending on the assessed WPI) a lump sum payment.

The reforms are not anticipated to have any impact on the benefits for NIHL claims, although changes to Impairment Assessment Guidelines could impact on this group (depending on what changes are made).

7.1 Valuation approach

Our valuation of Hearing Loss claims builds up from our claim number projection for NIHL claims, which were described in Section 5.1. The key features are:

- Lump sums: our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency-based approach for more recent accident periods where there is less experience and there have been changes in the pattern of payments. In each case the projected proportions of claims who are projected to receive a lump sum are used as a 'sense check' on the projections
- Medical Reports: there is a strong relationship between written report costs and the number of newly reported Hearing Loss claims (with a one quarter delay), and we use this to project future costs
- Worker Legals: legal payments are primarily related to rejected claims that are disputing eligibility; Worker Legals tend to be paid at the resolution of the dispute, so our model links Worker Legals to the reported claims, with a delay to allow time for the dispute to resolve (average payments per yearly average of incremental reports, with a two quarter delay)
- Medical Aids and Appliances: Hearing Loss claims may incur regular replacement and repair costs for hearing aids, running for decades after the injury is initially reported. We use an average payments per claim incurred approach for these costs
- Allied Health: these are mainly professional 'fitting fees' for the provision of hearing aids, and have a steady cost relationship with the device costs; we model these costs as a loading on the Medical Aids and appliances costs
- Payments for other benefit types are minimal. Costs are projected in aggregate and allocated to the broader payment groups by selecting a percentage allocation to separate projected cash flows

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

7.2 Summary of results

Table 7.1 summarises the liability estimates for Hearing Loss claims.

Table 7.1 – Valuation results: Hearing Loss claims

	Lump Sums	Medical	Allied Health	Worker Legals	Other Benefits[1]	Total
Dec-21 Valuation	$m	$m	$m	$m	$m	$m
Estimated Liability at Dec-21	51.9	65.0	18.9	8.7	1.6	146.0
Projected Liability at Jun-22	52.4	66.5	19.2	8.7	1.6	148.4
Jun-22 Valuation						
Movement in liability due to claims performance	(1.0)	6.7	(1.2)	(0.2)	(0.1)	4.2
Movement in liability due to reform	-	-	-	-	-	-
Estimated liability at Jun-22 (Dec-21 ecos)	**51.4**	**73.2**	**18.1**	**8.5**	**1.5**	**152.6**
Impact of change in eco assumptions	(4.4)	(5.4)	(1.4)	(0.5)	(0.2)	(11.9)
Estimated liability at Jun-22 (Jun-22 ecos)	**47.0**	**67.7**	**16.7**	**8.0**	**1.3**	**140.7**
1 Rest includes: Travel, Investigation, Other						
AvE Payments	2.8	1.7	0.0	(0.0)	0.2	4.8
Actuarial Release	(1.9)	(8.4)	1.1	0.3	(0.1)	(9.0)

At a total level, there is an actuarial strengthening of $9.0m for NIHL claims (this increases to $10.4m after including expenses, as shown in Section 10.3). This is comprised of an increase of $4.2m in the liability estimate and $4.8m higher payments than expected over the past six months. The key movements in the liability estimate are an increase of $6.7m due to an increased allowance for written reports (in medicals) and a partially offsetting net reduction of $2.5m as a result of lower claims received in the last six months.

Offsetting the actuarial strengthening, there is a reduction in the liability of $11.9m as a result of an increase in the discount rate at 30 June 2022.

Table 7.2 below shows the actuarial strengthening for NIHL claims by accident period.

Table 7.2 – NIHL Short Term Claims: actuarial release (strengthening) by accident period

Accident Period	Lump Sums	Medical + Allied health	Worker Legals	Other Benefits[1]	Total
	$m	$m	$m	$m	$m
Pre Jun-15	-1.0	-3.9	0.1	0.0	-4.8
Jun-16	-0.1	-0.3	0.0	0.0	-0.4
Jun-17	-0.1	-0.2	0.0	0.0	-0.3
Jun-18	-0.1	-0.2	0.1	0.0	-0.2
Jun-19	-0.1	-0.3	0.0	0.0	-0.3
Jun-20	-0.1	-0.5	0.0	0.0	-0.6
Jun-21	-0.2	-0.9	0.1	-0.1	-1.1
Jun-22	-0.2	-0.9	0.0	0.0	-1.2
Total	-1.9	-7.3	0.3	-0.1	-9.0

Over half of the actuarial strengthening ($4.8m) is due to Transitional Claims, relating primarily to medical report costs. The remainder of this section deals with the payment experience and valuation basis.

7.3 Lump sums

A lump sum is payable to a worker who suffers a compensable disability that results in at least 5% whole person impairment (WPI). The approach to valuing Hearing Loss claims' lump sum entitlements is unchanged at this valuation.

Payment experience

Table 7.3 summarises the payments in the six months to 30 June 2022 with the expected payments from our December 2021 valuation projection.

Table 7.3 – Actual vs expected payments: Hearing Loss claims lump sums

Accident Period	Payments in Six Months to Jun 22			
	Actual	Expected	Act - Exp	% Difference
	$m	$m	$m	
To 30 Jun 05	0.8	0.4	0.4	114%
2005/06 - 2014/15	1.6	1.1	0.4	39%
2015/16 - 2018/19	1.5	0.8	0.7	88%
2019/20 - 2020/21	4.1	2.8	1.3	48%
2021/22	1.3	1.4	(0.1)	-7%
Total	9.3	6.5	2.8	43%

Payments were 43% higher than expected in the six months to 30 June 2022, this compares to payments being 26% lower in the six months to 31 December 2022. The timing of assessments has been impacted by the availability of assessors, some of whom were not able to travel to South Australia due to COVID related restrictions in 2021; we understand that this impacted on payment levels and as a result we are interpreting this as a 'delay' and 'catch up'.

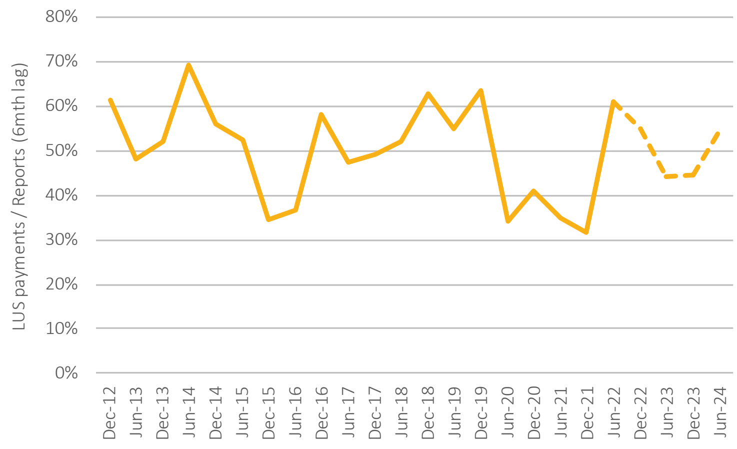
Valuation basis

When estimating the number of future Hearing Loss lump sums, we explicitly track the proportion of claims that are reaching the 5% WPI threshold, given the major changes to new claim levels in recent years.

Figure 7.1 below shows the number of Hearing Loss lump sum payments as a proportion of overall hearing loss claim reports, as a test of whether the rapid growth in new claims has led to any apparent change in the utilisation of lump sums. Note the lump sum payments have been lagged by half a year to account for the normal delay between claim report and payment.

Figure 7.1 – Proportion of Hearing Loss claims getting a lump sum

(with a six-month lag to allow for payment delays)



The key features we note are:

- The proportion of Hearing Loss claims receiving a lump sum was fairly stable at around 50% up to December 2019
- The years 2020 and 2021 were impacted by disruptions in assessments due to COVID-19 restrictions. We also expect that operational changes by ReturnToWorkSA to strengthen claim acceptance processes will have increased the delay between lodgement and lump sum. This has resulted in the proportion falling below 50%

- Experience in the Jun-22 half year shows a rebound of lump sum payments with 60% of the volume of reports from the Dec-21 half year resulting in a LUS payment in the Jun-22 half year.
- Our selected basis implies that the patterns will return to normal levels, with ultimate lump sums at around 54% of ultimate Hearing Loss claims for recent injury years. This is unchanged from the December 2021 valuation basis.

Figure 7.2 shows the projected numbers of Hearing Loss lump sums by accident year. The tail of Hearing Loss IBNR claims is long, with claims still emerging many years after the end of exposure. The valuation basis is broadly unchanged at June 2022.

Figure 7.2 – Projected ultimate numbers of Hearing Loss lump sums

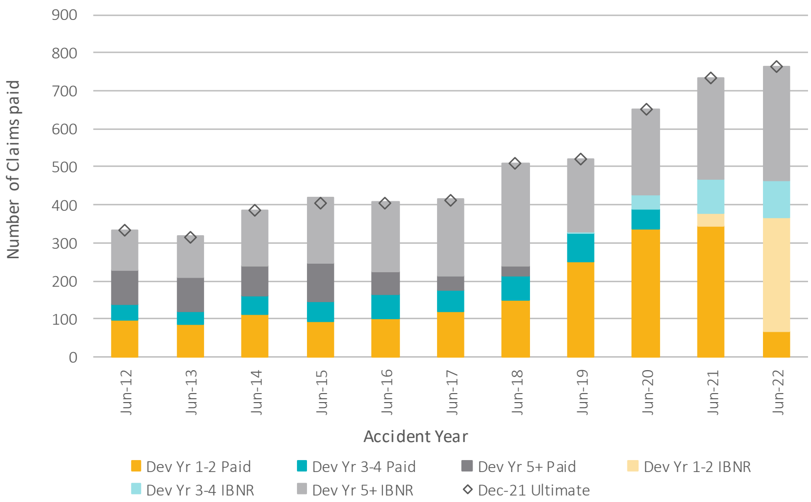
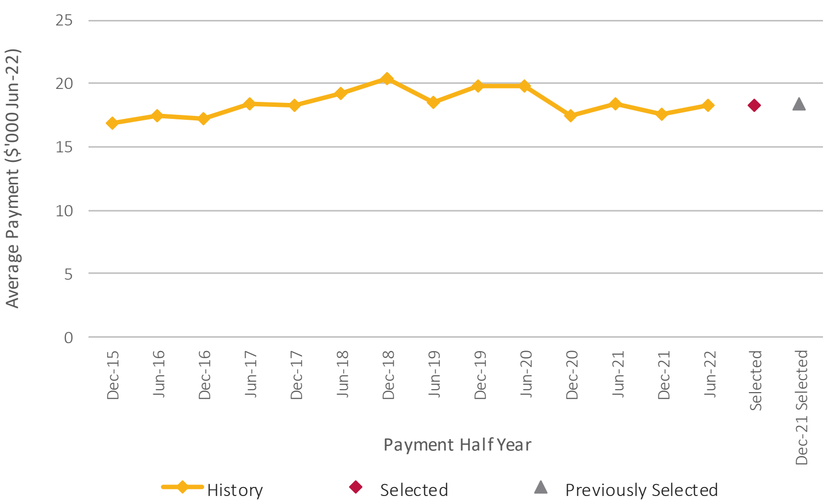


Figure 7.3 shows the overall average benefit paid for a Hearing Loss lump sum claim. The selected average Hearing Loss benefit at this valuation is around $18,300 per claim which represents a minor reduction ($100) from our previous valuation. The selected average size is consistent with the experience over the last two years and gives further weight to the lower average sizes observed over the last year.

Figure 7.3 – Average lump sum for Hearing Loss claims ($Jun-22)



If there are changes to the Impairement Assessment Guidelines that impact on NIHL claims then we could see the average size increase back up to around $20,000 per claim, as was seen around 2019 and 2020.

7.4 Legal costs

This section presents results relating to worker legal costs only. While some corporation legal costs will relate to the management of Hearing Loss claims, these expenses are not allocated between claim types and so are not separated for our work.

Payment Experience

Table 7.4 summarises the payments in the six months to 30 June 2022 with the expected payments from our December 2021 valuation projection.

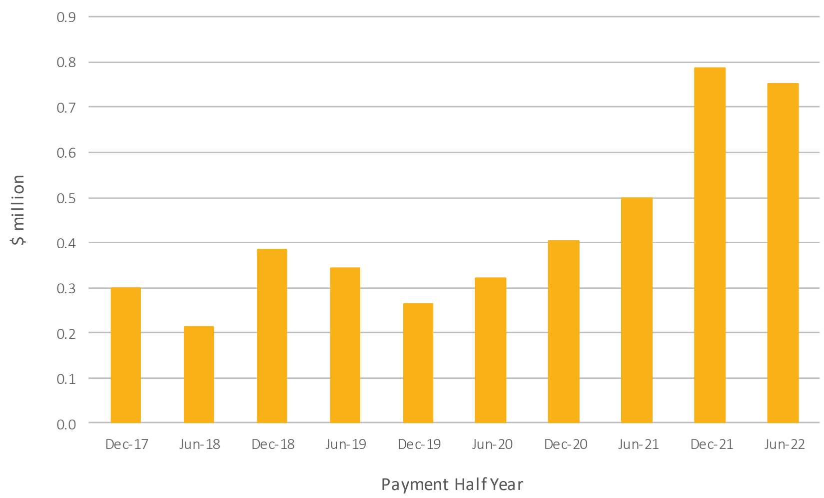
Table 7.4 – Actual vs expected payments: Hearing Loss claims legal payments

Accident	Payments in Six Months to Jun 22			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 06	0.2	0.1	0.1	63%
2005/06 - 2014/15	0.2	0.2	(0.0)	-18%
2015/16 - 2018/19	0.2	0.2	(0.0)	-20%
2019/20 - 2020/21	0.3	0.3	0.0	3%
2021/22	0.0	0.1	(0.0)	-63%
Total	0.8	0.8	(0.0)	-6%

Payments were 6% lower than expected in the six months to 30 June 2022, with the largest difference arising in the oldest injury periods.

Disputes are the main driver of expenditure for worker Legal fees and legal accounts are generally only submitted upon completion of the dispute. Figure 7.4 below shows Worker Legal payments in each six-month period over the last five years. As this shows, payments have increased significantly in the last year.

Figure 7.4 – Worker Legal half yearly payments for Hearing Loss claims



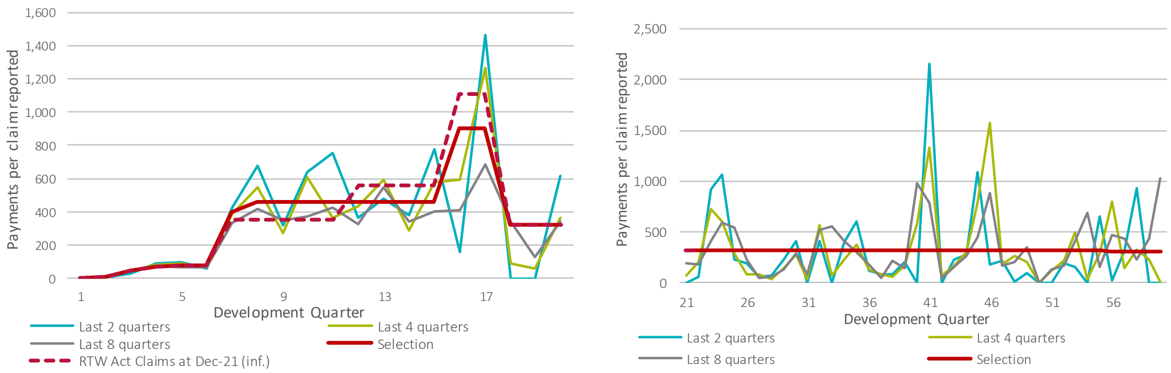
The Scheme's continued focus on claims acceptance practices has resulted in a higher rejection rate over recent years – nearly 50% of Hearing Loss claims are initially rejected. These rejections are resulting in higher numbers of disputes: the dispute rate has averaged around 65% over an extended period, and tends to be slightly higher when the rejection rate is higher. The 2022 accident year is emerging similar to the 2021 accident year with respect to rejections and dispute lodgements.

Not surprisingly, the volume of open disputes has grown significantly, and there are currently close to 370 open Hearing Loss disputes. This disputation activity explains the high worker legal payments in Dec-21 and Jun-22 periods.

Valuation basis

A PPCR model is used to value Worker Legal fees. Figure 7.5 below shows the recent experience and selected basis for Worker Legal payments.

Figure 7.5 – Worker Legal experience and selections: Hearing Loss claims



Payments for worker legal services have increased over the last year (average 2 is higher than average 8). We have realigned our selected payments for the first 4 years post injury with the emerging experience. Legal payments are expected across all durations from injury, including significant disputation for older claims.

In addition to the average size selection, an average size relativity has been incorporated for legal costs for the most recent accident periods. This allows the expected costs to incorporate the surge in disputation activity that is not currently fully reflected in the payment experience. The table below shows the relativity applied to the average payment per claim reported (above).

