

## Workers' compensation

This section reports on aspects of the operations of the workers' compensation schemes, encompassing the following performance indicators:

- standardised average premium rates by scheme and by industry (Part B1);
- the funding ratio of the schemes (Part B2);
- scheme costs and disbursements (Part B3);
- disputation (Part B4); and
- level of entitlements payable to injured employees under a series of scenarios (Part B5).

Data for New Zealand in this section are not fully comparable with Australian jurisdictions as the scheme has only been operating in its current form since 1 July 2000, resulting in lower claim and scheme costs.

The Australian averages in this section are weighted according to the costs borne by each jurisdiction and hence jurisdictions with a comparatively large amount of cost will have a greater effect on the Australian average.

### Key results

#### B1 - Standardised average premium rates

- The Australian standardised average premium rate remained steady at 2.35% of payroll in 2002–03. The Australian premium rate has remained relatively steady over the past five years.
- Western Australian recorded the largest percentage fall in premium rates.
- New Zealand reported a premium rate of 0.88% of payroll which is a 2.3% increase from 2001–02.

#### B2 - Comparison of assets to liabilities

- The Australian average ratio of assets to liabilities declined to 81% in 2002–03, down from 85% in the previous year. New Zealand, Queensland, Western Australia and Comcare reported funding ratios of greater than 100%. Most jurisdictions recorded a decline in their funding ratio in 2002–03, except for the Northern Territory which recorded a large rise and Queensland and Seacare which remained constant.

#### B3 - Scheme costs and disbursements

- Premium income collected by the Australian schemes increased to \$6.152 billion in 2002–03, up from \$5.808 billion in 2001–02. Premium income has increased by 25% over the last five years, with all schemes increasing total premiums collected over the period.

- Direct payments to workers totalled \$3.344 billion, a decrease by 2% in 2002–03.
- Payments for medical and other services totalled \$1.327 in 2002–03, an increase by 6%.
- Administrative costs totalled \$1.275 billion in 2002–03, an increase by 4% since 2001–02.
- Legal costs consumed on average 9% of the total scheme expenditure in 2002–03. The rate varied significantly across the schemes.

## B4 - Disputation

The data for this section have been impacted by changes to the New South Wales dispute resolution system.

- The Australian average disputation rate has fallen to 8.3% of claims lodged in the reference financial year down from 13.2% in 2001–02.
- The average legal cost per dispute increased by 8% to be \$6840 in 2002–03.
- The Australian average overheads cost per dispute increased by 33% to \$1041 in 2002–03.

## B5 - Level of entitlement examples

Part B5 compares the level of benefits payable under existing legislative provisions across the jurisdictions to employees and/or their dependants following a workplace incident. Nine scenarios are used to demonstrate the benefits payable under a variety of circumstances.

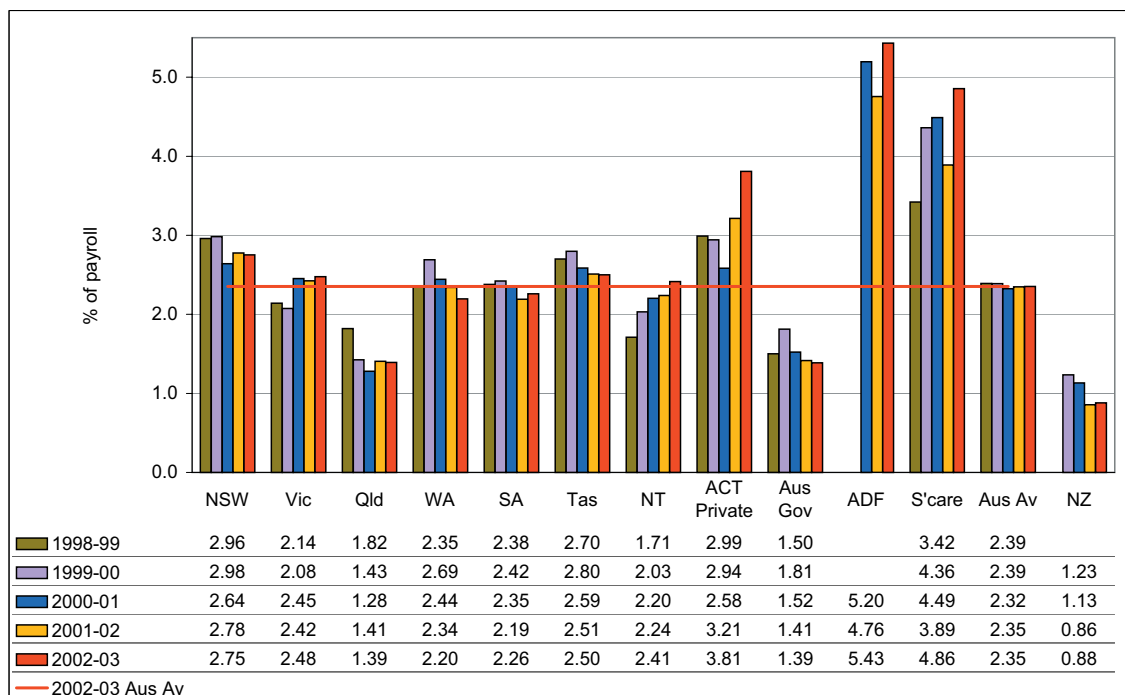
## Standardised average premium rates

Part B1 compares the standardised average premium rates paid by employers under the Australian and New Zealand workers' compensation schemes. These rates are for policies that provided coverage during the 2002–03 financial year. GST charged on premiums is not included in the reported rates, as most Australian employers recoup part, or all, of this tax through input tax credits, however a GST inclusive rate is shown in Table 5.

With this report, a deduction to account for differences in the coverage of journey claims has been introduced into the standardisation process. This adjustment has reduced premium rates in all jurisdictions except Victoria, South Australia, Western Australia and New Zealand as these jurisdictions do not provide coverage for journey claims. The adjustment has been applied to data from 2000–01 to 2002–03. Hence comparison with dates prior to this time should be treated with caution. The other principal regulatory differences that affect comparability and for which adjustments have also been applied in figure 28 are: the inclusion of self-insurers; the treatment of superannuation as part of remuneration; variations in industry mix; and the extent of non-compensable excesses imposed by each scheme. Premium rate data have not been standardised or adjusted for other factors such as: level of benefits and coverage for certain types of injuries; claims management arrangements; and OHS service provisions and arrangements. Due to these standardisation procedures the premium rates shown in this section will differ from jurisdictions' annual reports.

Figure 28 shows that the standardised Australian average premium rate has remained relatively steady over the past few years to be at 2.35% of payroll in 2002–03. The New Zealand standardised average premium rate increased marginally in 2002-03 to 0.88% of payroll.

**Figure 28** Standardised average premium rates



The lowest Australian rates were reported by Queensland (1.39%) and the Australian Government (1.39%). Western Australia recorded the largest percentage fall in premium rates. The schemes with the highest standardised average premium rates in 2002–03 were the Australian Defence Force (5.42%), Seacare (4.85%) and the Australian Capital Territory Private Sector scheme (3.81%). The largest percentage increase in premium rates was recorded by the Seacare scheme (24.7%) due largely to changes in its reinsurance arrangements.

Table 5 presents average premium rates with various adjustments to assist comparability. Each column in this table represents progressively adjusted premium rates as follows:

- Column 1. These data are average premium rates for insured employers only, calculated using the definition of remuneration as used by that jurisdiction, i.e. superannuation was included where applicable. GST was excluded in all cases. The rates for a particular jurisdiction are aligned to the employer and medical excess that applies in that jurisdiction. Since these are different across jurisdictions, the rates shown at this step should not be compared.
- Column 2. These rates are as per column 1 but with average premium rates for the insured sector adjusted to exclude superannuation from the remuneration used in the calculations. This adjustment was applied to Victoria and South Australia.
- Column 3. These rates attempt to provide an average premium rate for each jurisdiction including both the insured and self-insured sectors before any adjustment factors are applied. These rates take into account the different remuneration definitions for the different sectors and they do not account for the different industry mixes in each jurisdiction.
- Column 4. These rates adjust the rates in column 3 to account for the different employer excesses that apply in each jurisdiction. The adjustment made to the data from the self-insured sector may be different to that applied to the premium paying sector due to the assumption that a nil employer excess applies to the self insured sector. More information on the adjustment factors used in this calculation is included in the Explanatory notes at the end of this section.
- Column 5. These rates further adjust the rates in column 4 to remove a component comparable to the cost of providing workers' compensation coverage for journeys to and from work. These adjustments apply to all jurisdictions except Victoria, Western Australia, South Australia and New Zealand where the coverage for these types of claims is outside the workers' compensation system.
- Column 6. This column takes premium rates as calculated in column 5 and standardises to account for the different industry mixes in each jurisdiction. More information on standardisation can be obtained from the Explanatory notes section.
- Column 7. This column presents the percentage change in standardised rates, excluding GST, from 2001–02 to 2002–03. These figures reflect not only changes in the cost of workers' compensation, but also the effect of changes in industry mix within each jurisdiction.
- Column 8. This column presents standardised average premium rates that have been calculated to include GST on the premium paid by the insured sector. Note that in New Zealand the GST rate is 12.5% compared to the Australian rate of 10%. No adjustment for the GST paid by these employers has been made. The self-insured sector does not pay a premium on which GST would be added. While the self-insured sector do pay GST on some services, these amounts have been estimated at only 1–2% of total payments and hence no adjustment for GST has been made.

