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Finance and Administration Committee

Q-COMP®
The Workers' Compensation Regulatory Authority

11 September 2012

The Hon Michael Crandon MP
Chair
Finance and Administration Committee
Parliament House
George Street
BRISBANE QLD 4000

Dear Mr Crandon

Q-COMP Submission to the inquiry into Queensland's workers' compensation scheme

Please find **attached** an updated version of correspondence from Q-COMP's actuary Finity comparing the cost of providing benefits in the Queensland scheme with other jurisdictions. The original correspondence was attached to Q-COMP's submission to the Finance and Administration Committee Inquiry into the operation of Queensland's workers' compensation scheme.

The updated correspondence includes data which is based on an amended premium rate of $1.45. An estimated rate of $1.49 for 2012-13 was used for the original correspondence as the premium rate now established was not available to Finity at the time of preparing the information.

I submit that this revised information be made available to the Committee, as it indicates that the Queensland scheme is in a better position than previously indicated in our submission.

I trust this information will assist the Committee in its work. Should further clarification on this or any other matter be required, please contact me on telephone (07) 3020 6444 or email elizabeth.woods@qcomp.com.au.

Yours sincerely

Elizabeth Woods
Chief Executive Officer

CC: Deborah Jeffrey, Research Director, Finance and Administration Committee Secretariat finity

5 September 2012

Ms Elizabeth Woods
Chief Executive Officer
Q-COMP
347 Ann Street
BRISBANE QLD 4000

Dear Ms Woods

Queensland Workers Compensation Cost Comparison

Q-COMP has asked Finity Consulting (Finity) to provide advice and information on the Queensland workers compensation scheme. In particular, Q-COMP has asked us to compare the cost of providing benefits to injured workers in Queensland with the cost in other jurisdictions – especially NSW, Victoria and Comcare – and where relevant to provide comment on the reasons for difference.

Our advice has been requested to assist Q-COMP in providing input to the Queensland Parliament Finance and Administration Committee's inquiry (the Inquiry) into the operation of the Queensland Workers Compensation Scheme (the Scheme). We understand that a copy of this letter may be provided to the Inquiry and we consent to this distribution.

Conclusion

Based on the scheme comparisons that we have made and subject to the limitations we have noted regarding comparative publicly available information for each scheme we conclude that –

- The cost per $100 of wages of providing the benefits available to injured workers in Queensland is around 15% higher than the Victorian and new NSW schemes and around 20% lower than the Comcare scheme. As there are different amounts of wages insured in each scheme, these differences in the cost per $100 wages should not be confused with differences in the total cost of each scheme.
- For claims receiving weekly benefits, Queensland statutory benefit levels are comparable with new NSW and Victoria but for less seriously injured workers are lower than Comcare benefits. The cost of delivering statutory benefits in Queensland is lower than NSW and Victoria because of the earlier cessation of claims due to the stable and stationary provisions and time/dollar limits.

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- Overall Queensland benefits are higher compared with the Victorian and new NSW schemes because of common law benefits which are only available to around 4.5% of claimants in Queensland. Workers who could not establish employer negligence would likely be worse off in Queensland than in other jurisdictions.
- The Queensland scheme appears to be relatively efficient in terms of the administrative costs of the scheme.
- It is clear that claimant behaviour has a very significant impact on workers compensation claims costs. Changing the benefit structure of a scheme will impact claimant behaviour in ways that are difficult to predict.

