COMPAS

WORKERS COMPENSATION AND OH&S COMMENTARY

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In this Issue:-

The spin is in

Over the past few years, most reports about the NSW workers compensation system have been favourable, but then most reports have come from Government sources.
The scheme is fully funded. Benefits levels are the most generous they have ever been. Numbers of disputes are the lowest they have ever been. All this has been achieved whilst at the same time saving NSW employers massive amounts in premiums………. Or so we are told.

On premium savings

On 2nd of December 2008, Mr Frank Terenzini MLA, Labour, Maitland, made a statement to the Lower House about workers compensation premium savings. According to Mr Terenzini[1], "since November 2005 the Government has announced an average reduction in the target premium collection rate of 30 per cent—a $785 million a year saving to the State's businesses".

Whether Mr Terenzini was the original architect of the claim is uncertain, but it was repeated and elaborated on by NSW WorkCover Authority Minister Joe Tripodi in a press release dated 3.12.08. When referring to savings a change in the way that premiums may now be computed, he said "This will be on top of the average 30 per cent reduction in premiums since November 2005, which has saved the State's businesses $785 million a year.

Are we meant to infer from the statements made by the Minster and the Member for Maitland that savings of $785 million in premiums have been made each year since 2005? Or is there a hidden meaning in the wording? Certainly the claims of premium savings bear closer examination.

The NSW WorkCover Authority (WCA) Annual Report 2004/2005 makes no mention of premium savings. It does however report that the net earned premium for FY 2004/2005 was $2,703 million; up from $2,104 million in FY 2003/2004. No savings here.

The WCA Annual Report FY 2005/2006 page 8 states that "NSW employers benefited from a total of 15 per cent reduction in premium rates announced by the Premier since June 2005. This represents a saving of $430 million per annum to employers in NSW". This statement seems to infer that NSW businesses saved $430 million in premiums in financial year 2005.

The net earned premium in FY 2005/2006, according to the Annual Report was $2,925 Million (a $222 million increase over the $2,703 million in FY 2004/2005). No savings here either.

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[1] Hansard, 2.12.2008. Page 12311

The spin is in on premium reductions

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We found researching this article most confusing.

The only data relating to workers compensation premiums is held very tightly by the Government.

We are forced to rely on what can be gleaned from the public record—which is mainly found in the WCA Annual Reports.

We have placed a deal of trust in these as they have been subject to audit and have been presented to the Parliament.

In the premium comparisons from year to year we have used the reported net earned premiums (NEP). We have been advised by industry sources that NEP is the most meaningful and relevant figure to use.

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The WCA Annual Report FY 2006/2007 sheds a little more light on what might actually be going on. On page 24 of the Report, is this statement:

"Following the release of the June 2007 Scheme valuation in October 2007, the Government announced an average 5 per cent reduction in workers compensation premium target collection rate for policies commencing on or after 31 December 2007. The reduction applies to all WorkCover Industry Classification rates."

"This will be the fifth premium rate reduction since December 2005 and equates to an average 30 per cent reduction in premium rates over the last 24 months. Combined, these reductions **will** [*sic*] result in savings to New South Wales employers of $785 million per year."

Net earned premium for the year was $2,520 million (a $405 million reduction from the $2,925 million in 2005/2006).

Confused❶? So are we. It now seems that the $785 million premium savings a year will not fully emerge until December 2008 as the final 5% rate cut did not come into effect until 1 January 2008.

But wait, there is even more!

We are told by a smiling CEO John Blackwell, in his forward to the WCA FY 2007/2008 Annual Report (page 6), that some of the ways in which WorkCover has made a difference include a further workers compensation premium rate reduction of 10 per cent resulting in savings to the NSW economy of $225 million per annum.

However, in the Financial Statements section of the Report, net earned premium for 2007/2008 is reported to be $2,439 million a reduction of $81 million on the $2,520 million reported in 2006/2007.

In summary, the net earned premium in FY 2005 was $2,925 million, in FY 2008 it is $2,439 million (down by $486 million). In FY 2006, we were told that we had saved $430 million. In FY 2007 we were told that we WILL save $785 million a year going forward. Finally, in FY 2008 we have just been told that we saved $225 million.

And now for some more facts?