Table 5 Standardised average premium rates 2002–03 (% of payroll)

| Jurisdiction               | Average premium rates for premium paying sector |                              | Total* average premium rate excluding GST | Total* average premium rate adjusted for employer excess | Total* average premium rate adjusted for employer excess and journey claims | Standardised average premium rate excluding GST | Standardised average premium rate excluding GST | Standardised average premium rate including GST |
|----------------------------|---|------------------------------|---|--|---|---|---|---|
|                            | Unadjusted                                      | Adjusted for super-annuation |   |  |   |   |   |   |
|                            | 1   | 2                            | 3   | 4  | 5   | 6   | 7   | 8   |
| <b>NSW<sup>a</sup></b>     | 2.86  | 2.86                         | 2.94                                      | 2.91   | 2.70  | 2.75  | -1.1%   | 2.96  |
| <b>Vic</b>                 | 2.22  | 2.44                         | 2.37                                      | 2.45   | 2.45  | 2.48  | 2.5%  | 2.71  |
| <b>Qld<sup>b</sup></b>     | 1.57  | 1.57                         | 1.59                                      | 1.59   | 1.49  | 1.39  | -1.4%   | 1.51  |
| <b>WA<sup>c</sup></b>      | 2.41  | 2.41                         | 2.43                                      | 2.33   | 2.33  | 2.20  | -6.0%   | 2.39  |
| <b>SA</b>                  | 2.59  | 2.82                         | 2.40                                      | 2.41   | 2.41  | 2.26  | 3.2%  | 2.43  |
| <b>Tas</b>                 | 3.08  | 3.08                         | 2.72                                      | 2.73   | 2.71  | 2.50  | -0.4%   | 2.73  |
| <b>NT</b>                  | 3.22  | 3.22                         | 2.76                                      | 2.65   | 2.48  | 2.42  | 8.0%  | 2.59  |
| <b>ACT Private</b>         | 3.58  | 3.58                         | 3.59                                      | 3.37   | 3.22  | 3.81  | 18.7%   | 4.17  |
| <b>Aus Gov</b>             | 1.04  | 1.04                         | 1.16                                      | 1.13   | 1.04  | 1.39  | -1.4%   | 1.53  |
| <b>ADF</b>                 | -   | -                            | 5.00                                      | 4.79   | 4.48  | 5.42  | 13.9%   | 5.89  |
| <b>Seacare<sup>d</sup></b> | 4.95  | 4.95                         | 4.95                                      | 7.69   | 7.20  | 4.86  | 24.7%   | 4.89  |
| <b>Australia</b>           | <b>2.36</b>                                     | <b>2.43</b>                  | <b>2.45</b>                               | <b>2.42</b>  | <b>2.35</b>   | <b>2.35</b>                                     | <b>0.0%</b>                                     | <b>2.54</b>                                     |
| <b>NZ</b>                  | 0.94  | 0.94                         | 0.96                                      | 0.96   | 0.96  | 0.88  | 2.3%  | 0.96  |

\*Total of adjusted premium for insured sector plus calculated premium for self-insured sector.

a. The NSW average premium rates also include the dust diseases levy which is not part of the WorkCover New South Wales scheme but is payable by employers in that State.

b. Queensland includes stamp duty levied at a rate of 5% of the premium including GST.

c. Western Australia includes stamp duty levied at a rate of 3% of the premium including GST.

d. Note that there are no self-insurers in the Seacare scheme.

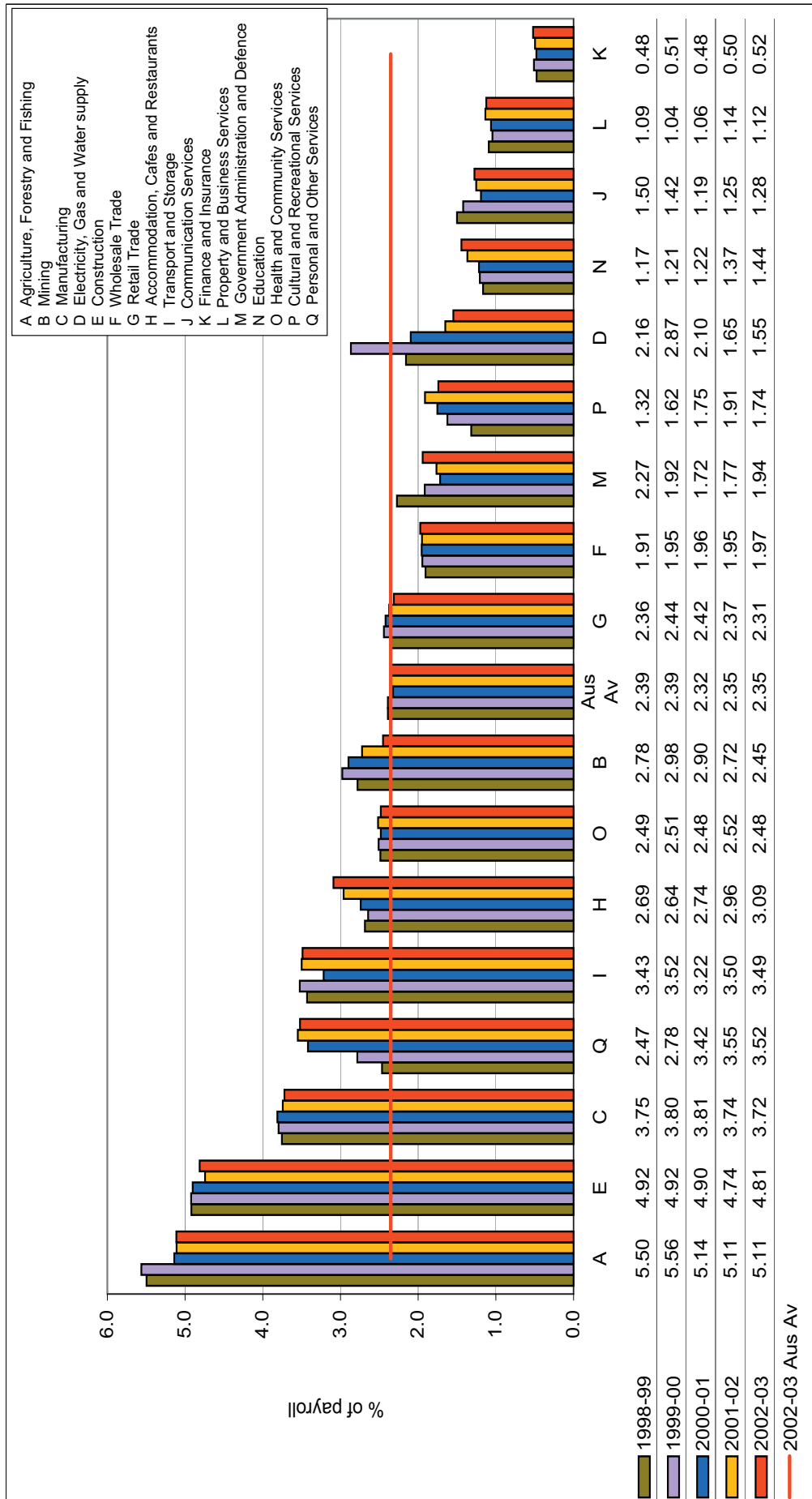
## Industry premium rates

Figure 29 shows the Australian average premium rates by industry. These data show that the Agriculture, Forestry and Fishing Industry continues to have the highest average premium rate, although slight falls have been recorded over the past four years with the rate currently at 5.11% of payroll. The lowest premium rates were recorded in the Finance and Insurance Industry. Rates for this industry have been increasing over recent years with the rate currently at 0.52% of payroll.

The largest percentage fall in premium rates was experienced by the Cultural and Recreational Services industry, which recorded a drop of 9.4% from 1.91% of payroll in 2001–02 to 1.74% in 2002–03. The Government, Administration and Defence industry experienced the largest percentage increase in premium rates, up 9.0% from 1.76% of payroll in 2001–02 to 1.94% in 2002–03.

The published industry rates for a number of schemes are not necessarily based solely on risk-profile or performance, as some schemes cross-subsidise premiums. The premium rates quoted in this section and in Part D of the report are based on premiums in each industry divided by remuneration in that industry. Further information on premium rates by industry, including industry graphs of premium rates by jurisdiction, can be found in Part D of this report.

Figure 29 Australian average premium rates by industry



## Explanatory notes for part B 1

### Data collection criteria for premium rates

The premium rates reported are 'earned premium', which is defined as the amount allocated for cover in a financial year from premiums collected during the previous and current financial years. The premiums reported are allocated for defined periods of risk, irrespective of when they were actually paid, enabling rates to be compared for each financial year.

### Comparability of premium rates

Issues affecting the comparability of premium rates across the schemes include:

- differences in benefits and coverage for certain types of injuries, in particular the coverage of the journey to and from work;
- different levels of accident frequency and severity;
- differences in claims management arrangements;
- variations in the funding arrangements for delivery of occupational health and safety (OHS) services, with some jurisdictions providing degrees of cross-subsidisation;
- differences in the definitions of wages for premium setting purposes and different scheme excess deductibles (note that wage under-declaration has not been accounted for as it is considered to have a similar prevalence in each jurisdiction);
- different levels of self-insurance;
- different industry mixes;
- differences in premium calculation methodology, for example, some schemes have experience rating formulae and some have exemptions for employers with low payrolls;
- different actuarial assumptions used in the calculation of premium rates; and
- Queensland and Western Australia levy stamp duty on premiums.

The standardisation of data in Table 5 takes into account some of these differences to improve the comparability of premiums. These are discussed in more detail below.

### Journey claims

All jurisdictions except Victoria, Western Australia, South Australia and New Zealand provide some level of coverage for journey claims. Hence from this report an estimated amount equal to the cost of providing this coverage has been removed from the premium rates of the jurisdictions who provide this type of coverage. The resultant premium rates are therefore considered more comparable across jurisdictions than has been the case in previous reports. However, due to limitations with data, this new adjustment has only been applied to data from 2000–01 onwards. The factors applied can be found in the table on the next page.

### Self-insured premiums

Most jurisdictions allow large employers to self-insure their workers' compensation if they prove they can manage the associated financial and other risks. Jurisdictions with a large proportion of employees under self-insurance arrangements include New South Wales, South Australia, Tasmania and the Australian Government. Victoria, Queensland, Western Australia and the ACT Private Scheme have significantly fewer self-insurers. In this report the calculated

premium rates for self-insurers are based on estimates of claims and liabilities, or on past payment history, plus 25% for associated expenses.

## Remuneration

There is a high degree of commonality between the schemes in the definition of remuneration for the purpose of premium calculation. The most significant difference is whether or not employer superannuation contributions are included in this definition. The inclusion of superannuation increases the base on which premiums are calculated, thereby reducing the percentage premium rate, meaning the rates across schemes are not comparable. Therefore, where applicable, superannuation has been removed from remuneration for the calculation of standardised average premium rates.

## Employer excess

Some schemes have non-compensable excesses whereby the employer pays the first 5 or 10 days compensation and/or meets medical expenses to a maximum amount. To improve comparability of premium rates, a common deductible of the first five days compensation with no medical costs has been applied. The factors applied to the insured sector data in each jurisdiction are shown in the table below. In addition, adjustment factors have been applied to the self-insured sector for the first time in this publication. These factors have been applied to also make the data consistent with the common deductible of the first five days compensation with no medical costs.

### *Premium Rate Adjustment factors*

|                                      | Employer excess factors                     |  | Journey factors                       |        |
|--------------------------------------|---|--|---------------------------------------|--------|
|                                      | Insured sector                              |  | Self insured sector                   |        |
| Jurisdiction                         | Time lost excess adjustment factors %       | Medical expenses excess adjustment factors % | Time lost excess adjustment factors % | %      |
| New South Wales                      | n/a   | n/a  | -0.042                                | -0.071 |
| Victoria                             | +0.023                                      | +0.016                                       | -0.042                                | n/a    |
| Queensland                           | n/a   | n/a  | -0.042                                | -0.059 |
| Western Australia                    | -0.040                                      | n/a  | -0.040                                | n/a    |
| South Australia                      | +0.020                                      | n/a  | -0.042                                | n/a    |
| Tasmania                             | n/a   | +0.012                                       | -0.042                                | -0.008 |
| Northern Territory                   | -0.042                                      | n/a  | -0.042                                | -0.064 |
| Australian Capital Territory Private | -0.062                                      | n/a  | -0.062                                | -0.043 |
| Australian Government                | -0.025                                      | n/a  | -0.025                                | -0.085 |
| Seacare                              | Excess adjustment factors reviewed annually |  |                                       | -0.064 |
| Australian Defence Force             | -0.025                                      | n/a  | -0.042                                | -0.085 |
| New Zealand                          | n/a   | n/a  | n/a                                   | n/a    |

Seacare scheme policies often include large excesses, ranging from \$5000 to \$100 000, representing approximately three weeks to more than 12 months compensation, with the majority of policies containing excesses in the \$5000 to \$25 000 range. An adjustment factor has been developed to take into account the large and variable deductible. The impact of this factor is observed in the notable difference between Seacare's raw premium rate and the premium rate after the employer excess adjustment has been applied (see columns 3 and 4 of table 5).