Cost of Benefits

The cost of benefits in each jurisdiction can be approximated from the ***average premium rate*** expressed per $100 of wages for each scheme. The average premium for a year will normally include –

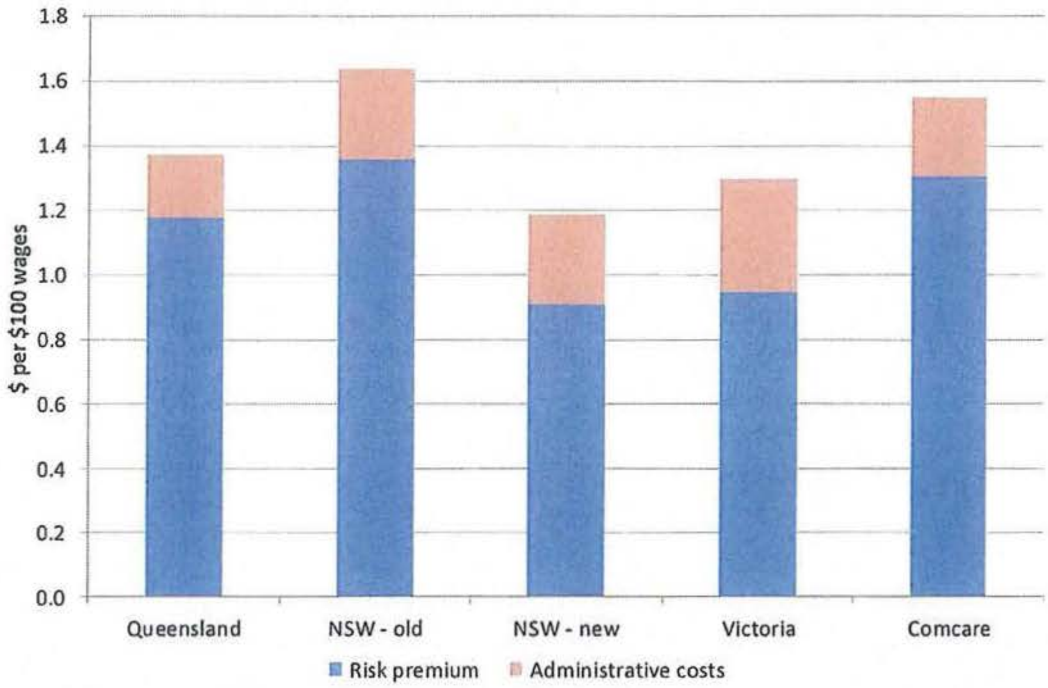
1. The estimated cost of benefits which will be payable to claimants injured in the year plus any associated legal and investigation costs, discounted for the time value of money. This is called the ***risk premium***.
2. The administrative costs of the scheme which will include the salary expenses associated with handling claims.
3. The total of the two items above is often referred to as the ***break-even premium***.
4. Any additional loadings included in the average premium to improve scheme funding or alternately any discounts to the break-even premium in the event that a scheme has surplus funds.

To compare the cost of benefits between schemes we need information on the risk premium per $100 of wages for each jurisdiction. Since the risk premium is not publicly available for most schemes, we have approximated this amount as the target average premium rate for 2012/13 less the administration costs (approximated using the 2010/11 Annual Report for each scheme). Note that this approach implicitly assumes that future claims costs are discounted for the time value of money on the basis of similar investment returns for each of the schemes.

For NSW we have information on the break-even premium rate from the report issued by the Joint Parliamentary Committee on the recent legislative reforms and have used this rather than the approximate approach described above. For Victoria and Queensland we are satisfied that the approach above gives a reasonable approximation of the risk premium. For Comcare, the average premium rate increased very significantly in 2012/13 as the funding ratio of the scheme deteriorated and we think it likely that there is a loading included in the rate to improve the financial position. We have allowed for this by assuming that around half the premium rate increase for 2012/13 is attributable to this loading. This means that we have reduced the average premium rate for Comcare from $1.80 per $100 wages to $1.55.

Figure 1 below shows 2012/13 average premium rate for each jurisdiction per $100 per wages (as adjusted for Comcare) and the estimated risk premium and administration cost which comprise the average premium. For NSW we have shown the risk premium on both an 'old' and 'new' basis, following the passing of significant legislative changes in June 2012.