We have been given access to copies of the WCA actuary's scheme valuation reports for 2006 and 2007 (we are waiting for access to the 2008 report), and don't these make interesting reading.

For example, according to the 2006 report the average NSW real wages growth between 1994 and 1999 was in the order of 4.5% (wages growth equates to increases in premium collections which can then offset increases in benefits paid due to wages inflation and indexation). In 2000 and 2001 real wages growth (for workers compensation premium purposes) slumped to 1.2% and 1% respectively.

One of the reasons given for the slump was the exit from the scheme by some large employers such as Woolworths, Coles and Local Government employers.

The outstanding claims which have been incurred by these employers before their exit, are retained in the scheme (i.e. those employers remaining in the scheme may be required to pay for them). This has had a significant impact on the size and future risk profile of the scheme.

The spin is in on premium reductions

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Begs the question: Would the change in the wages definition have been necessary if not for the exit of high profile employers?

We note here the inconsistency of approach by the Government. In 2008 the then Premier Iemma allowed the Hotels Industry to form its own specialised insurance company and exit the scheme, but then closed the gate to any further exists by specialised insurers. Interestingly this move was supported by the Greens who allowed it to pass.

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In 2003/04 there was a sharp increase (12.1%) in wages which was due in the main to Governmental changes broadening the wages definition by bringing in superannuation contributions, long service leave and fringe benefits❶.

The 2007 valuation report contains a table which compares the breakeven rate (average premium rate required to fund the scheme, includes all costs) and the collected rate. The table shows that between 1991/92 and 2000/01 the collected rate fell short of the breakeven rate, explaining why the scheme built up such a large deficit. Since 2001 the collected rate has exceeded the breakeven rate and in each year the scheme has recorded an underwriting surplus according to the valuation report.

The accumulated surplus of ultimate premium over ultimate incurred costs over the seven years from 2001 to 2008 in in the order of $5.624 billion. This is a massive premium over collection and perhaps the real reason why rates had to go down and some relief be given to NSW employers.

Year	Ultimate Premium $'000
2000/01	2,208,850
2001/02	2,239,870
2002/03	2,263,876
2003/04	2,541,776
2004/05	2,710,437
2005/06	2,711,598
2006/07	2,477,404
2007/08	2,354,960

As for the claims by our politicians and bureaucrats that premiums have reduced by $785 million, the table on the right shows the ultimate premiums since 2000/01 according to the 2007 actuarial valuation report. No $785 million a year here.

Perhaps the savings are "virtual" savings and would have emerged had the wages growth in NSW been static. The table below shows wages as at 2004/05 applied to collected workers compensation rates up to 2007/08. No $785 million a year here either.

Year	Collected Rate %	Wages $'000 (2005)	Premium $'000	Savings on previous year $'000
04/05	2.65	102,300,952	2,710,437	N/A
05/06	2.51	102,300,952	2,567,753	142,684
06/07	2.09	102,300,952	2,138,089	429,664
07/08	1.86	102,300,952	1,902,797	235,292

Then of course there is the Target Premium rate set by WCA, that is used in the Insurance Premiums Orders and applied to all employers. To date, the target rate and collected rate have been inconsistent. The table below shows the target rate since 2005 applied to wages by year of payment.
No $785 Million here either.

Year	Target Rate %	Wages $'000	Premium $'000	Savings on previous year $'000
04/05	2.57	102,300,952	2,629,134	N/A
05/06	2.57/2.44*	107,905,498	2,703,032	(73,898)
06/07	2.17/1.99#	118,327,786	2,461,217	241,815
07/08	1.86	126,610,731	2,354,959	106,258

* Averaged to 2.505%: # Averaged to 2.08%

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The spin is in on premium reductions

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"A cover up is merely a responsible decision exercised in the National interest to prevent unnecessary disclosure of eminently justifiable procedures in which untimely revelation would severely impair public confidence."

Sir Humphrey Appleby's Diary 7.2.87.

(Continued from page 3)

This humble risk management consultant has not discussed the claims of savings made with either Minister Tripodi, the bureaucrats, the actuaries or the WCA so it is more than likely that the information in the tables "has been taken out of context" and there will be a reason why there are savings of $785 million. We just can't see where.

The net earned premiums reported by WCA in its Annual Reports show a reduction of $486 million when comparing FY 2008 with FY 2005, this well short of the $785 million claimed by Minister Tripodi and the Member for Maitland (but maybe they did mean sometime in the future).