## Standardisation for industry mix

Standardisation is a process commonly used in population studies and other survey analysis to minimise the influence of confounding factors on the area (or variable) of interest (e.g. premium rates). Standardisation results in a single figure that is a measure of the relative level of the variable of interest in a study population (e.g. a jurisdiction) as compared to a standard population (e.g. national average).

There are two standardisation methods, direct and indirect standardisation. Indirect standardisation is the process used in the CPM report to minimise the effect of varying industry profiles across the schemes on the comparison of injury and premium rates. Indirect standardisation is preferable where some schemes have little or no exposure in certain industry sectors. The Australian average is the standard to which each scheme is compared.

The following process was undertaken:

- Step 1. Calculate the Australian average premium rate in each industry division;
- Step 2. For each scheme, record the actual premiums paid by employers in each industry division;
- Step 3. For each scheme, calculate the expected premium in each industry division. This is the remuneration for each industry division multiplied by the Australian average premium rate in the respective industry;
- Step 4. For each scheme, calculate the Indirectly Standardised Ratio (IS Ratio). This is the sum of the actual premiums divided by the sum of the expected premiums. The IS Ratio for a particular Scheme is a measure of how much the Scheme's premium rates are above or below the Australian average premium rate, averaged over all ANZSIC groups;
- Step 5. Calculate the Australian average premium rate over all industries;
- Step 6. Calculate the Indirectly Standardised Rate (IS Rate) for each Scheme. This is the Australian average premium rate multiplied by the IS Ratio.

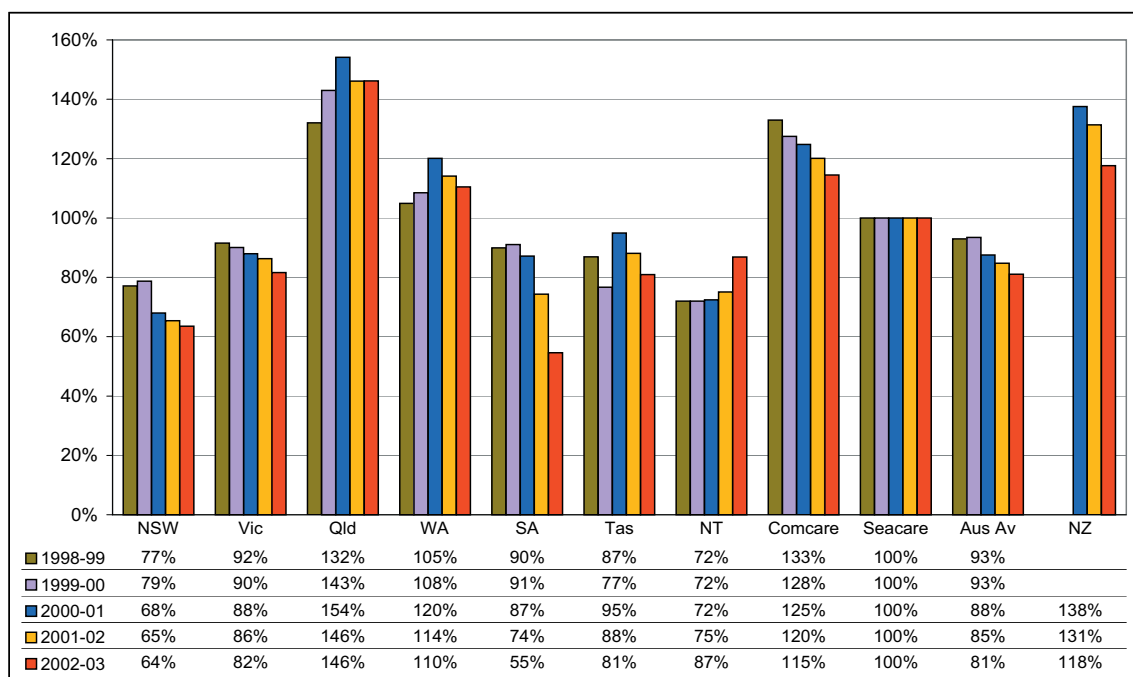
## Comparison of assets to liabilities

Part B2 reports the standardised ratio of assets to net outstanding claim liabilities (funding ratio) for each jurisdiction over the past five financial years. This indicator is a measure of the adequacy of the scheme to meet future claim payments. Ratios above 100% indicate that the scheme has more than sufficient assets to meet its predicted future liabilities. Conversely, low ratios could be an indication of the need for a scheme to increase its premium rates to ensure assets are available for future claim payments. Funding ratio trends should therefore be considered in consultation with the premium rates reported in Part B1.

To improve comparability across jurisdictions, a standard definition of the funding ratio of net outstanding claim liabilities has been adopted for the first time in this publication. Therefore, the data shown below for some jurisdictions will differ from previous publications and may also differ from jurisdictions' annual reports due to the use of this standard definition. In addition, differences from annual reports will arise from the standardisation applied to account for the different economic and actuarial assumptions used in valuing liabilities across the jurisdictions. For more information see the Explanatory notes at the end of this section.

Figure 30 shows that the Australian average funding ratio fell for the fourth consecutive year, from 93% in 1998–99 to 81% in 2002–03. Declines from last year were evident in every scheme except Queensland, the Northern Territory and Seacare. Queensland reported the highest ratio of all Australian jurisdictions for the fourth successive year. Seacare remained constant but this was due to the way in which the two major insurers writing seafarer workers' compensation policies structure the Seacare portfolio. There is 100% asset backing for those liabilities, and therefore Seacare is shown as having a 100% funding ratio.

**Figure 30** Standardised ratio of assets to net outstanding claim liabilities



Note: Comcare rate includes ACT Public Service and excludes ADF.

## Explanatory notes for part B2

### Definitions

#### Funding Ratio

The funding ratio of net outstanding claim liabilities is defined as the ratio of net assets to net outstanding claim liabilities. This ratio represents the funding level of net outstanding claims, assuming all other current and non-current liabilities are fully funded to the same extent.

For jurisdictions with a separate fund dedicated to workers' compensation (centrally funded schemes), the assets set aside for future liabilities can be easily identified from annual reports. Centrally funded schemes operate in Victoria, Queensland, South Australia, Comcare and New Zealand.

For jurisdictions where workers' compensation is underwritten by insurance companies (privately underwritten schemes), assets are set aside to meet all insurance liabilities but the insurance companies do not identify reserves specifically for workers' compensation liabilities. For these schemes, net assets are considered to be the balance sheet provisions made by the insurers at the end of each financial year. Privately underwritten schemes operate in Western Australia, Tasmania, Northern Territory, Australian Capital Territory and Seacare. It should be noted that not all of these schemes carry out independent reviews of liabilities each year. In addition, the ratios for privately underwritten schemes do not include the solvency reserves held by private insurers. The ratio for these schemes is therefore not a comprehensive indicator of the adequacy of insurer assets.

The New South Wales scheme is a managed fund, combining some of the features of centrally funded schemes and privately underwritten schemes.

The Australian Capital Territory is working towards providing data for this section.

#### Net Assets

For centrally funded schemes, net assets are equal to the total current and non-current assets of the scheme minus the outstanding claim recoveries as at the end of the reference financial year. For privately underwritten schemes, assets are considered to be the insurers' overall balance sheet claims provisions.

#### Net Outstanding Claim Liabilities

For centrally funded schemes, net outstanding claim liabilities are equal to the total current and non-current liabilities of the scheme minus outstanding claim recoveries as at the end of the reference financial year. For privately underwritten schemes, liabilities are taken as the central estimate of outstanding claims for the scheme (excluding the self-insured sector) as at the end of the reference financial year.

#### Prudential Margins

Some jurisdictions add prudential margins to their estimates of outstanding claims liabilities to increase the probability of maintaining sufficient assets to meet the liabilities estimate. This is done in recognition that there are inherent uncertainties in the actuarial assumptions underlying

the value of outstanding liabilities. The addition of a prudential margin will lower the asset to liability ratio for that jurisdiction. As only a few jurisdiction have prudential margins these margins have been removed from the estimates to enhance comparability. For jurisdictions that use prudential margins in determining their liabilities, there will be a greater discrepancy between the ratios shown in this report and those shown in the annual reports of those jurisdictions. The margins that have been removed are:

- Queensland — prudential margin of 15% removed from all years;
- Northern Territory — prudential margin of 15% removed from 2001–02 and 2002–03 ;
- Comcare — prudential margin of 10.5% removed from years 1998–99 through to 2000–01 and 10.6% from 2001–02 and 2002–03; and
- South Australia introduced a prudential margin of 7% from 30 June 2003. Therefore its removal has only impacted on 2002–03.

The liabilities for the remainder of the schemes are generally central estimates, without prudential margins.

## Standardisation

Different measures of liabilities can arise from:

1. different definitions of assets and net assets;
2. different definitions of liabilities, such as allowance in some schemes for prudential margins, and allowance for different levels of claim handling expenses; and
3. different economic and actuarial assumptions in valuing liabilities.

Different definitions of net assets have been addressed in this publication by the application of a consistent definition.

A consistent definition of net outstanding claim liabilities has also been adopted, but there are still some differences between jurisdictions in the measurement of net outstanding claim liabilities. These relate to the different claim handling expense assumptions by jurisdictions for which adjustments have not been applied.

The third area of difference is in the various economic and actuarial assumptions used by each jurisdiction. To aid comparability outstanding claim liabilities for each jurisdiction were adjusted to a consistent economic basis as follows:

1. calculate the average inflation and discount rates used in the estimation of the outstanding claims liabilities;
2. assume a discounted mean term to settlement of the outstanding liabilities of three years (further precision seems unwarranted given the uncertainty regarding expense assumptions); and
3. apply the average rates of inflation and discount to each jurisdiction, using the assumed discounted mean term to settlement.

The table below contains the inflation and discount rates for each jurisdiction, as well as the average of those rates.

| Jurisdiction       | Discount rate <sup>1</sup> | Inflation rate <sup>2</sup> |
|--------------------|----------------------------|-----------------------------|
| New South Wales    | 5.21%                      | 3.75%                       |
| Victoria           | 5.17%                      | 3.16%                       |
| Queensland         | 4.64%                      | 3.66%                       |
| Western Australia  | 5.69%                      | 3.50%                       |
| South Australia    | 5.00%                      | 3.25%                       |
| Tasmania           | 5.00%                      | 4.50%                       |
| Northern Territory | 5.00%                      | 4.00%                       |
| Commonwealth       | 4.99%                      | 4.18%                       |
| Average            | 5.09%                      | 3.75%                       |

<sup>1</sup>Several of the discount rate assumptions are weighted averages of assumptions that vary for the first and subsequent years.