Figure 1 – Average Premium Rate (per $100 wages) by Jurisdiction



Notes.

1. *(1) Average premium for Queensland 1.45% less 5.5% stamp duty. Average premium taken from WorkCover submission to the Inquiry. Stamp duty adjustment from Safe Work Australia Comparative Performance Monitoring Report (13th edition). Administration expenses from 2010/11 annual report were $170.6 million (including claims handling expenses) relative to $1,136 million premium revenue.*
2. *(2) Risk premium and expenses for NSW (old) taken from breakdown of breakeven premium rate for2012/13 included in Issues Paper in Report by Joint Select Committee on the NSW Workers Compensation scheme June 2012.*
3. *(3) Breakeven premium for NSW (new) taken from PwC reform costing report included in Report by Joint Select Committee on the NSW Workers Compensation scheme June 2012. Assumed that administration expenses are unchanged.*
4. *(4) Victorian average premium target for 2012/13 of 1.298% taken to be the breakeven premium. (Annual report for 2010/11 shows BEP of 1.316% and target of 1.338%). Expenses from 2010/11 annual report were $265.7 million for operating costs and $205.5 million authorised agent fees relative to $1,802 million of premium revenue.*

(5) *Comcare target premium for 2012/13 of 1.8% (ex GST) included in Comcare Budget Statements May 2012, target rate for 2011/12 of .1.45% (incl GST) from Annual Report. Expenses in 2010/11 Annual report of $58.1 million for salaries and $22.2 million for suppliers relative to premium revenue of $221 million. Administrative costs taken to be 56% of this amount based on amounts contained in old Annual Reports.*

The old NSW scheme has the highest risk premium at $1.36 per $100 of wages which is expected to fall to $0.91 per $100 wages ages following the changes to the scheme passed in June 2012. Victoria's estimated risk premium is similar to the new NSW scheme at $0.97 per $100 wages. The Queensland risk premium of $1.18 per $100 wages is higher than Victoria and new NSW and lower than Comcare at $1.30.

These amounts are however not directly comparable and cannot be used to draw conclusions because of differences in scheme coverage and in the mix of industries included in each scheme. These differences include –

- Employer excess: in Queensland and NSW this is 5 days, Victoria is 10 days and Comcare has no excess for lost time claims. Victoria also has a medical cost excess. The amounts paid by employers will not be included in the average premium rates for each scheme.
- Journey claim cover: only Queensland and 'old' NSW cover journey claims. This will increase the average premium rate for these schemes relative to other jurisdictions.
- Industry mix: Queensland has a higher proportion of mining in particular than the other jurisdictions while the Comcare mix will be dominated by Government administration. Industry mix differences also result from differences in self insurance in each scheme (for example, in NSW the government self-insures, whereas in Victoria and Queensland the government is included in the scheme).