Table 7.5 – Hearing Loss Worker legal payments - Average Size Relativity

Accident Period	Average Size Relativity
to 30 June 05	100%
2005/06 - 2019/20	100%
2020/21	150%
2021/22	150%

These average cost relativities represent the increase in rejection rate and subsequent disputation activity over the last 18 months.

7.5 Treatment and remaining costs

For the valuation we split these entitlements into the following groups: Medical Reports (medico-legal assessment costs), Medical Aids and Appliances and Other costs combined (this includes Allied Health, Medical Services, Investigation, Travel, Other and minor payments for Hospital, Care, Rehab).

Payments vs expectations

Table 7.6 summarises the payments in the six months to 30 June 2022 with the expected payments from our December 2021 valuation projection.

Table 7.6 – Actual vs expected payments: Hearing Loss claims Medical costs

Accident Period	Payments in Six Months to Jun 22			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 06	1.1	0.8	0.3	35%
2005/06 - 2014/15	1.4	1.1	0.3	22%
2015/16 - 2018/19	0.8	0.4	0.4	80%
2019/20 - 2020/21	1.2	0.6	0.6	93%
2021/22	1.1	0.9	0.2	27%
Total	5.7	4.0	1.7	44%

Overall medical payments were 44% higher than expected, with:

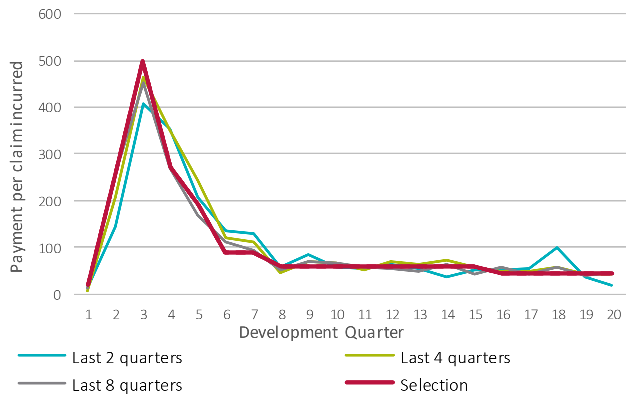
- Medical Report payments 48% higher than expected, with the difference arising across most injury periods. We can see an increase in the average cost of assessments per hearing loss claim, we expect this experience reflects increasing average report costs.
- Aids and Appliances payments being 13% higher than expected, with the difference arising across most injury periods. We expect this to reflect a 'timing' difference rather than increasing costs.
- Other payments were 19% higher than expected in the six months to 30 June 2022, with the difference arising across most injury periods. We can see that the relative cost of Other payments to Aids and Appliances has grown in the last six months, we expect this experience reflects increasing average report costs.

Valuation basis

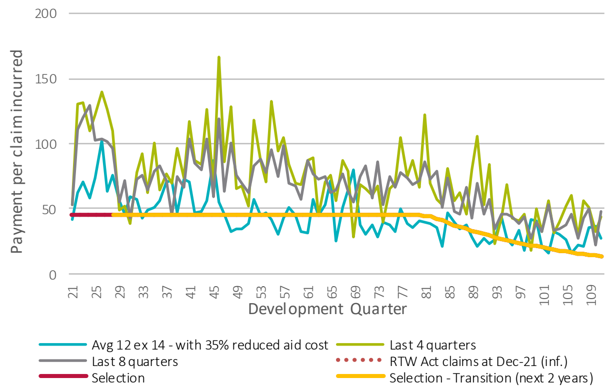
Figure 7.6 below shows the recent experience and selected basis for medical payments across the various components that are separately modelled.

Figure 7.6 – Medical experience and selections

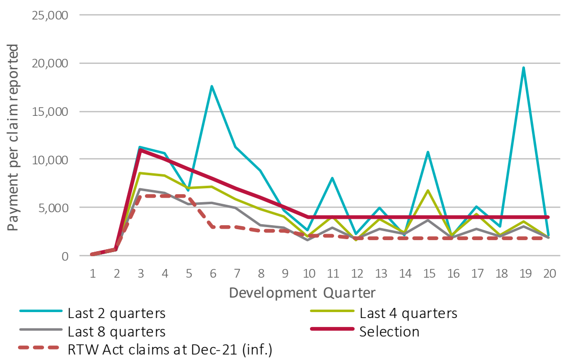
PPCI – Medical Aids and Appliances



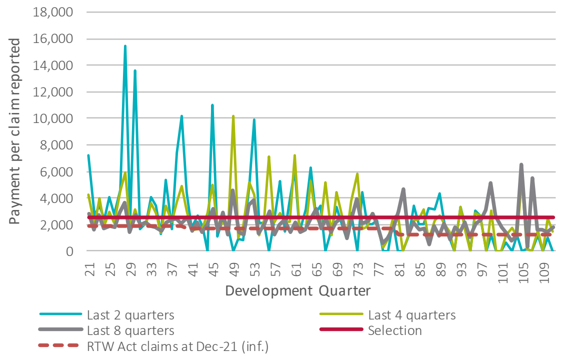
Tail PPCI – Medical Aids and Appliances



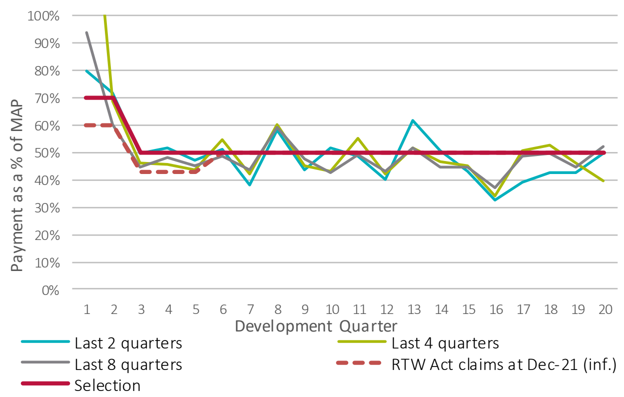
PPCR – Medical Reports



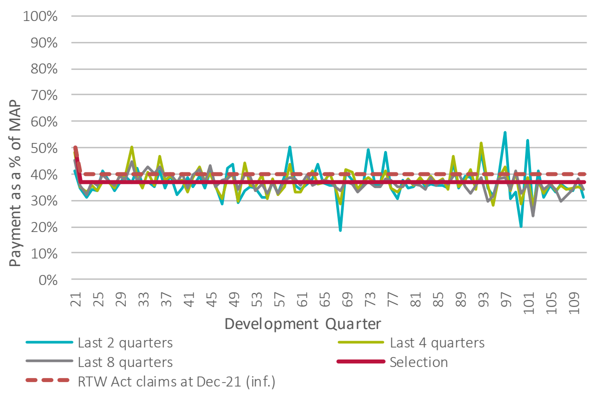
Tail PPCR – Medical Reports



Payment as a % of MAP – Treatment Rest



Tail Payment as a % of MAP – Treatment Rest



Our comments on the experience and selected assumptions are:

- Across all the figures shown, the average 4 may have some catch up from the previous 18 months' experience. We have used the 'last 2' or 'last 8' averages as the most relevant metrics for the recent experience.
- PPCI (Medical aids and appliances)
  - > Assumptions are unchanged from December 2021

- Hearing loss claims have a very long tail of payments, relating to the repair and replacement of hearing aids which can occur at regular intervals for the remainder of the claimant's life. Our selected front end PPCI sits in line with the recent experience.
- Our selected PPCI tail for transition periods incorporates an allowance for higher reports and subsequent purchasing of aids over the next 2 years (dashed red line). The expectation then reverts to longer term average trend, after incorporating the lower expected average claim size for aids under current fee schedules.
- Average size relativity (not shown above) - The pattern of rejections, disputation and subsequent acceptance of hearing loss claims means that the ultimate proportion of claims that are accepted is expected to be broadly unchanged for all accident periods to June 2019. For accident periods 2019-2020 we are expecting 1% less future claims cost as a result of reducing acceptance rates. For the 2022 accident year we are expecting a 5% reduction in accepted claims that will reduce the average claim size (relative to all reported claims) similarly for this year.

- PPCR (Medical, reports):
  - Our selected PPCR is has increased in line with higher costs seen in the 'last 2' average experience across all periods.
- PPCI (Allied health and remaining entitlements)
  - There is a stable relationship between the payment for aids and allied health services. As such the PPCI and associated selection is expressed in that format. Our selected PPCI is broadly in line with the average experience over the last 2 quarters.
  - The remaining entitlements are spread over the other benefits by selecting a proportion related to the average payments over the last 3 years. The figure shows 85% of payments relate to Allied Health, with the remaining costs allocated to Medical (primarily professional fees), Investigation and Other.

8 Serious Injury claims

The following sections summarise the Serious Injury claim results. We note that the valuation assumptions and impact are described separately for the 'Pre-reform valuation' and 'Reform valuation' (see Section 3.1 for more information).

8.1 Background

8.1.1 Pre-Reform

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

As Serious Injury claims were not identified before the RTW Act commenced, there is uncertainty as to the precise number and characteristics of the now Serious Injury cohort. Section 5.2 describes our projection of Serious Injury claim numbers, including how we incorporate both formally determined 'known' Serious Injury claims and 'potential' Serious Injury claims who have not yet been formally assessed as Serious Injury but who are considered likely to do so at some point in future.

Our valuation work separately considers claims managed internally by ReturnToWorkSA in the EnABLE group, which are generally more like Severe Traumatic Injuries (they require significant levels of care and support, or have other special needs), and "Other Serious Injuries" that are not internally managed by ReturnToWorkSA.

8.1.2 Reform impacts on Serious Injuries

Section 4.1 describes the reform impacts; for the Serious Injury valuation the main impacts are:

- The number of Serious Injury claims will reduce due to the threshold increasing from 30% to 35% for physical injuries
- Post-2015 Serious Injury claims can elect to receive a future economic loss payment (s56A) in lieu of their Income Support benefits
- 2015 and earlier Serious Injury claims can redeem their Income Support benefits
- Medical redemptions are available for all Serious Injury claims.

Section 5.2.3 discusses the expected reform impacts on Serious Injury claim numbers in detail; we do not repeat that discussion here.

8.2 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. Our assumptions have been set as described in Appendix A and summarised in the following table.

We have also outlined the impact reform is expected to have on the key valuation assumptions. We note that, due to their high care and medical needs, we have assumed that the reforms will not impact on the Severe Traumatic Injury cohort.

Table 8.1 – Approach to setting valuation assumptions for Serious Injury claims[1]

	Pre-Reform		Impact of Reform	
	Severe Traumatic Injuries	Other Serious Injury	Severe Traumatic Injuries	Other Serious Injuries
Life expectancy	Mortality improvement of 0.5% p.a. (unchanged from the previous valuation) Mortality loadings for claims with high care needs (reducing life expectancy by 19 years) and for moderate care needs (reducing life expectancy by 7 years).	Mortality improvement of 0.5% p.a. (unchanged from the previous valuation).	No impact.	
Income Support	To retirement age on all IS ongoing claims. Based on historical experience and estimates provided by ReturnToWorkSA.	To retirement age on all IS ongoing claims. Based on historical experience.	Claimants can elect to receive a s56A lump sum payment which finalises their entitlement to income benefits. Our approach to estimating this impact is discussed in more detail below.	
Treatment Related Costs and Other[2]	Paid for life. Based on historical experience and estimates provided by ReturnToWorkSA, with the exception of Hospital costs, which are based on selected payment per active claim curves for this cohort. Allowance for IBNER on Other and Medical costs above identified costs.	Paid for life. Early duration claims (in the treatment and recovery phase) are based on payment per active claim curves selected from this cohort. Mid-to-long duration claims (in the maintenance phase) are based on historical experience.	Claims taking the s56A lump sum will no longer have access to recovery and RTW services, which produces a saving. Claimants can elect to receive a medical redemption which finalises their entitlement to medical benefits. Judgmental allowances are made on how many claims would seek a redemption and be able to reach agreement with RTWSA on quantum. These allowances are made in conjunction with the s56A allowances.	
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. Non-economic loss is the only lump sum available.		Average non-economic loss benefit increased due to higher average WPI post reform (as a result of higher threshold). Future economic loss payments included based on claimant profile, prescribed formula and assumed take-up rate. Allowance for medical redemptions included, with a link to the s56A take-up rate and consideration of current medical/treatment spend.	

	Pre-Reform		Impact of Reform	
	Severe Traumatic Injuries	Other Serious Injury	Severe Traumatic Injuries	Other Serious Injuries
Legal and Investigation	Legal costs are modelled as a percentage of IS costs, net of payments to date. An average ultimate investigation cost per claim is adopted, net of payments to date.	Modelled as payment per claim incurred.	No direct impact although behavioural impacts are anticipated as a result of likely additional disputation.	
Recoveries	Projected on claims identified by ReturnToWorkSA as having recovery potential.	Applied a recovery as a proportion of gross payments for future periods.	No impact (other than proportionate change in expected recoveries as a result in changing claims cost).	
Common Law	Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.		Supporting changes to align common law access to the other changes being made to thresholds. No valuation impact.	
Future cost escalation	WCI: Income Support. AWE: Recoveries, Treatment and Other, Legal and Investigation. Superimposed: 2% p.a. on Treatment, 1.5% on Other. Care inflation: 9% in first year aligning with NDIS fee rate increases, dropping to 0.75% in year 2 and gradually increasing back to the long-term rate of 1.5%. Needs Utilisation: 75% loading applied at age 65 on Treatment and Other, capped at 30 hours of care per day.	WCI: Income Support. AWE: Recoveries, Treatment and Other, Legal and Investigation. Superimposed: 2% p.a. on Treatment, 1.5% on Other. Care inflation: as for Severe Traumatic Injuries.	No change.	

	Pre-Reform		Impact of Reform	
	Severe Traumatic Injuries	Other Serious Injury	Severe Traumatic Injuries	Other Serious Injuries
IBNR Assumptions	IBNR claims in the latest five accident years only. Claim size based on historical experience of current claims.	IBNR claims on all accident years, reflecting outstanding Serious Injury applications and WPI disputes (for older accident periods) and the delay from injury to WPI assessment (for newer accidents). Claim size based on historical experience of current known and potential claims.	Claim numbers impacted as per Section 5.2.3. s56A and medical redemption take-up rate, average amount and impact on ongoing benefits calibrated to impact on identified claims.	
Reform Transition Provisions	N/A		Transition provisions outline when the new thresholds and rules will be applicable to new cohorts of claimants. We have considered this as part of our allowances	

[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, Allied Health, and Travel. Other costs have been split into "Care" and "Other" for the purposes of the valuation. Care relates to services such as attendant, respite and/or nursing care. The remaining payments in 'Other' mainly relate to home and vehicle modifications and domestic services.

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

The Severe Traumatic Injury valuation is reliant on estimates provided by ReturnToWorkSA. As ReturnToWorkSA has become more familiar with this process we are seeing fewer large movements from valuation to valuation, with estimates reflecting changes in claimant circumstances rather than short-term volatility in benefit utilisation.

The approach to modelling Other Serious Injuries smooths out volatility seen early in the life of many Serious Injury claims, to reflect the general reduction in medical and related costs as claims move from the initial 'recovery' phase in the first few years to a longer term 'maintenance' level. The key features are:

- Aggregate models were built for all payment types, with the exception of Lump Sums.
- The models selected for each payment type are as follows:
  - Income Support, Treatment and Other – Payments per Active Claim. Prior to reforms the only decrement for Treatment and Other payments is mortality, while Income Support payments have an additional decrement for retirement. Post reforms, we have an additional decrement for s56A and redemptions
  - Legal and Investigation – Payments per Claim Incurred.
  - Recoveries – Proportion of Gross Payments
  - s56A elections and redemptions are modelled as the likelihood of take-up multiplied by the relevant average lump sum or redemption size.
- These models were adopted for the following:

> All IBNR claims and future accident years.

> All Legal, Investigation and Recovery payments.

> All Treatment and Other payments for claims less than five years old. The utilisation of these benefits tends to be heightened at early durations, making it difficult to select future payment levels based on a claimant's actual historical experience. When aggregated across all claims the shape to this utilisation can be captured and applied up to a point (that has been selected as five years) where the Treatment and Other needs have stabilised.

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

8.3 Overall results

Table 8.2 shows the central estimate of Serious Injury claims costs at 30 June 2022 and movement in our liability estimates since the December 2021 valuation.