<sup>2</sup>Several of the inflation rate assumptions are weighted averages of assumptions that vary for the first and subsequent years, and vary by payment type.

## Scheme costs and disbursements

Part B3 reports the disbursement of scheme funds in 2002–03. This part of the CPM report has been substantially reduced from previous reports to a core set of indicators. Other changes to this section include altering the indicator on administrative costs to separately identify claims management costs, and the inclusion of an indicator on legal costs as a proportion of total expenditure. The legal costs indicator replaces a previous indicator on legal costs as a proportion of claim costs that, in the 5th CPM Report, was included in the section covering disputes.

In this section Comcare data include Australian Capital Territory Public Service figures but exclude the Australian Defence Force.

Revisions to previously published data are as follows:

- Western Australia shows minor adjustments due to revision of data on self-insured income; and
- Seacare shows large adjustments due to corrections to the provision of payments data. Whereas Seacare data previously showed a high proportion of expenditure directed towards administration, the data revision has shown that Seacare has a similar pattern of expenditure to other jurisdictions.

### Key results

- Premium income across Australian schemes totalled \$6.152 billion in 2002–03. This represents a 25% increase in the last 5 years.
- Scheme expenditure in 2002–03 totalled \$5.948 billion, up from \$5.914 billion the previous year (an increase of less than 1%), and was made up of:
  - a) \$3.344 billion of direct compensation payments to injured employees in 2002–03 (a decrease of 2% since 2001–02), representing 56.2% of total costs;
  - b) \$1.327 billion of medical and other services payments provided to injured employees in 2002–03, 6% more than in 2001–02, representing 22.3% of total costs; and
  - c) \$1.275 billion of administrative costs of the schemes in 2002–03, 4% more than in 2001–02, representing 21.4% of total costs.

## Premium income

Table 6 reports total premium income exclusive of GST collected from employers by jurisdictions for each year between 1998–99 and 2002–03. This table shows that the Australian average premium revenue has increased by 25% over the past five years to \$6.152 billion. A number of jurisdictions have significantly increased their premium income over the five year period, with the Australian Capital Territory Private scheme and the Northern Territory each showing a percentage increase of 84%.

These data do not include the self-insured sector. When there are increases in the number of self-insurers operating within a scheme there may be falls in the level of premium income shown in this table, as self-insurers do not pay premiums.

**Table 6 Total premium income by scheme (\$billion)**

| Year     | NSW   | Vic   | Qld   | WA    | SA    | Tas   | NT    | Com-care | Sea-care | ACT Private | Total Aus | NZ    |
|----------|-------|-------|-------|-------|-------|-------|-------|----------|----------|-------------|-----------|-------|
| 1998–99  | 2.094 | 1.185 | 0.573 | 0.463 | 0.330 | 0.089 | 0.037 | 0.090    | n/a      | 0.062       | 4.924     | n/a   |
| 1999–00  | 2.172 | 1.244 | 0.522 | 0.611 | 0.332 | 0.102 | 0.049 | 0.093    | 0.007    | 0.074       | 5.206     | n/a   |
| 2000–01  | 2.269 | 1.591 | 0.506 | 0.636 | 0.341 | 0.117 | 0.058 | 0.093    | 0.009    | 0.083       | 5.705     | 0.372 |
| 2001–02  | 2.373 | 1.587 | 0.537 | 0.594 | 0.328 | 0.117 | 0.062 | 0.095    | 0.010    | 0.105       | 5.808     | 0.376 |
| 2002–03  | 2.422 | 1.693 | 0.655 | 0.575 | 0.370 | 0.120 | 0.068 | 0.120    | 0.014    | 0.114       | 6.152     | 0.424 |
| % change |       |       |       |       |       |       |       |          |          |             |           |       |
| 1-year   | 2%    | 7%    | 22%   | -3%   | 13%   | 2%    | 11%   | 27%      | 39%      | 9%          | 6%        | 13%   |
| 5-year   | 16%   | 43%   | 14%   | 24%   | 12%   | 34%   | 84%   | 34%      | n/a      | 84%         | 25%       | n/a   |

## Scheme expenditure

Scheme expenditure can be split into three groups:

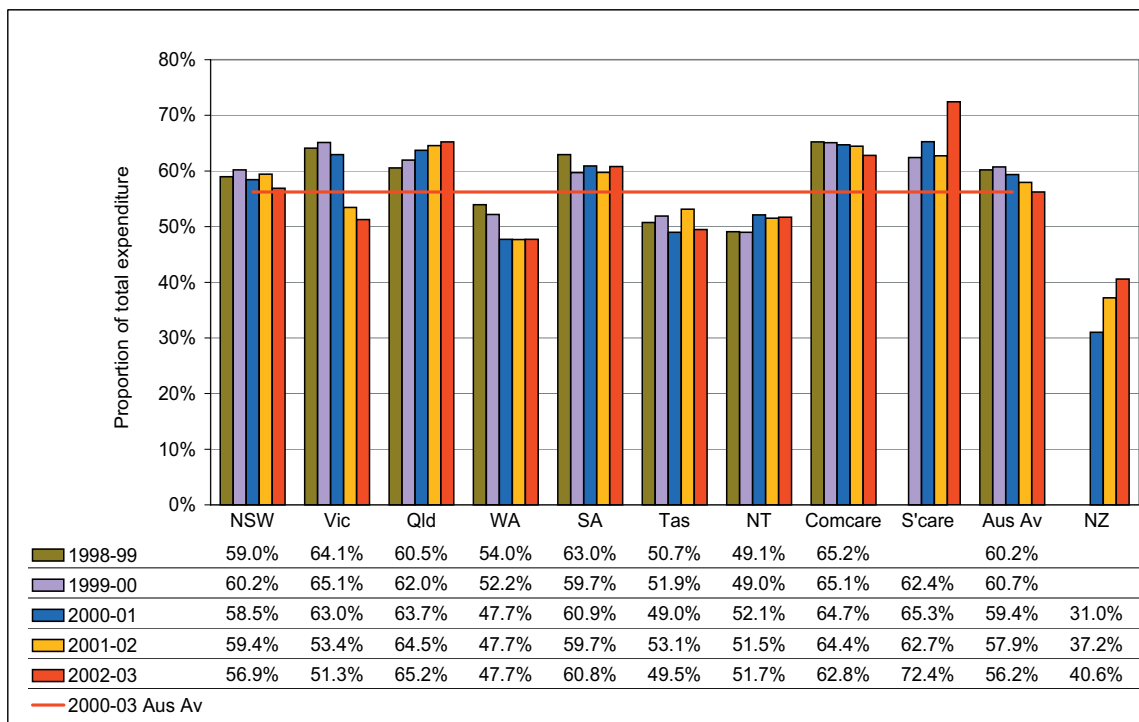
- compensation payments, either in the form of benefits paid or common law settlements;
- medical and rehabilitation services; and
- scheme administration costs (excludes self-insurers' and OHS costs).

The following three indicators show the proportion of each of these payment groups to total scheme expenditure.

### Direct compensation paid

Figure 31 shows that on average 56.2% of total scheme expenditure is paid as direct compensation to injured workers. This proportion has been progressively falling as medical and administrative costs have increased at a faster rate. Apart from Queensland, South Australia and Seacare, this proportion has remained steady or fallen from last year. The New Zealand rate has continued to increase to be 40.6% of total scheme expenditure in 2002–03.

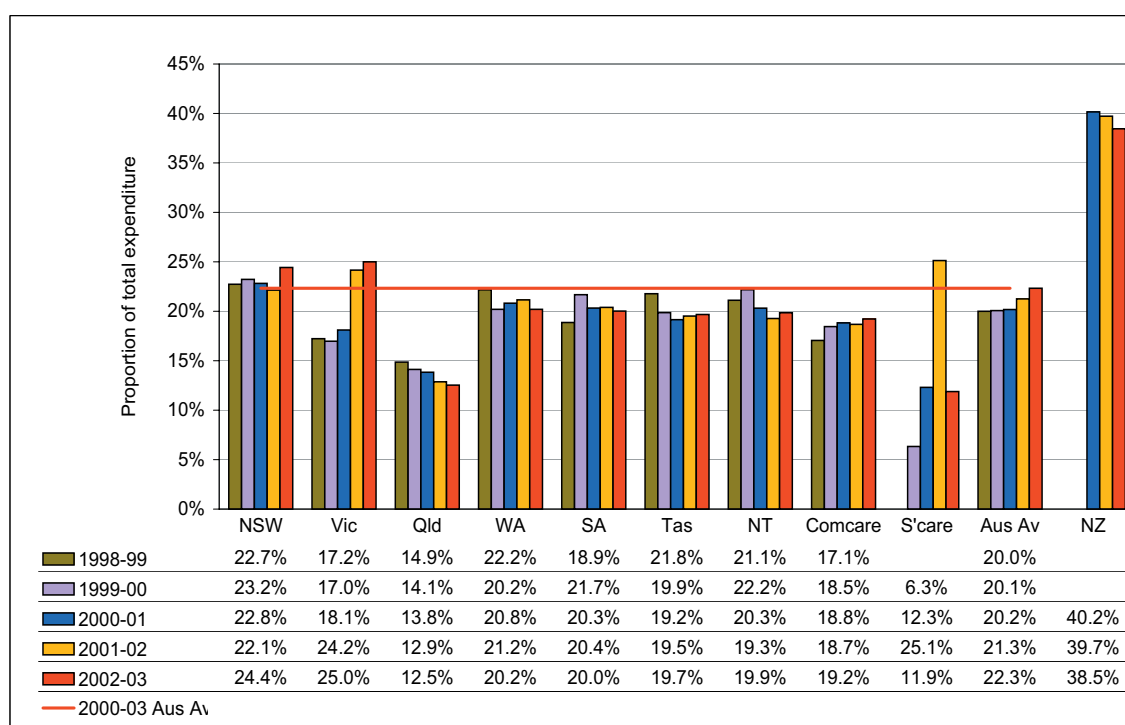
**Figure 31** Direct compensation paid as a proportion of total scheme expenditure



## Medical and other services costs

Figure 32 shows that the national average of medical and other expenses as a proportion of total scheme expenditure increased in 2002–03 to be 22.3% of total expenditure, up from 21.3% in 2001–02. Queensland continues to record proportions well below the Australian average, also recording falls where most other schemes recorded rises. Seacare's data show large variability due to some large claims lodged in 2001–02. The New Zealand proportion has fallen slightly from last year to be at 38.5% of total scheme expenditure. The New Zealand proportion appears high compared to the Australian schemes. This is due to the newness of the New Zealand scheme. More information on the New Zealand scheme can be found in Part E of this report.