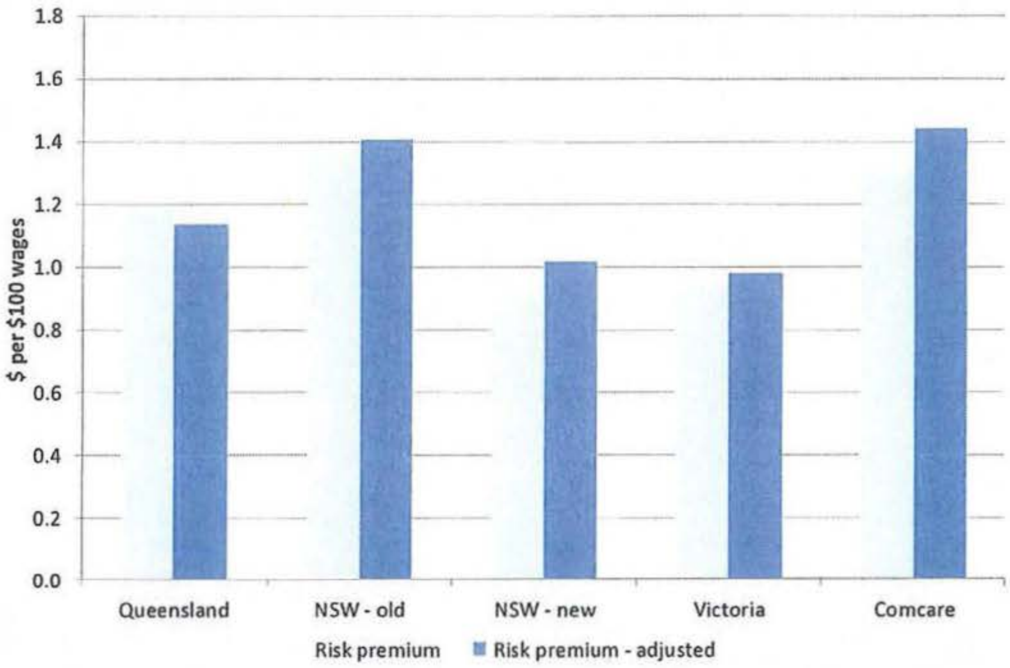
To improve comparability, we have adjusted the risk premium for each jurisdiction to take account of these differences. The adjustments for excesses, journey claims and the impact of self insurance have been taken from Safe Work Australia's Comparative Performance Monitoring Report (13th edition).

The industry mix adjustment is based on examining differences in wages by ANZSIC classification between states using information from the ABS 8155 publication. This comparison suggests that the average premium rate for NSW would be 11% higher if NSW had the same industry mix as Queensland (and in particular a greater proportion of wages in higher workers compensation risk industries such as mining). Similarly the average premium rate for Victoria would be 5% higher if Victoria had the Queensland industry mix.

For Comcare we compared Queensland's gazetted premium rates for public and administrative occupations to the overall average premium rate based on the Queensland industry mix. This suggests a 25% increase to the Comcare rate if Comcare had the Queensland industry mix.

The graph below shows the risk premium per $100 wages for each jurisdiction before and after these adjustments.

Figure 2 – Adjusted Risk Premium (per $100 wages) by Jurisdiction



The adjusted risk premiums are intended to be comparable between the jurisdictions and, subject to the approximations involved, should be broadly indicative of the differences in the cost of workers compensation benefits in each jurisdiction per $100 wages.