Table 8.2 – Serious injury claims valuation results (excluding CHE)

	Income Support	Hospital	Medical	Travel	Rehabilitation	Allied Health	Investigation	Other	Care	Legal - Non-Contract	Lump sums	Legal Contract	Recoveries	Total
	$m	$m	$m	$m	$m	$m	$m	$m		$m	$m	$m	$m	$m
Dec-21 Valuation														
Estimated Liab at Dec-21	900	180	586	73	21	327	1	71	425	17	234	17	-36	2,817
Projected Liab at Jun-22	934	191	617	78	23	348	1	75	435	17	231	17	-35	2,933
Jun22 Valuation														
Movement in liability due to claims performance	28	-10	-25	-5	-2	-43	0	-8	15	7	-5	7	-11	-53
Movement in liability due to reform	-230	-39	-115	-17	-5	-66	0	-15	-28	-4	21	-4	9	-492
Estimated Liab at Jun22 (Dec21 ecos)	**733**	**142**	**477**	**56**	**16**	**239**	**1**	**52**	**422**	**20**	**246**	**21**	**-37**	**2,388**
Impact of change in ecos	-75	-22	-73	-9	-3	-36	0	-8		-1	-12	-1	1	-292
Estimated Liab at Jun22 (Jun22 ecos)	**658**	**121**	**404**	**47**	**13**	**203**	**1**	**45**	**367**	**19**	**235**	**19**	**-36**	**2,096**
AvE Payments - six months to Jun-22	-8	0	-1	0	0	0	0	0	0	1	-9	0	1	-16
Actuarial Release at Jun-22	-21	10	26	5	2	43	0	8	-15	-8	14	-7	11	70

The outstanding claims cost for Serious Injury claims (excluding CHE) is $2,096m at 30 June 2022. The main movements from our December 2021 projection of the June 2022 liability are:

- Claims experience and basis changes decreased the liability by $53m, as a result of:

  > Changes in the costs related to claims who are 'combining' reduced the liability by $107m, due to:

  - A reduction of $124m due to fewer assumed claims reaching the Serious Injury threshold due to combining injuries (see Section 5.2.2)
  - An increase of $17m due to an increase in the assumed medical and treatment cost for combining Serious Injury claims relative to primary Serious Injury claims, based on emerging experience

  > A $40m increase due to higher assumed IBNR average sizes, largely related to an increase in the assumed Income Support average size, reflecting the experience for identified claims from more recent accident years

  > A $10m increase due to NDIS increases to care rates, which we have flowed through to higher care costs for ReturnToWorkSA. In the long-term, we assume that this results in costs being 1.5% higher than they otherwise would have been.

  > Minor changes to other areas of the valuation.

- Reform Changes decreased the liability by $492m, as a result of:

> A $319m reduction due to fewer claims reaching the Serious Injury threshold

> A $172m reduction due to the introduction of s56A and redemptions for Serious Injury claims

- Updating economic assumptions at the current valuation resulted in a decrease of $292m.

Table 8.3 shows the actuarial release by accident period for Serious Injury claims.

Table 8.3 – Actuarial release: Serious Injuries

Accident Period	Projected Liab at Jun-22 from Dec-21 Valuation	Jun-22 Estimate on Dec-21 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Jun-22	Actuarial Release[1]	Release as %
	$m	$m	$m	$m	$m	
To 30 Jun 05	206.9	206.6	-0.3	0.1	0.2	0%
2005/06 - 2012/13	521.5	509.6	-11.9	-6.0	17.9	3%
2013/14 - 2014/15	238.5	236.6	-1.9	-6.9	8.8	4%
2015/16 - 2021/22	1,966.0	1,927.1	-38.9	-3.7	42.6	2%
Total	2,932.9	2,879.9	-53.1	-16.5	69.6	2%

Accidents to Jun22

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

All accident period groups experience a release, driven by the reduction in assumed combining Serious Injury claims.

Table 8.4 shows the drivers of the actuarial release for Serious Injury claims (excluding CHE).

Table 8.4 – Components of actuarial release: Serious Injury claims

Release (strengthening) due to:	Non-EnABLE	EnABLE	Total
	$m	$m	$m
Actual vs Expected Payments	19	-3	16
Combining assumptions	+107	-	107
Change in IBNR size	-40	+0	-40
Care Superimposed Adjustment	-2	-8	-10
Other Non-Reform Changes	+3	-7	-4
Total	+87	-18	+70

The main drivers of the movement were:

- Lower Actual vs Expected payments reducing the liability by $16m, this is largely related to slower than anticipated emergence of combining Serious Injury claims
- Changes in valuation assumptions result in a net overall reduction of $53m, with some offsetting movements as described above.

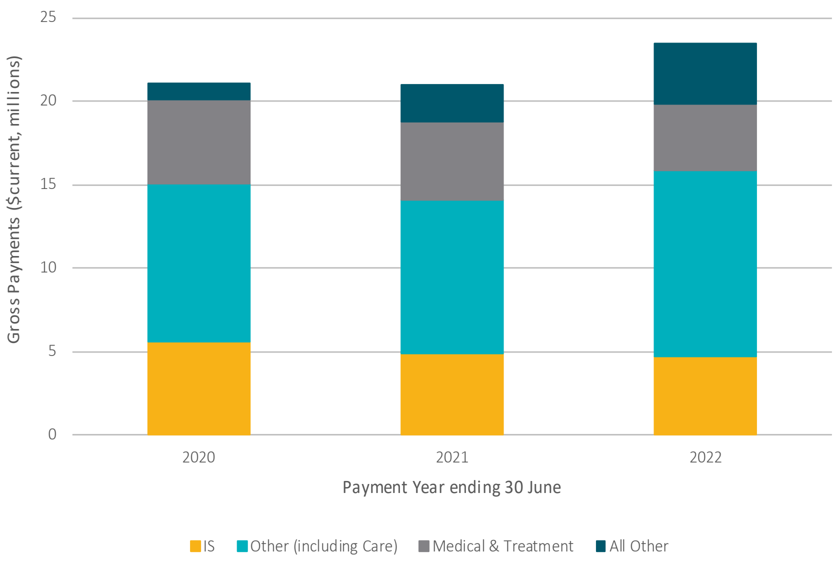
The remainder of this section deals with the payment experience and valuation basis.

8.4 Severe Traumatic Injury claims

8.4.1 Payments by type

Figure 8.1 shows claim payments over the past three years for Severe Traumatic Injury claims.

Figure 8.1 – Severe Traumatic Injury claim payments ($Jun22)



$66m has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of $3.0m over this same period, this equates to an average of around $21m p.a. in net claim payments (inflated to 31 June 2022 values), comprising around:

- $9.9m p.a. in care and other costs.
- $4.6m p.a. in medical, treatment and related benefits.
- $5.0m p.a. in income support.
- $1.9m p.a. in lump sums.
- Small amounts of legal and investigation payments ($0.4m p.a.).
- $1.0m p.a. in recoveries.

8.4.2 Claimant profile

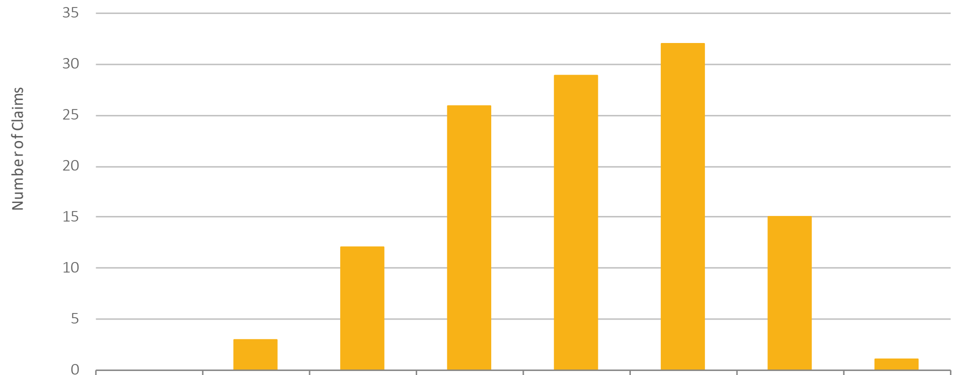
Figure 8.2 shows the number of active Severe Traumatic Injury claims (i.e. those being valued) at the current and previous valuations, along with the reasons for movement in the number of claims being valued.

Figure 8.2 – Movement in Severe Traumatic Injury claim numbers

There are 118 active Severe Traumatic Injury claims (with expected ongoing benefits) at June 2022, compared to 115 active claims at the previous valuation. The movement in active Severe Traumatic Injury claims over the last six months is a result of one new claim that was recently assessed as seriously injured as well as two transfers from the Other Serious Injury cohort.

Figure 8.3 shows the age and life expectancy of the current Severe Traumatic Injuries.

Figure 8.3 – Age distribution and life expectancy (in years) of severe traumatic injuries



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	3	12	26	29	32	15	1
Loaded Life Expectancy	0	56	39	31	25	16	12	10

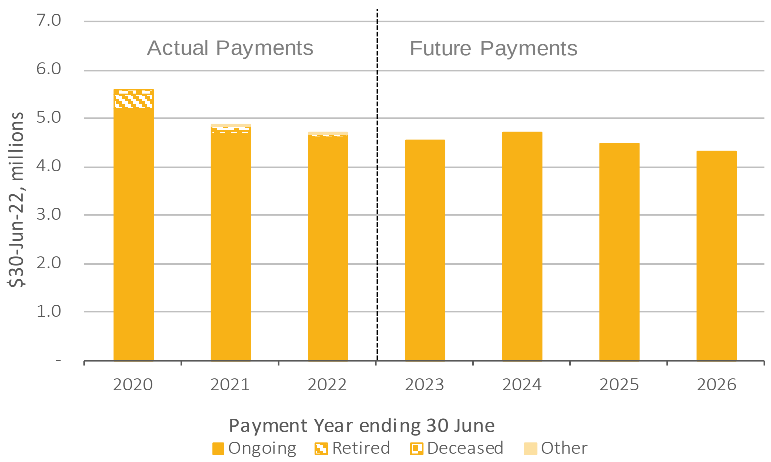
Severe Traumatic Injury claimants are currently aged around 57 on average, with an expected future life expectancy of around 27 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 40 years.

Around 60% of the current Severe Traumatic Injuries have a WPI assessment, with an average WPI of around 56%; the relatively low completion rate is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. At this valuation, there are 12 claims with recorded WPI assessments below 30%; ignoring these claims, the average assessed WPI is approximately 61%.

8.4.3 Income support

Figure 8.4 shows historic and projected Income Support payments for Severe Traumatic Injury claims (including IBNR claims, but only on existing accident years).

Figure 8.4 – IS Payments: Severe Traumatic Injury Claims ($Jun22)

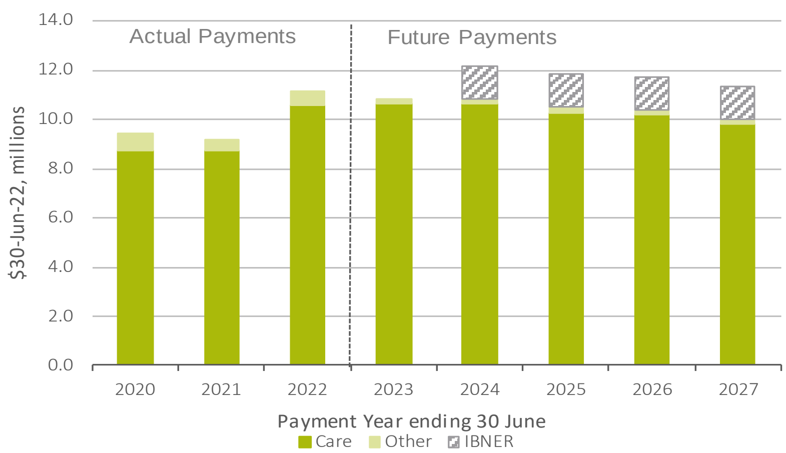


We estimate around $4.5m will be paid in Income Support to Severe Traumatic Injury claims in FY23; similar to the FY22 actual payments. Projected future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement. The projected payments for known claims are equivalent to 14 years of the expected FY23 payments.

8.4.4 Care and other costs

Figure 8.5 shows historic and projected care and other payments for Severe Traumatic Injury claims (including IBNR claims). There have again been a number of meaningful increases in care allowances at this valuation, following changes in claimant circumstances and mirroring the increase in care costs for FY22 relative to FY21.

Figure 8.5 – Care (incl. Other) payments: Severe Traumatic Injury claims ($Jun22)

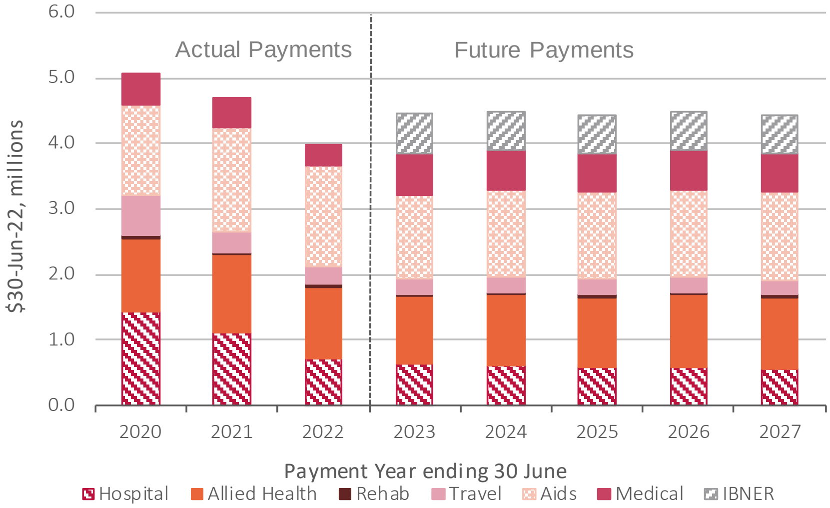


We expect $10.8m of care and other payments in FY23, which is similar to actual payments in FY22. Projected payments then increase in FY24, due to our IBNER allowance which is intended to capture an annualised contribution for other benefits (primarily modifications and transfers from initial hospital care into home care, or from unpaid family care to paid care). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 23 years of the expected FY23 payments, including the IBNER allowances.

8.4.5 Treatment and related costs

Figure 8.6 shows historic and projected treatment and related costs for Severe Traumatic Injury claims (including IBNR claims).

Figure 8.6 – Treatment and related payments: Severe Traumatic Injury claims ($Jun22)

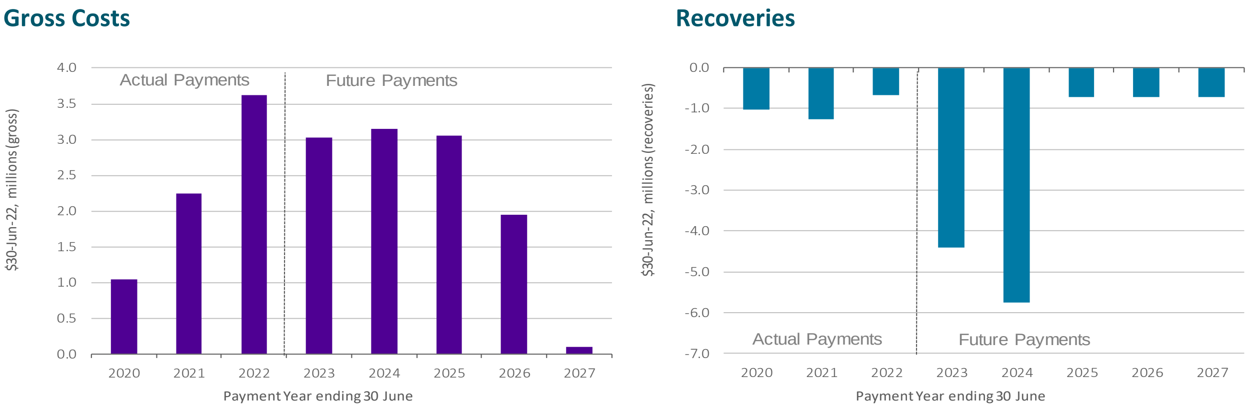


We expect future treatment and related payments of $4.5m in FY23, around the average of the last two years. The outstanding claims projection is equivalent to 30 years of the expected FY23 payments, including the IBNER allowances.

8.4.6 All other payments

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

Figure 8.7 – All other payments: Severe Traumatic Injury claims ($Jun22)



In the three years to 30 June 2022, a net $4.0m of other benefits was paid for Severe Traumatic Injury claims. Our future projections for claims occurring prior to 30 June 2022 include (in current dollars):

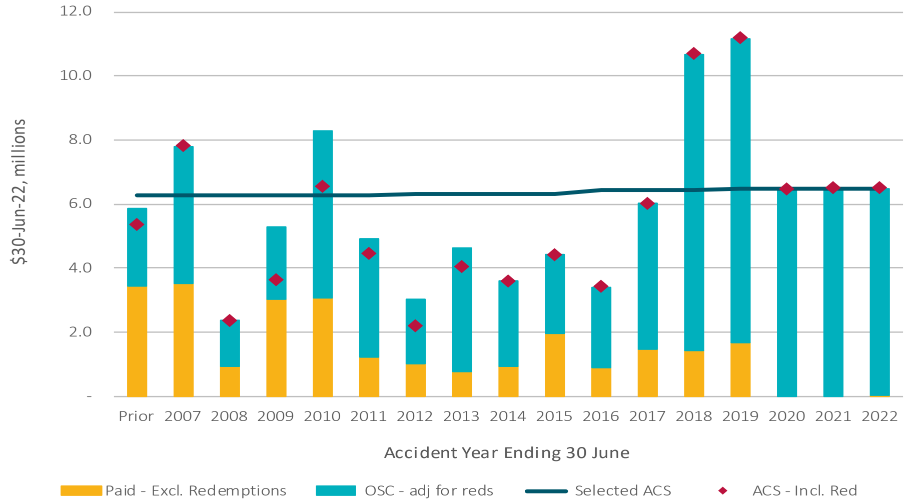
- Lump sum benefits of $10.2m paid to claims who have not yet had a lump sum.
- Legal and investigation costs of $1.1m.
- Recoveries of $12.3m, for those claims where ReturnToWorkSA has identified recovery potential. The recovery allowance has been discussed with the relevant ReturnToWorkSA staff, and we are comfortable with the way they have been estimated and their expected achievability.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of expected FY23 expenditure.