**Figure 32** Medical and other services costs as a proportion of total scheme expenditure

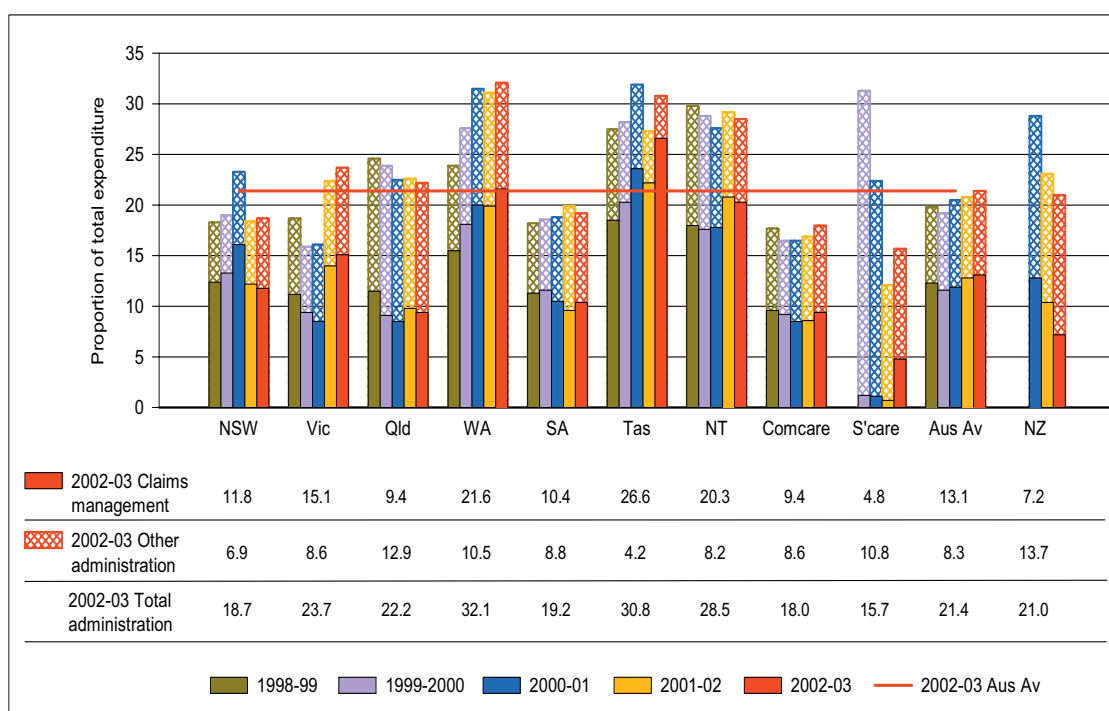


## Administration costs

Figure 33 shows that the Australian average administration costs as a proportion of total scheme expenditure has recorded its fourth successive increase to be at 21.4% of total scheme expenditure in 2002–03. Western Australia and Tasmania reported the highest proportion of administration costs at 32.1% and 30.8% of total scheme expenditure respectively. Note that the administrative data for New South Wales in 1998–99 was not collected on the same basis as other years and hence there is a break in series for this jurisdiction.

This graph also illustrates the distribution of administrative costs between claims management costs and other administration costs. In 2002–03, 13.1% of total scheme expenditure was spent on managing claims compared with 8.3% on other administration. The proportion of claims management costs to total scheme expenditure has grown steadily over the last four years. Tasmania recorded the highest proportion at 26.6% of total scheme expenditure. The data in this graph seem to indicate that the privately underwritten schemes operating in Western Australia, Tasmania and Northern Territory have higher claims management costs than those schemes that are centrally funded.

**Figure 33 Administration costs as a proportion of total scheme expenditure**



## Legal costs

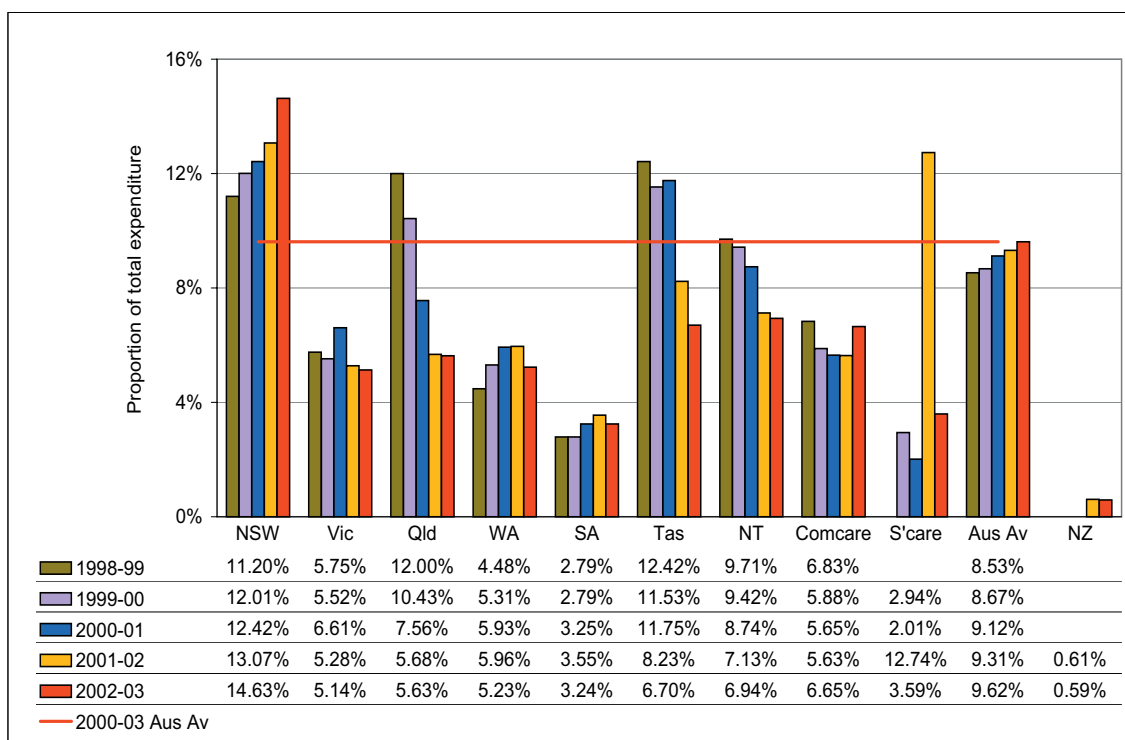
Figure 34 shows the proportion of total scheme expenditure paid to claimants that relates to total legal costs. These costs relate to expenses incurred by the insurer and may include some costs borne by the employee where known. In most jurisdictions, legal costs paid by the schemes are limited by public court scales. These govern how much the winning party receives towards their legal costs from the losing party. In some jurisdictions, such as South Australia, these amounts are capped. There are no limitations in New South Wales. The legal costs in Victoria are lower than the majority of the other schemes, as scheme administrators actively manage legal work on every claim, thus cutting legal costs.

These data show that the Australian average has been increasing steadily over the past five years to be at 9.62% of total scheme expenditure in 2002–03. This is despite falls being recorded in six jurisdictions. South Australia recorded the lowest rate (3.24%) of all the Australian jurisdictions partly due to the capping that applies to legal costs. In New South Wales, legislative changes to the dispute resolution system which came into effect on 1 January 2002 are likely to be the cause of the volatility of these data.

Seacare recorded a very large proportion of legal costs to total scheme expenditure (12.74%) in 2001–02 due to several disputed claims.

The New Zealand costs are substantially lower than the Australian schemes due to the universal nature of the scheme which removes one of the major causes of disputes and helps keep legal costs down.

**Figure 34** Legal costs as a proportion of total scheme expenditure



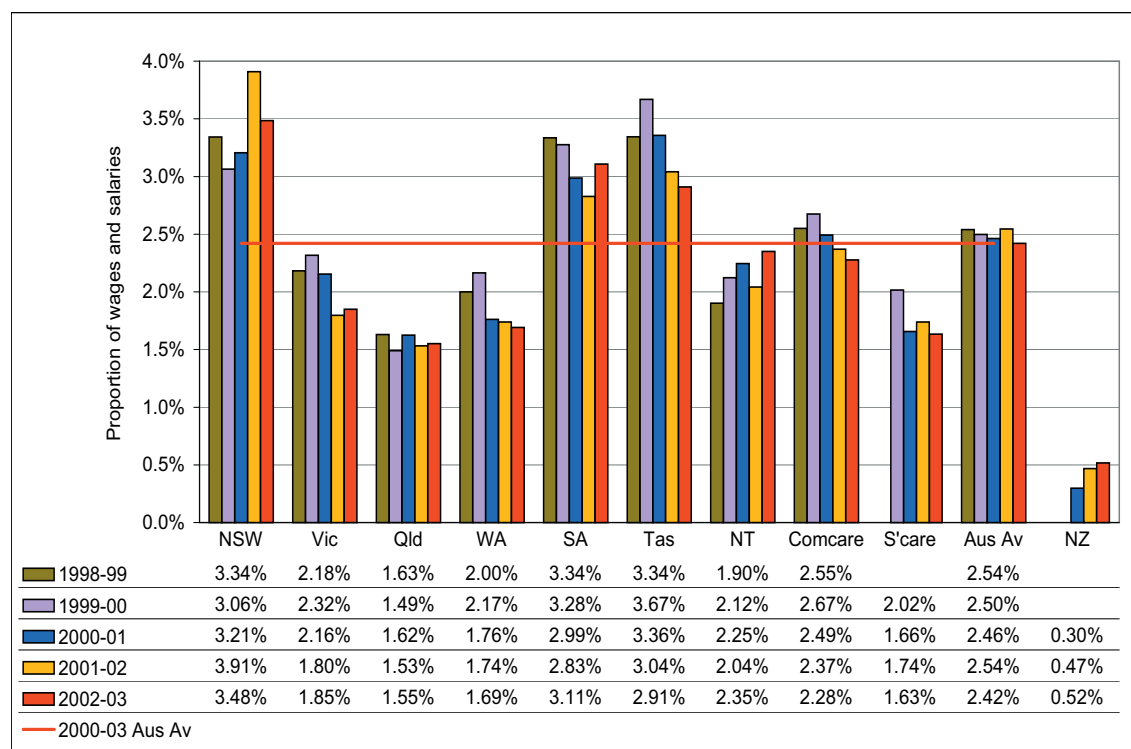
## Ratio of scheme expenditure to wages and salaries

Figure 35 aims to measure scheme performance over the year by comparing scheme expenditure as a proportion of wages and salaries. Wages and salaries are a measure of the exposure of the scheme so this chart shows expenditure changes over time relative to the level of exposure of each scheme. These data show that the Australian average has fallen to its lowest level in five years to be at 2.42%, indicating that the overall performance of the Australian schemes may be improving.

Note that this measure is not a comparison of premium rates as premiums are set at a level to cover the current and future costs associated with all compensation claims incurred in a given financial year, whereas this indicator examines total scheme expenditure as a proportion of wages and salaries in the current financial year. Furthermore, scheme expenditure is also funded by returns on investments.

