

Appendix 2

Financial evaluation of the 2001 NSW Workers Compensation systems reforms for the WorkCover Scheme

from Tillinghast-Towers Perrin

Financial evaluation of the 2001 NSW Workers Compensation systems reforms for the WorkCover Scheme

WorkCover New South Wales, 400 Kent Street, Sydney 2000. Tel: 9370 5000 Fax: 9370 5999 ALL MAIL TO G.P.O. BOX 5364 SYDNEY 2001



Reverend the Hon. F.J. Nile, M.L.C. E.D. L.Th.
Chairman, General Purpose Standing Committee No. 1
Legislative Council, Parliament House, Macquarie Street
SYDNEY NSW 2000

14 JAN 2002

Dear Reverend Nile,

The Minister has asked me to provide you with the attached **final** report on the Financial Evaluation of the 2001 Workers Compensation System Reforms, for inclusion in the Committee's pending 2nd interim report.

Tillinghast-Towers Perrin has indicated that there have been significant changes from the 26 November 2001 draft evaluation report, which should be withdrawn forthwith.

Under the circumstances, I would be grateful if you would consider the draft evaluation report withdrawn, and not suitable for inclusion in the Committee's 2nd interim report.

Yours sincerely


Kate McKenzie
General Manager

Legislative Council
GENERAL PURPOSE
STANDING COMMITTEES
14 JAN 2002
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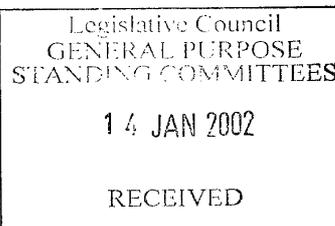
Level 17, MLC Centre
 19-29 Martin Place
 Sydney NSW 2000
 GPO Box 3279
 Sydney NSW 2001
 Tel: (02) 9229 5555
 Fax: (02) 9229 5566
 Fax: (02) 9229 5588

Management Consultants
 and Actuaries

Tillinghast - Towers Perrin

14 January 2002

Mr Rod McInnes
 Assistant General Manager
 WorkCover Authority of NSW
 Level 11
 400 Kent Street
 SYDNEY NSW 2000



Dear Rod

Please find enclosed our final report on the effect of the 2001 legislative reforms on the financial position of the WorkCover Scheme.

There have been significant changes from our 26 November 2001 draft report. After the Further Amendment Act was passed (in December 2001), a number of regulations and guidelines were developed, finalised and issued. These include provisional liability guidelines, the rules and start dates for the Workers Compensation Commission and the legal cost regulations.

The legal fee basis for dispute resolution was also negotiated and finalised after 26 November 2001. This has altered our costings. After discussions with WorkCover and the Motor Accidents Authority, we have also allowed for a marginal improvement in claims costs due to better return to work outcomes. The final report also includes analysis by accident year and an assessment of the impact on the Scheme deficit.

These issues have been more clearly resolved since our draft report of 26 November 2001 and the draft report should be withdrawn forthwith. This report also supersedes any previous advice to the Parliamentary Standing Committee. Also note, our 7 January 2002 letter in regards to actuarial projections of funding scenarios for the Scheme refers to our 26 November 2001 draft report; this should now be considered to refer to this report.

Please do not hesitate to call me if you need further clarification of any aspects of the report.

Yours sincerely



Dave Finnis

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Towers, Perrin, Forster & Crosby, Inc. ARBN 002 551 019 is incorporated in USA and has limited liability

WorkCover Authority of NSW

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WorkCover Authority of NSW

**Financial Evaluation of the 2001
NSW Workers' Compensation
System Reforms for the
WorkCover Scheme**

14 January 2002

Dave Finnis, FIA FIAA
Sally Wijesundera

Table of Contents - Issues Paper

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1 EXECUTIVE SUMMARY

The WorkCover Authority of NSW ('WorkCover') and the NSW Government have developed a package of reforms intended to improve the NSW Workers Compensation Scheme ('the Scheme') efficiency and increase savings while providing a higher proportion of the Scheme cost as benefits to injured workers. The initiatives include:

- restructuring the dispute resolution system to include a greater focus on dispute prevention and processing efficiency;
- reducing the number of disputes by improving and updating injury definitions;
- changing the common law claims handling process, access and scope of damages;
- providing a higher proportion of the Scheme cost as benefits to injured workers;
- restricting the use of commutations.

This package of reforms has been given effect by:

- the Workers' Compensation Legislation Amendment Act 2001 (No. 2);
 - the Workers' Compensation Legislation Further Amendment Act 2001;
 - regulations and guidelines under the provisions of these Acts.
- WorkCover engaged Tillinghast - Towers Perrin ('Tillinghast') to estimate the savings to the financial impacts of the intended effects of the reforms.

The purpose of this report is to summarise Tillinghast's analysis of these financial impacts and to update earlier analysis to incorporate the legislation, regulations and guidelines as commenced on 1 January 2002. This report is the culmination and summary of analysis and modelling progressively undertaken over the past 12 months as part of this reform process.

The primary approach used was to model the existing and proposed arrangements on a year's worth of claims recently settled or finalised. The advantage of this approach is that it is relatively straight forward to establish and forms a firm basis for modelling alternative scenarios (ie, the numbers of claims settled, their type, nature, duration etc. and amounts paid are known). This approach will provide the expected financial impact on claim payments in current dollar terms assuming the reforms apply to all relevant processes and payments on claims settled in a recent year. A settlement year basis is also

consistent with the previous approach to measuring outcomes of dispute resolution (ie, the original basis for the reform package) in the Trowbridge report¹, but not necessarily directly applicable to providing the impact on the Scheme deficit or on future accident years. For example, as the number of common law claims have been increasing, current common law settlements will under-estimate the numbers of common law claims projected for future years. Therefore the settlement year basis will under estimate the savings for future accident years.

The results on a settlement year basis have subsequently been converted to accident year results to provide estimates of the financial impact on the Scheme deficit and on future accident years (please note this analysis was not included in earlier draft versions of this report). The estimates contained in this report represent the latest results, but in preparation for December 2001 valuation we would expect further refinement of our analysis.

We have not attempted to estimate the longer-term or cultural impact of these reforms in this report since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated financial impacts of changes and does not purport predict the actual saving. Due to limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the impact of changes on claimant behaviour, substantial uncertainty surrounds our findings.

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of possible implementation scenarios ranging from one in which all the WorkCover reform targets and objectives are fully met to a scenario where the reforms are highly compromised, result in unintended consequences and are poorly implemented. In the body of our report we have focused on the two scenarios which are the most appropriate assuming the reforms operate (largely) as intended and are effectively implemented.

¹ 'Evaluation of Performance from April 1999 to March 2000' by Trowbridge Consulting, dated September 2000.

The two scenarios are:

- **Targets mainly achieved:** Assumes the reforms operate as intended and are effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between the 'Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions underlying this scenario will form the basis of performance targets for implementation and monitoring of the reforms (ie. in implementing the reforms WorkCover will be aiming to equal or better these targets)
- **Moderate position:** This moderate case reflects an expectation for all of the critical initiatives reducing legal and investigation costs to be implemented with a 'moderate' level of effectiveness, in conjunction with no erosion in the crucial 'building blocks' of the system (eg rigorous monitoring and corrections for any slippage found). In broad terms this position is consistent with the actuarial valuation basis, and hence may be described as the actuarial best estimate.

It should be noted in some circumstances outcomes may differ substantially from these scenarios, and indeed may be beyond the outcomes described in our full range of scenarios. These are discussed in Appendices A, B, C and D on a settlement year basis and Appendix F on an accident year basis.

Table 1.1 summarises the saving estimates provided in the body of this report. These estimates were developed over more than a year (beginning in 2000) as various proposals and amendments were pursued.

It should also be noted that significant elements of the reforms, mainly the form of regulations and guidelines, were introduced subsequent to the 26 November 2001 draft version of this report (specifically the Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (gazetted December 2001)). We have included an estimate of the effects of these regulations on the legal and investigation costs in this report. Tables 1.1 and 1.2 summarise the savings impact of the reforms on a settlement year basis and accident year basis respectively. Please note we have refined certain aspects of the modelling and taken into account finalised regulations and guidelines since our 26 November draft issue of this report.

TABLE 1.1

Estimated Annual Scheme Savings from Reforms (recent stable settlement year)

Initiative	Estimated Scheme Savings (\$M)	
	Targets Mainly Achieved	Moderate Position
• Restructure the dispute resolution system ¹	250	165
• Restructure common law claims processing ²	40	35
• Section 66, 67 and common law benefits ¹	(70)	(60)
– Incorporates use of the WCA Guidelines and		
– Changes in access to common law (Sheahan)		
• Restrict commutations ²	100	80
TOTAL	320	190

¹ Includes the effects of legal cost regulations finalised subsequent to the 26 November 2001 draft issue of this report.

² We have not performed an independent analysis of the effect of restricting commutations. These figures are based on the PricewaterhouseCoopers report 'Analysis of trends in NSW Workers Compensation-Committed Claims', dated 8 October 2001 and their additional analysis (e-mail dated 23 November 2001).

³ To allow for potential leakage, we have applied an approximately \$20 Million reduction to the savings figure for the Moderate scenario.

TABLE 1.2

Projected Savings from Scheme Reforms - Accident Year Basis (\$M)

Accident Period	Targets Mainly Achieved/High	Moderate/Low
Retrospective		
Accident periods prior to 01/01/2002	1,330	810
Prospective		
Accident year 2002	400	230
Accident Year 2003	400	230
Accident Year 2004	430	230
Accident Year 2005	420	230

¹ Includes a small allowance for better return to work outcomes has been added in both retrospective and prospective savings that was not included in the settlement year estimates.

Table 1.2 summarises the savings impact of the reforms on the deficit as at 1 January 2002 and on future accident years. These results have been derived from the settlement

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year results adjusted for the differing characteristics of claims by accident years versus settlement years.

There is a one-off impact on the Scheme deficit as at 1 January 2002 as a number of the reforms will apply to existing claims after certain dates. The most significant of these being the new dispute resolution system and associated costs which will apply to applications for determination lodged after 1 April 2002.

[Tillinghurst - Zavers Perrie](#)

14 JAN 2002 10:57:53 AM AEST / 14 JAN 2002 10:57:53 AM AEST

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2 BACKGROUND AND SCOPE

The WorkCover Authority of NSW ("WorkCover") and the NSW Government have developed a package of reforms intended to improve the NSW Workers Compensation Scheme ("the Scheme") efficiency and increase savings while providing a higher proportion of the Scheme cost as benefits to injured workers. The initiatives include:

- restructuring the dispute resolution system to include a greater focus on dispute prevention and processing efficiency;
- reducing the number of disputes by improving and updating injury definitions;
- changing the common law claims handling process, access and scope of damages;
- providing a higher proportion of the Scheme cost as benefits to injured workers;
- restricting the use of commutations.

This package of reforms has been given effect by:

- the Workers' Compensation Legislation Amendment Act 2001 (No. 2),
- the Workers' Compensation Legislation Further Amendment Act 2001,
- regulations and guidelines under the provisions of these Acts

WorkCover engaged Tillinghurst – Towers Perrin ("Tillinghurst") to estimate the savings to the financial impacts of the intended effects of the reforms.

The purpose of this report is to summarise Tillinghurst's analysis of those financial impacts and to update earlier analysis to incorporate the legislation, regulations and guidelines as commenced on 1 January 2002. This report is the culmination and summary of analysis and modelling progressively undertaken over the past 12 months as part of this reform process.