8.4.7 Overall results and implications

Figure 8.8 shows the net ultimate average claim size across current Severe Traumatic Injury claims. A large proportion of the estimated cost is projected future payments, so there is greater uncertainty about ultimate costs than in other areas of the valuation.

Figure 8.8 – Average claim size: Reported Severe Traumatic Injury claims ($Jun22)



The average claim size across current Severe Traumatic Injury claims is around $5.1m in current dollar values; however, this includes claims that (in the past) were redeemed at less than the full lifetime value. Excluding redeemed claims the average claim size is $5.6m. As shown, we project that the average size for the 2018 and 2019 accident years will end up higher than this, reflecting two (very) high needs claims.

For recent years, where injuries are yet to stabilise, we project an average size of $6.5m, which is higher than the average over all Severe Traumatic Injury claims. This is because recent accident years have had lower claim numbers than the longer-term history, and this seems to be leading to a more complex profile of claims being managed by EnABLE. The table below demonstrates this impact, by comparing the average size of claims depending on whether there were more or fewer than five claims in the year.

Table 8.5 – Average size by no. of claims in accident year

Claims in Accident Year	Claims	ACS
		$m
5 or Fewer	62	6.4
More than 5	75	5.1
Total	137	5.7

*Excludes redeemed claims

Our selected average size of $6.5m was set with reference to the average size of claims from accident years with five or fewer claims (noting that we currently assume four claims for a new accident year).

8.4.8 Reform allowances for Severe Traumatic Injury claims

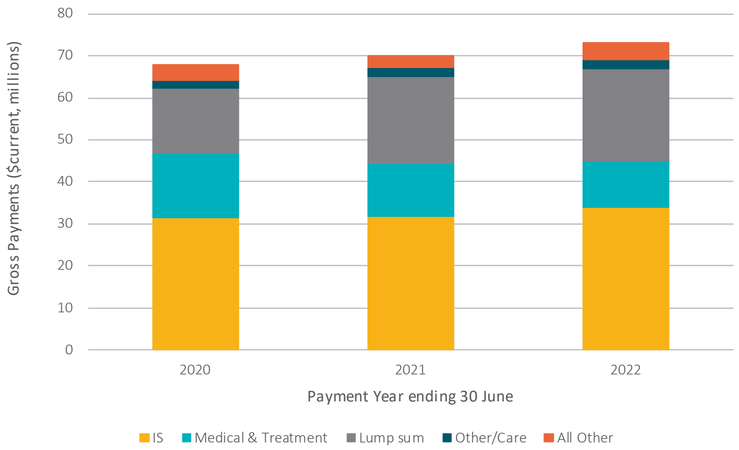
As discussed above, we make no reform allowance for Severe Traumatic Injury claims.

8.5 Other Serious Injury claims

8.5.1 Payments by type

Figure 8.9 shows claim payments over the past three years for the Other Serious Injury claims (i.e. excluding the Severe Traumatic Injuries).

Figure 8.9 – Other Serious Injury Claim Payments ($Jun22)



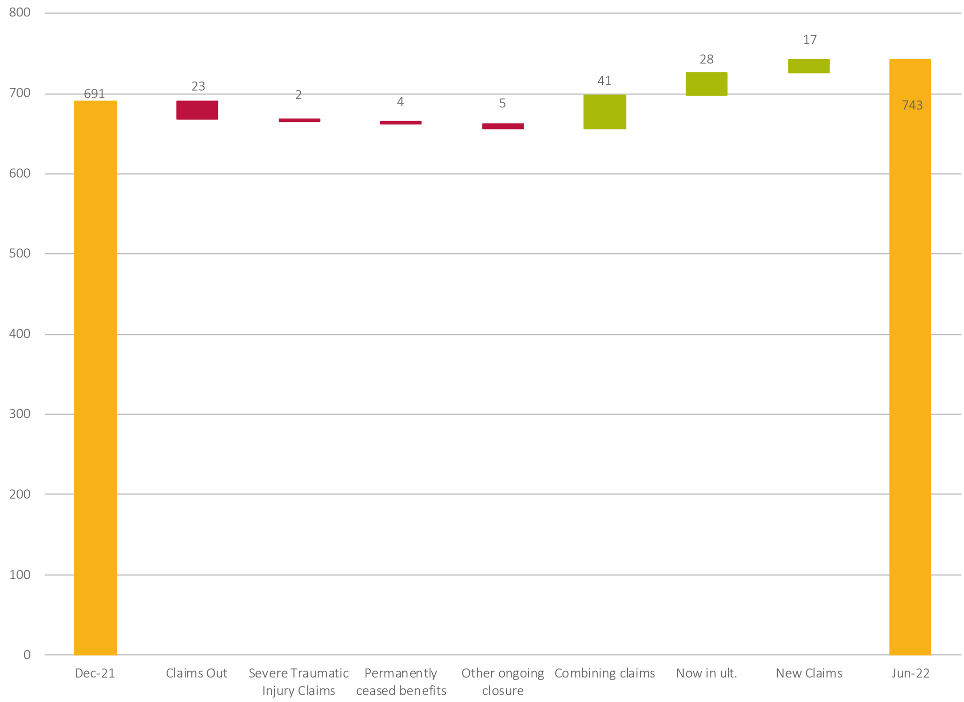
Around $211m has been paid to Other Serious Injury claims in the last three years, with year on year growth as claim numbers increase. After allowing for recoveries of around $9m over this same period, this equates to an average of around $68m p.a. in net claim payments (inflated to 30 June 2022 values), comprising:

- $33m p.a. in Income Support.
- $13m p.a. in medical, treatment and related benefits.
- $19m p.a. in lump sums.
- Small amounts of other benefits ($6m).
- $3m p.a. in recoveries.

8.5.2 Claimant profile

Figure 8.10 shows the number of active Other Serious Injury claims (those being valued) at the current and previous valuation.

Figure 8.10 – Movement in other Serious Injury claim numbers



There are 743 active Other Serious Injury claims at June 2022 (with expected ongoing benefits), compared to 691 at the previous valuation. The components of this change are:

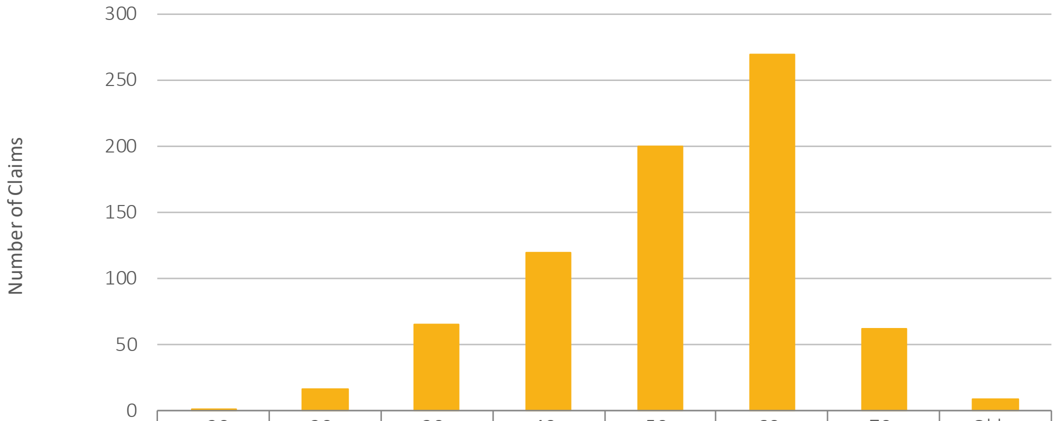
- Claims out – reduction of 23 claims. This largely refers to claims from the 'potential' cohort which were either confirmed not to meet the eligibility criteria for a Serious Injury claim, or where additional information has meant that their likelihood of becoming a Serious Injury claim has been revised.
  - > We note that this reduction includes some claims who are now assessed as not being able to reach the Serious Injury threshold due to their primary injury, but who are now assessed as reaching the Serious Injury threshold as a result of being able to combine injuries. This has no impact on the value attached to these claims, but is important in our understanding of the number of additional Serious Injury claims as a result of combining.
- Severe Traumatic Injury Claims – reduction of 2 claims. These are claims which are now managed by the EnABLE team and so have transferred to our Severe Traumatic Injury valuation.
- Permanently ceased benefits – reduction of 4 due to one deceased claimant, and three deed of releases.
- Other ongoing closure – reduction of 5 claims mostly due to claims that no longer meet our definition of 'ongoing' due an extended period inactive or without payments.
- Combining claims – increase of 41 from claims that reach the Serious Injury threshold purely due to now being able to combine injuries.
- Revised ultimate status – increase of 28 claims. This increase is due to claims that had previously been identified as a potential Serious Injury, but who were not considered likely to meet the threshold at their most recent review. Most of these claims are now included due to formal determinations.
- New Claims – increase of 17 claims beyond the other claims noted above, due to new Serious Injury claims being identified.

We note that the numbers in Figure 8.10 refer to claims that are Medical ongoing, which is the broadest group of ongoing claims.

With the portfolio still maturing we would generally expect the number of Other Serious Injury claims to increase each six months, particularly so now due to additional claims emerging as a result of combining injuries.

Figure 8.11 shows the current age and life expectancy of the known and potential other Serious Injury claims.

Figure 8.11 – Age distribution and life expectancy (in years) for other Serious Injury claims



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	1	16	65	120	200	270	62	9
Life Expectancy	65	58	50	40	31	23	15	9

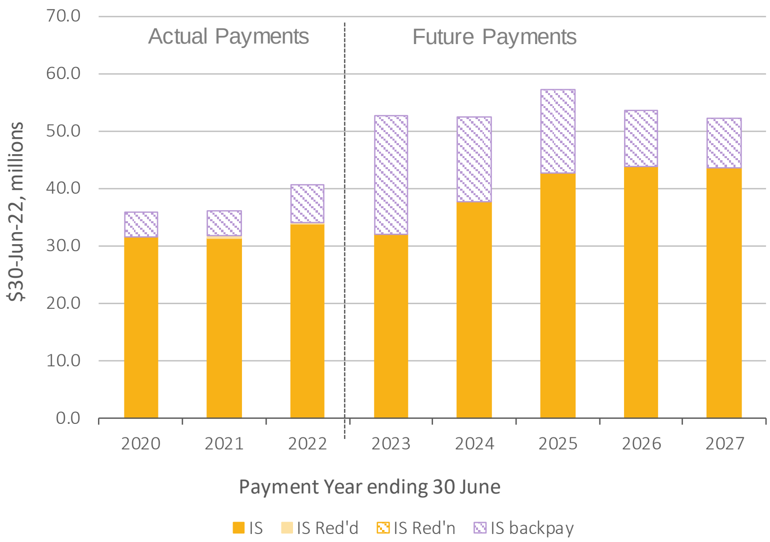
The Other Serious Injury claims are currently aged around 58 on average, with an expected future life expectancy of 30 years (after allowing for mortality, including mortality improvements). The average age at injury was 47 years.

Around 75% of the current Other Serious Injuries have had a WPI assessment, averaging around 37% WPI. At this valuation, there were 89 claims with recorded WPIs below 30%. The average impairment level excluding these low assessments is around 39%.

8.5.3 Income support

Figure 8.12 shows historic and projected Income Support payments for Other Serious Injury claims (including IBNR claims).

Figure 8.12 – IS payments: Other Serious Injury claims ($Jun22)



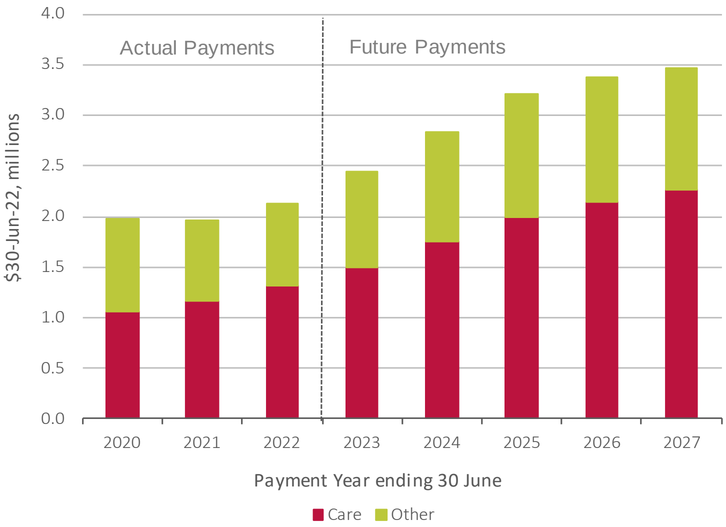
We estimate around $53m will be paid in Income Support to Other Serious Injury claims in 2023 (prior to reforms). Future payments will generally reduce over time in line with expected mortality and retirement, although the emergence of IBNR claims means payments remain fairly stable for the next five years. We note that we have significant backpay expectations over the next few years driven by the expected resolution of combining disputes who will become Serious Injury claims.

Future payments are significantly higher than recent actual payments due to Income Support backpay.

8.5.4 Care and other costs

Figure 8.13 shows historic and projected care payments for Other Serious Injury claims (including IBNR claims).

Figure 8.13 – Care and other payments: Other Serious Injury claims ($Jun22)

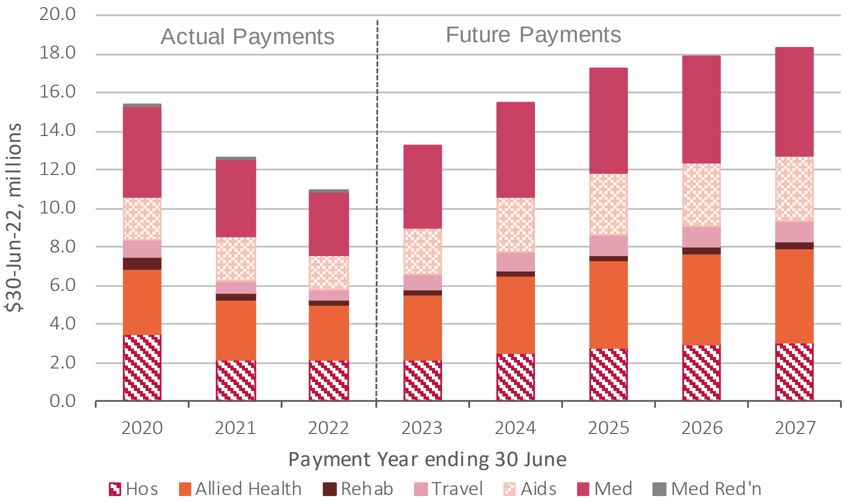


Other Serious Injury claims receive relatively little in care and other costs, although payments have been growing. We expect around $2.4m in care and other payments in 2023. This is expected to increase due to IBNR claims, although will eventually be offset by mortality.

8.5.5 Treatment and related costs

Figure 8.14 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims). The grey bars indicate Medical and Treatment payments for claims who have since been redeemed.

Figure 8.14 – Treatment and related payments: Other Serious Injury claims ($Jun22)



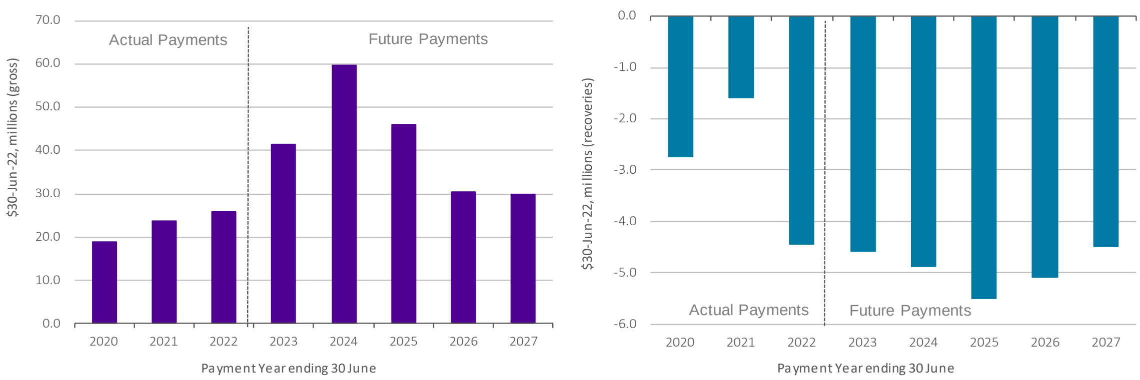
We expect treatment and related payments of $13m in 2023, similar to the average over the last three years. Payments increase in future years due to IBNR claims, offset by reductions over the longer term in line with mortality.