Who knows what the real savings are, if indeed there are any❶. According to most employers, NSW premiums are still too high with many medium to large employers paying very significant extra premiums due to their claims. In comparison with Victorian or Queensland, NSW employers certainly pay much more.

Future Premium increases? — the risk is high

As the economic downturn bites in NSW, the collected premium rate is likely to mirror the breakeven rate or in extreme circumstances fall below it. This is due to an anticipated fall in total wages paid in NSW combined with the expected increase in both the severity and frequency of claims which an economic downturn typically heralds.

In 2006, the WCA actuaries advised that the scheme liabilities had reduced by $991 million on its previous valuation. This was due in the main to changes in expected investment performance and changes to claims related expenses' assumptions. The reduction was reflected in the underwriting result for the year declared by the WCA and valued the claims liability at $8.179 billion.

The table below shows the WCA underwriting results as reported in respective Annual Reports. As can be seen, 2006 was an exceptional result which if it were reported by a private insurer, would be warmly welcomed by the market.

Year	1995	1996	1997	1998	1999
Underwriting Result $m	(593,640)	(759,603)	(952,958)	(1,165,783	(166,868)
Year	2000	2001	2002	2003	2004
Underwriting Result $m	(390,370)	(1,359,335)	222,231	(37,057)	138,724
Year	2005	2006	2007	2008	2009
Underwriting Result $m	(181,066)	2,109,601	32,926	351,827	N/A

Herein lies a dilemma, WCA is not a private insurer and the premiums it collects to pay claims and other expenses are akin to public monies. Most employers would expect WCA to run a small surplus/deficit in its underwriting results from year to year.

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The spin is in on premium reductions

However, the massive variations in results would suggest that the WCA may have either mismanaged employers' funds or taken poor advice.

It was widely suspected by industry observers that the scheme's underwriting result improved dramatically following the 2001 reforms and that there was ample opportunity to reflect the improvement much earlier i.e. in 2003. The 2006 result which was largely due to changes in actuarial assumptions goes some way to proving that industry observers are often right.

The 2007 actuarial valuation marginally increased the scheme's outstanding claims liability to $8.306 billion (central estimate), however it cited an increase in forward rates as a reason for the a reduction in claims liabilities❶. The scheme surplus in 2007 was estimated at $812 million. In the WCA 2008 Annual Report the surplus has been eroded to $625 million, we are not told the reasons for the increases in claims liabilities which have caused the erosion but suspect that they may be due to falling expected rates of investment return.

In 2007, the yearly spot rates derived from the yield curve forecast a minimum of 6.5% through to 2010. With current interest rates at 3.25% and further reductions possible, no doubt an upwards re-estimation of the scheme liabilities will be forthcoming and NSW employers can look to a complete erosion of the surplus and once again, a fall into deficit.

There is very strong evidence that the scheme has already fallen into deficit from the Government's own numbers. According to the WCA 2008 Annual Report, total scheme assets as at 30 June 2008 stood at $14,612 million, 33% of which is held in equities (i.e. $4,822million). Equities have generally been devalued by 30% (i.e. a loss of $1,446 million). Claims liabilities stood at $9,994 million but included a discount for investments of 6% over an average claims duration rate of approximately 4 years (i.e. $600 million over 4 years or $2,400 million). This discount rate has now been effectively cut in half. Add in scheme management costs such as agent fees WCA and other administrative charges and the scheme is already in deficit by at least $400 million and growing by the day.

Any deficit is likely to be increased throughout 2009/2010 by falls in premium collections and rises in claims experience brought about by the economic situation.

The big question for Minister Tripodi and the WorkCover Authority Board is what are their plans to manage this situation, if any?

Do they intend to increase premium rates to a level where the scheme remains fully funded? Do they intend to slash benefits to injured workers to contain claims liabilities? Or do they intend to undo all the hard work done by the previous Minister Della Bosca in eliminating the deficit and saddle future NSW employers with a massive workers compensation debt?

We have heard nothing from the Government or WCA about their plans and strongly suspect that they have not yet recognized that there is a big a problem. At the time of publication, the Minister's office was still maintaining that the scheme is in surplus to the tune of $625 million, which is the result as at 30 June 2008.