Late in 2000, WorkCover engaged Tillinghurst – Towers Perrin ("Tillinghurst") to examine the potential for savings from reforms to the dispute resolution service. This later progressed to providing estimates of the potential financial effects of further changes to the Scheme. This has proved to be an immense exercise. The reform "route" has taken a number of turns along the way and our role has been challenged by the need to retain discipline and consistency in the advice being presented to WorkCover. This

[Tillinghurst - Zavers Perrie](#)

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report relates to the main focus of our advice throughout 2001 and has been broken down into three main areas:

1. Annual legal system cost saving estimates for dispute reforms as detailed in:
 - The Worker's Compensation Legislation Amendment Act 2001 (No.2)
 - The recommendations with implications for legal costs of the 'Commission of Inquiry into Workers Compensation Common Law Matters' directed by Justice Terry Sheehan ('Sheehan Inquiry')
 - The finalised legal cost regulations² ('the Cost Regulations')
2. Estimate Section 65, 67 and common law benefits changes, based on:
 - Using the American Medical Association Guides to the Evaluation of Permanent Impairment, 5th Edition ('AMA V') as a base to establish WorkCover Authority developed permanent impairment Guides ('WCA Guides') for assessing permanent impairment;
 - The recommendations of the Sheehan Inquiry in relation to common law benefits
3. We have also been asked to examine the financial effects of restricting the use of commutations by the imposition of controls on the use of the commutation option as detailed in The Worker's Compensation Legislation Further Amendment Act 2001.

We have included our findings on all the significant interim developments in the attachments to this report.

The primary approach used was to model the existing and proposed arrangements on a years worth of claims recently settled or finalised. The advantage of this approach is that it is relatively straight forward to establish and forms a firm basis for modelling alternative scenarios (ie. the numbers of claims settled, their type, nature, duration etc. and amounts paid are known). This approach will provide the expected financial impact on claim payments in current dollar terms assuming the reforms apply to all relevant processes and payments on claims settled in a recent year.

² Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (gazetted December 2001).

This approach is not necessarily directly applicable to providing the impact on the Scheme deficit or on future accident years. For example, as the number of common law claims have been increasing, current common law settlements will under-estimate the numbers of common law claims projected for future years. Therefore the settlement year basis will under estimate the savings for future accident years.

The results on a settlement year basis have subsequently been converted to accident year results to provide estimates of the financial impact on the Scheme deficit and on future accident years (please note this analysis was only recently completed and not included in earlier draft versions of this report). We have provided a commentary on the techniques and methods used to convert the savings from settlement year to accident year in preparation for the 31 December 2001 valuation (see section 7). These estimates will be revised and further dealt with in our 31 December 2001 valuation report and in future valuations.

We have not attempted to estimate the longer-term or cultural impact of these reforms in this report since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated financial impacts of changes and does not purport predict the actual saving. Due to limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the impact of changes on claimant behaviour, substantial uncertainty surrounds our findings.

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of possible implementation scenarios ranging from one in which all the WorkCover reform targets and objectives are fully met to a scenario where the reforms are highly compromised, result in unintended consequences and are poorly implemented. In the body of our report we have focused on the two scenarios which are the most appropriate assuming the reforms operate (largely) as intended and are effectively implemented.

3 DISTRIBUTION AND USE

This report is provided solely to the WorkCover Authority of NSW for internal use in relation to the changes to the dispute resolution procedures. It is not intended, nor necessarily suitable for any other purpose.

We understand that WorkCover may wish to provide a copy of the report to a range of stakeholders in the Scheme, including members of NSW Parliament. Permission is hereby granted for such distribution on the condition that the report must be distributed in its entirety, that Tillinghast be informed of such distribution and all recipients must be aware that Tillinghast is available to discuss or explain any aspect of this report.

Any further distribution or reference to this document or to Tillinghast in relation to this document in any report, accounts, other form of publication or any verbal report is not authorised without our prior written consent.

We cannot be held responsible for conclusions drawn from our reports by unauthorised third parties. Third parties, whether authorised or not, should place no reliance on this report that would create any duty or liability by Tillinghast to the third party.

Judgements about the conclusions drawn in this report should be made only after considering the report in its entirety.

Finally, we remain available to answer any questions that may arise regarding this report.

4 RELIANCES AND LIMITATIONS

In preparing this advice, Tillinghast has relied on historical data and other quantitative and qualitative information supplied by WorkCover without audit or independent verification. We have reviewed this information for reasonableness and internal consistency. However, such a review does not constitute a full audit or independent verification. Therefore, any material discrepancies discovered in this data by WorkCover should be reported to us and the report amended accordingly. We are available for further discussion of these findings as and when necessary.

Our analysis assumes that the range and cost of injuries that have occurred historically are indicative of those to appear in the future. It is possible that this may not be the case. For example, due to changes in effectiveness of risk prevention procedures, changes in industry mix, attitude of claimants, other cultural or structural Scheme changes, court settlements/precedents or other external effects, Scheme outcomes may change in an unpredictable manner.

This report provides estimates of the savings of reforms to WorkCover's dispute resolution system. We have not estimated start up costs or maintenance costs of implementing the changes. Apart from changes to permanent impairment benefits and access to common law damages we have not estimated the effects (direct or indirect) of reforms on claims costs, apart from a minor allowance in the conversion to accident year analysis. This analysis merely provides a guide to the potential financial effects of changes and does not purport to deliver a firm estimate of the likely costs.

We have not attempted to estimate the long-term or cultural impact of these reforms in this report since these are dependent on effects beyond the scope of an actuarial analysis. It is important to note that the estimates of the future effects (see section 7) assume that of the Scheme reforms will remain constant over time and not reduce as a result of slippage in effectiveness or efficiency.

Due to limitations, largely caused by the lack of data, and Scheme experience with the changes underlying the reform amendments, significant uncertainty surrounds our findings. The financial outcome is also largely dependent on the manner and degree by which reforms are implemented. This increases the uncertainty in our saving estimates. We have attempted to formulate implementation assumptions and scenarios by reviewing reports supplied by WorkCover and through discussions with WorkCover

staff. However, due to the lack of relevant data, many of the assumptions have been formed from what we believe are reasonable projections of outcomes from reforms. In forming these projections, we have, in our judgement, employed assumptions and techniques that are appropriate, and the conclusions presented herein are reasonable given the information currently available.

A range of other issues were also addressed in the modelling, most requiring various subjective or non-numerically derived assumptions due to the appropriate data being unavailable. These are discussed in the attachments. In brief, there are specific difficulties in each of the following areas:

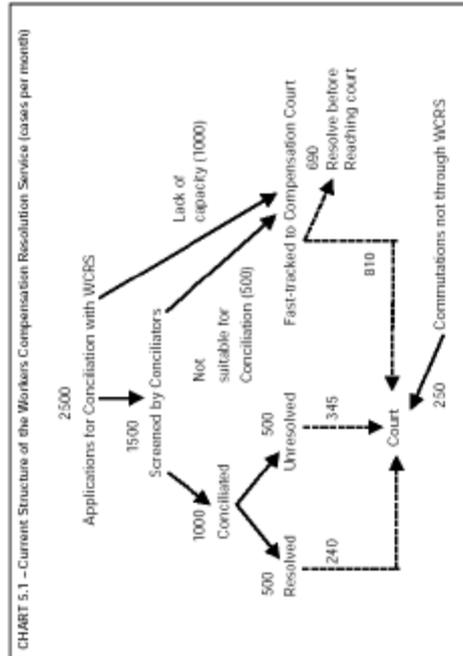
- Identifying each claim's Current Table of Disabilities nature of injury type;
- Maximum amounts available for permanent impairment;
- Multiple injury identification;
- Estimating an existing claim's whole of person permanent impairment percentage under the WCA Guides;
- New diseases eligible under the WCA Guides;
- Psychiatric illnesses eligible under the WCA Guides;
- Severity distribution of commutation and common law claims;
- Behavioural effects of changing common law access and damages; and
- Effects of restricting commutations.

5 LEGAL SYSTEM SAVINGS

5.1 Current System

Review of the Workers Compensation Resolution Service (WCERS) indicated that the original aims of the service were not being achieved⁸. A major concern was that the current system did not have the capacity to deal with the current high number of disputes. As a result, a large proportion of cases – seen to be unacceptably large – pass through to the court system (Chart 5.1, reproduced from page 5 of the Trowbridge September 2000 report).

CHART 5.1 – Current Structure of the Workers Compensation Resolution Service (cases per month)



In addition, approximately 130 common law disputes per month in NSW are pursued independently of the WCERS. Compounding the dispute problem are high legal and investigation costs for all these disputes and common law actions. These place further financial strain on the Scheme.

⁸ Evaluation of Performance from April 1999 to March 2000⁸ by Trowbridge Consulting, dated September 2000.

5.3.2 Amendment Act

After negotiations, a further compromise package was passed into legislation in June 2001 - The Workers Compensation Legislation Amendment Act 2001 (No. 2) ('Amendment Act'). This Act contained a range of structural and procedural changes to the original Bill 1 that caused us to review, in particular, our estimate of the effect in legal system costs. Following the compromise implicit in the Amendment Act, the estimate of the \$300M cost savings for the "Targets Mainly Achieved" scenario reduced to approximately \$220M (Appendix C.1). The Amendment Act deferred changes to the treatment of common law, and consequently any potential legal cost savings relating to common law. This reduced the expected savings by approximately \$45M to \$175M (Appendix C.2) - for the "Targets Mainly Achieved" scenario.

TABLE 5.1

Amendment Act: Estimated Annual Scheme Savings (recent stable settlement year)

Reform Scenario	Legal and Investigation Savings (\$M p.a.)	
	Initial Dispute Reform Savings	Common Law Savings*
- Targets Mainly Achieved	220	(45)
- Moderate Position	115	(40)
		Total Savings
		175
		75

* Included in initial dispute reform estimates of \$220 and \$115 (\$M)

Definitions of the scenarios are as follows:

- **Targets mainly achieved:** Assumes the reforms operate as intended and are effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between the 'Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions underlying this scenario will form the basis of performance targets for implementation and monitoring of the reforms (ie. In implementing the reforms WorkCover will be aiming to equal or better these targets)

- **Moderate position:** This moderate case reflects an expectation for all of the critical initiatives reducing legal and investigation costs to be implemented with a 'moderate' level of effectiveness, in conjunction with no erosion in the crucial 'bottling blocks' of the system (eg rigorous monitoring and corrections for any slippage found). In broad terms this position is consistent with the actuarial valuation basis, and hence may be described as the actuarial best estimate.

We see the following initiatives as crucial to achieving the legal and investigation cost savings objectives of the reform process:

- **Dispute Prevention:** Establishment of prescribed guidelines for assessing permanent impairment for the provision of lump sum compensation for non-economic loss. Establishment of a Claims Advisory Service and a pre-liability approval mechanism. Removal of the requirement of the Court to approve lump sum commutations.
- **Dispute Resolution:** Establishment of a new dispute resolution commission and an efficient dispute processing system.
- **Legal Representation and Costs:** Introducing a regulatory fixed scale of applicable fees for legal advice and placing limits on fees recoverable

5.3.3 Sheahan Inquiry

Part of the compromise resulting in the final Amendment Act was to appoint an independent inquiry into the treatment of common law and consider the resulting recommendations. The Governor of NSW appointed Justice Terry Sheahan to direct the 'Commission of Inquiry into Workers Compensation Common Law Matters' ('Sheahan Inquiry'). The Sheahan Inquiry recommendations were presented on 31 August 2001 and incorporated into the Further Amendment Act. They have implications on both legal system costs and benefit payments. In regard to the legal system costs, the Further Amendment Act includes provisions for the Workers Compensation Commission to manage a pre-litigation mediation process. This mediation process, and a range of new rules regarding the recovery of legal costs, is aimed at early and cost-effective settlement of each potentially disputed claim. This should provide significant saving in the legal system costs currently occurring for common law claims. We have estimated that the resultant saving on a settlement year basis, may be up to \$25 Million per annum ('Targets Mainly Achieved'). This is less

than the \$45 Million saving estimate for Bill 1 treatment of common law as there is potential for more claims to reach court since the mediation process is voluntary, although this is partially off-set by cost penalties for parties that do not respond to reasonable offers. Table 5.2 summarises these adjustments.