This comparison suggests that –

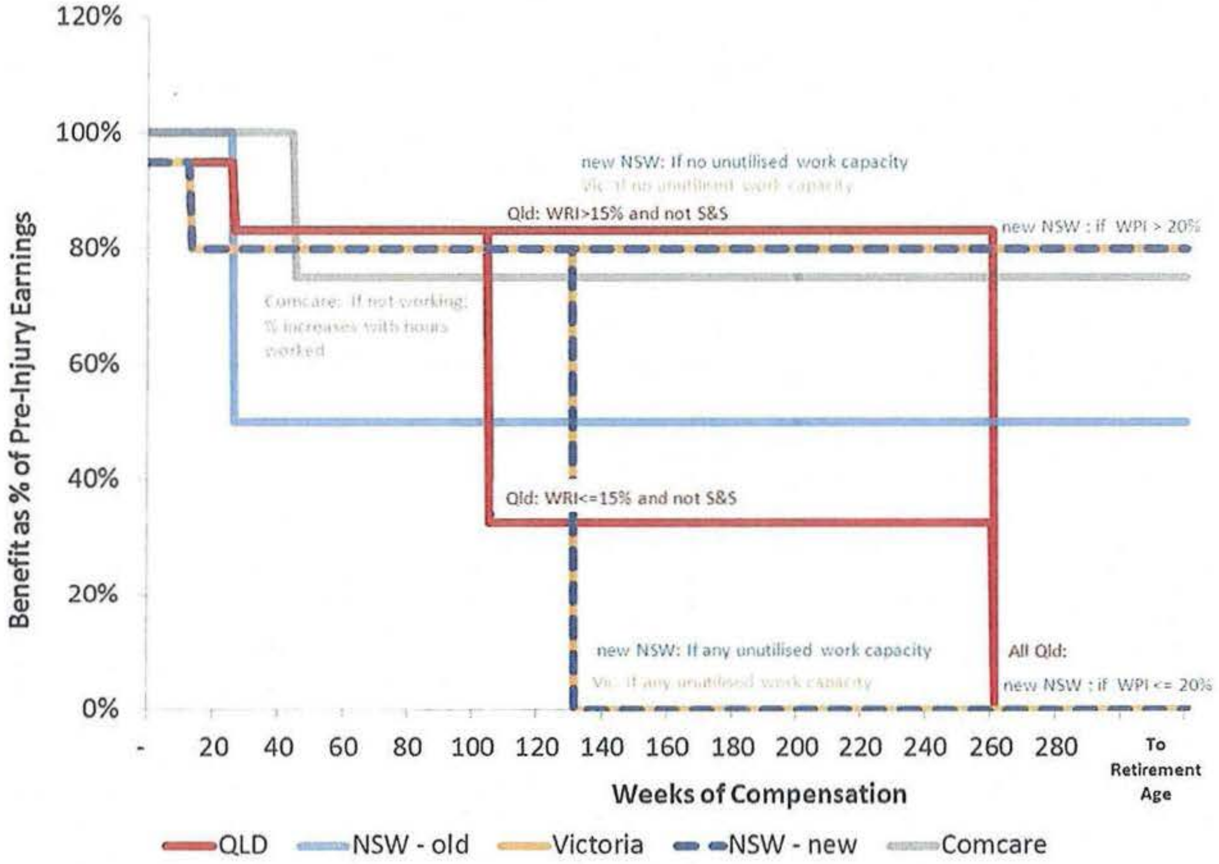
- The cost of benefits in Victoria and in the new NSW scheme is similar at around $1.00 per $100 wages. The cost of benefits in NSW is expected to reduce significantly (from $1.40 per $100 wages) following the recent scheme reforms.
- The cost of benefits in Queensland is higher than Victoria and NSW at just under $1.15 per $100 wages.
- The cost of benefits in Comcare is similar to the old NSW scheme at around $1.45 per $100 wages.

From this comparison, the cost per $100 wages of providing the benefits available to injured workers in Queensland is around 15% higher than the new NSW and Victorian schemes and around 20% lower than the Comcare scheme. Further information on the reasons for these differences is provided below.

Statutory Benefit Comparison

Figure 3 compares the level of weekly compensation available to claimants in each jurisdiction expressed as a percentage of pre-injury earnings.

Figure 3 - Weekly Compensation (% Pre Injury Earnings)



Note:

(1) *In Queensland the minimum amount based on a percentage of QOTE is estimated to apply on average rather than the fixed percentage of pre injury earnings. The amounts for Queensland in the figure above are based on this minimum amount.*

(2) *For old NSW rate after 26 weeks is based on the statutory amount since we estimate this will apply on average.*

For those claims in receipt of statutory weekly compensation payments:

- The weekly compensation amount available in Queensland up to 104 weeks is comparable with the other jurisdictions. The old NSW benefits were lower due to the maximum statutory amount that applied after 26 weeks in many cases.
- For those with a WRI of over 15% the weekly compensation amount beyond 104 weeks continues to be comparable with other jurisdictions.

- In Victoria and new NSW, beyond 130 weeks benefits are only available for those workers with no work capacity or who are working to their maximum work capacity which must be at least 15 hours per week. For those with a WRI less than 15%, the Queensland benefits therefore have some comparability with new NSW and Victoria and are lower than Comcare.

There are two important provisions in the Queensland scheme that limit the duration of weekly benefits.