The December 2008 valuation report will be available shortly, look out for some more spin!

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The estimates of outstanding claims include estimates that are discounted with allowance for future investment return. The rates of investment return are the market price of risk-less fixed interest securities. According to the 2007 actuarial valuation report the forward rates were derived from a yield curve fitted to the actual yields on Commonwealth Government bonds as at 30 June 2007.

The spin is in on the generosity of benefits

NOTES

❶ "The Workers Compensation Legislation Amendment (Benefits) Bill 2008 reflects the Government's continued commitment to ensuring the New South Wales workers compensation scheme provides comprehensive and generous compensation packages to the families of workers who die as a result of workplace injury".

Mr Joe Tripodi Minister for Finance, Minister for Infrastructure, Minister for Regulatory Reform, and Minister for Ports and Waterways, Hansard 26.11.2008, page 11866.

❷ "WorkCover's increased focus on providing practical advice and assistance has helped reduce workplace injuries to their lowest levels in the last two decades, and work-related fatalities have almost halved in that time," Mr Tripodi said. Press release 29.10.2008.

On benefits for the dependants of workers who die as a result of work

In December 2008, NSW workers compensation legislation was amended to increase the lump sum payable to dependants of workers who were killed at work. The new benefit of $425,000 is a 23% increase on the previous level and will obviously be welcomed but is it as generous an increase as we are lead to believe?❶

According to the NSW WCA 2006/2007 Statistical Bulletin (latest available statistics) there have been 1,417 employment related fatalities in the ten years to 2007. At the time of COMPAS publication (February 2009) there is no data available which identifies how many NSW workers died in FY 2007/2008, which is a damning comment in itself.

It is hard to understand why by January 2009, NSW WCA can't provide statistical data on workers killed in FY 2007/2008.

The Victorian Worksafe Annual Report (published in October 2008) identifies 16 employment related deaths in 2007/2008 down from 32 in 2006/2007.

The 2006/2007 NSW Bulletin reports that work related fatalities have occurred as shown in the attached chart. It is difficult to accept that NSW is performing well in comparison with Victoria or against its own history, even though we are led to believe a different story❷.

Year	Number of deaths
1987/88	209
1988/89	244
1989/90	210
1990/91	233
1991/92	177
1992/93	156
1993/94	185
1994/95	177
1995/96	181
1996/97	173
1997/98	181
1998/99	163
1999/00	181
2000/01	139
2001/02	177
2002/03	136
2003/04	132
2004/05	125
2005/06	146
2006/07	137

When the WorkCover scheme commenced in 1987, the death benefit was $80,000 indexed bi annually. Over the last two decades the benefit has crept up to $343,550.

A totally incapacitated injured worker is entitled to weekly benefits until his fitness status changes or he retires. After the first 26 weeks of incapacity the weekly benefit is the statutory rate currently $381.40 (indexed bi annually).

If invested at the current generally available rate of interest (3.25%) the new death benefit would generate a weekly income of $265.62 per week. The 2008 June quarter poverty line for a single person (includes housing) is $380.28.

As at 30 June 2008, the WorkCover scheme was $625 million in surplus and fully funded (so we are told). Increasing the death benefit to $500,000 would generate an income of $312.50 per week and cost the scheme an extra $10.65 million or 1.5% of the scheme surplus (based on the ten year average number of deaths, 142).

Surely it would make better sense to provide all dependants with an indexed weekly benefit rather than a lump sum, after all the benefit system is now almost fully pension based?

We haven't explored the theatre of individual hardship brought about by the loss of a breadwinner, but consider this; how would your loved ones cope on $425,000 if you didn't return home from work ever again?

On Workers Compensation Commission and disputes

The Workers Compensation Commission (WCC) was established on 1 January 2002 by the Workers Compensation Legislation Amendment Act 2001. The WorkCover Authority is responsible for funding the WCC and has to provide it with facilities and any additional staff that may be necessary.

The WCC replaced the Workers Compensation Resolution Service❶ which was the administrative responsibility of the Department of Industrial Relations, and the Compensation Court which was the administrative responsibility of the Attorney General's Department. The Compensation Court Repeal Act 2002 abolished the Compensation Court from 1 January 2004 and transferred the Court's jurisdiction to the WCC.