TABLE 5.2
Further Amendment Act: Estimated Annual Scheme Savings (recent stable settlement year)

Reform Scenario	Legal and Investigation Savings (\$M p.a.)		
	Statutory Savings	Shaban Common Law Savings	Further Amendment Act Total Savings
- Targets Mainly Achieved	175	35	210
- Moderate Position	75	25	100

5.3.4 Legal Cost Regulation

Since the Workers' Compensation Legislation Further Amendment Act 2001 was passed by Parliament, a regulation has been developed and finalised to regulate and limit legal fees payable in the new statutory and common law environments (Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (gazetted December 2001)). The regulation limits the level of fees payable and reduces the variation in fees payable for similar classes of claims. As a result the projected savings from legal and investigation cost are greater than previously modelled.

- Provisions in the cost regulations represent a reduction of approximately 50% in statutory legal and investigation costs compared with the old system and an approximately 30% decrease compared with our moderate assumptions prior to the finalisation of the regulations.
- Provisions in the cost regulations represent a reduction of approximately a 65% decrease in common law legal and investigation costs compared with the old system and an approximately 30% decrease compared with our moderate assumptions prior to the finalisation of the regulations.

The reduction in costs per dispute has been varied by scenarios to reflect potential leakage or inadequate implementation, even though it is derived from a specified set of legal cost regulations.

Table 5.3 summarises the adjustments to the estimates due to the Cost Regulations.

TABLE 5.3
Amendment Act: Estimated Annual Scheme Savings based on the Cost Regulation (recent stable settlement year)

Reform Scenario	Legal and Investigation Savings (\$M p.a.)			Additional \$ from cost regulations*	Additional \$ Pro-cost regulation from cost regulations*
	Statutory Savings	Common Law Savings	Additional \$ from cost regulations*		
- Targets Mainly Achieved	175	75	35	5	5
- Moderate Position	75	50	25	10	10

* These regulations were finalised subsequent to the 26 November draft issue of this report.

5.3.5 Other Regulations and Guidelines

After the Further Amendment Act was passed, a number of regulations and guidelines have also been developed, finalised and issued. These include:

- Workers' Compensation (General) Amendment (Transitional Saving and Other Matters) Regulation 2001
- Workers' Compensation (General) Amendment (Cost of Claims) Regulation 2001
- WorkCover Guides on the Assessment of Permanent Impairment
- WorkCover Medical Assessment Guidelines
- WorkCover Provisional Liability and Claims Guidelines.
- Interim Workers' Compensation Commission Rules
- Workers' Compensation (Medical Practitioner Fees) Order 2001

These regulations and guidelines are broadly consistent with previous expectations. Therefore no adjustment has been made to earlier projections as a result of the introduction of these regulations and guidelines. While this is the case their implementation is reassuring and provides added support for the two key scenarios savings projections.

c) Annual Claims Counts:

Section 66: The number of section 66 permanent injury claims were then normalised to approximately 10,000 (the ultimate number of non-zero, non-hearing loss settlements we would expect in settlement year 2001). (We used the findings from our actuarial review of the liabilities of the WorkCover Statutory Funds as at 30 June 2000 to estimate this figure.)

Commentations: We have calculated the total annual number of commuted settlements arising from non-hearing loss permanent impairment claims to be approximately 70% of \$66 non-hearing loss permanent impairment settlements. This equates to approximately 7,000 annual commutation settlements (ie, very broadly 70% of the total number of commuted claims).

Common Law: The estimated 2001/02 annual number of common law settlements for permanent impairment claims, was calculated to be approximately 1,600 per annum (1,850 * 95% (excl. hearing loss claims) * 90% (excluding notifications only)).

(Note: this *facta* is on settlement year results. Accident year estimates for common law in particular may be different. Accident year estimates are covered in Section 7.

d) Estimate Each Claim's Current Table Impairment Level:

$$\text{MAIMS:impairment \%} = \frac{\text{\$66 payment}}{\text{\$66 max amount}} \times 100\%$$

Section 66: Individual historical \$66 claim payments were expressed as a percentage of the current maximum amount payable under \$66. This ratio was used as a proxy of the true total impairment level of the claimant. For example, if the amount of \$66 paid for a particular claim was \$50,000, as the maximum amount payable of \$100,000, we deemed that the injured was 50% impaired.

Commentations: The estimated annual number of settled commutations of approximately 7,000 (with a permanent impairment, excluding hearing loss) was spread

across the Current Table impairment percentages (from 0% to 100% at 1% intervals) using the distribution as presented by PwC in their recent report.¹

Common Law: The estimated annual number of settled common law claims (excluding hearing loss) of approximately 1,600 was spread across the Current Table impairment percentages (from 0% to 100% at 1% bands). This spread was determined by assuming each claim's section 66 estimate (the highest value over the life of the claim), divided by 1000, to be an approximation for the injury's Current Table Impairment percentage.

At this stage we have established a base position for current system claims counts and benefit payments from which to determine the impact of any changes in benefit dollars of using the WCA Guides. Table 6.1 shows current permanent impairment claim settlements broken down by section 66, commutations, section 67 and common law.

TABLE 6.1

	Statutory			Common Law	
	\$66	\$66 Commutations	\$67	\$66	\$66
Total Claims/Counts	10,000	7,000	11,000	1,600	1,600
Costs (\$M) ²	135	125	130	50	50
Average (\$'000)	13	18	12	30	30

¹ Excluding hearing loss

² Lump sum payments

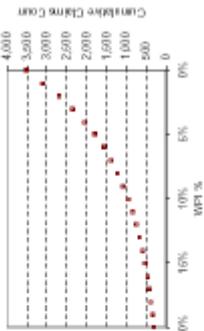
¹ PricewaterhouseCoopers 'Analysis of trends in NSW Workers' Compensation Commuted Claims', dated 8 October 2001, pg 19

linearly down to 100% for claim counts within the 99%-100% permanent impairment band.

■ **Psychiatric Illness EoC:**

The introduction of psychiatric diseases as a class of EoC claims provides a much higher estimate of the number of potential permanent impairment claims than other EoC claims. Based on discussions with WorkCover about their intended Psychiatric Guides we estimated that with no minimum WPF% impairment %, there was the potential for almost 3,500 psychiatric illness claims to qualify for a \$66 permanent impairment payment (see Chart 6.2).

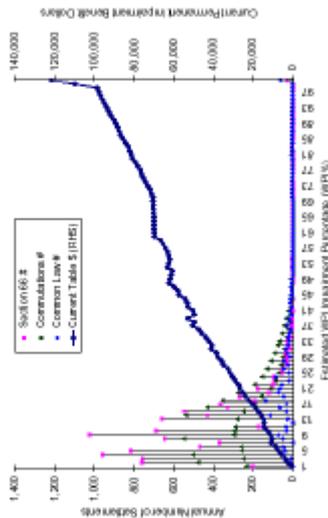
Chart 6.2: Psychiatric Illness Distribution



6.1.4 Translation Results

The left-hand axis of Chart 6.3 below shows the number of annual permanent impairment claim settlements (by payment settlement type, i.e. \$66, commutation or common law) assumed under the WCA Guides. The average WPF%, and current average section 66 lump sum payment for these claims are shown on the horizontal and right-hand axis respectively.

Chart 6.3: Profile of Claims Under the WCA Guides



6.2 Impact of the Sheahan Inquiry on Common Law Benefits

The Sheahan Inquiry into common law matters, implemented as part of the compromise agreement, presented its recommendations to the Governor of NSW on 31 August 2001 and was passed into legislation in the Workers' Compensation Legislation Further Amendment Act 2001. In regard to the impact on benefit dollar, the Inquiry recommended a range of alterations to the access and implementation of common law benefits. Those that impact financially on permanent impairment benefits are summarised as follows:

TABLE 6.3

Key Sheahan Recommendations for Common Law Costing

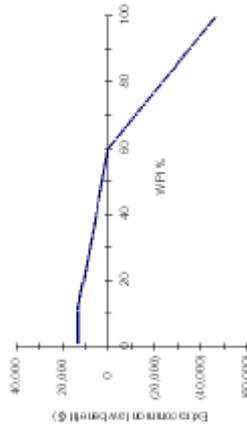
Sheahan Recommendation	Implication for Benefit Model
1) Aside from establishing liability only workers assessed to have a whole person impairment of 20% or more (final bill passed at 15%) should have entitlement to recover damages at common law.	<ul style="list-style-type: none"> Provides objective and comparable measure for access to common law. Closes the 'second gateway' to common law claims. (Section 151H) Provides a minimum WPF% for claims
2) Repeal of the requirement to 'abet' between pursuing common law and receiving statutory entitlements.	<ul style="list-style-type: none"> Will increase the number of statutory claims closer to the threshold willing to apply for common law
3) Common law actions are limited to recovering only economic loss damages – which remain capped and calculated only to age 65.	<ul style="list-style-type: none"> Reduces the types of damages payable for common law settlements and so the difference between settlements under common law versus ongoing weekly statutory payments
4) All claims in respect of 'non-economic losses' are dealt with under the statutory scheme.	<ul style="list-style-type: none"> Will change the mix of common law applicants toward those who do not require significant ongoing medical attention by eliminating further treatment benefits
5) Recovery damages precludes the receipt of any further statutory benefits.	
6) Increase the maximum amount recoverable under section 66 and 67.	<ul style="list-style-type: none"> Increases the amount of dollars available at the minimum end of the impairment scale.
7) Transfer access for domestic personal care to the statutory system on a restricted basis.	<ul style="list-style-type: none"> The intent is to transfer those payments into the statutory system for those in clear need, intended outcome to be cost neutral.

6.2.1 Changes in the Number of Common Law Actions

Recommendation 1 defines access to common law as only those claims that are assessed to be 20% WPI impairment. The legislation passed incorporated a 15% WPI impairment threshold. This change closes the second or 'nominal' gateway (Section 151H of the current Act) for claims under the threshold. Recommendation 2 provides a compensating effect by removing the uncertainty and risk of nominating for common law – especially around the threshold. Based on discussions with WorkCover staff we

the potentially higher 'Other HODs' payments available at lower impairment levels, than under the current scheme.

Chart 6.5: Post-Sheahan Extra Common Law Economic Loss Benefits



6.2.4 Increasing the Maximum Benefit Available

Sheahan also recommended increasing the maximum available for both non-economic loss benefits combined (666/667). The maximum can be increased by providing greater than current benefits to claims at some or all impairment levels. Increasing the maximum available will be based on application of formula incremental dollars and is modelled in the section 6.3 'Alternative Payment Options'.

6.3 Alternative Payment Options

One of the aims of the reforms is to channel some of the legal cost saving gained by the reforms to extra benefit dollars for claimants, with a special focus on providing more severely injured claimants with significantly greater compensation.

To achieve this, an incremental payment formula was applied to different impairment percentage bands and evaluated to the extent that it best addresses the multiple aims of:

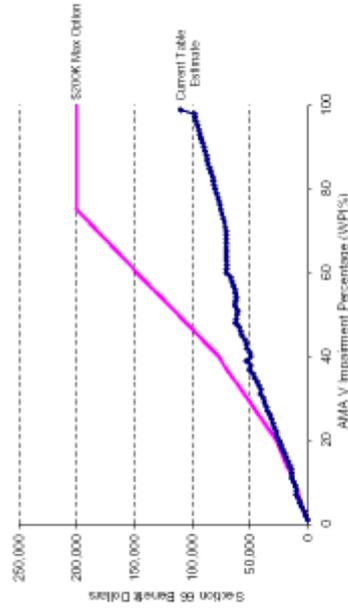
- leaving most claimants better off,
- a focus on increasing the maximum amount available, especially for the most severely impaired, and
- providing approximately \$50 Million in additional benefit dollars per annum.

TABLE 6.6
Permanent Impairment Formula

WPI% Ranges	Incremental Dollars p.a.
Band 1 0-10	1,250
Band 2 10.1-20	1,500
Band 3 20.1-40	2,500
Band 4 40.1-75	3,500
Band 5 75.1 up	0

The selected formula is shown in Table 6.6. For example an impairment of 25% would be entitled to $10 \times \$1,250 + 10 \times \$1,500 + 5 \times \$2,500 = \$40,000$. This formula is graphically reproduced in Chart 6.6 below and provides a maximum payment amount of \$200,000.