The first is the stable and stationary provision, whereby once there is no expectation of further improvement in a workers' condition, the worker is assessed for permanent impairment and entitlement to weekly benefits ceases 20 days after the issue of the notice of assessment. Our analysis shows that the operation of this provision acts to limit weekly benefits for a large number of claimants although this needs to be considered in the context of greater access to common law benefits (see below).

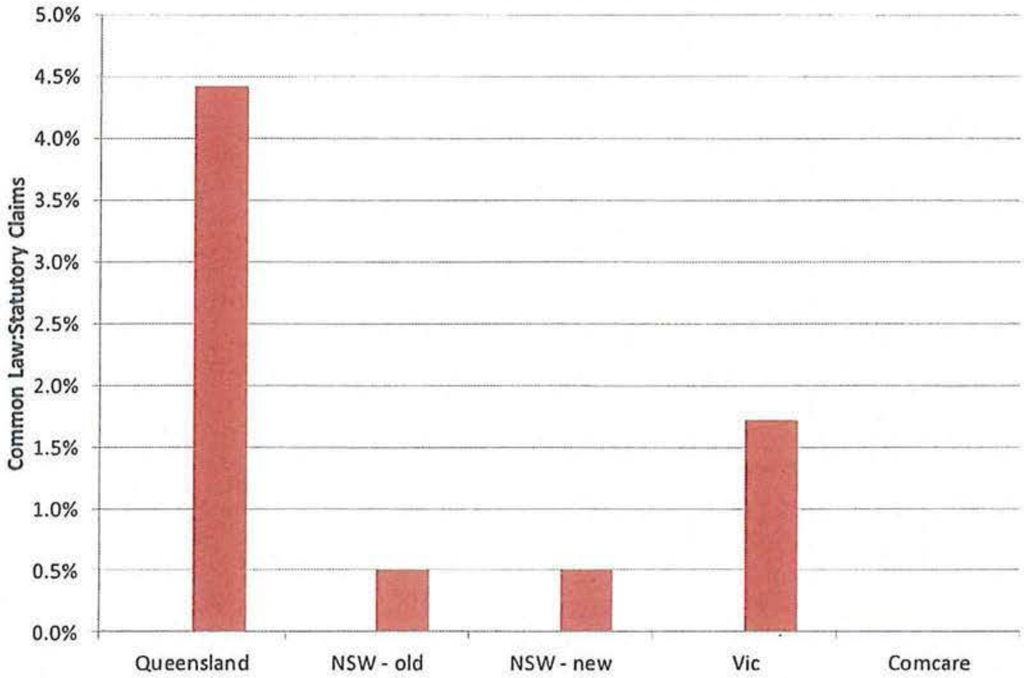
The second provision is the overall dollar and time limits ($273,000 and 5 years respectively). All the other jurisdictions may pay weekly benefits until retirement age, although Victoria and the new NSW scheme have specific provisions to limit the group of claimants to whom this applies.

Common Law Comparison

Queensland is the only scheme with no 'gateway' or threshold for access to common law damages – essentially any worker can access common law if they can establish negligence by the employer. In NSW the threshold is 15% WPI and in Victoria there is a 30% WPI threshold plus a narrative serious injury test. In effect there are no common law entitlements in Comcare.

Figure 4 below shows our assessment of the proportion of workers compensation claimants who access common law benefits in each jurisdiction called the common law conversion rate. This is calculated as the number of common law claims divided by the number of workers compensation claims (adjusting for different employer excesses that may apply).

Figure 4 – Estimated Common Law Conversion Rate



Only a small number of claimants in each scheme pursue common law damages. In Queensland we estimate that the common law conversion rate is just under 4.5%. In Victoria and NSW the conversion rate is much lower than this because of the operation of the thresholds.

The average cost of common law claims is however much higher than the average cost of statutory claims so that the cost of common law benefits is significant for each scheme with common law entitlements.