8.5.6 All other payments

Figure 8.15 shows historic and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 8.15 – All other payments: Other Serious Injury claims ($Jun22)

Gross Costs **Recoveries**



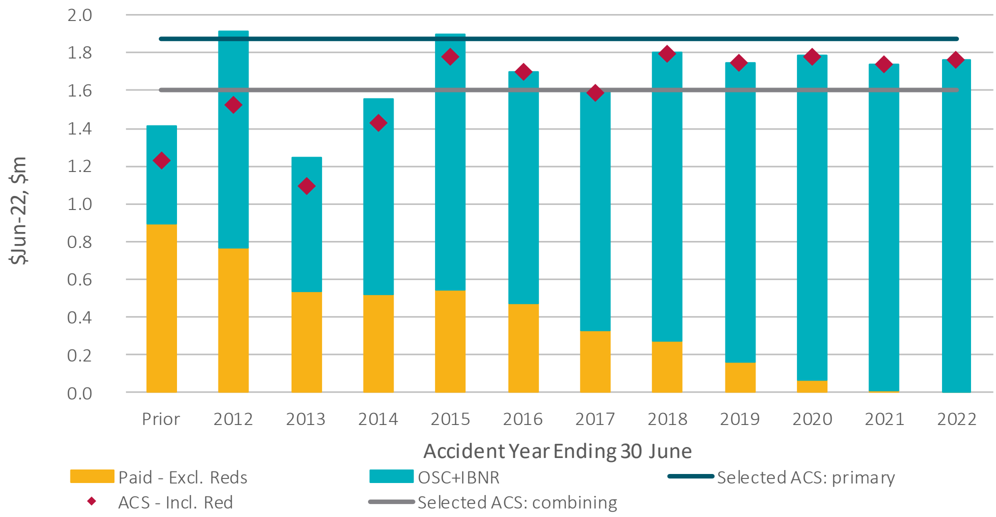
Our future projections include (in current dollars, pre-reform):

- Lump sum benefits of $215m paid to Other Serious Injury claims who have not yet had a lump sum paid; these are assumed to happen relatively quickly.
- Legal and investigation costs of $48m.
- Recoveries of $34m.

8.5.7 Overall average size

Figure 8.16 shows the net ultimate average claim size (inflated to 30 June 2022 values) across all Other Serious Injury claims.

Figure 8.16 – Average size by payment type: Other Serious Injury claims



Our total average size is $1.9m for primary injuries and $1.6m for combining injures. At the previous two valuations our combining injury average size was set as follows:

- We calculated the average level of payments for claims identified through the manual review process up to the two year cap for Income Support and up to the three year cap for medicals
- We compared this with the average level of payments over the same durations for primary Serious Injury claims
- This suggested that combining Serious Injury claims had a lower average size, which we reflected in our projections. The adjustments adopted were:
  - A 10% lower average size for Income Support
  - A 30% lower average size for medical benefits. We note that some of this reduction in size related to some combining claims ceasing medical benefits when their Income Support benefits ceased at retirement age.

Emerging evidence suggests that the size differential is not as great as was previously allowed for medical benefits; however, given the low volume of claims identified to date we have only given this partial credibility, reducing the size differential to 25%. Our 10% size differential for Income Support is unchanged.

More detail on the selections underlying this average size can be found in Appendix A.8.

8.6 Reform allowances for Other Serious Injury claims

The reform impacts on Serious Injury claim numbers are discussed in Section 5.2.3; here we describe the impacts on the average size of Other Serious Injury claims.

8.6.1 Identified claims

Approach

We have taken the following steps to adjust the pre-reform Serious Injury valuation:

1. Adjust claim numbers to reflect the higher Serious Injury threshold
2. Estimate the proportion and profile of identified claims that will elect to take either the s56A payment or redemptions
3. Based on the impact of s56A/redemptions on identified claims, extend this to IBNR claims.

Transitional rules

The impact of transitional rules on Serious Injury claim numbers is discussed in Section 5.2.3. In addition to transitional rules impacting the Serious Injury threshold claims are assessed against, there are also specific rules about how s56A payments are to be calculated, depending on:

- The age factor to be applied
- Income Support deductions
- The scale adopted (i.e. whether the maximum payment is based on the 29% s56 payment or the 34% s56 payment).

We have considered these rules in setting our reform allowances, as described further below.

s56A election

Our estimates on the profile and proportion of claims that will take the s56A election have been based on our experience in a range of compensation settings, which has shown that claimants will change their behaviour when lump sum compensation is available, and that this will not always occur in 'financially rational' ways. In forming our allowances for how many claims might elect to take the s56A lump sum instead of continuing with ongoing income support payments we have considered the following information:

1. Estimates of the s56A lump sum payment a claimant would receive compared to the economic value of their ongoing entitlement to income support – as explained further below, some claimants will be financially better off by taking a lump sum (compared to the income support they would receive), while for other claimants there is a clear financial advantage to remaining on income support payments.
2. Learnings from past redemption strategies that ReturnToWorkSA undertook – even though these strategies are now many years old, there was clear evidence over many iterations that some claimants will choose to take lump sum payments that are of relatively low value compared to the economic value of the entitlements they would otherwise have available to them. An example of this is that many claims agreed to redemption values that were worth between 1.5 to 3 years of weekly benefit payments, even though their weekly benefits were theoretically available until retirement age.
3. Learnings from the small group of current claimants who have chosen to resolve combining related disputes in a way that ensured their WPI score ended up below 30% WPI, so they could take a large lump sum payment instead of being able to access ongoing income support payments.

Based on the above we have applied s56A election probabilities to identified claims that vary across the following dimensions:

- The value of the future Income Support stream compared to the s56A payment. All else being equal we assume that the larger the future Income Support stream is relative to the s56A payment the less likely it is that a claim will elect to take the s56A payment; however, we do not assume that decisions will be completely financially rational (i.e. there will be other factors that influence claimants' choices)
  - To be clear, we have been advised that the s56A amount would **not** be taxable whereas the Income Support payments are taxable, and our comparison has been prepared on this basis – if this is not the case then the attractiveness of the s56A payment would immediately reduce, and fewer claimants would therefore elect to access it.

- An 'age bias' effect was added to anticipate that, all else equal, younger claimants are more likely to take the lump sum given the same financial incentives. This was on advice from ReturnToWorkSA's operational team.

Table 8.6 summarises our election probabilities across these dimensions: the right side of the table is claims where it is financially rational to take the s56A payment, and on the left it is financially irrational to take a s56A payment.

Table 8.6 – s56A take-up matrix

	s56A payment less future Income Support value										
Age factor age band	Less than -$0.5m	-$0.5m to -$0.4m	-$0.4m to -$0.3m	-$0.3m to -$0.2m	-$0.2m to -$0.1m	-$0.1m to $0.0m	$0.0m to $0.1m	$0.1m to $0.2m	$0.2m to $0.3m	$0.3m to $0.4m	$0.4m to $0.5m
0 - 25	25%	25%	25%	50%	50%	75%	75%	75%	75%	75%	75%
25 - 35	10%	25%	25%	50%	50%	75%	75%	75%	75%	75%	75%
35 - 45	10%	25%	25%	25%	25%	75%	75%	75%	75%	75%	75%
45 - 55	10%	10%	10%	25%	25%	50%	75%	75%	75%	75%	75%
55 - 65	10%	10%	10%	25%	25%	25%	25%	25%	25%	25%	25%
65+	10%	10%	10%	25%	25%	25%	25%	25%	25%	25%	25%

Table 8.7 below shows the resulting take-up rate by accident year.

Table 8.7 – s56A expected take-up rate: identified claims

AY	s56A take-up
2016	17%
2017	15%
2018	16%
2019	20%
2020	20%
2021	27%
2022	25%
Total	18%

We note that the expected take-up rate generally increases by accident year. This is a result of the following:

- Older accident years have a higher proportion of claims that have already passed retirement age and so are not eligible for the s56A payment
- For claims that are still below retirement age, older accident years have an older average age and so age biases in the likelihood of taking the s56A payment (per Table 8.6) impact the overall likelihood of claims electing to take the s56A payment.

For identified claims (post 2015 accidents only) the take-up rate is 18%; however, this is biased down by the current age profile of these accident years and the transitional rules. For a new accident year we have assumed that the take-up rate will be 25%.

Redemption election

For 2015 and prior accidents our redemption election rates are as follows:

- We assume 15% of eligible (i.e. pre-retirement) claims will take an Income Support redemption. We have selected 15% based on the assumed take-up rate of s56A elections, with an adjustment for the fact that these claims have been attached to the Scheme for longer and so are less likely to cease their ongoing benefits. Redemption amounts are also taxable, and so all else equal this is anticipated to reduce their attractiveness as well.

- We assume that ReturnToWorkSA will only enter into negotiations to redeem all benefits and so assume that all claims who elect to take the Income Support redemption also take a medical redemption.

For 2016 and more recent accidents our start point has been to apply the same medical redemption probability as for the s56A payment. We then make a downward adjustment to these probabilities based on the recent level of medical payments that each claim has been receiving (i.e. claims who take a s56A payment and have a low medical spend are more likely to also take a medical redemption than those with high medical spend). This adjustment is shown below:

Table 8.8 – Medical redemption: adjustment to s56A take-up

Recent half-year med spend	Adjustment to s56A takeup
Less than $1,000	0%
$1,000 to$5,000	5%
$5,000 to$10,000	15%
$10,000 to$25,000	50%
Greater than $25,000	100%

The outworking of the above is that around 70% of claims who take a s56A payment have been assumed to also take a medical redemption.

We do not allow for medical redemptions on claims who are past retirement age. This is on the basis that these claims have chosen to continue engaging with the Scheme rather than utilise Medicare after their Income Support engagement with the Scheme ceased, and so we view them as less likely to take a redemption.

Average size impacts

The assumed average size impacts are as follows:

Table 8.9 – s56A/redemption average impacts: identified claims

	s56A/redemption amount		Reduction to ongoing benefits		
Lump sum type	WC Act	RTW Act	WC Act	RTW Act	Comments
s56A	N/A	160,000	N/A	-12%	% reduction to IS OSC
IS redemption	170,000	N/A	-14%	N/A	% reduction to IS OSC
Medical redemption	70,000	60,000	-12%	-12%	% reduction to med/treat OSC

The average size impacts are calculated as follows:

- s56A amounts are as per the prescribed formula and transition rules
- Income Support redemptions are based on the recent spend per claim multiplied by an allowance for the number of years until retirement, capped at the maximum s56A amount that would otherwise have applied (if it was available)
- Medical redemptions are based on the recent spend per claim multiplied by an allowance for future life expectancy, capped at $90,000 for RTW Act claims and $150,000 for WC Act claims. While the average medical redemption of $60,000 to $70,000 is much lower than the average valuation liability attached to these claims, we are comfortable it is an appropriate level based on previous redemption programs by ReturnToWorkSA and the fact that many claimants who cease

receiving medical benefits will be able to transfer their future medical costs to Medicare rather than pay for those services personally.

Election of these payments commutes either future Income Support and medical/treatment costs and the reduction to ongoing benefits is an outworking of this. We note that the reduction in Income Support outstanding claims costs (12%) is less than the assumed proportion of claims who take the s56A payment (18%) due to an assumed bias in who takes the s56A election (i.e. the lower the level of Income Support being received, the more attractive the s56A payment).

8.6.2 IBNR claims

Our IBNR reform assumptions have been informed by the impact on identified claims, with an allowance for the different transitional rules that may apply to this cohort. These assumptions are shown in Table 8.10.

Table 8.10 – IBNR reform assumptions

	Take-up		LS average size		Ongoing reduction	
AY	s56A	Med red	s56A	Med red	IS[1]	Med
2016	18%	13%	90,000	60,000	13%	13%
2017	19%	13%	110,000	60,000	13%	13%
2018	20%	14%	110,000	60,000	14%	14%
2019	21%	15%	140,000	60,000	15%	15%
2020	22%	15%	160,000	60,000	15%	15%
2021	24%	16%	180,000	60,000	16%	16%
2022	25%	17%	200,000	60,000	17%	17%

[1]Not applied to backpay

Our assumptions have been set as follows:

- s56A take-up: 2016 take-up rate has been set in line with the level for identified claims and gradually moves towards our new accident year take-up rate of 25%
- Medical redemption take-up: 2016 take-up rate has been set in line with the level for identified claims and increases in line with the s56A take-up rate
- s56A average size: as per prescribed formula and transition rules
- Medical redemption average size: set in line with identified claims
- Income Support and medical reduction: same relationship between take-up and saving as for identified claims.

8.6.3 Valuation impact

The valuation impact on Serious Injury claims is a reduction of $492m (excluding CHE and prior to updated economic assumptions), broken down as follows:

- A $319m reduction due to fewer claims reaching the Serious Injury threshold
- A $91m reduction on identified claims due to the introduction of s56A and redemption options
- A $80m reduction on IBNR claims due to the introduction of s56A and redemption options.

9 Economic and other assumptions

9.1 Discount rate

The discounted mean term (DMT) of the liabilities is 11.7 years, materially lower than the previous valuation of 14.2 years due to a significant increase in the discount rate across all durations. The high DMT is driven by the large proportion of the OSC made up of Serious Injury liabilities. As a result, even relatively small changes to economic assumptions can have a material impact on the liability.

9.1.1 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 **target** range of 2% to 3%), combined with expectations of long-term real yields.
- Beyond the end of our extrapolation, the yield is maintained at the long-term forward rate.

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

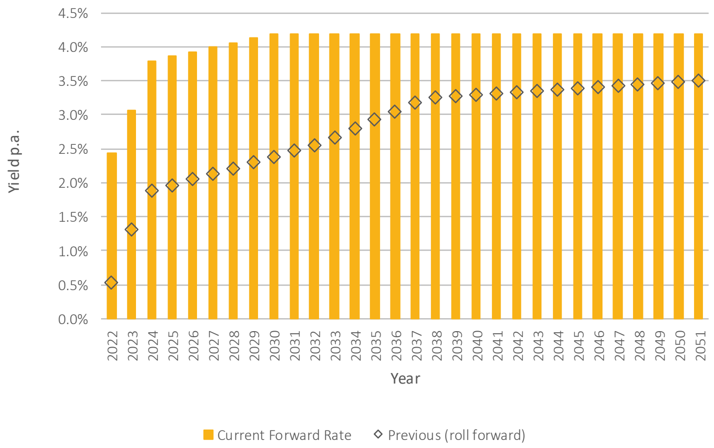
9.1.2 Current assumptions

Discount rates at June 2022 are significantly higher than at December 2021. The most material increases in the discount rates are at shorter durations where yields have gone up by around 180 to 190 basis points (1.8% to 1.9%). Yields at medium durations have gone up by around 80 to 100 basis points (0.8% to 1.0%), while yields at longer durations have gone up by 70 basis points (0.7%). We have assumed a long-term discount rate of 4.20%, up from 3.50% adopted at our previous valuation.

A comparison of the currently adopted yield curve to previous is shown in Figure 9.1.

The equivalent single discount rate has increased from 2.5% p.a. at 31 December 2021 to 3.9% p.a. at 30 June 2022.

Figure 9.1 – Risk free forward rate vs previous valuation



Details of the discount rates by year are included in Appendix C.1.

9.2 Inflation

In setting our inflation assumptions we consider:

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

Given there is a prescribed inflation index for income support payments that is specific to South Australian conditions, our inflation assumptions consider inflation at a SA specific level for this portfolio. It is also important to note that the selected inflation assumptions are intended to reflect increases in claims cost over time, rather than being a pure forecast of the various inflation indices, and this is also a consideration when selecting our inflation assumptions.

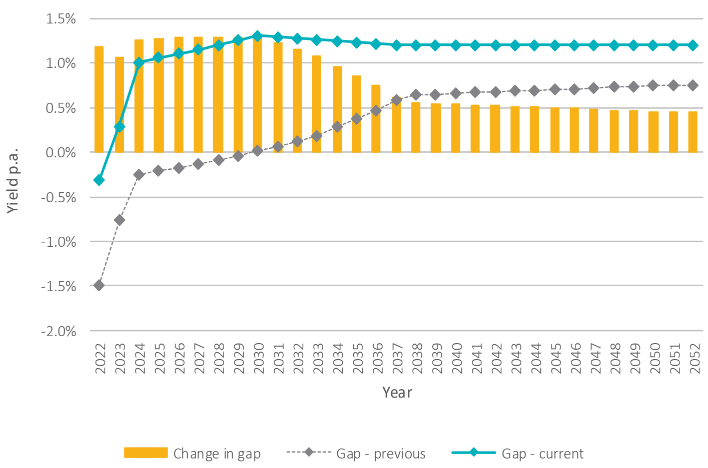
In summary, our assumptions at the current valuation are:

- Wage Price Index (WPI) inflation has been assumed to be 2.75% p.a. for the next year, increasing to 2.85% p.a. in five years' time. This is an increase from our previous assumption of 2.0% in the short term.
- WPI inflation assumptions then increase slowly over the following 10-year period, after which they remain steady at 3.00% p.a. This long-term assumption represents a 1.20% p.a. gap between WPI inflation and forward discount rates, up from 0.75% adopted in our December 2021 valuation.
- Average Weekly Earnings (AWE) inflation is set as equal to WPI inflation plus a gap of 0.10% for the coming five-year period.
- The gap between AWE and WPI inflation is then assumed to widen over the following ten years, after which it reaches a steady-state gap of 0.25% p.a. above WPI (i.e. long-term AWE inflation of 3.25% p.a.). This is higher than our gap assumption of 0.10% at the previous valuation.