Chart 6.6: Graphical Illustration of Payment Formula



Applying this \$200K maximum amount formula to all permanent impairment claims under the reformed system based on the WCA Guides WPI% results in an estimate of benefit costs. Comparing these total dollars, to those in the current system, gives the

the outstanding claims liability estimate or implementation ramp-up issues or "honeymoon effects".

The impact of the reforms on the deficit can be defined in terms of two components:

1. **Retrospective Savings:** There are several areas in which the reform package has the potential to affect claims outstanding at 31 December 2001 or the "tail liability". The claims affected would have an accident date prior to 1 January 2002 but would still qualify for coverage under the reforms. Clearly if such savings are achieved, its effect would be to reduce the current Scheme deficit position.
2. **Prospective Savings:** Secondly, the reforms are expected to result in cost savings on new claims (i.e. claims incurred on or after 1 January 2002). To the extent that this increases the funding power of ongoing premium, the projected Scheme financial position will improve. However, note that at current premium rates, premium income is not sufficient to meet outgoing claims and expenses.

7.2 Reform Saving Scenarios

To estimate the expected effects of the reform package on the deficit, we converted settlement year estimates into a range of expected outcomes on an accident year basis. The range of scenarios analysed is broadly consistent with those estimated for the settlement year basis and consists of "moderate/low" and "targets mainly achieved/high" reform savings positions, explained as follows:

- **The moderate/low** savings scenario reflects a position that represents a possible starting point for a Scheme valuation basis and might be adopted immediately after implementation of the Scheme reforms. To a large extent, this basis aims to incorporate saving estimates which are based on objective analysis with some foundation in historical Scheme data. As evidence on the effects of the Scheme reforms emerges (and, for some reforms, such evidence may take some time to emerge), progressive revisions to this savings scenario can take place.
- Over time, it is possible that sufficient evidence of the success of the Scheme reforms may emerge to allow the Scheme actuary to adopt a valuation basis that reflects a **higher** savings scenario due to targets from the reforms being achieved in the future. It is likely that the Scheme valuation would adopt this savings scenario only when

there is objective evidence to show that the targets in relation to the Scheme reforms are being achieved. At this stage, without the benefit of objective evidence, from an actuarial perspective, we would consider this an optimistic scenario.

We have not attempted to estimate the longer-term or cultural impact of these reforms in this report (apart from a small allowance for improved return-to-work outcomes in the accident year analysis) since these are dependent on effects beyond the scope of an actuarial analysis. As a result, this report is intended solely to provide a guide to the estimated financial impacts of changes and does not purport to predict the actual saving. Due to limitations largely caused by the lack of data and relevant Scheme experience for changes underlying the reform amendments, together with the difficulty of assessing the impact of changes on claimant behaviour, substantial uncertainty surrounds our findings.

It is important to note that all scenarios assume that the future effects of the Scheme reforms will remain constant over time and not reduce as a result of slippage in effectiveness or efficiency. It should be noted that the level of savings achieved may fall below or above this range depending on implementation efficiency, slippage of quality standards and extraneous effects from sources outside the reform scope. We regard the modelling of such cultural change as beyond the scope of an actuarial review, although our models may be useful in projecting the effects of various potential cultural changes.

7.3 Expected Impact

Based on information provided to us by WorkCover and our analysis over the course of 2001 we expect the one-off reduction in the deficit due to retrospective claims to be in the order of \$810M and \$1,330M for the moderate and high positions respectively. The reduction in the deficit due to the reform effects on the 2002 accident year is estimated to be approximately \$230M and \$400M for the moderate and high positions respectively. Table 7.1 sets out these estimates in more detail.

The retrospective and prospective saving estimates allow for the finalisation of cost regulations that were not included in the settlement year savings estimated in our draft 26 November 2001 report.

Sections 66/67 and Common Law Benefit Changes

Retrospective claims (accidents prior to 1 January 2002) and prospective claims (claims occurring on or after 1 January 2002) are modelled separately.

Accidents occurring on or after 1 January 2002 are subject to the section 66/67 lump sum reforms, whereas common law claims lodged after 27 November 2001 are subject to the common law reforms. Consequently, permanent impairment claims with accident dates prior 1 January 2002 will be affected by the common law reforms but not the permanent impairment reforms. Prospective claims will be subject to both common law and permanent impairment reforms.

Both the permanent injury and common law reforms apply to settlement year savings and prospective savings, but retrospective savings are only relevant to common law. These savings are linearly related to the numbers of common law and section 66/67 claims assumed in the respective settlement and accident years. As past accidents (retrospective claims) are only affected by the common law reforms we estimate savings on a retrospective basis which are not offset by the increasing costs arising from the permanent impairment lump sum benefit augmentation.

Restricting Access to Commutations

The restricted access to commutations applies to all claimants who have not filed an application for determination prior to 27 November 2001.

The savings from restricting commutations are approximately proportional to the number of commutations in the period. Relative to the number of commutations in a settlement year there are estimated to be approximately 250% more future commutations from past accident years (retrospective) and 20% less commutations in each future accident year (prospective).

Claim Cost Reductions

Indirect claim cost reductions were not allowed for in the settlement year savings contained in our draft report of 26 November 2001, but after subsequent investigations and discussions with WorkCover and the Motor Accidents Authority we have included some savings in the retrospective and prospective calculations as an allowance for better

return to work outcomes. These account for approximately 10% of retrospective savings and 15% for prospective savings

Results

Table 7.2 shows our estimates of the components of the Moderate/Low savings scenario for the 2002 accident year. Other future accident years show similar estimates of savings.

TABLE 7.2
Components of Projected Savings from Scheme Reforms
2002 Accident Year Basis Example (\$M)

	Moderate / Low
Initiative	
■ Restructure the dispute resolution system ¹	120
■ Restructure common law claims processing ¹	60
■ Section 66, 67 and Common Law benefits changes	(50)*
— Incorporates use of the WCA Guides; and	
— Changes in access to common law (Sheehart)	
■ Restrict commutations	60
■ Allowance for better return to work outcomes ²	40
TOTAL	230

¹ Includes the effects of the Workers Compensation (General) Amendment (Costs) Regulation 2001 - Final (issued December 2001).

² Not evaluated in this settlement year estimates.

* (150M) comprises:
460M S66 Statutory
(810) S67 Statutory
(825) Common Law
335M Psychiatric

APPENDIX A
Settlement Year Scenario Definitions

Since the financial outcome is largely dependent on the manner and degree by which reforms are implemented, the uncertainty in our evaluation of financial effects is further increased. In providing our estimates we examined a range of five possible implementation scenarios ranging from one in which WorkCover's dispute prevention targets are fully met to a more conservative outcome in which the modes of implementation may be strongly opposed.

- **Targets Achieved:** This is the optimal scenario where all initiatives are implemented very effectively. In this scenario, the targets for reform set by WorkCover should be all achieved and maximum savings gained.
- **Targets mainly achieved:** Assumes the reforms operate as intended and are effectively implemented so that the targets and objectives for the reform process (as established by WorkCover) are mostly met. This scenario is a compromise between the 'Targets Fully Achieved' scenario and the 'Moderate' scenario. The assumptions underlying this scenario will form the basis of performance targets for implementation and monitoring of the reforms (ie. in implementing the reforms WorkCover will be aiming to equal or better these targets)
- **Moderate position:** This moderate case reflects an expectation for all of the critical initiatives reducing legal and investigation costs to be implemented with a 'moderate' level of effectiveness, in conjunction with no erosion in the crucial 'building blocks' of the system (eg rigorous monitoring and corrections for any slippage found). In broad terms this position is consistent with the actuarial valuation basis, and hence may be described as the actuarial best estimate.
- **Reform compromise:** This position reflects poor implementation of initiatives. This position is possible reform policies are presented as confusing or complicated, if there is no ongoing monitoring or corrections for slippage in standards, or if leakage starts occurring in key cost saving initiatives. There is the potential for the reforms to actually cost the Scheme rather than provide savings if not implemented or monitored appropriately. Rigorous monitoring of outcomes is recommended to ensure this does not happen.
- **Pessimistic:** 'Poor' implementation of initiatives and compromising on the critical ones will likely lead to additional costs to the system rather than any benefits gained. By implementing policies which are confusing and complicated or allocating disputes to incorrect tiers, additional costs will be incurred both indirectly in the form of a bottleneck of unresolved disputes and also directly through the extra resources used by the disputing parties.

APPENDIX B
Settlement Year Saving Estimates for the Worker's Compensation Legislation Amendment Bill 2001 - ('Bill 1')

TABLE B.1

Bill 1: Estimated Annual¹ Legal System Savings² - All Initiatives Implemented

(\$M)	Costs		Total Savings ¹	Updated Savings ²
	Statutory	Common Law		
Current System	351	51	442	
Reform Scenarios				
Targets Fully Achieved	98	9	107	369
Targets Mainly Achieved	218	14	232	300
Moderate Position	302	19	321	235
Reform Compromise	424	23	447	140
Pessimistic			(5)	(8)

¹ Recent stable settlement year
² Includes court and investigation costs
³ Reproduced from the Tilghman report, 'Proposed Dispute Prevention and Resolution Process - Financial Evaluation' dated 31 January 2001, page 7.
⁴ Updated with the latest December 2000 valuation cost estimates. WorkCover took an amount of \$300M as the savings most likely expected at that time. Reproduced from WCA Advisory Council Presentation (April 2001)
⁵ WorkCover's expected estimate based on the most likely outcome if targets were to be mostly achieved.

A estimated breakdown of these savings by payment type is shown below:

TABLE B.2

Bill 1: Estimated Annual Legal System Savings by Payment Type

(\$M)	Costs		Total Savings
	Statutory ¹	Common Law ²	
Current System	285	75	483
Reform Scenarios			
Targets Fully Achieved	74	14	26
Targets Mainly Achieved	121	20	42
Moderate Position	165	26	57
Reform Compromise	228	37	78
Pessimistic	319	59	113

¹ Recent stable settlement year
 Reproduced from WCA Advisory Council Presentation (April 2001)

APPENDIX C

Settlement Year Saving Estimates for the Workers Compensation Legislation Amendment Act 2001 (No. 2) ("Amendment Act")

A further compromise package was passed into legislation in June 2001 - "Amended Act". This Act contained a range of structural and procedural changes to the original Bill that we incorporated into revised legal cost savings.

Following the compromises implicit in the Amended Act, our estimate of the \$300m Targets Mainly Achieved cost savings reduced to approximately \$220m and the Moderate position from \$235m to \$114m.

A substantial group of reforms were still to be decided. Part of the compromise agreement was to appoint an independent inquiry (chaired by Justice Sheehan) into the proposed treatment of common law. This effectively excluded the potential legal cost savings relating to common law (ie. \$4.5 M).

TABLE C.1

Amendment Act: Estimated Annual* Legal System Savings

(\$M)	Original Est ¹	Updated Est ²	Amendment Act	
			Include ³	Exclude ⁴
Reform Scenarios				
Targets Fully Achieved	335	369	324	279
Targets Mainly Achieved	300	220	220	175 ⁵
Moderate Position	210	235	115	75 ⁵
Reform Compromise	121	140	(50)	(85)
Pessimistic	(5)	(8)	(283)	(303)

Reproduced from the Tillinghast letter "Progress of the Draft Worker's Compensation Legislation Amendment Bill 2001" (dated 23 May 2001), page 5

* Recent stable settlement year

¹ Based on 30 June 2000 valuation figures

² Changes due to updated 31 December 2000 valuation figures (wage-roll and legal cost percentages).