On page 25 of the WCA FY 2008 Annual Report under the heading "An Effective Dispute System" we are told "*The evaluation also found that there was a 22 per cent reduction in general disputes, a 34 per cent reduction in arbitral appeals and an 11 per cent reduction in medical appeals*". There is no reference to who conducted the evaluation nor what were its terms of reference other than a vague "*An evaluation of the impact of the 2006 reforms has commenced and is reviewing the implementation of the changes by Scheme Agents, self and specialised insurers.*"

In 2002 the WCC published its first Annual Review. This was a brief explanation of the functions and mission of the WCC together with some basic statistics of its work. In the first review, the WCC reported that "over 8,000❷ applications were made to the Commission in 2002, rising steadily from about 340 for the month in January to slightly more than 900 for the month in December." In FY 2002 there were 54,674 serious claims reported in the 2002 WCA Statistical Bulletin.

Now before we introduce confusion, it must be pointed out that the WCC reports on a calendar year whereas the WCA Statistical Bulletin reports on a financial year. The following table is a compilation of successive statistics from both publications. Please read into this what you will.

Fin Year/Cal Year	# Disputes	# Serious Claims	Disputes as % of Claims
2002	3,371 (>8,000)	54,674	6.16% (14.6%)
2003	9,282	51,000	18.2%
2004	13,142	51,551	25.49%
2005	12,761	49,749	25.65%
2006	10,435	44,013	23.7%
2007	8,175 (10,577)	41,231	19.82% (25.65%)
2008	*10,000+?*	*40,000+?*	*25%+?*

(Continued on page 8)

The spin is in on the WCC and disputes

NOTES

❶
"The Concorde Excuse: It was a worthwhile experiment now abandoned but not before it provided much valuable data and considerable employment." Sir Humphrey Appleby 14.3.87.

Also refer COMPAS March 2005, page 4 for background information on the WCRS. Retrievable from www.risknet.com.au

❷
For clarity's sake, note that in the 2003 WCC Annual Review, in a comparison with numbers of disputes registered in the previous year, it is stated that there were 3,371 in 2002 not "over 8,000".

Also note that WCC has changed the way in which it reports on its work. In the 2007 Annual Review, the term "lodgements" has been introduced which identifies each type of lodgement. In previous Reviews the term Application to Resolve a Dispute was used. The statistics on the total number of reported lodgements in 2007 are in parentheses.

The spin is in on the WCC and disputes

NOTES

❶ "The Civil Service merely exists to implement legislation that is enacted by Parliament. So long as Parliament continues to legislate for more control over people's lives, the Civil Service must grow." Sir Humphrey Appleby's Diary 25.5.87.

❷ Approved Medical Specialists. Since 2006 all disputes over degree of impairment are referred to an AMS.

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Section 367 of the Workplace Injury Management and Workers Compensation Act deals with the objectives of the Commission. S.367 (1)(b) states that the Commission has the objective of reducing administrative costs across the workers compensation system.

A major issue related to the operation of the WCC not referred to by our politicians or WCA bureaucrats is its running costs. Surely one would expect that if the activity is shrinking as we have been told, then running costs should also drop❶.

The table on the right shows the grants (contributions) to the WCC as reported in the respective WCA Annual Reports. As can be seen the WCC income is relatively stable from 2005.

Also relatively stable are personnel related expenses as the chart on the left shows (the WCC only commenced its own financial reporting in 2005 in the WCA Annual Report) .

WCC Personnel costs	
Year	**$'000**
2005	11,529
2006	10,388
2007	10,780
2008	11,389

WCC Grants	
Year	**$'000**
2002	4,359
2003	13,165
2004	23,303
2005	32,656
2007	28,488
2008	31,962

What has changed however is payments to the main disputes' resolution professionals. A trend towards lessening costs has been reversed. The following chart shows the payment history.

WCC Payment History by Resolution Professional Group				
Payments to	**2005 $'000**	**2006 $'000**	**2007 $'000**	**2008 $'000**
Arbitrators	8,757	7,651	6,123	7,833
AMS❷	6,283	4,840	4,329	6,019
Medical Panels	0	1,043	1,189	812
Mediators	0	191	250	828
Total	15,040	13,725	11,891	15,492

Payments to both arbitrators and AMSs have both increased in 2008 and this either a reflection of a greater workload or an increase in unit service costs. If it is due to a "price for services" increase then there should be a productivity offset, of this there is no mention.