As the New Zealand scheme has only been in operation for a few years, scheme expenditure is substantially lower than in the Australian schemes. This proportion is expected to rise as the scheme matures.

**Figure 35** Total scheme expenditure as a proportion of wages and salaries



## Explanatory notes for part B3

The performance indicators reported in Part B3 have not been adjusted to reflect the different structural and administrative arrangements between schemes. No adjustments have been made to reflect scheme access to common law, which ranges from unlimited access to restricted access to no access. Common law claims can significantly impact on scheme performance.

Income collected and costs incurred in respect of self-insurance arrangements and OHS activities have been excluded from these data.

### Definitions

#### Administration costs

Administration comprises expenditure on administering the workers' compensation scheme, including the cost of assisting insurers to assess claims. This may include legal, medical and other investigation costs. The cost of administering self-insurance has been excluded from scheme data, as has any income derived from self-insurers.

#### Claims management costs

Claims management costs encompass: registration of employers, collection of premiums, claim investigations, medical reports, case management, coordinated care programs and other costs associated with the management and payment of claims.

#### Direct compensation paid

Direct compensation is paid to injured employees either as weekly benefits, redemptions, common law settlements (excluding legal costs) and non-economic loss benefits.

#### Legal costs

Legal costs represent the total cost to the employee and the scheme spent on legal representative costs. This amount includes the cost of conciliation services, review hearings, compensation, court costs or tribunal costs.

#### Medical and other services costs

Medical and other services expenditure is used to assist employees to recover from injury. Expenditure items include: medical treatment, rehabilitation, legal costs, return to work assistance, transportation, employee advisory services and interpreter costs.

#### Total premium income

Total premium income is the sum of all premium amounts collected during the reference financial year.

### Total scheme expenditure

Total scheme expenditure represents the annual cost of operating the workers' compensation scheme in each jurisdiction and comprises all direct compensation paid to injured workers, medical and other services expenditure and administration costs.

### Wages and salaries

Wages and salaries comprise the total wages and salaries (remuneration) paid by employers to employees covered by the workers' compensation schemes.



## Disputation

This section reports on formal disputes against an insurer's decision relating to compensation. A scheme's capacity to control the number of disputes arising from claim decisions reduces costs. The number and legal costs of common law settlements have not been included in this section for the first time this year as they are not considered disputes as defined for this publication. This approach differs from earlier reports and hence, revisions to previous years' data will be evident. For Western Australia, it was not possible to extract common law claims from all disputes in 1998–99 and hence these data have not been included in the indicators. Data for New Zealand are shown for the current year only as prior years' information was not available using the new definitions.

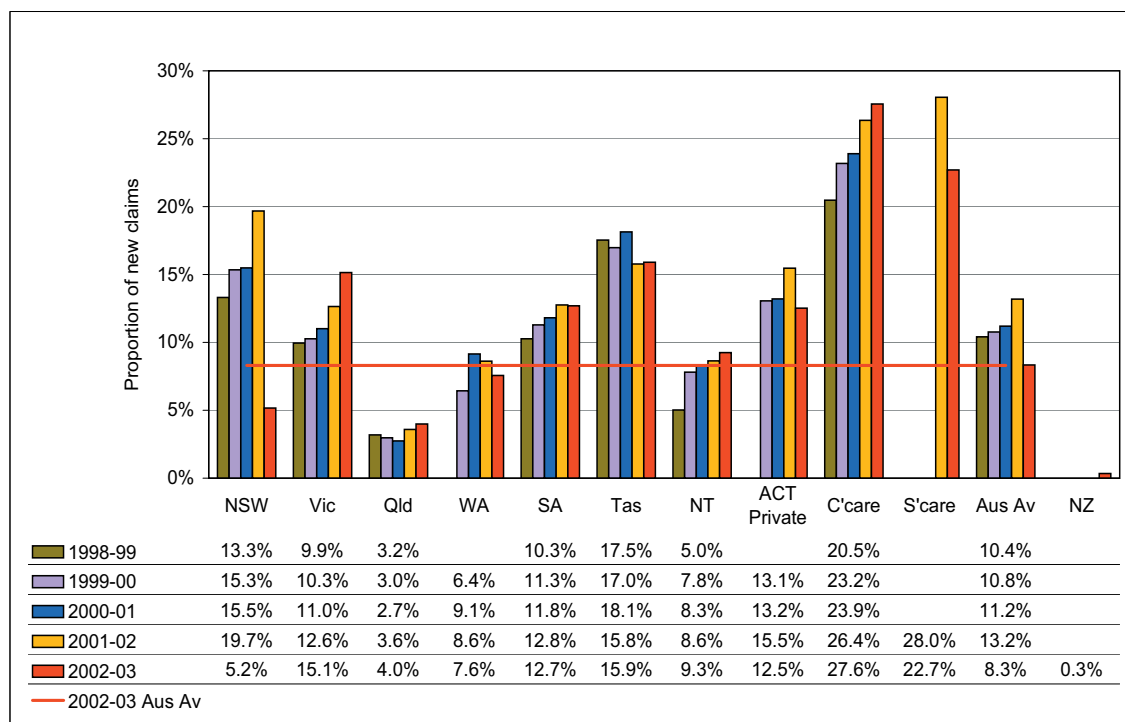
Note that data for the Northern Territory and Comcare do not include information on disputes in the self-insured sector. Comcare data includes Australian Capital Territory Public Service figures and excludes the Australian Defence Force.

### Disputation rate

The disputation rate (shown in Figure 36) is the percentage of new disputes to new claims lodged in the reference financial year. Disputes are not necessarily lodged against claims from the same financial year.

Figure 36 shows that the Australian average disputation rate has fallen to 8.3% of claims lodged in the reference financial year, down from 13.2% in 2001–02. This fall is primarily as a result of New South Wales introducing legislative changes to reform the dispute resolution system operating in the state from 1 January 2002. Workers injured prior to 1 January 2002 were given until 1 April 2002 to lodge a dispute under the old system. This resulted in a high number of disputes being lodged in the first three months of 2002 and very few disputes over the period 1 April 2002 to 30 June 2003.

Figure 36 Disputation rate



For most of the other jurisdictions, the number of disputes has been increasing over recent years and, combined with falling numbers of new claims, the disputation rate has been increasing.

New South Wales' rate has dropped markedly compared to the previous year. This is due mainly to the 2001 reforms that implemented new dispute prevention and resolution strategies.

Queensland has a low disputation rate due to its long-standing benefit regime, experienced in-house claims officers and well understood dispute handling processes. However, although Comcare also has these features, its disputation rate is relatively high. This is, in part, due to the long tail nature of this scheme where a high number of ongoing benefits disputes can arise from the large population of ongoing claims, compared to the smaller number of new claims.

In South Australia, there is a provision of deeming delayed decisions as disputes and this may increase the rate for this scheme.

The disputation rate for Tasmania is strongly influenced by the existence of a preliminary dispute process that was originally intended to protect workers against frivolous and vexatious disputes by employers. Many of these disputes are simply paper disputes aimed at providing further time to determine liability or stop interim payments required to be paid under the legislation.

The New Zealand disputation rate is very low because of the universal nature of New Zealand's accident compensation scheme. Since people who have accidents are covered whether the accident occurs at work, home, on the road, playing sport etc., and whether they are employed, self-employed or a non-earner (child, pensioner, student, unemployed etc.), there are very few disputes relating to cover. The universal cover removes one of the major causes of disputes. Only about 3% of claims are declined in New Zealand.

## Legal costs per dispute

Figure 37 shows the average legal costs per dispute increased by 8% to be \$6830 in 2002–03. For most jurisdictions, the average legal costs per dispute have remained fairly steady over the years under review.

Note that New South Wales costs have been calculated using the total number of active claims in the reference financial year with legal costs associated with them, regardless of when the claim was made or when the dispute was lodged.

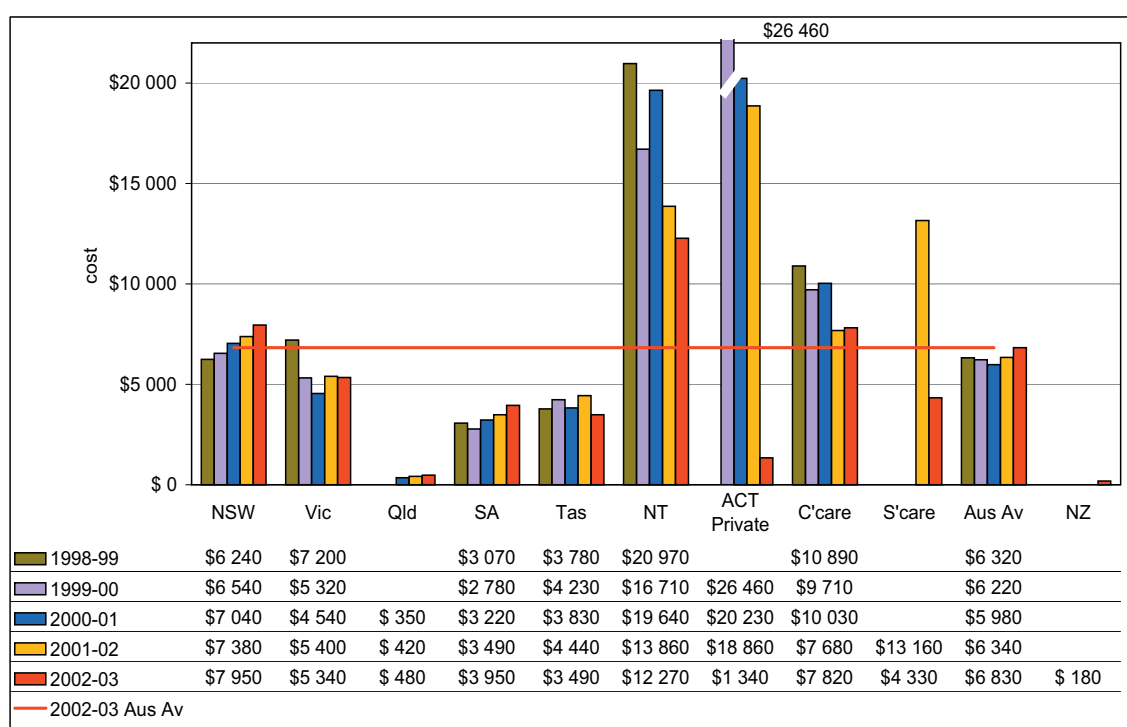
The comparatively high costs reported for the Northern Territory may be attributable to the involvement of legal resources in claim determination. This may limit the number of disputes and explain the lower disputation rate for this scheme. However, it may also mean that more disputes will move through to higher and more costly levels of resolution as there are relatively few straight forward cases once the dispute stage is reached.

The Queensland data show a substantial drop from previously published figures due to the exclusion of common law claims according to the current definition. The number and cost of statutory disputes in this jurisdiction are very low.

There has been a dramatic drop in the costs per dispute in the Australian Capital Territory Private sector data.

The legal costs and numbers of disputes in New Zealand are much lower than for any Australian jurisdiction.