³ Reproduced or derived from Tillinghast documents:

— Letter Legislative Council Standing Committee Questionnaire (dated 27 August 2001), page 6

— Letter "Re: Worker's Compensation Legislation Amendment Bill 2001 (No.2) First Print (2000/07)" (dated 28 August 2001), page 1

— Presentation "Reform Savings Modelling" (dated 16 August 2001).

⁴ Reproduced from the Tillinghast letter "Progress of the Draft Worker's Compensation Legislation Amendment Bill 2001" (dated 23 May 2001), pages 5

⁵ Includes both moving to the AMA IV Guides and the impact of Sheehan recommendations on benefits.

Derived from the Tillinghast letter "Progress of the Draft Worker's Compensation Legislation Amendment Bill 2001" (dated 23 May 2001), pages 6 & 7

APPENDIX D

Settlement Year Saving Estimates for the Workers Compensation Legislation Amendment Act 2001 (No. 2) ("Further Amendment Act")

Preliminary Estimates

The Sheehan Inquiry indicated that their recommendations for the treatment of common law processing would be a pre-litigation mediation process managed by the proposed Workers Compensation Commission. We estimated that the resultant saving on a settlement year basis, may be up to \$25 million p.a. This is less than the \$45 million saving estimate for Bill 1 treatment of common law as there is potential for more claims to reach court since the mediation process would be voluntary, although this is partially off-set by cost penalties for parties that do not respond to reasonable offers.

Also to be finalised was the impact of the Sheehan inquiry on benefits, and negotiations around the application and formula for compensating permanent impairment injuries. Based on preliminary indications we estimated that this may redirect \$75m into augmenting benefits.

TABLE D.1

Further Amendment Act: Estimated Annual* Savings to be Finalised

(\$M)	Amendment Act	Recommendations to be Finalised	
		Common Law Processing	Benefit Augmentation ¹
Reform Scenario			
Targets Fully Achieved	279	304	228
Targets Mainly Achieved	175	200	125
Moderate Position	75	100	25
Reform Compromise	(85)	(60)	(75)
Pessimistic	(303)	(278)	(287)

* Recent stable settlement year

¹ Includes both moving to the AMA IV Guides and the impact of Sheehan recommendations on benefits.

Derived from the Tillinghast letter "Progress of the Draft Worker's Compensation Legislation Amendment Bill 2001" (dated 23 May 2001), pages 6 & 7

APPENDIX E
Settlement Year Saving Estimates for the Workers Compensation
Legislation Amendment Act 2001 (No. 2) ("Further Amendment
Act")

Updated Estimates

Workers Compensation Legislation Further Amendment Act 2001

TABLE E.1

Estimated Annual Scheme Savings from Reforms (recent stable settlement year)

Initiative	Estimated Scheme Savings (\$M)			
	Target's Mainly Achieved	Moderate Position	Compromise Position	
	Cost Regulation Effects* Not Included	Cost Regulation Effects* Not Included	Cost Regulation Effects* Not Included	Net Additional Savings*
Resstructure the dispute resolution system	175	75	90	(40)
Resstructure common law claims processing	35	25	10	15
Section 66, 67 and common law benefits ¹	(70)	(90)		(160)
WCA Guides; and				
Changes in access to common law (Shikhar)	100	80		60
Reserve commutations	320	190		110
TOTAL				

* Workers Compensation (General Amendment) (Costs) Regulation - Final 2001. These regulations were finalised subsequent to the 26 November draft issue of this report.
¹ We have not performed an independent analysis of the effect of restructing commutations. These figures are based on the PriceWaterhouseCoopers report "Analysis of trends in NSW Workers' Compensation Committed Claims", dated 8 October 2001 and their additional analysis (final dated 23 November 2001).

APPENDIX F
Accident Year Saving Estimates for the Workers Compensation
Legislation Further Amendment Act 2001

- **Referw compromise:** This position reflects poor implementation of initiatives. This position is possible reform policies are presented as confusing or complicated, if there is no ongoing monitoring or corrections for slippage in standards, or if leakage starts occurring in key cost saving initiatives. There is the potential for the reforms to actually cost the Scheme rather than provide savings if not implemented or monitored appropriately. Rigorous monitoring of outcomes is recommended to ensure this does not happen.
- **The moderate/low savings scenario** reflects a position that represents a possible starting point for a Scheme valuation basis and might be adopted immediately after implementation of the Scheme reforms. To a large extent, this basis aims to incorporate saving estimates which are based on objective analysis with some foundation in historical Scheme data. As evidence on the effects of the Scheme reforms emerges (and, for some reforms, such evidence may take some time to emerge), progressive revisions to this savings scenario can take place.
- **Over time, it is possible that sufficient evidence of the success of the Scheme reforms may emerge to allow the Scheme actuary to adopt a valuation basis that reflects a higher savings scenario due to targets from the reforms being achieved in the future. It is likely that the Scheme valuation would adopt this savings scenario only when there is objective evidence to show that the targets in relation to the Scheme reforms are being achieved. At this stage, without the benefit of objective evidence, from an actuarial perspective, we would consider this an optimistic scenario.**

TABLE F.1

Projected Savings from Scheme Reforms - Accident Year Basis (\$M)

Accident Period	Targets Mainly Achieved/High	Moderate/Low	Referw Compromise
Retrospective			
Accident periods prior to 01/01/2002	1,330	810	\$30
Prospective			
Accident year 2002	450	230	(40)
Accident Year 2003	400	230	(30)
Accident Year 2004	410	230	(30)
Accident Year 2005	420	230	(20)

APPENDIX G
Details of Permanent Impairment Benefit Analysis

G.1 Permanent Injury Mapping

A range of information was gathered to provide an indication as to the potential impact of moving to AMA V Guidelines.

A Maximum Loss Translation

A range of opinions were compiled as to the effect on the maximum impairment percent of moving from the current Table to AMA Guidelines.

TABLE G.1A
Maximum Loss Translation – MAIMS to AMA IV and V

MAIMS ID	Injury Type	Current Table	Maximum % 4th Ed AMA ¹	Selected ² Ed AMA ¹	Included in analysis?
1	Power of speech	60	35	40	Y
2	Loss of Taste or Smell	17	3	3	Y
3	Loss of Vision	34	13	13	Y
4	Loss of Hearing	44	35	44	Y
5	Loss of Speech	20	6	13	Y
6	Loss of one ear	100	85	67	Y
7	Loss of both ears	40	24	27	Y
8	Speech of one eye	22	0	15	Y
9	Eye ball	80	60	60	Y
10	Right arm at or above elbow	75	57	57	Y
11	Right arm below elbow	75	60	60	Y
12	Left arm at or above elbow	70	57	57	Y
13	Left arm below elbow	70	54	54	Y
14	Left hand	65	54	54	Y
15	Right thumb	20	22	22	Y
16	Right index	20	22	22	Y
17	Joint of the thumb	18	11	11	Y
18	Right forearm	21	11	11	Y
19	Left forearm	18	11	11	Y
20	Right forefinger - 2 joints	18	8	8	Y
21	Left forefinger - 2 joints	12	8	8	Y
22	Right forefinger - first joint	10	5	5	Y
23	Left forefinger - first joint	9	5	5	Y
24	Middle finger	12	11	11	Y
25	Whole finger - 2 joints	10	8	8	Y
26	Whole finger - first joint	6	5	5	Y
27	Ring little finger - 2 joints	11	5	5	Y
28	Ring little finger - first joint	6	3	3	Y
29	Little finger - 2 joints	7	5	5	Y
30	Left or right index	75	48	34	Y
31	Left or right middle	70	38	33	Y
32	Foot	65	25	25	Y
33	Great toe	22	5	9	Y
34	Joint of great toe	10	2	2	Y
35	Any other toe	6	1	1	Y
36	Any other toe	2	0	2	Y
37	Bowel function	65	60	38	Y
38	Joint of any other toe	47	30	26	Y
39	Shoulder organs	47	5	5	Y
40	Both breasts	30	0	20	Y
41	One breast	30	10	17	Y
42	Scar damage	60	70	35	Y

TABLE G.1A
Maximum Loss Translation – MAIMS to AMA IV and V

MAIMS ID	Injury Type	Current Table	Maximum % 4th Ed AMA ¹	Selected ² Ed AMA ¹	Included in analysis?
43	Neck	40	50	24	Y
44	Facial disfigurement	15	15	8	Y
45	Facial disfigurement	80	15	15	N
46	Facial disfigurement	100	15	15	N
47	Hand	100	100	100	M
48	AEIS	100	100	100	M
49	Arm of right and left arm at or above elbow	78	60	43	Y
50	Arm of right and left arm	75	50	42	Y
51	Arm of right and left arm below elbow	73	57	41	Y
52	Arm of right and left hand	68	54	44	Y
53	Arm of all fingers except thumb	16	10	10	Y
54	Arm of right and left thumb	28	22	18	Y
55	Arm of thumb	54	33	36	Y
56	Arm of hand, fingers and thumb	20	15	15	Y
57	Arm of upper limbs (arms, thumbs, hand)	61	33	27	Y
58	Arm of lower limbs (arms, leg, foot)	56	27	27	Y
59	Arm of head and neck	47	41	41	Y
60	Head and spine	75	62	62	Y
61	Head and spine	70	62	62	Y
62	Head and others	69	44	44	Y
63	Trunk and ribs	100	90	90	Y
64	Upper and lower limbs	90	45	45	Y
65	Avg all	38	25	25	Y

1 Source: Knowledge analysis
2 Based on medical expert Dr Dwight assessment

B Stratified Sample Assessment Study

A sample of approximately 100 claims with specific permanent injury locations was undertaken by WorkCover to determine the extent their whole of body (WOB) impairment level departed from the existing Table. The results of this study, together with the final adopted figures is provided below. Anecdotal evidence from the effects of a similar move in Victorian Workers' Compensation Scheme was also used to determine the selected proportions.

TABLE G.1B
Current Table to AMA V Stratified Sampling Assessment

Injury Group	# in Sample	Study Result Percent of Current Table	Selected Percent of Current Table
Back	47	55%	60%
Chest	0		67%
Forearm	5	50%	65%
Foot	3	33%	50%
Hand	6	62%	65%
Head	1		67%
Leg	24	45%	47%
Limbs	0		50%
Neck	4	15%	60%
NOG	0		67%
Pelvis	0		55%
Torso	0		40%
Trunk	2	80%	67%
Upper Limbs	4	96%	96%
TOTAL	96		