- CPI inflation is assumed to be 5% p.a. in the next year, before dropping to 3.75% p.a. in the following year. This reflects the current high inflation environment and the RBA's expectations that inflation will drop to the upper end of the target range of 2% to 3% by June 2024.
- CPI inflation is then flat at 2.25% p.a. for all remaining future years. This is unchanged from our long-term CPI inflation at the previous valuation. The long-term selection sits at the lower end of the Reserve Bank's targeted range of 2-3% p.a.

The movements, compared to previous assumptions, in adopted inflation and discount rates have an impact on the 'gap' between inflation and discount rates, particularly at short to mid durations. This is shown in Figure 9.2 below. As this shows, the current economic assumptions imply a negative gap in the first year only, unlike the previous valuation which implied a negative gap out to nearly 9 years.

Figure 9.2 – Gap between adopted AWE and discount rates



The net impact of these changes is a material reduction in the scheme liability, which is quantified in Section 10.

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

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

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

9.3 Expenses

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

We have reviewed recent and budgeted expenses for ReturnToWorkSA to estimate the costs related to claims handling. Interpretation of this analysis must be conscious of the changing nature of the scheme, its claim management strategy and the expected permanency, or not, of these features; that is, the claims handling expense allowance is set as a forward-looking measure that is intended to reflect the expense structure. Table 9.1 shows the scheme's recent and projected expenses and the proportion allocated to claims handling expenses (CHE).

Table 9.1 – Overall Scheme expenses and Proportion of cost allocated to CHE

Expenses ($m)			
	2020-21	2021-22 (draft actual)	2022-23 (budget)
	$m	$m	$m
Administration	54.8	58.0	64.8
Claims Management	66.1	70.9	77.5
Tribunal	8.7	8.0	9.7
Total Expenses	129.6	136.9	152.0
% Expenses allocated to CHE			
	2020-21	2021-22	2022-23
Administration	31%	31%	31%
Claims Management	67%	67%	68%
Tribunal	55%	55%	55%
Total	51%	51%	52%

Table 9.1 shows the proportion of costs allocated to claims management in three main categories:

- Administration expenses – this includes the direct claims management costs of ReturnToWorkSA from its insurance team, plus a proportion of other cost centres.
- Claims Management – this includes the costs paid to external claim managers, with an allocation between new claims and ongoing claims management (including relevant performance fees).
- Tribunal – this is the estimated proportion related to ongoing claims, net of the contribution from self-insurers to these running costs.

In addition, costs are also split between Serious Injury and Short Term Claims to enable a two way claims handling expense assumption. Table 9.2 shows the attributed claims handling expenses as a proportion of gross claim payments, which is how the claims handling expense loading is applied in the liability valuation.

Table 9.2 – Claims handling expenses by claim type as a percentage of gross claim payments

CHE Expenses as a percentage of gross claim payments	CHE Expenses / Claim Payments - by financial year			CHE Assumption	
	2020-21	2021-22	2022-23	Selected	Previous
Serious Injury	8.3%	7.4%	5.2%	7.5%	7.5%
Short Term Claims	15.6%	15.5%	16.5%	15.5%	15.5%
Liability Weighted Average %				9.9%	9.3%

As shown in Table 9.2, the CHE cost associated with Serious Injury claims has been reducing over time, which is largely a function of the gross payments increasing significantly, rather than a reduction in expected claims handling costs – the reduction in 2022/23 is partly due to a projected increase in lump sum payments, which we regard as a temporary feature and so we do not consider this to be a genuine representation of the cost of managing ongoing Serious Injuries. Short Term Claims however have seen higher expense rates recently, and our previous selection has been maintained.

The overall expense rate equates to 9.9% of gross outstanding claims, which has increased from 9.3% at the previous valuation.

9.4 GST recoveries

Entitlements are modelled net of GST (ITC) recoveries.

9.5 Risk margins

Since June 2017 ReturnToWorkSA has established its outstanding claims provision with a 75% probability of sufficiency. Our recommended claims provision is consistent with this reserving policy.

In addition to the underlying variability in our projection of future claim costs, the risk margin has been updated to incorporate the additional range of uncertainties related to the reforms. Importantly, the reforms do not remove the "combining uncertainty" that was introduced after the *Summerfield* legal decision, but rather they modify it by introducing other elements of legislative change – each of which has their own uncertainties that need to be considered in assessing the overall risk margin.

9.5.1 Underlying variability and risk margin allowance

We have undertaken a high-level review of the risk margin scorecards for internal and external systemic risks at this 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) – a measure of the variability in the statistical distribution – arising from internal systemic error and external systemic error. A summary of the framework is included in Appendix C.

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 estimate of the underlying CVs for each entitlement group, along with the total diversified and undiversified CV, are set out in Table 10.3 below.

Table 9.3 – Underlying co-efficient of Variation (i.e. before adding additional reform variability)

	Total CV	
Risk Margin Group	Jun-22	Dec-21
Serious Injury	31.3%	29.9%
Short Term Claims		
Income Support	14.5%	14.5%
Lump sum	26.8%	23.8%
Legal + Investigation	30.3%	30.3%
Medical and Other Treatment	15.8%	15.8%
Recoveries	20.0%	20.0%
Total (Undiversified)	29.0%	28.1%
Total (Diversified)	**24.7%**	**25.2%**
Diversification	14.7%	10.2%

The changes to note are:

- An increase in the Lump Sum CV due to:
  - > Increased data error due to reliance on new data to understand combining impacts

  > Greater parameter selection error, as recent experience suggests the size of lump sum claims that have been in dispute are more expensive than previously anticipated
  > The mix of claims being paid at different durations is changing the experience, and it is not yet clear what the ultimate level of combining will be, which increases parameter selection error.
- An increase in the Serious Injury CV due to a high level of uncertainty around behavioural changes around combining injuries and how it will work in practice.
- The above increases are offset by a higher diversification benefit, as the contribution of Serious Injuries to the overall liability is lower, due to the reduction in costs following the reforms.

Based on a diversified coefficient of variation of 24.7% and our modelled distribution (which is a blend between a normal and lognormal distribution), the implied pre-Reform variability risk margin is 15.5%, a reduction of 0.3% from the previous underlying risk margin.

9.5.2 Additional reform variability

The reforms add an additional layer of uncertainty to our central estimate, beyond what is captured in the normal risk margin framework. In assessing the post-reform risk margin we have been conscious that the reforms do not remove the uncertainty relating to combining injuries, but rather they make other changes that are intended to mitigate the financial impacts – how these various elements interrelate, particularly through the transitional period, will be a key determinate of the ultimate reform savings that are achieve on the outstanding claims liability.

We have considered the additional reform risk along the following dimensions, noting it's plausible that some of these scenarios happen concurrently.

Table 9.4 – Reform uncertainty

Reform uncertainty source	Description	High level impact (ex. CHE)
Impact of codifying combining on Serious Injury numbers	Additional Serious Injury claims due to combining (NB: much of this is covered the *Summerfield* specific risk margin we adopted at the December 2021 valuation)	\$150-200m
Number of Serious Injury claims removed by the increased threshold	Due to behavioural changes, the higher Serious Injury threshold only removes 10% of claims and/or there is a large rush on assessments prior to 1 January 2023 to be covered by the transitional rules	\$200-250m
Profile of claims taking s56A/redemptions	Highly rational decision making from claimants means it is only claims who are better off that take the lump sums and redemptions	\$100m

Although we don't assign probabilities to these scenarios, they demonstrate realistic reform outcomes that differ materially from our current central estimate.

Our recommended post-reform risk margin is 19.3% (compared to 15.8% previously), which equates to a dollar value of \$635m (compared to \$614m previously) – adopting this risk margin results in an additional \$125m of risk margin being held above the underlying risk margin level as determined above. We consider this to be a reasonable allowance in the context of the reduced central estimate and the scenarios presented above.

We note that if the reforms achieve their stated aims, that is without there being any material behavioural response or adverse legal decisions that undermine their intent, then we would expect the risk margin loading to reduce back toward (or even below) the underlying risk margin level over the next 12-18 months.

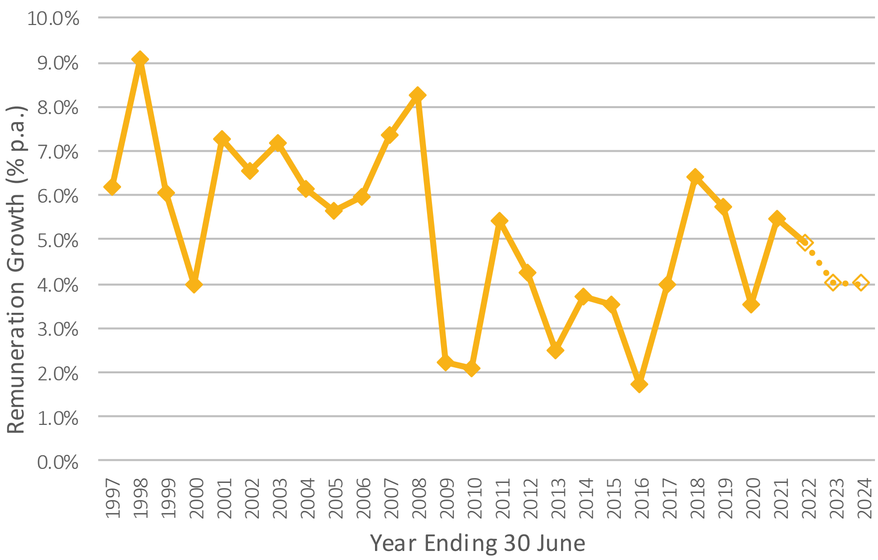
9.6 Non-exempt remuneration

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

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

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

Figure 9.3 – Non-exempt leviable remuneration: annual growth



We have adopted ReturnToWorkSA's remuneration projection of $34.6 billion for 2021/22, noting that it is still subject to some estimation. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
  - The global financial crisis (GFC) – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
  - A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.
- Despite remuneration growth briefly heading up to more 'normal' historical levels in 2011 and 2012, wage growth then reduced again towards levels seen during the GFC, and then stayed low until 2017.

- In the four years after 2017 remuneration growth increased to 6.4% in 2018, 5.7% in 2019, 3.6% in 2020 (wages growth for 2020 was impacted from COVID-19) and 5.5% in 2021.
- The current projections forecast a marginally lower wage growth in 2022, with 4.9% growth, dropping to 4.0% in 2023 and thereafter.

10 Valuation results

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

- The central estimate of outstanding claims as at 30 June 2022.
- Our recommended balance sheet provision under AASB1023.
- Movement in the central estimate compared to what was projected at the previous valuation.
- Estimated historical scheme costs.
- Projected future cash flows for the current outstanding claims.
- Projected outstanding claims as at 31 December 2022 and 30 June 2023.
- Reconciliation of results with December 2021 projections.

10.1 Outstanding claims – central estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2022 is set out in Table 10.1. This liability relates to all claims that occurred on or before 30 June 2022 and includes the impact of updated economic assumptions.

Table 10.1 – Central Estimate of outstanding claims by entitlement type

	Pre-Reform		Reform Impact		Economics Impact			
Entitlement Group	Short Term Claims	Serious Injuries	Short Term Claims	Serious Injuries	Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m		$m		$m	
Income	156	962	-	-230	0	-75	815	25%
Medical	135	592	8	-115	-7	-73	540	16%
Other	5	67	-	-15	-0	-8	49	2%
Care	2	450	-	-28	-0	-55	369	11%
Lump sums	371	225	76	21	-22	-12	661	20%
Hospital	17	181	-	-39	-0	-22	137	4%
Travel & Accomodation	6	73	-	-17	-0	-9	53	2%
Worker legal	68	24	8	-4	-2	-1	93	3%
Corporation legal	41	24	-	-4	-0	-1	60	2%
Allied Health	44	305	-	-66	-2	-36	245	7%
Rehabilitation	12	21	-	-5	-0	-3	25	1%
Investigation	3	1	-	-0	-0	-0	4	0.11%
Common law	1	-	-	-	-0	-	1	0.04%
Commutation	4	-	-	-	-0	-	4	0.12%
LOEC	0	-	-	-	-0	-	0	0.01%
Gross Liability	867	2,926	91	-501	-33	-293	3,058	93%
Recoveries	-37	-46	-	9	1	1	-73	-2%
Expenses	134	219	14	-38	-5	-22	303	9%
Net Central Estimate	964	3,099	106	-529	-37	-314	3,288	100%

The outstanding claims liability before recoveries and expenses is estimated to be $3,058m. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $3,288m.

Table 10.2 details the outstanding claims result by accident year.

Table 10.2 – Central Estimate of outstanding claims by accident year

Accident Year	Short Term Claims	Serious Injuries	Impact of Reform	Economics Impact	Total	% of Net Cent Est
	$m	$m	$m	$m	$m	
Pre Jun-15 Years	100	963	-70	-112	881	27%
Jun-16	25	162	-18	-18	150	5%
Jun-17	30	219	-21	-24	204	6%
Jun-18	46	281	-38	-30	258	8%
Jun-19	63	325	-45	-34	310	9%
Jun-20	109	294	-57	-31	315	10%
Jun-21	189	325	-74	-35	404	12%
Jun-22	306	358	-86	-43	535	16%
Gross Liability	867	2,926	-409	-326	3,058	93%
Recoveries	-37	-46	9	2	-73	-2%
Expenses	134	219	-23	-27	303	9%
Net Central Estimate	964	3,099	-424	-351	3,288	100%

Table 10.3 shows the overall liability split between Serious Injuries, Short-Term claims and the impact of reforms both before and after discounting. There is a significant level of discounting in relation to the Serious Injury claims liability due to its long payment pattern.

Table 10.3 – Impact of discounting

	Short Term Claims	Serious Injuries	Total
	$m	$m	$m
Inflated	1,153	5,005	6,158
Inflated and Discounted	1,032	2,256	3,288
Ratio	90%	45%	53%

10.2 Provision for outstanding claims

Table 10.4 sets out the components of our recommended provision at 75% probability of sufficiency, $3,923m.

As explained in Section 9.5, the recommended risk margin after allowing for the impact of reform has been increased to 19.3% of the central estimate liability (up from 15.8%). The recommended risk margin has been updated to incorporate the additional range of uncertainties related to the reforms, which are in addition to the underlying variability in our projection of future claim costs – adopting this risk margin results in an additional $125m of risk margin being held above the normal 'underlying' risk margin.

Table 10.4 – Recommended balance sheet provision

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	2,132		
Gross Claims Cost - Short Term Claims	925		
Claims Handling Expenses	303		
Gross Outstanding Claims Liability	3,361	649	4,010
Recoveries	-73	-14	-87
Net Outstanding Claims Liability	3,288	635	3,923

We note that if the reforms achieve their stated aims, i.e. without there being any material behavioural response or adverse legal decisions that undermine their intent, then we would expect the risk margin loading to reduce back toward (or even below) the underlying risk margin level over the next 12-18 months.

10.3 Movement in liability

Our net central estimate including CHE is $731m lower than projected at the previous valuation, as shown in Table 10.5.

Table 10.5 – Movement from previous valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at Dec-21	3,624	-71	334	3,886
Plus liability for claims incurred in the period	371	-7	43	407
Less Expected Payments to Jun-22	255	-9	34	281
Plus Interest (unwinding of discount)	6	0	0	6
Liability Projected from Previous Valuation	3,745	-70	343	4,019
Current Valuation	3,058	-73	303	3,288
Difference	-688	-3	-40	-731

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

- Movement in liability due to claims experience – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions.
- Impact of reform – this covers the impact of the *Return to Work (Scheme Sustainability) Amendment Bill 2022* on the valuation liability.
- 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 performance relative to the previous valuation.

Table 10.6 – Movement in central estimate and determination of actuarial release

	Central Estimate			Actuarial Release	
	Liability Estimate[1] *Excl. Reform*	Liability Estimate[1] impact of Reform	Liability Estimate[1] *Total*	AvE Payments in 6 mths to Jun-22	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m	$m	$m
Liability at Dec-21 Valuation	3,886	0	3,886		
Projected Liability at Jun-22 (from Dec-21 valuation)	4,019	0	4,019		
Claims Movement - Short Term Claims	101	106	206	22	-123
Claims Movement - Serious Injury	-56	-529	-586	-16	73
Impact of Change in economic assumptions			-351		
Recommended Liability at Jun-22			3,288		
Total Actuarial Strengthening					-50

[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.