If the increase is due to an increased workload, then why are we told that there has been a 22% reduction in general disputes and a 34% reduction in arbitral disputes?

The spin is in on the scheme surplus

NOTES

❶ The 2001 scheme reforms had a significant impact on claims payments within the scheme.

There have been other changes to the scheme following 2001 which have further reduced payments.

Actuaries are reluctant to recognise change until there has been time for a full reflection of the impact.

On WorkCover being fully funded and in surplus to the tune of $625 million.

We must first turn to the pages of successive WCA Annual Reports to glean information about the performance of the scheme's funds.

As at 30 June 2000, the WorkCover scheme Statutory Funds had assets of $6.317319 billion and liabilities of $7.956116 billion, i.e. an accumulated deficit of $1.638797 billion according to the WCA 1999/2000 Annual Report (page 75). The insurance underwriting result for the year was a loss of $390,370,000.

What is of greater interest however is the value of outstanding claims as assessed by the WCA Actuaries. In FY 1999, according to the then actuaries, the outstanding claims liability was $6.760 billion. Two years later the outstanding liability had blown out to $8.284 billion.

In 2002 WCA appointed another firm of actuaries, who estimated the outstanding claims to be $7.632 billion❶.

This table shows the movement in the value of outstanding claims, underwriting result, total asset values and accumulated deficits over the past decade as reported in the respective WCA Annual Reports.

As at 30 June	Outstanding claims value $m	Underwriting result $	Total Asset value $m	Accumulated deficit surplus $m
1999	6,760	(166,868)	5,918	(1,636)
2000	7,123	(390,370)	6,317	(1,638)
2001	8,284	(1,359,335)	6,443	(2,756)
2002	7,632	222,231	5,765	(2,801)
2003	7,537	(37,057)	5,673	(2,982)
2004	7,586	138,724	6,245	(2,353)
2005	8,986	(181,066)	8,186	(1,998)
2006	8,424	2,109,601,000	10,718	85.13
2007	9,385	32,926,000	12,498	812,481
2008	9,994	351,827,000	14,612	625,238

Note the 2006 underwriting result, because this where we began to become confused. According to the actuarial valuation report for 2006 and 2007, claims incurred for the half year to June 2006 were $159 million (sections 22.4).

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The Spin is in on the scheme surplus

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❶ It is a common practice for an insurer to revalue provisions for outstanding claims particularly in insurance classes which have long drawn out payment periods. Most often these revaluations are necessary because of changes in investment rates or disposition, changes in payments' expectations because of legislative change or observed changes in payment patterns.

Any revaluations are generally reflected in the underwriting result.

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The table below right shows the claims incurred values as reported in the 2007 actuarial valuation (risk free investment return basis and excluding external factors). Note that policy year ending 2006 has an incurred claims value of $822 million ($663 plus $159).

1/2 Year Ending	Claims Incurred $m
Dec 03	1,407
June 04	919
Dec 04	879
June 05	847
Dec 05	663
June 06	159
Dec 06	832
June 07	973

In the 2006 valuation report a table has been provided which models payments per claim incurred assuming certain levels of superimposed inflation. The table shows that the average claims size for 2006 claims net of recoveries is $19,378.

The 2006 report also contains a table showing the total estimated number of claims incurred by accident year. The number in 2005/06 is estimated at 93,600. A simple multiplication of the average claims size and number of claims should give an estimate of the expected claims costs for policy year ending June 2006 — this is $1,813,780,800.

It is now fairly obvious that the favourable claims result for 2006 is in the main due to an actuarial change in assumptions and not a reflection of the actual 2006 claims experience. (It should be noted that this is an acceptable insurance industry accounting practice❶.)

In the same section of the 2007 valuation report is the comment "There has been a surplus from underwriting operations in the last six months to June 2007 largely due to improvements in claims experience. Since the 2001 reforms the Managed Fund/ Nominal Insurer has achieved an underwriting surplus in all but one half year."

Most observers would have to accept, prima facie, that the scheme is in surplus because the overwhelming public evidence says that it is. But, is the surplus due to consistent, recent over-collection of premiums? Is it due to changes to benefits brought about in 2001? Is it due to changes in actuarial assumptions? Is it due to extraordinary investment returns? Or is it due to the change in the nature of the workforce? If, as we suspect, the complexion of the scheme has changed considerably and investment returns, premium collections and claims liabilities have all recently changed, then there may no longer be any surplus.