WORKCOVER AUTHORITY OF NSW

TABLE G.1C
WorkSafe¹ Location of Injury Code to MAIMS

Bodily Locations		Description	WorkSafe Code	Comments	Maims ID Injury Type	Maims	
1	2					%	AMA V %
Head	Cranium	Cranium	110		Skull	55	30%
		Brain	111		41 Brain damage	10	67%
	Eye	Eyeball	120		8 Eyeball	22%	15%
		Ocular adnexa	121	Brows/eyelashes	8 Eyeball	22%	15%
		Eye - other & multiple	128		6 Sight of both eyes	10%	67%
	Ear	Eye - unspecified	129		7 Sight of one eye	4%	27%
		Ear	130	Inj/snat = 250	4 Hearing - both ears	65%	44%
	Mouth	Mouth	140	Inj/snat z 250	5 Hearing - one ear	2%	13%
	Nose	Nose	150	Impairment > 17%	1 Power of speech	6%	40%
				Impairment < 17%	3 Sense of Taste & Smell	34%	23%
				2 Sense of Taste or Smell	17%	11%	
	Face, not elsewhere classified	Face	160	n/a	n/a	N/A	N/A
	Head - multiple locations	Head - multiple locations	190		55 Aug head injury	54%	36%
	Head - unspecified locations	Head - unspecified locations	190		55 Aug head injury	54%	36%
Neck	Neck & spine	Neck bones, muscles & tendons	210		43 Neck	48%	24%
		Neck - internal organs & glands	211		43 Neck	48%	24%
		Neck - other & multiple	218		43 Neck	48%	24%
		Neck - unspecified	219		43 Neck	48%	24%
Trunk	Back - upper & lower	Upper back	310		42 Back	6%	36%
		Lower back	311		42 Back	6%	36%
		Back - other & multiple	318		42 Back	6%	36%
		Back - unspecified	319		42 Back	6%	36%
	Chest (thorax)	Ribs	330		n/a	n/a	N/A
		Chest muscles	331		n/a	n/a	N/A
		Breast	332	Impairment > 30%	39 Both breasts	47%	32%
			332	Impairment < 30%	40 One breast	3%	20%
		Heart	333		n/a	n/a	N/A
		Lung, trachea & bronchus	334		n/a	n/a	N/A
		Other internal chest organs	335		n/a	n/a	N/A
		Chest - other & multiple	338		n/a	n/a	N/A
		Chest - unspecified	339		n/a	n/a	N/A
	Abdomen & pelvic region	Abdominal muscles & tendons	340		n/a	n/a	N/A
		Stomach	341		n/a	n/a	N/A
		Small intestine & duodenum	342		37 Bowel function	65%	36%
		Liver & intraperitoneal ducts	343		n/a	n/a	N/A
		Gallbladder & extrahepatic bile ducts	344		37 Bowel function	65%	36%
		Pancreas	345		n/a	n/a	N/A
		Pelvic bones, muscles & tendons	346		44 Pelvis	15%	8%
		Spleen	347		n/a	n/a	N/A
		Bladder	350		n/a	n/a	N/A
		Kidney	351		n/a	n/a	N/A
		Abdominal ducts & glands	352		n/a	n/a	N/A
		Large colon & rectum	353		37 Bowel function	65%	36%
		Genital (reproductive) organs	354		38 Sexual organs	47%	26%
		Abdomen - other & multiple	358		n/a	n/a	N/A
	Abdomen - unspecified	359		n/a	n/a	N/A	

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TABLE G.1C
WorkSafe¹ Location of Injury Code to MAIMS

Bodily Locations		Description	WorkSafe Code	Comments	Maims ID Injury Type	Maims		
1	2					%	AMA V %	
	Trunk - multiple locations	Trunk - multiple locations	390		n/a	n/a	N/A	
	Trunk - unspecified locations	Trunk - unspecified locations	390		n/a	n/a	N/A	
Upper Limbs	Shoulder	Shoulder	410		49 Aug of right & left arm at or above elbow	78%	43%	
		Upper arms	420		49 Aug of right & left arm at or above elbow	78%	43%	
	Elbow	Elbow	430		50 Aug of right & left arm	75%	42%	
		Forearm	440		51 Aug of right & left arm below elbow	73%	41%	
	Wrist	Wrist	450		52 Aug of right & left h&	68%	44%	
		H&, finger & thumb	460		52 Aug of right & left h&	68%	44%	
			Fingers	461		53 Aug of all fingers except thumb	16%	10%
			Thumb	462		54 Aug of right & left thumb	28%	18%
			H&, fingers & thumb - other & multiple	466		55 Aug h&, fingers & thumbs	20%	13%
			H&, fingers & thumb - unspecified	469		56 Aug h&, fingers & thumbs	20%	13%
	Upper limb - multiple locations	Upper limb - multiple locations	480		57 Aug upper limbs (arms, thumbs, h&)	61%	34%	
	Upper limb - unspecified locations	Upper limb - unspecified locations	480		57 Aug upper limbs (arms, thumbs, h&)	61%	34%	
Lower Limbs	Hip	Hip	510		44 Pelvis	15%	8%	
		Upper leg	520		30 Leg at or above knee	75%	34%	
	Knee	Knee	530		30 Leg at or above knee	75%	34%	
		Lower leg	540		31 Leg below knee	70%	32%	
	Ankle	Ankle	550		32 Foot	65%	33%	
		Foot & toes	560		32 Foot	65%	33%	
			Toes	561	Impairment > 6%	35 Great toe	22%	9%
				561	Impairment < 6%	35 Any other toe	6%	2%
			Foot & toes - other & multiple	566		32 Foot	65%	33%
			Foot & toes - unspecified	569		32 Foot	65%	33%
	Lower limb - multiple locations	Lower limb - multiple locations	580		58 Aug lower limbs (pelvis, leg, foot)	56%	29%	
	Lower limb - unspecified locations	Lower limb - unspecified locations	590		58 Aug lower limbs (pelvis, leg, foot)	56%	29%	
	Neck & spine	Neck & spine	610		60 Neck & spine	85%	54%	
	Head & neck	Head & neck	620		61 Head & neck	70%	42%	
	Head & others	Head & others	630		62 Head & others	69%	46%	
	Trunk & limbs	Trunk & limbs	640		63 Trunk & limbs	100%	67%	
	Upper & lower limbs	Upper & lower limbs	650		64 Upper & lower limbs	88%	44%	
	Other specified multiple locations	Other specified multiple locations	680		65 Aug all	38%	25%	
	Other unspecified multiple locations	Other unspecified multiple locations	688		65 Aug all	38%	25%	
Multiple Systemic	Unspecified multiple locations	Unspecified multiple locations	690		65 Aug all	38%	25%	
		Circulatory system	710	600-699	n/a	n/a	N/A	
		Respiratory system	720		n/a	n/a	N/A	
		Digestive system	730		n/a	n/a	N/A	
		Genitourinary system	740		38 Sexual organs	47%	26%	
		Nervous system	750		n/a	n/a	N/A	
		Other & multiple systemic conditions	Other & multiple systemic conditions	780		n/a	n/a	N/A
Unspecified systemic conditions	Unspecified systemic conditions	790		n/a	n/a	N/A		
Non-physical	Psychological system	800		n/a	n/a	N/A		
Unspecified	Unspecified locations	Unspecified locations	900		n/a	n/a	N/A	
Total								

¹ WorkSafe location of injury code as per WorkCover's claim file (Injhdic)

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TABLE G.1D
Permanent Injuries Mapping Summary - WorkSafe to MAIMS

WorkSafe code	MAIMS ID	MAIMS Injury Type
110	55	Avn head injury
111	61	Avn head injury
120	4	Hand damage
121	8	Endoail
126	6	Sight of both eyes
129	7	Sight of one eye
130	4	Hearing - both ears
140	1	Power of speech
150	38	Loss of Taste and Smell
180	55	Avn head injury
190	55	Avn head injury
210	43	Neck
211	43	Neck
218	43	Neck
219	43	Neck
310	42	Back
311	42	Back
318	42	Back
319	42	Back
320	n/a	n/a
331	n/a	n/a
332	39	Both breasts
333	n/a	n/a
334	n/a	n/a
335	n/a	n/a
338	n/a	n/a
339	n/a	n/a
340	n/a	n/a
341	n/a	Boxed function
342	n/a	Boxed function
344	37	Boxed function
345	n/a	n/a
346	44	PAWIS
347	n/a	n/a
350	n/a	n/a
351	n/a	n/a
352	n/a	n/a
353	37	Boxed function
354	38	Sustained organ
356	n/a	n/a
359	n/a	n/a
360	n/a	n/a
361	n/a	n/a
362	n/a	Avn of right and left arm at or above elbow
363	n/a	Avn of right and left arm at or above elbow
420	40	Avn of right and left arm
440	51	Avn of right and left arm below elbow
450	52	Avn of right and left hand
460	52	Avn of right and left hand
461	53	Avn of all fingers except thumb
462	54	Avn of right and left thumb
463	54	Avn of right and left thumb
466	56	Avn hand, fingers and thumb
480	57	Avn upper limbs (arms, thumbs, hand)
490	57	Avn upper limbs (arms, thumbs, hand)
510	44	PAWIS
520	30	Leg at or above knee
530	30	Leg at or above knee
540	32	Foot
550	32	Foot
561	33	Great toe
568	32	Foot
569	32	Foot
580	58	Avn lower limbs (legs, feet)
590	58	Avn lower limbs (legs, feet)
610	60	Neck and spine

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TABLE G.1E
Permanent Injuries Mapping Summary - WorkSafe to MAIMS

WorkSafe code	MAIMS ID	MAIMS Injury Type
620	61	Head and neck
630	62	Head and others
640	63	Head and limbs
650	64	Upper and lower limbs
688	65	Avn all
690	65	Avn all
710	n/a	n/a
720	n/a	n/a
730	38	Sustained organ
740	38	Sustained organ
750	n/a	n/a
780	n/a	n/a
790	n/a	n/a
800	n/a	n/a
900	n/a	n/a
N/a	5	Loss of Taste or Smell
N/a	5	Loss of Taste or Smell
N/a	36	Avn of right eye
N/a	40	One breast

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TABLE G.1F

MAIMS ID	MAIMS Injury Type	WorkSafe code
140	Avn of right eye	36
150	Sensor of Taste and Smell	5
130	Hearing - both ears	4
128	Hearing - one ear	6
126	Sight of both eyes	6
124	Sight of one eye	7
122	Eye ball	8
520	Leg at or above knee	30
530	Leg below knee	31
500	Foot	32
560	Foot	32
568	Foot	32
569	Foot	32
561	Great toe	33
342	Boxed function	34
344	Boxed function	34
353	Boxed function	37
354	Sustained organ	38
356	Sustained organ	38
740	Both breasts	39
332	One breast	40
411	Hand damage	41
310	Hand	42
318	Hand	42
316	Hand	42
315	Hand	42
210	Neck	43
211	Neck	43
218	Neck	43
219	Neck	43
346	PAWIS	44
410	Avn of right and left arm at or above elbow	40
420	Avn of right and left arm	40
430	Avn of right and left arm	40
440	Avn of right and left arm below elbow	40
450	Avn of right and left hand	40
460	Avn of right and left hand	40
461	Avn of all fingers except thumb	40
462	Avn of right and left thumb	40
463	Avn of right and left thumb	40
466	Avn hand, fingers and thumb	40
480	Avn upper limbs (arms, thumbs, hand)	40
490	Avn upper limbs (arms, thumbs, hand)	40
510	PAWIS	44
520	Leg at or above knee	30
530	Leg at or above knee	30
540	Foot	32
550	Foot	32
561	Great toe	33
568	Foot	32
569	Foot	32
580	Avn lower limbs (legs, feet)	40
590	Avn lower limbs (legs, feet)	40
610	Neck and spine	40

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TABLE G.2B
Extra Cost

Common Law Threshold (WPP) %	\$107.5K Max	\$156K Max	\$200K Max	\$250K Max
15%	\$69.9m	\$82.5m	\$91.9m	\$98.0m
18%	\$57.1m	\$69.5m	\$79.0m	\$85.1m
20%	\$51.0m	\$63.7m	\$73.1m	\$79.1m
Base formula	\$23.5m	\$40.5m	\$50.0m	\$55.0m

1. Excludes hearing loss claims. Includes some adjustment for differing legal costs between statutory and common law claims.

The formula '\$200K Max' was selected as that it best addresses the multiple aims of while leaving most claimants better off with a focus on increasing the maximum amount available, especially the most severely impaired - while providing approximately \$92 million in benefit dollars. The extra benefit amount of \$92m for this option is made up of the following components:

TABLE G.2C

Components of the extra benefit of \$92m under the \$200K option	Extra benefit (\$m)
Savings due to s66 H30 ¹	(42.7)
Change in s66 benefit formula ²	92.7
Legal costs savings	8.6
Other HUD	6.4
Contributions to Common Law claims ³	8.3
Section 67	(9.2)
Psychiatric claims ⁴	27.8
Total	91.9

¹ Savings due to eliminating permanent injury benefits for claimants under common law system.
² Extra costs due to adopting the new \$200K (not formula) for permanent injury.
³ Based on PwC analysis.
⁴ Allowance for psychiatric claims, based on 15% impairment threshold to be eligible for a psychiatric claim.