10.3.1 Actuarial release at June 2022

The actuarial strengthening (negative release) over the period is $50m. Table 10.7 shows the actuarial strengthening by entitlement type.

Table 10.7 – Actuarial release/(Strengthening) by Entitlement Type

Entitlement Group	Short Term Claims[1]	Serious Injury Claims[1]	Total Actuarial Release [1]	Release %
	$m	$m	$m	
Income Support	6.6	-20.6	-13.9	-1.3%
Redemptions	-0.8	0.0	-0.8	0.0%
Combined	*5.8*	*-20.6*	*-14.8*	-1.3%
Lump Sums	-111.0	14.2	-96.8	-18.9%
Worker legal	-2.2	-8.3	-10.5	-12.3%
Corporation legal	-1.0	-6.8	-7.7	-13.7%
Investigation	0.4	0.2	0.6	13.4%
Medical	-6.1	26.2	20.1	2.7%
Allied Health	1.8	43.3	45.2	11.5%
Other	0.8	8.0	8.8	10.9%
Care	0.2	-15.0	-14.8	-3.4%
Hospital	0.8	10.1	10.9	5.2%
Travel	0.4	5.3	5.7	6.8%
Rehabilitation	1.3	1.8	3.0	8.5%
Common Law	0.1	0.0	0.1	7.2%
LOEC	0.0	0.0	0.0	-0.7%
Commutation	-3.8	0.0	-3.8	-174.8%
Gross Liability	-112.5	58.6	-53.8	-1.4%
Recoveries	3.3	10.9	14.2	-20.4%
Expenses	-13.8	3.1	-10.7	-3.1%
Net Central Estimate	-123.0	72.7	-50.3	-1.3%

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

The major factors contributing to the $50m actuarial strengthening at the current valuation are:

- For **Short Term claims** there is an actuarial strengthening of $123m, which is the result of:
  - > An increase of $111m for Lump Sum costs due to a combination of:
    - – Higher payments in the six months (+$21m) mainly due to a combination of higher average sizes for both combining and non-combining injuries, and a higher than expected proportion of claims combining injuries.
    - – A $29m increase due to changes in the assumptions around combining: namely, more claims remaining as Short Term Claims rather than becoming Serious Injuries, and an increase in the assumed proportion of claims who can combine injuries..
    - – A $21m increase for increased IBNR numbers for RTW Act claims, responding to the high tail development in the recent experience.
    - – A $40m increase due to higher average lump sum sizes, impacting both combining and non-combining claims. Supporting the need for this increase is the observed increase in the average WPI score of approved assessments, which has increased from 12.4% to 14.1% over the last year.
  - > An increase of $6m for Medical payments, which is mainly due to higher medico-legal assessment costs.

  - Income Support costs improved by $7m, with favourable RTW experience more than offsetting the impacts of higher average payment amounts for ongoing claims.
  - The movements in the remaining benefit groups are small and mainly reflect lower than expected claim numbers in the 2022 accident year.
- For **Serious Injury claims** there was a net actuarial release of $73m due to:
  - Actual payments were $16m lower than expected, driven by fewer than expected combining Serious Injury claims emerging, most of which has been interpreted as being due to the slow resolution of disputes.
  - Changes in the projected costs relating to claims who are combining injuries reduced the liability by $107m, due to:
    - A reduction of $124m due to fewer assumed claims reaching the Serious Injury threshold due to combining injuries (see Section 5.2.2)
    - An increase of $17m due to an increase in the assumed medical and treatment cost for combining Serious Injury claims relative to primary Serious Injury claims, based on emerging experience.
  - A $40m increase due to higher assumed IBNR average size, largely related to an increase in the assumed Income Support average size, reflecting the experience for identified claims from more recent accident years.
  - A $10m increase due to unexpectedly large NDIS increases to care rates, which we have flowed through to higher care costs for ReturnToWorkSA; we assume that increases in care rates over the next few years will be lower than this, only just above normal wage inflation, and have temporarily lowered our allowances for above-inflationary growth to reflect this.
  - There were minor changes to other areas of the valuation.

Other changes had more minor impacts on the scheme liability.

10.3.2 Impact of reform

The overall impact of reform is a reduction of $424m in the net central estimate. This consists of:

- A reduction of $529m for Serious Injury Claim costs, due to:
  - A $319m reduction due to fewer claims reaching the higher WPI threshold of 35% for physical injury Serious Injury claims.
  - A $172m reduction due to the introduction of s56A and redemptions for Serious Injury claims
  - Flow on savings of $38m in expenses.
- An increase of $106m for Short Term Claim costs due to:
  - Adding Lump Sum costs for claims with 30% to 34% WPI scores that are no longer eligible to receive Serious Injury benefits, and an allowance for some claims who previously resolved just below 30% WPI to now seek scores in the 30-34% WPI range (+$76m)
  - Increased medico-legal (+$8m) and dispute costs (+$8m)
  - Flow on costs of $14m in expenses.

10.3.3 Impact of economic assumption changes

Changes to inflation and discount rate assumptions decreased the net central estimate by $351m.

Overall, the gap between discount and inflation rates has increased significantly compared to what was adopted at the December 2021 valuation. The main contributor is an increase in the yield curve at all durations, which has not been fully offset by increases in inflation expectations.

The current economic assumptions imply a negative gap in the first year only, unlike the previous valuation which implied a negative gap out to nearly 9 years.

10.4 Historical scheme costs

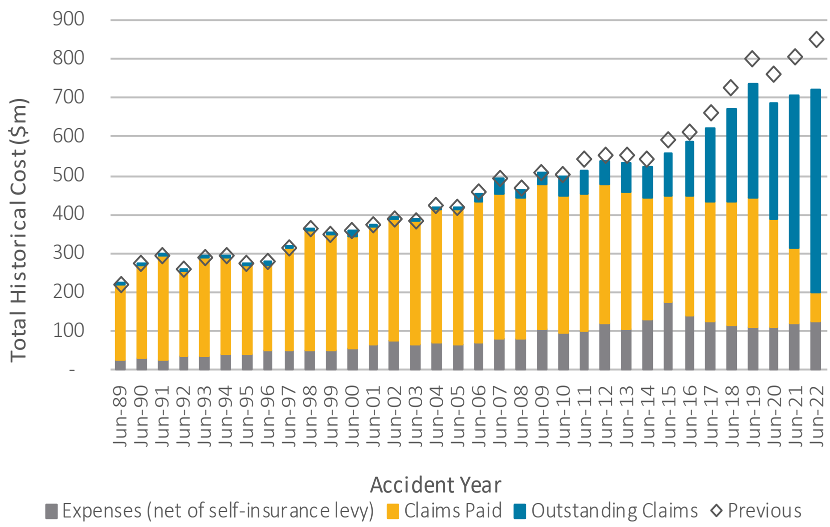
As part of our valuation we have estimated the 'historical cost' for each past accident year. This represents our estimate of total projected costs for the accident year, including expenses, and is discounted to the start of the accident year. Historical claims handling, operating expense and self-insurer levy figures are taken from ReturnToWorkSA's published annual accounts and the latest information from ReturnToWorkSA for 2022.

Figure 10.1 summarises the currently estimated historical costs for each year since the scheme began. As this shows, commencement of the RTW Act had initially acted to contain the cost for accident years up to 2016 at around $600m, breaking the strong upward trend seen in the lead up to that time. Scheme expenses were particularly high in 2015 as a result of additional transition related costs. The hindsight cost estimate has now decreased significantly for the RTW Act periods reflecting the combined impact of reform and improved economic assumptions.

For recent accident years the costs are projected to be higher than the pre-2016 level as a result of:

- Growth in the number of Serious Injury claims that are expected to ultimately emerge. This is compounded by the cohort of claims which are impacted by combining of injuries.
- Higher claim numbers, particularly for Hearing Loss claims and Income Support claims.
- There was a period of deterioration in RTW outcomes up to 2019, before the trend reversed in 2020 and later years.
- For 2019 there are also a number of very high cost claims in the Severe Traumatic Injury cohort. This dynamic makes the increase from 2018 to 2019 more pronounced than it would otherwise be, and is not an indication of deterioration in experience; rather it is a reflection of the volatile nature of severe traumatic claim numbers, given the low volume. 2020 currently has no Severe Traumatic Injury claims, which is part of the reason its costs are lower than 2019.

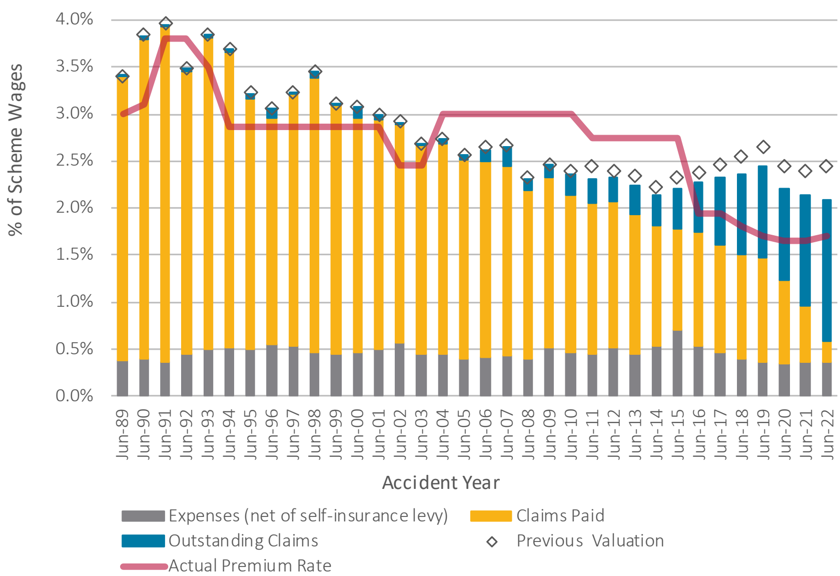
Figure 10.1 – Historical cost discounted to accident year



Using these costs we have estimated the 'historical premium rate', or the Break Even Premium (BEP) rate, for each past accident year; this is the amount that would have been sufficient to fully cover claim costs, including expenses and recoveries, assuming the scheme achieved risk free returns each year and the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (from Figure 10.1) by the total scheme leviable remuneration in that year (discussed in Section 9.6). We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

Figure 10.2 summarises the estimated annual BEP since the scheme began, including a comparison with the estimates at our previous valuation and the scheme's actual average premium rate charged for each year.

Figure 10.2 – Break even premium rate and actual premium rate charged



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

The main points to note are:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to under 2.5% of wages.
- For accident years between 2011 and 2014 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- The combined impact of reform and improved economic assumptions drives the reduction in BEP estimates from the previous valuation for the RTW Act periods, with the size of the reduction being largest for more recent accident years.
- The 2019 year is developing as a high cost year, due to a combination of high Income Support claim numbers, poor early RTW outcomes and a higher than normal Serious Injury cost (due to a number of very expensive Severe Traumatic Injury claims). The BEP estimates for 2020 and 2021 are lower than the 2019 BEP, due to fewer Severe Traumatic Injury claims.
- The current estimate of the BEP (using risk free rates) for the 2022 accident year is 2.08% of wages, down from 2.45% at the December 2021 valuation. The reduction is primarily due to the impact of reform and improved economic assumptions, with additional (but more minor) improvements as a result of a lower claim frequency and improved RTW outcomes.

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

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. Compounding the uncertainty is the impact of reform which is subject to a high degree of estimation and uncertainty. We also note that the adopted wages figure for 2022 involves a degree of estimation.

10.5 Future cash flows

Table 10.8 presents projected cash flows for the coming four half-years, by entitlement type. These cash flows include allowance for future claims incurred as described in Section 10.6, but make no allowance for expenses.

Table 10.8 – Projected cash flows

Entitlement Group	Projected Cashflows for Period			
	Jun-22 to Dec-22	Dec-22 to Jun-23	Jun-23 to Dec-23	Dec-23 to Jun-24
	$m	$m	$m	$m
Income Support	92.4	91.3	94.0	95.5
Medical	33.9	34.0	34.3	33.9
Lump sums	85.7	102.2	94.0	100.7
Rehabilitation	4.8	4.8	5.0	4.9
Allied Health	14.7	14.8	15.1	15.1
Hospital	9.9	9.9	10.4	10.5
Legal - Non-Contract	10.9	10.9	11.0	11.1
Other	2.0	2.1	2.1	2.1
Care	7.0	7.2	8.3	8.3
Legal Contract	12.1	11.9	12.1	12.0
Travel	2.9	2.9	3.0	3.0
Investigation	1.1	1.1	1.1	1.1
Commutation	0.4	0.4	0.4	0.4
LOEC	0.1	0.1	0.1	0.1
Common law	0.1	0.1	0.1	0.1
Recoveries	-7.6	-10.0	-12.5	-6.7
Net Claims Cost - Total	270.3	283.8	278.3	292.2
Serious Injuries (net)	60.0	72.6	65.5	77.9
Short Term Claims (net)	210.3	211.2	212.8	214.3

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

10.6 Projected outstanding claims

Table 10.9 shows the outstanding claims projected to 31 December 2022, 30 June 2023 and 31 December 2023. We note the payments shown here are based on those in Table 10.8, but also include an allowance for claims handling expenses for consistency with our liability estimate.

Importantly, we note that these projections are based on the current central estimate allowances, and it is very likely that the actual outcome will be different to this as more information about the impacts of reform and combining of injuries emerges over time. These projections also assume that the current risk margin is maintained over time, which will hopefully not prove to be the case – as explained in Section

9.5.2, if the reforms operate as intended then it is hoped that the risk margin loading will reduce over the next 12-18 months.

Table 10.9 – Projected outstanding claims provision

(31 December 2022, 30 June 2023 and 31 December 2023)

	Half year ending		
	Dec-22	Jun-23	Dec-23
	$m	$m	$m
Provision at Period Start	3,923	4,021	4,108
Less Risk Margin	635	650	665
Central Estimate at Period Start	3,288	3,370	3,443
Plus Additional Liability Incurred in Period	348	353	361
Less Expected Payments in Period	-308	-323	-318
Plus Interest (unwind of discount)	42	43	55
Projected Central Estimate at Period End	3,370	3,443	3,542
Plus Risk Margin	650	665	684
Projected Provision at Period End	4,021	4,108	4,225

We project the central estimate for the net outstanding claims liability at 31 December 2022 to be $3,370m; 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 2022 to 31 December 2022. The corresponding provision at a 75% probability of sufficiency is $4,021m.

The projected increase to the 30 June 2022 liabilities relates to the fact that the additional liability incurred on new Serious Injury claims is more than the expected payments on existing Serious Injury claims; for Short Term claims the half-yearly ins and outs are now broadly offsetting.

10.7 Reconciliation of incurred cost with previous projection

At the 31 December 2021 valuation we projected an additional claim cost liability of $364m would be incurred from claims arising in the half-year to 30 June 2022. Our current projection for the ultimate value of this liability is $292m, a decrease of 19.7% or $72m consisting of:

- A decrease of $58.0m in Serious Injury Claims, largely due to the impact of reform.
- An increase of $7.6m from Short Term Claims, primarily due to the increase in costs for Lump Sum claims.
- A reduction of $21.1m due to changes to economic assumptions.

Table 10.10 – Comparison of December 2021 projections to current valuation

For period 1 Jan 2022 to 30 Jun 2022		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-21 Valuation	364	
Incurred (current valuation)	292	-19.7%

11 Uncertainty and sensitivity analysis

11.1 Risk and uncertainty

In this section we discuss the major areas of uncertainty involved in estimating the balance sheet outstanding claims provision (OSC, including allowance for expenses and risk margins, with provision at 75% probability of sufficiency). At the present time there are heightened uncertainties and risks, particularly on the unfavourable side, with the operation of the RTW Act still to stabilise.

In addition to the underlying uncertainties in our projection of future claim costs, there is now an additional range of uncertainties related to the reforms to understand. Importantly, the reforms do not remove the "combining uncertainty" that was introduced after the *Summerfield* legal decision, but rather they modify it by introducing other elements of legislative change, each of which has their own uncertainties that need to be considered (and particularly so in the context of the transitional rules which will determine how much saving ultimately emerges from the reforms).

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.
- Reform – outcomes relating to the impact of reforms, focussing on Serious Injury numbers and the s56A election
- Short Term Claims – outcomes relating to claims whose entitlements are subject to the hard boundaries.
- Serious Injury claims – outcomes for claims who are entitled to long term payments from the scheme.

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

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

11.2 Economic scenarios

In brief, the scenarios we have considered are a stronger economy and a weaker economy; as summarised below.