Risk premium components

We have estimated the split of the risk premium for each jurisdiction between common law costs (being damages and associated legal costs) and statutory benefits (mainly weekly benefits and medical costs).

Figure 5 – Risk Premium Components (per $100 wages)

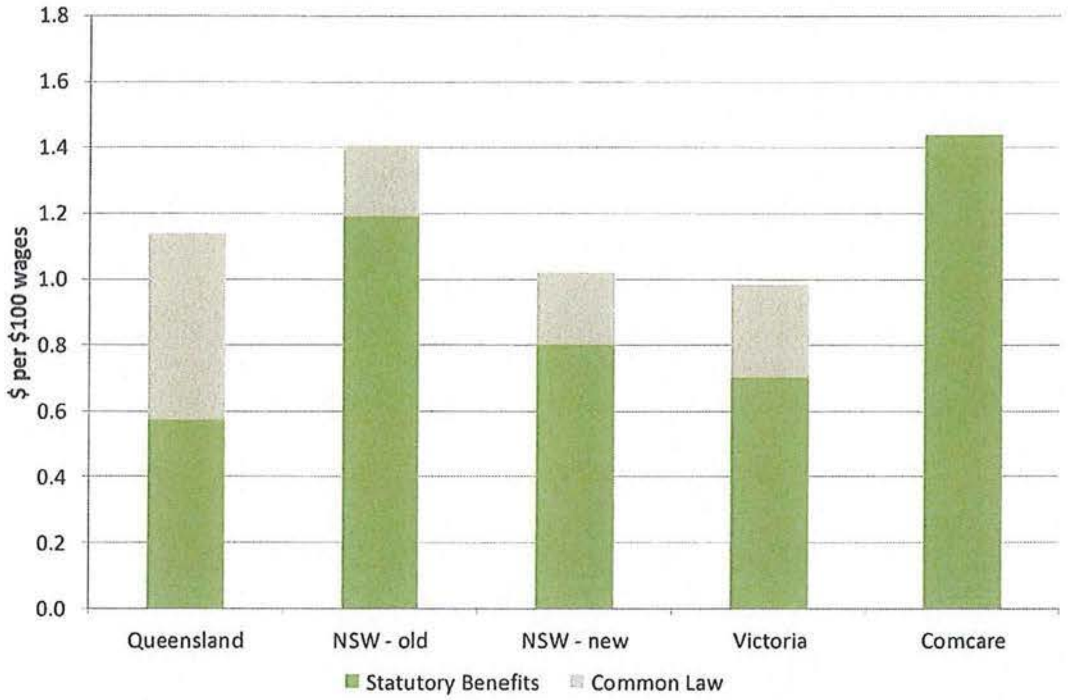


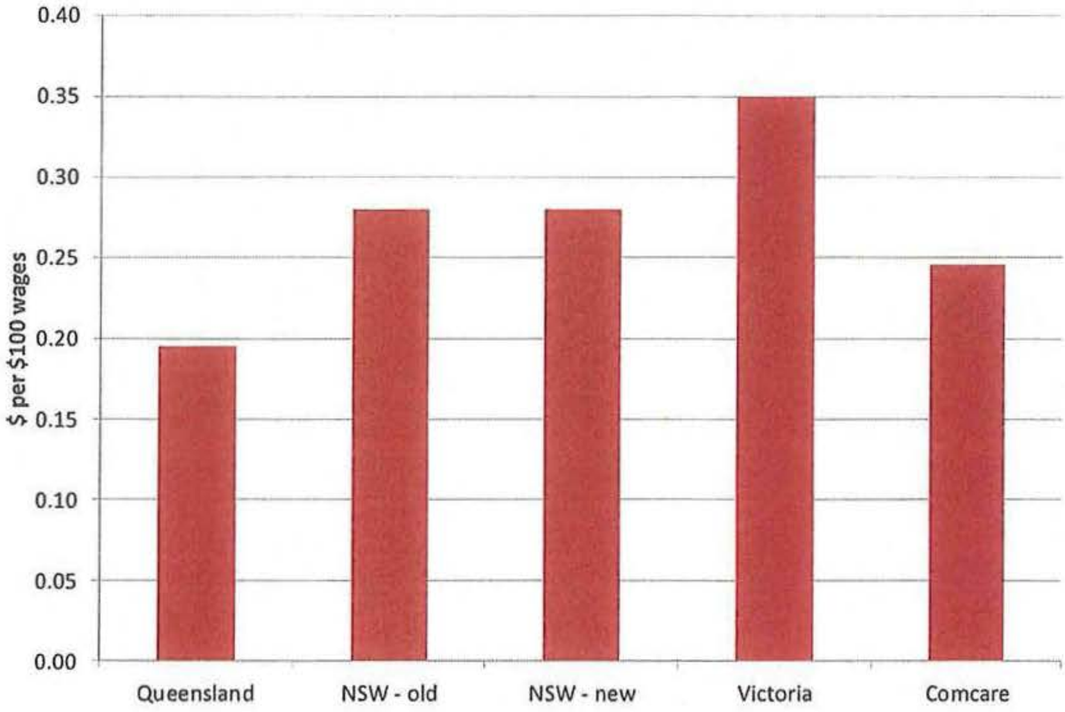
Figure 5 shows that the cost per $100 wages of providing statutory benefits in Queensland at under $0.60 is lower than the cost in other jurisdictions. Figure 3 showed that Queensland weekly benefits were comparable with NSW and Victoria so this outcome indicates that the stable and stationary and other provisions included in the Queensland scheme result in earlier cessation of weekly benefits than other schemes. For Comcare the difference reflects higher Comcare benefits beyond two years for less seriously injured claimants as well as the impact of the stable and stationary and other provisions for benefit cessation in Queensland.

The cost of common law damages in Queensland at over $0.55 per $100 wages is higher than the cost in other jurisdictions ($0.22 in NSW and $0.28 in Victoria). This reflects the larger number of claimants accessing these damages than the other jurisdictions as demonstrated in Figure 4.

Administration Costs

The graph below compares the administration costs for each scheme expressed per $100 wages.

Figure 6 – Administration Costs (per $100 wages) by Jurisdiction



This comparison needs to be interpreted with caution as it is not clear from the information available that they are on a like-with-like basis in terms of what is covered by the expenses disclosed in the annual reports. For example, for Comcare, we have taken administrative expenses to be 55% of the total expenses (based on old Annual Reports which split this item). We do not however have any information on what is covered by the administration versus non-administration expenses.

Administration costs vary from just under $0.20 per $100 wages for Queensland to $0.35 per $100 wages for Victoria. Taking the limitations in the comparison into account, at face value this suggests that the Queensland scheme is relatively efficient in terms of administration costs. At least part of this difference may be explained by the greater use of common law in the Queensland scheme (where legal costs come though as claim costs rather than administrative costs).

Reliances and Limitations

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

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There is limited publicly available detailed information on claims costs for other jurisdictions and we have had to rely on our knowledge of these schemes, judgement and our analysis of the Queensland scheme in making this assessment. Our assessment of the claims cost for each jurisdiction necessarily contains a large degree of approximation.

This letter has been prepared for the sole use of Q-COMP's board and management to assist in preparing its submission to the Queensland Parliament Finance and Administration Committee's inquiry into the operation of the Queensland Workers Compensation Scheme. We consent to the release of this letter to the inquiry, on the condition that it is provided in its entirety. Third parties, whether authorised or not to receive this letter, should recognise that the furnishing of this letter is not a substitute for their own due diligence and should place no reliance on this letter or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Please do not hesitate to contact us if any of this requires further information or clarification.

Yours sincerely

Estelle Pearson

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Fellows of the Institute of Actuaries of Australia