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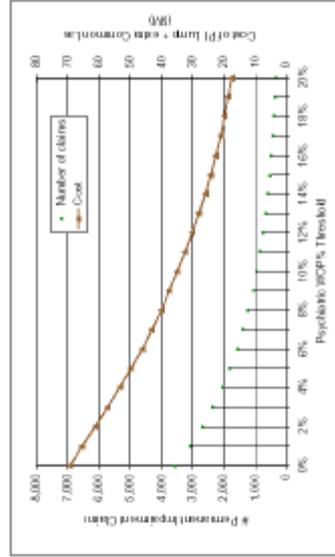
G.3 Psychiatric Claims

Psychiatric claim numbers and costs are investigated by eligibility WPI% threshold of 1% to 20%, based on a Common Law threshold of 15%. The results under the \$200K Max option are shown below.

TABLE G.3A

Psychiatric WPI% Threshold	Common Law at 15% WOP Threshold	Cost (\$m)
0%	3,540	73.0
1%	3,107	68.9
2%	2,719	64.8
3%	2,377	60.8
4%	2,078	57.0
5%	1,822	53.3
6%	1,594	49.8
7%	1,393	46.7
8%	1,212	43.7
9%	1,059	40.9
10%	927	38.4
11%	813	35.9
12%	714	33.6
13%	635	31.6
14%	566	29.5
15%	516	27.8
16%	479	25.8
17%	441	24.1
18%	399	21.9
19%	347	20.4
20%	295	18.7

Graph G.3A: Psychiatric cost by different thresholds, assuming Common Law WOP 15% threshold



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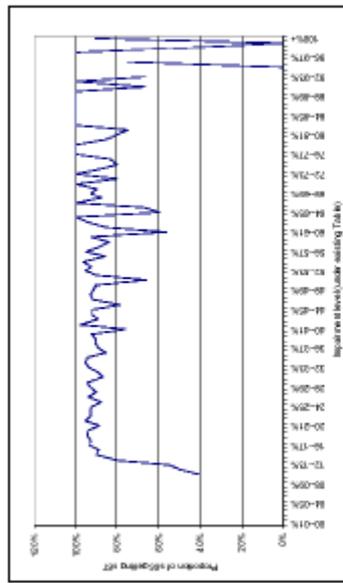
G.4 Pain and Sufferings (section 67) Claims

The costs of section 67 claims are analysed by its components:

- Proportion of eligible claims receiving section 67 benefits (take-up rate)
- Number of section 67 claims
- Average section 67 size

Take-up Rate

Using the same data as section 66 modelling, we calculated the proportion of section 66 claimants receiving section 67 benefits, by different impairment level under the existing Table. The graph below shows the take-up rate for different impairment level. The proportion was reasonably stable at around 90% for impairment level greater than 15% and accordingly we have assumed an average take-up rate of 90%.



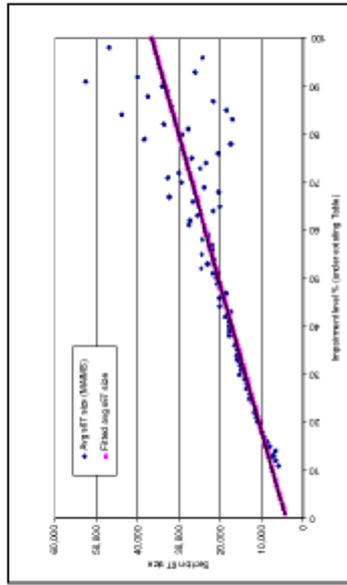
Number of section 67 Claims

Using the results from other sections, we have calculated the number of eligible claims. This includes claims arising from statutory, commutation and common law, the impact of new diseases and psychiatric claims, and the assumed take up rate described above.

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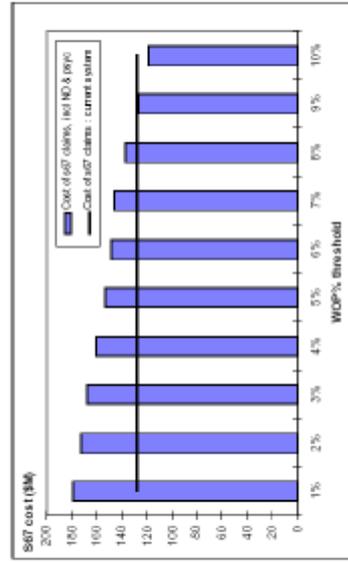
Average section s67 Size

The average claim sizes for different impairment level under the existing Table were calculated using the same data (shown below). A linear line was fitted and was further adjusted to allow for the impact of translation from the Table to AMA V.



Result

The costs of section 67 claims under the \$200K options by different eligibility thresholds are presented below graphically.



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G.5 Analysis of Section 66 Effects

TABLE G.15A

Change in Statutory entitlement amount using WorkCover Impairment Guides and \$200K Max Option Formula

Difference	Numbers of Permanent Injury Claims by Injury Type and Difference													Total
	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Arm	Other	
\$20,000 plus less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
\$10,000 to \$20,000 less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
\$5,000 to \$10,000 less	0	0	0	0	0	43	0	0	0	14	0	0	0	57
\$2,000 to \$5,000 less	0	0	114	0	0	1,837	14	0	0	60	0	0	0	2,015
0 to \$2,000 less	736	278	962	233	38	349	85	202	50	35	33	1,580	19	4,629
0 to \$2,000 more	21	12	2	12	50	14	0	12	0	0	5	5	36	169
\$2,000 to \$5,000 more	1,046	2,405	28	787	300	45	9	257	57	0	71	889	171	6,068
\$5,000 to \$10,000 more	1,801	442	0	501	102	0	3	253	5	0	138	205	264	3,698
\$10,000 to \$20,000 more	219	57	0	85	81	0	0	24	3	0	54	52	74	654
\$20,000 plus more	95	43	0	40	71	0	0	21	2	0	21	21	62	375
Total	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674
Total worse off	736	278	1,102	233	38	2,229	112	202	50	109	33	1,580	19	6,711
Total better off	3,182	2,959	29	1,424	604	59	9	551	67	0	288	1,172	608	10,962
Total PI claims (excl CL)	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674

Difference	Total Dollar Difference by Injury Type and Difference (\$'000)													Total
	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Arm	Other	
\$20,000 plus less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
\$10,000 to \$20,000 less	0	0	0	0	0	0	0	0	0	-96	0	0	0	0
\$5,000 to \$10,000 less	0	0	0	0	0	-222	0	0	0	-96	0	0	0	-318
\$2,000 to \$5,000 less	0	0	-265	0	0	-5,410	-34	0	0	-214	0	0	0	-5,923
0 to \$2,000 less	-304	-29	-1,352	-16	-9	-413	-122	-60	-37	-53	-4	-1,112	-2	-3,513
0 to \$2,000 more	1,360	650	195	689	3,411	1,089	0	847	0	0	156	405	1,029	10,463
\$2,000 to \$5,000 more	433	1,230	7	514	190	8	0	117	85	0	84	1,287	104	4,039
\$5,000 to \$10,000 more	5,502	1,833	0	2,157	449	0	13	712	22	0	610	488	1,047	12,842
\$10,000 to \$20,000 more	1,577	373	33	613	503	0	0	172	22	0	397	358	464	4,512
\$20,000 plus more	1,246	585	0	580	1,165	0	0	297	26	0	288	266	863	5,326
Total	8,847	4,642	-1,382	4,548	5,710	-4,949	-143	2,084	99	-362	1,530	1,702	4,105	27,429

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TABLE G.5B

Percentage Change in s66 Entitlement Using WorkCover Impairment Guides and \$200K Max Option Formula

Difference	Numbers of Permanent Injury Claims by Injury Type and Difference													Total
	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Arm	Other	
100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 - 50% less	0	0	439	0	0	1,847	35	0	0	109	0	0	0	2,429
10 - 20% less	86	0	423	0	0	364	35	0	16	0	0	430	0	1,354
0 - 10% less	649	278	235	233	38	17	40	202	35	0	33	1,150	19	2,928
0 - 10% more	869	1,214	5	394	133	0	12	218	35	0	9	889	73	3,769
10 - 20% more	1,628	539	28	395	88	45	0	226	24	0	62	418	104	3,557
20 - 50% more	549	1,102	0	601	309	2	0	98	2	0	212	33	383	3,291
50 - 100% more	12	100	0	2	60	5	0	5	7	0	5	31	45	273
100% plus more	3	5	2	33	14	7	0	3	0	0	0	2	3	73
Total	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674
Total worse off	736	278	1,096	233	38	2,229	112	202	50	109	33	1,580	19	6,711
Total better off	3,182	2,959	35	1,424	604	59	9	551	67	0	288	1,172	608	10,962
Total PI claims (incl CL)	3,918	3,237	1,131	1,658	642	2,288	121	753	117	109	321	2,752	627	17,674

Difference	Total Dollar Difference by Injury Type and Difference													Total
	Back	Fingers	Foot	Hands	Head	Leg	Limbs	Neck	Pelvis	Toes	Trunk	Arm	Other	
100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50 - 100% less	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20 - 50% less	0	0	-655	0	0	-4,841	-45	0	0	-362	0	0	0	-5,905
10 - 20% less	-77	0	-742	0	0	-1,148	-59	0	-21	0	0	-956	0	-2,604
0 - 10% less	-227	-29	-220	-16	-9	-55	-52	-60	-17	0	-4	-955	-2	-1,246
0 - 10% more	424	224	3	149	8	0	13	113	37	0	1	982	4	1,959
10 - 20% more	5,045	735	36	469	143	8	0	607	70	0	83	1,031	166	8,394
20 - 50% more	3,397	3,046	0	3,312	2,144	114	0	850	26	0	1,295	380	2,300	16,663
50 - 100% more	857	212	0	39	2,130	235	0	370	3	0	156	218	1,330	5,630
100% plus more	348	453	175	594	1,283	739	0	406	0	0	0	202	307	4,538
Total	8,847	4,642	-1,382	4,548	5,710	-4,949	-143	2,084	99	-362	1,530	1,702	4,105	27,429

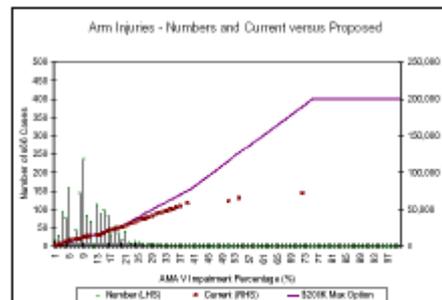
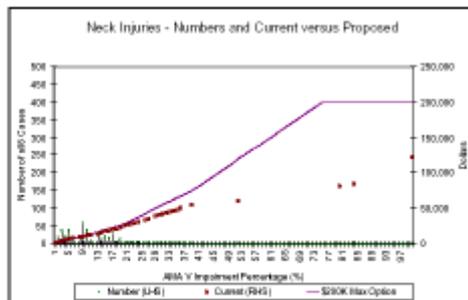
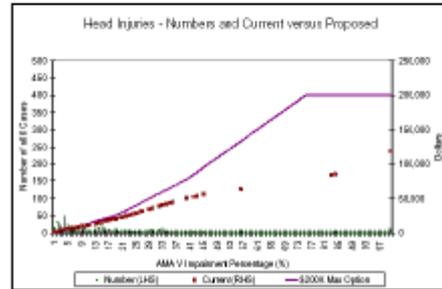
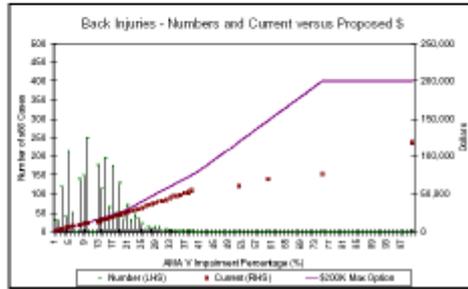
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G.6 Comparison of Existing Benefits to the New Section 66 Formula

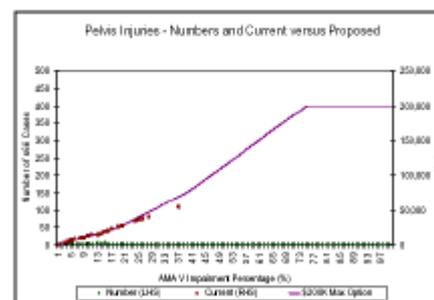
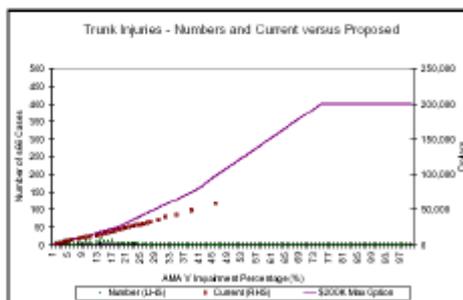
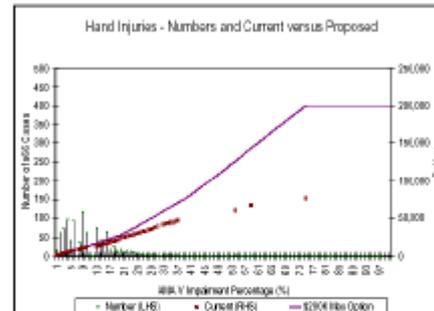
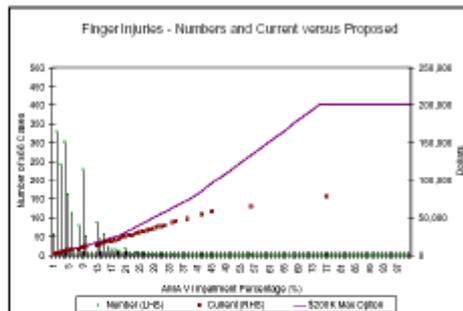
The following graphs compare the existing benefits under the existing Tables to the new '\$200K Max' formula by different injury type.