Table 11.1 – Economic Scenarios

	Stronger	Weaker
Wage inflation[1]	3.0% pa	2.75% to 3.0% pa
Investment earnings	5.0% pa	2.75% to 3.0% pa
Real Long-term 'Gap'[2]	2.0%	0.0%

[1] Wage Price Index (WPI) inflation, [2] Difference between WPI inflation and discount rate

The impact of these alternative economic assumptions is shown below.

Table 11.2 – Economic sensitivities

	OSC Impact	
	$m	%
30 Jun 22 OSC estimate (Including risk margin at 75% POS)	3,923	
Stronger Economic Scenario (2% gap between inflation and discount rate)	-394	-10%
Weaker Economic Conditions (0% gap)	+519	+13%
Updated Yield Curve (21 Jul 2022 Yield Curve)	+143	+4%

Economic conditions have improved considerably since the previous valuation; however, they are still currently unfavourable for scheme performance relative to long term historical norms. If conditions do improve the implications for both funding and premiums are favourable; for example, in the strong scenario the discounted liabilities reduce by nearly $400m. Of course, conditions can also move the other way, as they have a number of times over the last few years. As an example of this, if we updated the valuation to a late July yield curve, this would increase the liabilities by $143m (noting that we have not considered whether the inflation assumptions would also need to change in constructing this sensitivity).

The very high discounted mean term of the liabilities means economic impacts have a very leveraged impact on the liabilities.

11.3 Expenses scenario

If the adopted claims handling expenses were to deteriorate then the loading could be tens of millions higher, as shown below.

Table 11.3 – Expenses sensitivities

	OSC Impact	
	$m	%
30 Jun 22 OSC estimate (Including risk margin at 75% POS)	3,923	
Scheme expenses are higher than allowed (16.5% for STC and 8.5% for Serious Injuries)	+36	+1%

11.4 Short term claim scenarios

The implementation of the RTW Act brought significant change to the scheme and areas of change in the scheme's culture. Over the last two years there have been areas of claim outcomes where these improvements might not be being maintained – for example dispute numbers have grown over time and look more like was seen under the previous long tail scheme – and it is possible that the early changes in the scheme's experience might not be sustained if patterns of behaviour revert towards those of past years. On the other hand, it is possible that the scheme experience could outperform current projections if more favourable changes in claims management and behaviour of scheme participants can be achieved.

Table 11.4 summarises a number of sensitivities that help demonstrate the potential for variability in the Short Term Claim cohort.

Table 11.4 – Short Term Claim sensitivities

	OSC Impact	
	$m	%
30 Jun 22 OSC estimate (Including risk margin at 75% POS)	3,923	
Claim numbers		
Hearing Loss numbers increase by 20%, noting that numbers have more than tripled over the last 3 years.	+39	+1%
Income Support		
Deterioration in continuance rates by 5% points at each development quarter and associated percentage change in PPACs with flow on increases to Medicals	+47	+1%
Front end IS continuance rates and PPACs return to the best of recent experience in last 5 years	-34	-1%
Treatment costs		
Late surgery costs emerge more than expected, approximately double the current allowance	+30	+1%
Superimposed inflation emerges at 2% per annum for Medical	+23	+1%
Legal fees		
Contract Legal costs increase in line with dispute numbers	+17	+0%
Higher average cost of legal fees for all claims due to disputes progressing further in the disputation process	+51	+1%
Lump Sums		
First Paid and Economic Loss lump sum numbers increase in line with IS numbers	+13	+0%
Proportion of lump sums with combining injuries increases to 30%	+50	+1%
First Paid and Economic Loss lump sums continue to emerge at higher sizes in line with the last six months	+60	+2%
Transitional lump sum disputes and assessments continue to run at a high volume for the next three years	+15	+0%
A higher than assumed proportion of claims do not get an EL payment	-54	-1%

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

- If Hearing Loss Claim numbers continue to deteriorate beyond current levels (by around 20% extra claims), this could add around $39m to the provision. This scenario focuses on recent reporting periods, where much higher numbers of Hearing Loss claims have begun to emerge; if the whole (very long) tail of the projection began to emerge at much higher levels then the financial impacts could be much larger.
- A reversal of recent improvements in RTW outcomes would increase Income Support and flow-on costs by around $50m. On the flip side, an improvement in RTW rates and PPACs to be in line with the best of the last 5 years' experience, just on the first development year, would reduce the liability by around $34m. This scenario assumes the number of claims reaching 10 days of lost time does not change, but in reality this can also be influenced by claim management actions; improvements in the number of claimants who commence income support benefits have the potential to lead to much more significant financial savings.
- Treatment costs:
  - Higher numbers of late surgeries – for example, if there was a behaviour change whereby claimants seek to have more surgeries covered by the workers compensation system, this could add $30m to the provision.
  - A superimposed inflation allowance of 2% for Medical payments would add $23m to the provision.

- Should dispute volumes continuing to increase and disputes progress further in the disputation process, over $50m could be added to legal costs. In addition, if Contract Legal costs increase over time as a consequence of the growth in dispute numbers, then further liability increases of around $17m are possible.
- Lump sums:
  - There are currently pressures on average sizes and if future claims were to emerge at a similar level to the last six months a $60m increase to the provision would be required.
  - If the proportion of lump sums with a combining injury increases to 30% (currently assumed to be 20%) then around $50m would be added to the provision.
  - If the transitional project continues to run at a similar level of newly commenced WPI assessments for the next three years, it would add around $15m to the provision for lump sums; there would also be additional legal, medico-legal and claims handling costs beyond this amount.
  - If a higher proportion of lump sum claims are not eligible for economic loss payments, this could lead to a release of $54m in the provision.

11.5 Serious Injury scenarios

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

Table 11.5 – Serious Injury sensitivities

	OSC Impact	
	$m	%
30 Jun 22 OSC estimate (Including risk margin at 75% POS)	3,923	
Higher than expected SI numbers by 10 extra claims per year for recent years	+123	+3%
Return to work rates improve with RTWSA initiatives (but only if claimants don't use this to maximise s56A payouts)	-95	-2%
Unpaid care on EnABLE cohort ceases immediately and is replaced with paid care	+167	+4%
Uncertainty around mortality - impact of all EnABLE claims with mortality in line with standard population life expectancy	+402	+10%
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.	+356	+9%
Superimposed inflation is 1% p.a. lower than assumed for medical and care.	-261	-7%
No increase in utilisation of Care benefits after age 65	-66	-2%
Twice the additional allowance for utilisation of Care benefits after age 65	+56	+1%
Above inflationary cost growth for NDIS Care rates continues at 7.5% p.a. for the next three years	+102	+3%
Uncertainty around mortality - impact of removing the allowance for mortality improvement for identified claims and immediately reflecting any change in the average size applied to pre and post Summerfield IBNR numbers	-58	-1%

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 potential changes in the outstanding claims liability.

We emphasise that there is significant uncertainty around ultimate claim numbers. For example, if the number of Serious Injury claims is 10 higher per year for recent accident years the provision would increase by around $125m. As discussed in Section 5.2.1, our allowance for future Serious Injury claims are a very small portion of the claims that are still in the system and so even a slightly higher conversion rate would have material implications for the liability.

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

While we had previously highlighted the very large potential financial benefits if recently commenced programs manage to help more participants return to work than in the past, we note that under the reformed scheme the level of savings is likely to be reduced as claimants will now be able to access the s56A payment.

11.6 Reform scenarios

The reforms introduce an additional layer of uncertainty to the valuation, with the uncertainty surrounding the ultimate impact of the codifying of combining injuries being amplified by the uncertainty on how the reform measures intended to remove cost will operate in the real world. Compounding this, it is likely that another round of 'key legal cases' will emerge over time that impact on the real world implementation of the reforms.

Table 11.6 – Reform sensitivities

	OSC Impact	
	$m	%
30 Jun 22 OSC estimate (Including risk margin at 75% POS)	3,923	
Combining numbers end up between mid and high scenarios from prior valuation	+240	+6%
There is no bias in resolution of combining disputes; fewer additional SI claims result	-162	-4%
Combining SI claims have the same size as primary SI claims	+89	+2%
Reforms only cut out 10% of SI claims for a new AY, combined with an assessment rush pre 1-Jan-23 that means more claims remain covered by the current 30% SI	+300	+8%
No behaviour change as a result of reforms with no assessment rush pre 1-Jan-23	-180	-5%
Extremely rational take-up of s56A + redemptions	+133	+3%

The sensitivities indicate the high level of uncertainty around the reform allowances, in particular:

- If the number of additional Serious Injury claims due to combining is different to our allowance, then increases of $200-250m or reductions of $150-200m are plausible
- If the average size of combining Serious Injury claims is ultimately the same as for primary Serious Injury claims then the provision would increase by roughly $90m
- If there is a large behavioural change in response to reforms, impacting on the ability of the reform's transitional rules to reduce Serious Injury claims then the result could be $300m higher
- Conversely, if there is no behavioural change as a result of the reforms, then the result could up to $200m lower. We note we consider this an unlikely scenario.
- If there is extremely rational decision making among claimants in regard to s56A and medical redemption election, such that only those claimants who were financially better off were taking them, then the cost could plausibly increase by $100-150m.

11.7 Key uncertainties

There is considerable uncertainty in the projected future claim costs, in particular around how and when claims are determined to be Serious Injuries.

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

- **Reform impacts** – rather than removing the ability to combine injuries, the reforms have introduced other changes that attempt to manage the financial consequences of claimants getting higher WPI scores. As a result, the uncertainty relating to the impact of combining injuries is now compounded by the uncertainty around the success of the reforms in removing costs from other areas. This means a significant portion of the valuation is largely based on assumed outcomes, rather than being based on a reliable history which is the usual approach for undertaking actuarial estimates. While we believe our assumptions and projections are reasonable given the information available, the uncertainty is elevated compared to normal valuations.
- **Behavioural risk** – related to the above, the ultimate outcomes that emerge will directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past now that it has been made clear that combining injuries is a feature of the scheme; given the high level of legal involvement in the scheme, the risk of adverse behavioural change is high. As an example of this, we are already observing signs of claimants changing their behaviour by seeking to add more injuries to their claim.
- **Legal precedent risk** – risks here relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. Given the very high volume of open disputes, despite a number of apparently 'key cases' having resolved over recent years, this risk is also assessed as high. Until a clear and decisive legal position is established as to how the scheme should operate in practice, this risk will remain. Compounding this are that:
  - With the introduction of new legislative provisions there will inevitably be new areas of challenge to their operation
  - The real world boundaries on how and when injuries can be combined are still to be established.
- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the Serious Injury WPI threshold and those below, and even for those below the threshold small changes in the WPI score can equate to many tens of thousands of dollars in some cases. The scheme will face significant financial consequences if this leads to any form of 'WPI creep'.

  We observe that the reforms do not address the 'tail risks' that have eventuated from behaviour changes since the RTW Act commenced, and so there is a real chance that outcomes will be different to expected. Indeed, the inclusion of higher lump sum amounts in conjunction with the ability to combine injuries over time arguably creates an environment which encourages claims to delay their WPI assessments in pursuit of higher WPI scores.
- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, meaning deviations from our assumptions could therefore compound across multiple years. For the current valuation the key uncertainties (beyond reform specific uncertainties) are:
  - **Ultimate numbers of claims** – there are several areas of uncertainty in relation to Serious Injury claim numbers. These include the impact of late emerging claimants (whether due to delayed WPI assessments, late surgeries, etc) as well as the number of outstanding Serious Injury application disputes and other WPI related disputes that could see claims ultimately meet the 30% WPI threshold.

- > **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections.
- > **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. A current example is the potential increase in costs for care related specialists due to competition with the NDIS, as seen at the current valuation.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process at which much higher legal costs eventuate.
- **Hearing loss claim numbers** – there has been unprecedented growth in hearing loss claim numbers in the last few years, and the valuation basis has until recently been lagging this growth. If the upward pressure continues then further increases are likely.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results, which are low by historical standards. While employment related impacts have been less significant than originally feared they might be, there is still a higher than normal risk that the economic environment could change in adverse ways.
- **COVID-19 impacts** – while the impacts on claim outcomes to date have been modest, there is still uncertainty about how COVID-19 will impact over time. If the health and/or economic situation changes for any reason, for example if there is an unexpected spike in infections linked to the workplace, this could potentially lead to material disruption to claim outcomes.

As context to our remarks above, it is important to remember that on current reporting patterns it takes around eight years for most Serious Injury claims to be identified – as such, in assessing the potential uncertainties that impact on current liability assessments it is necessary to consider not just currently occurring behaviours, but also what is likely to occur over (say) the next decade.

As demonstrated by outcomes in the last year, there are still key areas of the RTW Act that are being tested in the courts, even though the RTW Act provisions commenced seven years ago. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience will differ materially from our current expectations.

12 Reliances and limitations

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

12.1 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.

An important additional information source for this valuation was the guidance and input from ReturnToWorkSA's internal subject matter experts and legal advisors who helped us to try and estimate the likely impacts of the implementation of the reforms.

12.2 Uncertainty

12.2.1 Impact of Reform

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the *Return to Work (Scheme Sustainability) Amendment Bill 2022*. These amendments make very significant changes to the Scheme and there is only very limited direct information that can be used to estimate its impacts.

Consequently there are significant uncertainties in our work, and it is possible that outcomes could be materially different to those noted above. The uncertainty in this instance is heightened by the combination of the proposed legislative changes, which are expected to have significant impacts on the Scheme experience, and the recent confirmation that 'combining injuries' is an ongoing part of the Scheme's operations. Interpretation of trends and extrapolation of claims experience therefore become even more difficult, and we have prepared our estimates on the basis that they represent reasonable projections of the possible future experience of the Scheme.

A key uncertainty in determining the ultimate financial impacts of the reforms will be how significant, or not, behavioural changes are. As observed in the body of our report, South Australia's workers compensation system is regarded as being relatively litigious, and we have seen past examples of claimants changing behaviour in response to a change.

An important area that we have not been able to consider as yet (as there is no information available) is how the reforms will change the way Impairment Assessment Guidelines operate. These Guidelines are a crucial feature of how the Scheme works in practice given the legislative design's reliance on WPI assessments. If changes are made to the Guidelines that impact on WPI scores then the financial outcomes could be very significant.

12.2.2 Emergence of key legal precedent

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

There continues to be an unusually high number of cases on appeal to the Supreme Court and until these cases are resolved (and resolved with clarity around the operational implementation of the relevant provisions) there will be uncertainty as to the financial costs which eventuate under the RTW Act benefit package.

12.2.3 COVID-19 impacts

The uncertainty at this valuation is heightened by the known and potential future impacts of COVID-19 and its associated lockdowns. Considerable uncertainty remains around the potential impacts over the next few years, and potentially even longer. The actual impacts of COVID-19 on claim outcomes may be materially different from what we have assumed.

12.2.4 Other uncertainty

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

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

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

The uncertainty at the current valuation is heightened by the ongoing legal challenges. While key features of the RTW Act came into effect back in July 2015, legal testing of its implementation is still occurring and is likely to take number of years to complete, as noted above.

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

12.3 Latent claims

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

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

12.4 Reinsurance

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

12.5 Limitations on use

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 2. At ReturnToWorkSA's request, we consent to the release of this report to the public, subject to the reliances and limitations noted in the report.

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

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

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

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

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

13 Scheme history

This section summarises the key events and changes in the scheme since major reforms in 2007.

2007-08

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

2008-09

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

2009-10

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

2010-11

- Bonus/Penalty scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

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

2014-15

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

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

- A tighter link between employment and injury before compensation is available.
- For Seriously Injured workers: ongoing benefits, reduced emphasis on RTW, access to common law benefits for economic loss.
- Introduction of boundaries on claim duration for 'non-serious injuries': 104 weeks for weekly benefits and 52 weeks thereafter for medical costs.
- New lump sum payment for loss of future earning capacity for non-serious injuries with WPI of 5% or more.

A number of **Regulations** in June 2015 impacted on the operation of the RTW Act. The changes related to pre-1 July 2015 injuries and allow:

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

2015-16

The premium system was changed so that nearly all employers were subject to experience rating, but under a new and much simpler system.

2021-22

The ***Return to Work (Scheme Sustainability) Amendment Bill 2022*** was passed in July 2022, with major changes to the scheme and claimant entitlements. Key provisions take effect from 1 January 2023 and are retrospective.

The key changes relate to:

- Codifying the 'combining' of injuries for assessment of WPI, which is used to determine lump sum entitlements and serious injury eligibility
- Increasing the serious injury threshold to 35% WPI for physical injuries
- Revising the WPI scale for lump sum benefits to align to the increase of the serious injury threshold (by specifying the scale between 30 and 34% WPI)
- Allow seriously injured workers to elect to receive an economic loss lump sum (as per the economic loss lump sum scale) instead of ongoing income support entitlements
- Allow seriously injured workers to negotiate a settlement of their medical entitlements as a redemption
- Remove the concept of 'once and for all' impairment assessments with allowance for additional injuries to be assessed if they occur after an earlier impairment assessment is completed. These additional injuries cannot be combined with the earlier assessment and will be assessed individually.