**Figure 37** Average legal costs per dispute



## Dispute overheads

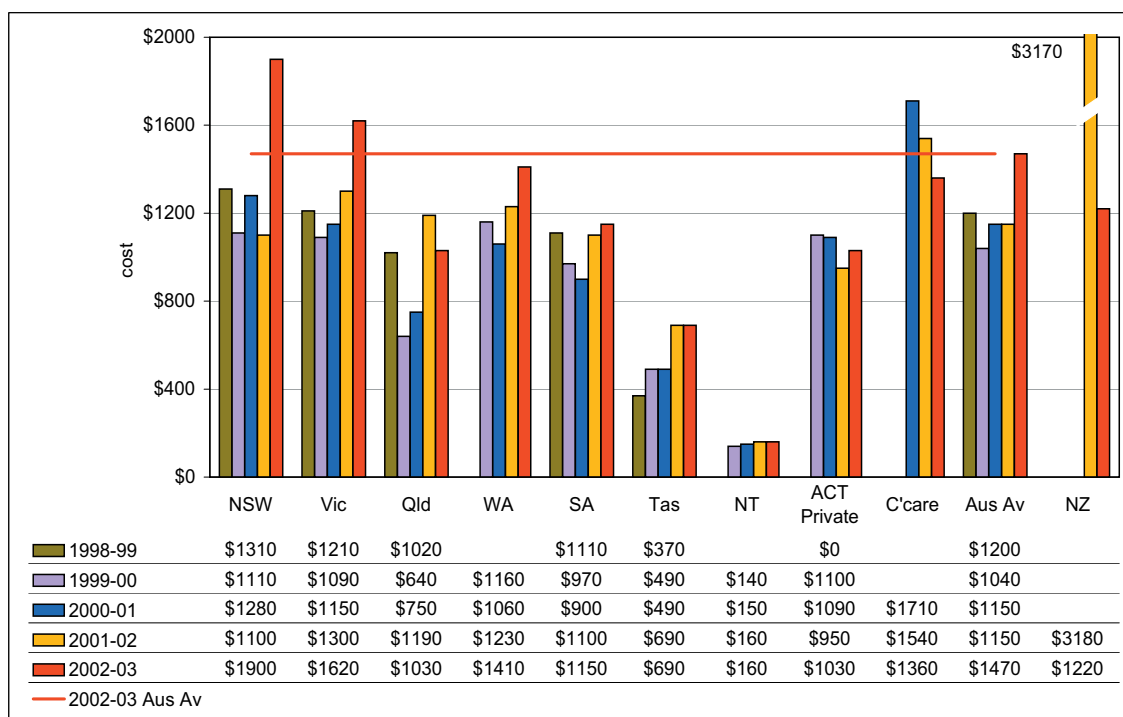
Figure 38 shows that the average Australian overheads costs per dispute increased by 22% to \$1470 in 2002–03. Large increases from previous years were recorded in five jurisdictions, resulting in the large increase for the Australian average. Overhead costs decreased or remained relatively steady for the remaining four jurisdictions.

Due to the closure of the Compensation Court, 2002–03 data for New South Wales reflect the dispute overhead costs of the Workers' Compensation Commission only and so data are not comparable with previous years. A relatively low volume of disputes lodged during 2002–03, combined with legislative and required dispute process changes, has resulted in increased overhead costs per dispute. As the workload of the Commission stabilises and disputes increase to a mature level, overhead costs are expected to decrease, subject to appeal rates being constrained, and legislative and policy decisions supporting efficiency of disputes resolution processes. New South Wales average overhead cost for disputes has been calculated using the total costs for the Workers Compensation Commission and the total number of new disputes lodged with the Commission in the reference year.

For the Northern Territory, the overheads costs do not include all costs for other dispute resolution bodies, as private mediators are used initially in most instances and insurers pay these costs directly. The average dispute overheads in Victoria have increased this year due to the establishment of Workcover Assist and Union Assist.

The average dispute overheads for New Zealand have fallen dramatically from last year to be \$1220 in 2002–03. While the actual overhead costs have not changed between years, the number of disputes was very low in 2001–02 resulting in a very high cost per dispute for that year.

Figure 38 Average dispute overheads



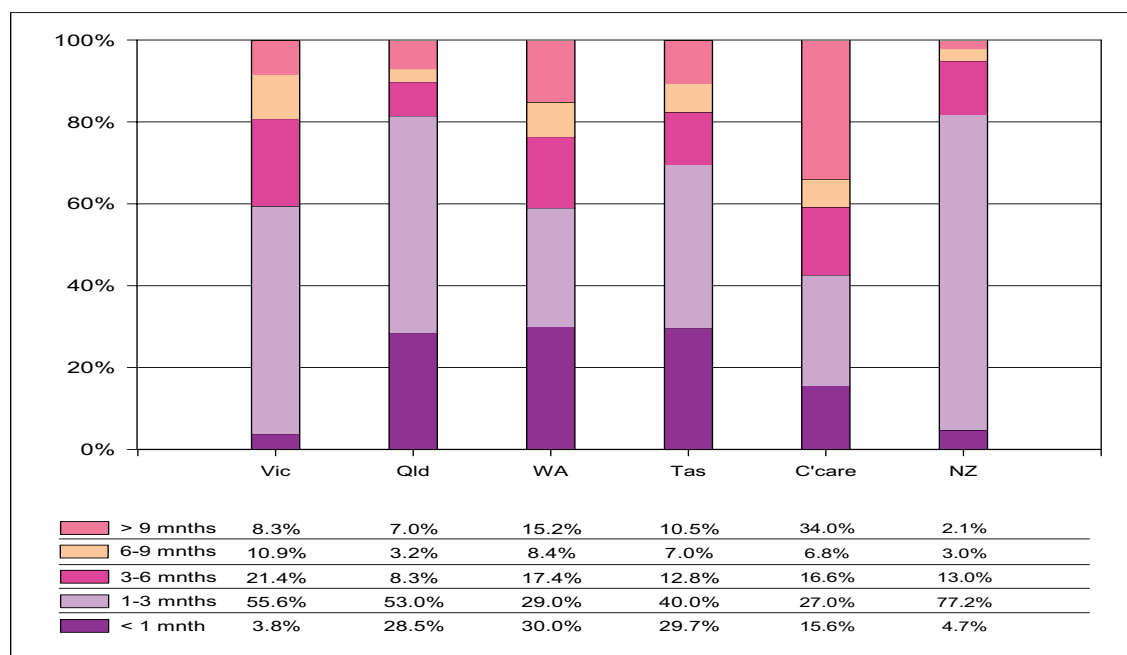
## Dispute resolution

Figure 39 shows the percentage of all disputes resolved during the 2002–03 financial year that were resolved within 1 month, 1–3 months, 3–6 months, 6–9 months and over 9 months from the date of lodgement of the dispute. Generally, it can be said that better managed schemes resolve disputes within shorter time periods, ensuring that pertinent information is made available by both parties early in the process. Where there is a lag in the collection, exchange and lodgement of information by one or more parties, disputes are likely to be more adversarial and therefore more costly. A high percentage of disputes resolved in a longer time frame may also indicate that there are a high number of more complex disputes being dealt with within a jurisdiction.

In Western Australia, Tasmania and Queensland close to 30% of disputes were resolved within 1 month. The proportion resolved within one month for the other jurisdictions was smaller (less than 5% for both Victoria and New Zealand).

For most jurisdictions, the majority of disputes were resolved between one and three months from the date of lodgement. Just over 80% of disputes had been resolved within three months in New Zealand and Queensland, approximately 70% in Tasmania and nearly 60% in Victoria and Western Australia. Just over one third of Comcare disputes took longer than 9 months to resolve. As indicated earlier, this may be due to the long tail nature of this scheme where a high number of ongoing benefits disputes can arise from the large population of ongoing claims, compared to the smaller number of new claims. These disputes tend to be more complex, requiring a longer time to resolve.

**Figure 39** Percentage of disputes resolved by time period 2002–03



## Explanatory notes for part B4

### Definitions

#### Dispute

A dispute is an appeal to a formal mechanism, such as a review officer or conciliation or mediation service, against an insurer's decision or decisions relating to compensation. They exclude common law and also exclude redemptions and commutations unless processed as disputes through the Dispute Resolution System. It does not include an internal quality assurance audit by a senior claims manager.

#### Disputation rate

The disputation rate is the proportion of new disputes lodged in the reference year to new claims lodged in the reference year. Therefore the dispute may not be in relation to a claim lodged in the same year. It should also be noted that the number of new claims used in this calculation is all claims lodged with a jurisdiction. This differs from Part A of this publication, which reports on claims with more than one week of compensation paid (see Part A Explanatory notes). An individual claim may have multiple disputes, for example relating to a decision to vary benefits paid, a decision about treatment, a decision about liability, etc. associated with it. Therefore this rate does not reflect the proportion of complex disputes in each jurisdiction.

#### Dispute overheads

Dispute overheads include employee salaries, accommodation, IT and other administrative costs associated with the dispute resolution process for each jurisdiction. For most jurisdictions, there is an initial internal review of decisions and if the dispute is not resolved at this stage, it is referred to either a tribunal established to deal with disputes or a formal court system. Most jurisdictions contribute an annual amount to the relevant government department responsible for funding the public court system or appeals tribunal. These amounts are included in dispute overheads.

#### Dispute Resolution Body

The dispute resolution body is the organisation, whether conciliation service, court or a tribunal, that is established to resolve disputes.

#### Dispute Resolution System

A dispute resolution system is the arrangement for dealing with disputes that arise from the Scheme.

#### Scheme

Scheme refers to all activities relating to income and expenditure incurred by the workers' compensation authority, including private insurers and self-insurers.

## Level of entitlement

Part B5 uses hypothetical examples to compare the legislated levels of entitlements payable to injured employees and/or their dependants following a workplace incident. The nine examples include variables such as pre-injury earnings and duration and type of injury to show the levels of entitlements payable in different situations. The examples demonstrate that the entitlements payable can vary considerably between jurisdictions.

Further information on payment thresholds and benefit arrangements is available in *Comparison of Workers' Compensation Arrangements Australia and New Zealand*, a Heads of Workers' Compensation Authorities publication. The publication can be accessed at [www.hwca.org.au](http://www.hwca.org.au), under 'Jurisdictional comparison'.

Please note that 'Australian Government' refers to all employees in the Comcare scheme, including licensed self-insurers under the scheme and the Australian Capital Territory Public Service employees. All references to the Australian Capital Territory in this section refer to the Australian Capital Territory Private sector scheme.

It should also be noted that New Zealand figures have not been converted to Australian dollars. This should be taken into account when comparing New Zealand to Australian jurisdictions in the level of benefits examples.

The examples provided in this section are based on the assumption that the incident, where applicable, occurred on 1 January 2003, and hence entitlements are calculated based on the relevant legislation at this time. Levels of entitlement are subject to frequent legislative change and may have been more recently updated. Examples do not allow for indexation of base entitlements which will vary between jurisdictions. The relevant jurisdiction should be contacted directly if further information is required.