In the 2006 valuation report the actuaries estimated that there had been an overall reduction in scheme liabilities of $723.4 million due to changes in actuarial assumptions. At that time the surplus was $85 million.

In the 2007 report the actuaries state that the net outstanding claims liabilities have been effected by new experience and changes in actuarial assumptions which have decreased the liability by $34 million. The surplus was estimated at $812 million.

The FY 2007/2008 WCA Annual Report states that the surplus has now dropped to $625 million but given the state of the world and local economies, it is almost certain that the surplus has now already become a deficit (see page 5, paragraph 5).

While we wait with baited breath for the 2008 valuation report, let us all pray that the actuarial assumptions on which scheme's position are based are in fact valid and expect to see a strengthening of actuarial assumptions with a significant revaluation of liabilities and assets.

Agent remuneration - employers get what WorkCover is prepared to pay for!

It has always been a source of concern that the agents NSW WCA appoints to manage the workers compensation scheme are not accountable to those who are forced to utilise their services (employers and injured workers). Ever since the managed fund scheme commenced in 1987, insurers have taken none of the risk and have been paid for their services, most recently using an outcome related remuneration structure. There are significant performance discrepancies between the six agents and yet there are no published data to guide employers on the choice of agent which best suits their needs. In contrast, the Victorian WorkCover Authority (VWA) publishes extensive information to inform employers and the public on aspects of the performance of the VWA's agents. Included is data on agents which the VWA uses to assess the performance of its agents for remuneration purposes and for general performance management.

The VWA invites input from both employers and injured workers on their satisfaction with the agents' performance; the performance management process is transparent and can result in sanctions for those agents which do not meet various benchmarks. The 2008 VWA Annual Report lists two agents which both incurred remuneration reductions (totalling $866,000) because they failed to meet certain requirements.

NSW WCA has consistently underpaid its agents in the belief that cutting administration costs means costs savings. NSW agents' remuneration has typically been in the order of 9% of claims costs, although recently this has been increased to 11%. In net earned premium terms, agent remuneration in 2008 equated to 12.45% and in 2007, 12.18%. Private insurers who take the insurance risk and have a bottom line incentive to minimise claims costs do not scrimp on properly resourcing their claims departments and commit up to 30% of premiums to administration❶.

If the NSW WCA continues to pay its agents less than half of what is required to do the job properly and continues to exclude employers from the contract process❷, scheme costs will tend to escalate over and above the values which would be achieved in a privately insured system. Speaking of the contractual process, the current agent contracts expired on 31.12.2008. To date the WCA has not finalised any of the contract negotiations and the market does not expect the process to be completed until at least June 2009, some six months after the allotted timeframe.

Interestingly, Minister Tripodi in his Chief Executive Performance Statement for John Blackwell, WCA CEO, has cited Mr Blackwell's commencing the tender process for the 2009 – 2013 Agent contracts as a highlight of his performance. This was as at 30.6.2008, now some 7 months ago and with the contracts not still renewed. Mr Blackwell's salary package, paid for by employers premiums was at the time $313,277.

Equally interesting is Mr Blackwell's Performance Statement for Rob Thompson, GM Workers Compensation Division, where he cites Mr Thompson commencing and managing the tender process for the 2009 – 2013 Agent contracts as a performance highlight. Mr Thompson's salary package, paid for by employers premiums was at the time $253,500.

The other big question Minister Tripodi must surely answer is "what does accountability mean in WorkCover? Because it is certainly seems to have a different meaning in other places. Perhaps it's time for some more spin!

The Spin is in on agent remuneration

NOTES

❶
The consequences of this chronic under-funding are a dumbed down management of the scheme with little innovation or investment in new systems or personnel training by insurers.

Some of the results of the underfunding are increased claims costs, incorrectly rated insurance policies, indecipherable policy and claims documentation and interminable waits in phone queues.

❷
We have never been able to understand why the various employer representative groups have not vigorously and publicly sought to have an input into which insurer/ agent is appointed.

Perhaps now is the time for a campaign for more transparency to be mounted.

It is also time for agents' performance to be published.