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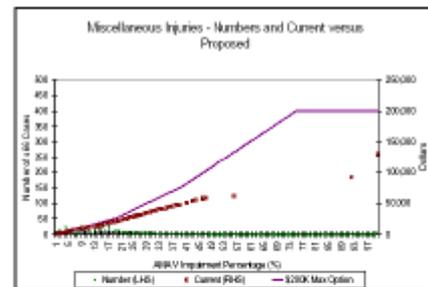
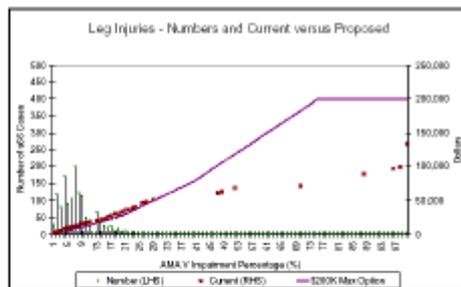
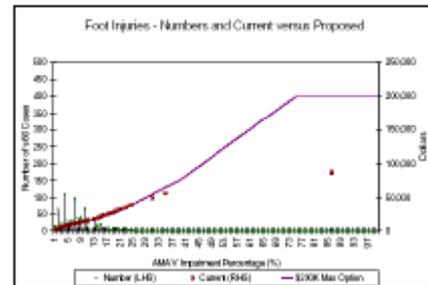
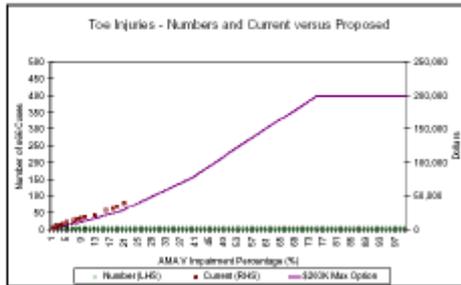
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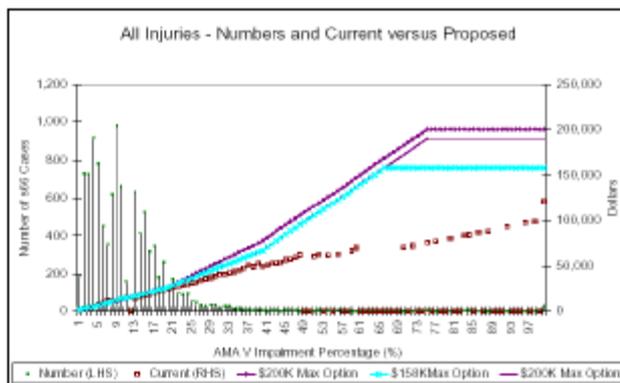
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APPENDIX H

Specific Data Issues

A range of uncertain data issues was addressed in the modelling. Most issues required subjective experience to determine assumptions due to the appropriate data being unavailable.

- **Identifying Each Claim's Current Table of Disabilities Nature of Injury Type** – The Current Table of Disabilities ('Current Table') in Section 73 of the Workers Compensation Act 1987 ('the Act') provides compensation for permanent injuries varying according to 48 specific nature of injury types in the Current Table of Disabilities.

However, WorkCover's claim records do not currently identify the Current Table's 'nature of injury' type for claims compensated. In fact single injury permanent impairment claim percentages may be derived from a combination of impairments to different nature of injury types caused by the one injury. For example if a back injury has caused a loss of movement in the arms, this loss is estimated and calculated as a percentage of the Current Table's arm maximum. This is added to that calculated from the Current Table's back maximum. What results is a compensation dollar amount from a combination of different nature of injury types and their available maximums.

The only item in the claims file similar to the Current Table's 'nature of injury' type measure is the WorkSafe 'location of injury code'. This is a broad indicator for the most significant location that injury affects. We have attempted to map the 48 'nature of injury' types in the Current Table to the WorkSafe location of injury code. Where there was no identifiable link, an average of a combination of 'nature of injury' types was used. Even so, 28 WorkSafe injury codes were unable to be linked and were excluded from the analysis. These issues with identifying the make-up and measurement of claim impairments increase the level of uncertainty in our results.

- **Maximum Amount Available** – For the purpose of this analysis we have used all claims (open and closed) with an accident date occurring between 1 July 1996 and 31 December 2000 and section 66 ('s66') payment on these claims from WorkCover's December 2000 claim file extract. According to the WorkCover Benefits Guide (April 2001 Edition), for claims made on or after 1 February 1992

and lodged on or after 12 January 1997 the maximum allowable individual loss or impairment injury amount is \$100,000. Those claims lodged between 1 July 1996 and 12 January 1997 may qualify for a higher maximum amount for which we have not adjusted in our analysis.

- **Multiple Injuries** – Multiple injuries are entitled to a maximum of \$121,000 rather than \$100,000 for a single injury. The s66 entitlement dollars of the different injuries are added and capped at this figure. We were not able to identify with any degree of certainty whether a claimant has sustained 'multiple injuries' from WorkCover data. Accordingly it has been assumed that under the Current Table the % impairments for multiple injuries are cumulative and any over 100% were put into the 99% - 100% band.
- **Estimating an Existing Claim's Whole of Person % (WPI) Permanent Impairment under the WCA Guides** – We relied upon a stratified sample of 97 s66 claims and discussions with WorkCover staff and advisers. Even though this sample was targeted at the more numerous injury groups and severities, there were many injury types for which data was lacking at certain severities, and averages of related injury types had to be used. For both commutations and common law, we did not derive a breakdown of the injury types of the permanent impairment claims and multiplied their Current Table's permanent impairment amount by 60%, which was the average proportion of all injury types' WPI% Impairment compared to their Current Table amount. This assumes that on average common law claims have an average adjustment.
- **New Diseases** – Use of the WCA Guides adds a number of Extension of Coverage (EoC) diseases that will newly qualify for a s66 permanent impairment payment. By far the biggest component of these EoC diseases will be psychiatric illness, which we have modelled separately. From discussions with WorkCover, we have estimated the likely impact of non-psychiatric illness EoC to be approximately 857 cases per year. This number was derived by adding an extra 5% of existing claim counts at the 0%-1% WPI impairment band – the % added was then decreased linearly to 0% for the 99%-100% band. This allowance was weighted in favour of the lower impairments as the more severe the permanent EoC disease or injury the higher the likelihood the claimant already qualifies under one or other of the Current Table's injury types.

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■ **Psychiatric Illness** – The introduction of psychiatric diseases as a class of EoC claims provides a much higher estimate of the number of potential permanent impairment claims than other, non-psychiatric, EoC claims. At low levels of impairment there is the potential for substantial numbers of claimants to be eligible for a permanent psychiatric impairment payment. Anecdotal evidence from the introduction of psychiatric diseases to a statutory non-economic loss benefit indicates that they are potentially up to 5 times more numerous than other EoC claims. We estimated that with no minimum WPI% impairment % there was the potential for up to 4000 psychiatric illness claims to qualify for a s66 permanent impairment payment. We estimated the effects of restricting the qualification of s66 benefits for psychiatric illness to 10%, 15% and 20% WPI impairment. This restriction reduced the s66 claim count estimates for psychiatric illness to 1,000, 550 and 300 respectively.

■ **Commutations** – We have calculated the total annual settlements of commutations arising from non-hearing loss permanent impairment claims to be approximately 70% of s66 non-hearing loss permanent impairment settlements. This equates to approximately 7,000 annual commutation settlements in 2000/01 (ie. very broadly 70% of the total number of claims). We have distributed these according to the severity pattern as presented in the table on page 19 of the recent report into commutations¹⁷.

■ **Common Law claims** – An annual number of common law settlements excluding hearing loss, was calculated to be approximately 1,600 in 2000/01 (1,850 * 95% (ie. excluding 5% hearing loss claims) * 90% (ie. excluding 10% intimations). To determine the impairment distribution we have estimated the impairment level of a common law claim by capturing the Maximum s66 claim over the claim's history (note: anomalous 0% estimates were excluded from the distribution proportions). This exercise was done for all settled common law claims incurred in the last 4 years to December 2000.

■ The effect of changes to **Common Law** access and damages. The Sheehan recommendation have wide ranging implications for potential behavioural change in relation to accessing common law. Removes the uncertainty and risk of nominating

¹⁷ PresentationhouseCoopers "Analysis of trends in NSW Workers Compensation Commuted Claims", 8 October 2001

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for common law – especially around the threshold. Based on discussions with WorkCover staff we have assumed 25% of claims currently in the statutory system in the 20 - 30 WPI% impairment band will take common law action and 15% of claims between 30 – 40 WPI%. However, there may be a range of other behavioural implications that occur which cannot be foreseen before implementation.

■ **Effects of restricting commutations** – We have not done any independent analysis into the cost to the Scheme of commutations as compared to the costs of equivalent non-commuted statutory claims. Any analysis presented is based on the PwC report

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Appendix 3

Letter to the Chairman from the Minister for Industrial Relations

dated 9 January 2002

Letter to the Chairman from the Minister for Industrial Relations



Special Minister of State
Minister for Industrial Relations
Assistant Treasurer
Minister Assisting the Premier on Public Sector Management and
Minister Assisting the Premier for the Central Coast

Legislative Council
GENERAL PURPOSE
STANDING COMMITTEES

09 JAN 2002

RECEIVED

The Hon Reverend Fred Nile, MLC
Parliament House
Macquarie Street
SYDNEY 2000

Dear Reverend Nile,

I note the actuarial projections provided by Tillinghast-Towers Perrin at the request of General Purpose Standing Committee No.1.

The projections confirm the new Scheme should, for the first time in ten years, collect more than it will spend.

As I have indicated to the parliament, most recently when the Government withdrew legislation to proceed to private underwriting, the Government is committed to improving Scheme design.

I am also advised the Committee is interested in holding a seminar on the third stage of reform.

I am happy for the WorkCover Authority to organise such an event in conjunction with the Committee. Ms Kate McKenzie can be contacted on 9370 5858.

Should it be the wish of the Committee, I can appear before General Purpose Standing Committee No.1 in February to discuss further improvements to the workers compensation scheme.

Yours sincerely

John Della Bosca

Level 30 Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000, Australia
Tel: (02) 9228-4777 Fax: (02) 9228-4392 E-Mail: office@dellabosca.minister.nsw.gov.au