## Example 1: Pre-injury earnings supplemented by overtime

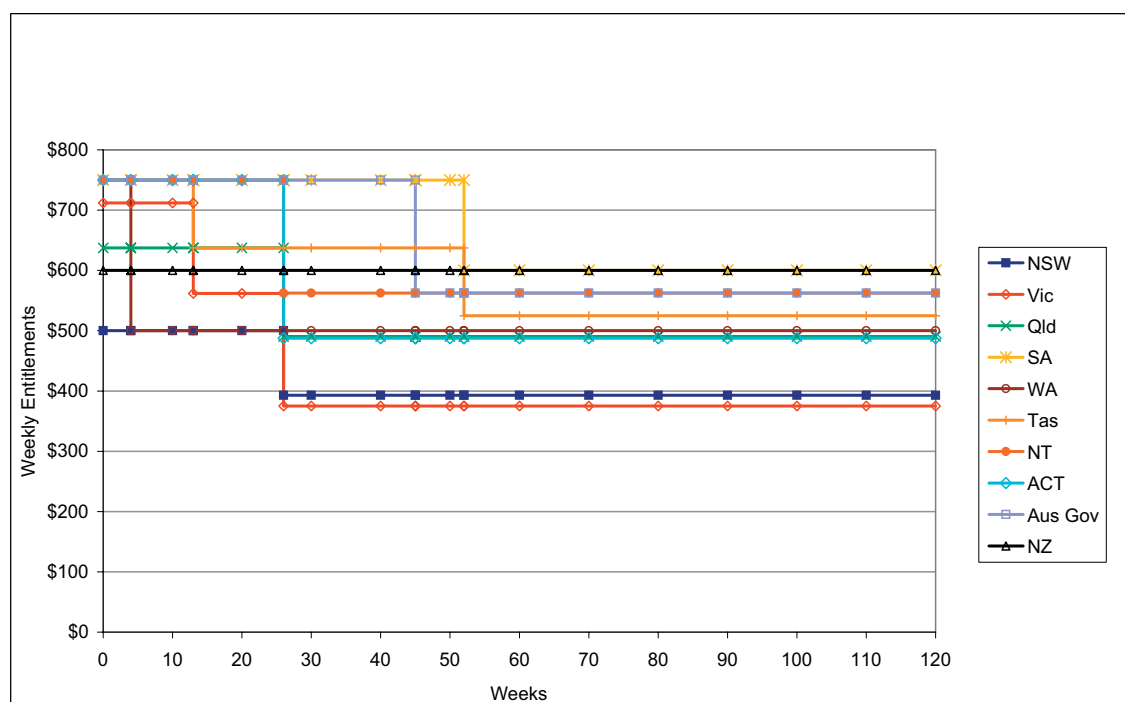
### Purpose

To examine weekly entitlement determination to an injured employee who works regular overtime.

### Scenario

The injured employee is 35 years of age earning an award-determined wage of \$500 per week, but whose income during the preceding 12 months averaged \$750 per week with the inclusion of regular overtime. The employee has a dependent spouse but no children. As a result of a serious workplace injury the employee was unable to work for 120 weeks, at which time full duties were resumed on a full-time basis.

**Figure 40** Comparison of pre-injury earnings and entitlements payable



### Key points

- The levels of entitlements vary because of the different definitions of pre-injury income used by the jurisdictions and the timing and magnitude of step-downs. Step-downs are a reduction in entitlements for all claimants after a prescribed period of time.
- Pre-injury income may include base pay (determined by an industrial instrument such as an award or agreement), normal above award payments, any overtime worked, shift bonuses and allowances such as those for clothing, climate and equipment.

## Jurisdictional notes

- Victorian weekly payments are indexed on the anniversary of the entitlements to weekly compensation by movement in average weekly earnings for all workers in Victoria. Dollar compensation therefore increases at 52 weeks and 104 weeks.
- The Queensland estimate assumes that at 104 weeks the injured worker had permanent impairment of greater than 15%. The entitlement would otherwise step down to the single pension rate of \$226.40.
- In Western Australia, weekly payments include consideration for regular overtime only for the first four weeks of payments. After this time, weekly benefits will be reduced to exclude consideration of the overtime payments.

## Example 2: Capacity for work and availability of work

### Purpose

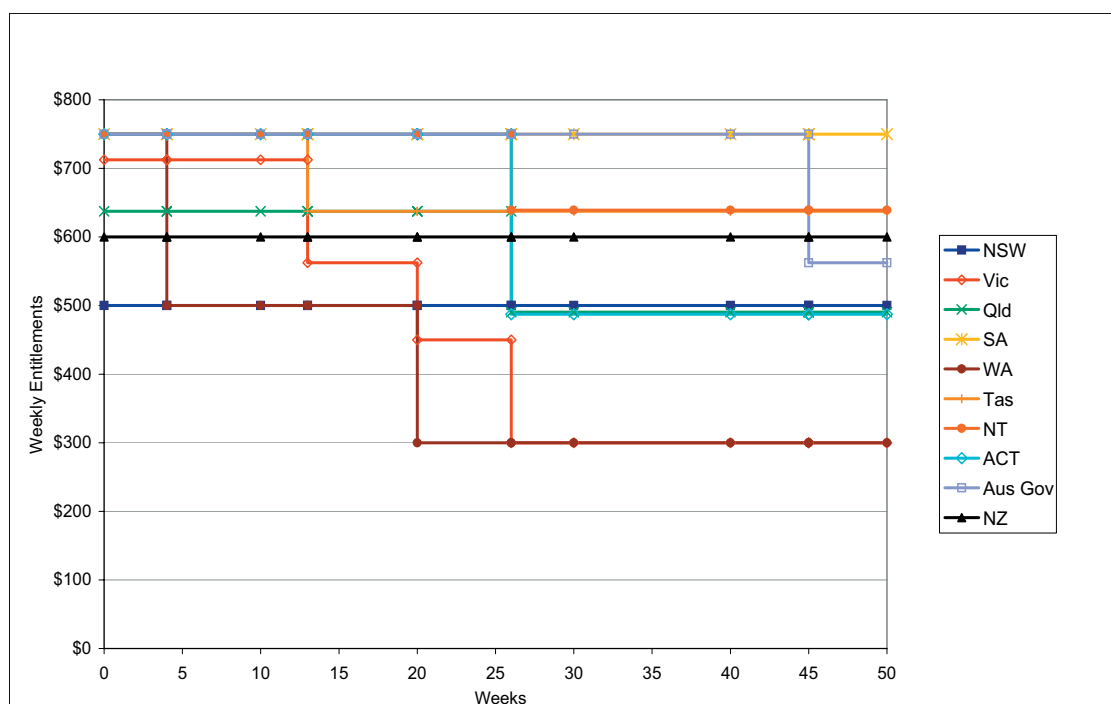
To examine how entitlement determination can be affected by an injured employee's capacity for work and the availability of suitable work.

### Scenario

The injured employee averages a gross income of \$750, which includes an award rate of \$500 plus overtime and shift bonuses. The employee has a dependent spouse and two young children.

As a result of a workplace injury, the employee suffered total incapacity for 20 weeks but was declared fit for light or alternative duties at 21 weeks. Although the employee was only partially incapacitated, the employer was unable to provide light or alternative duties and the employee only resumed working full duties after 52 weeks.

**Figure 41** Comparison of the capacity for work and availability of work



### Key points

- Being capable of limited work does not necessarily coincide with the availability of suitable work.
- Most schemes do not reduce entitlement levels when there is capacity to work but no suitable work is available.

## Jurisdictional notes

- In New South Wales, the benefit cannot exceed the award wage, which is \$500 in this scenario.
- In New South Wales allowances would be payable for dependants of the injured employee in this scenario. The Australian Government also provides an allowance for dependants if the injured employee's wages are below \$311.18 per week.
- In Western Australia, the weekly compensation payable to injured employees is dependent on their capacity to work rather than fixed step-downs. When there is capacity to undertake alternative duties, the worker will receive a partial payment of compensation, being the difference between their pre-injury earnings and what he/she is capable of earning during the period of partial incapacity. This reduction would occur regardless of whether alternative duties were available.

## Example 3: High-income employees

### Purpose

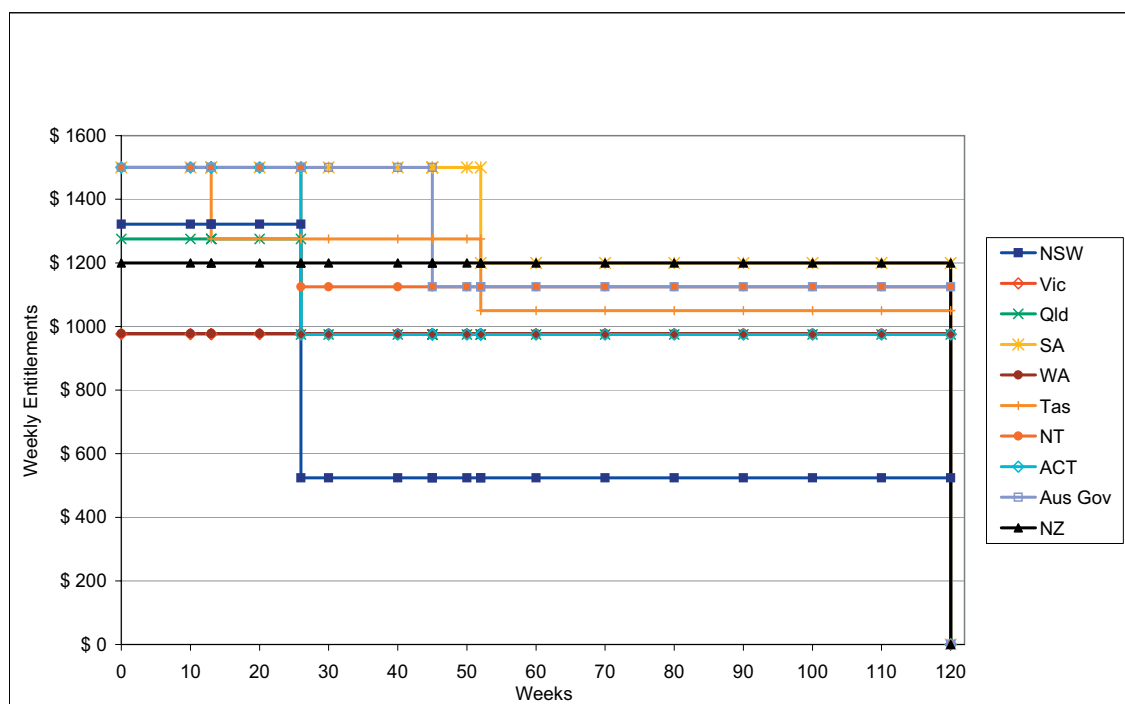
To examine how the jurisdictions compensate relatively high-income employees.

### Scenario

The injured employee earns a salary of \$78 000 per annum (\$1 500 per week) and has a dependent spouse and two young children.

As a result of a serious workplace injury, the employee was unable to work for 120 weeks, at which time full duties were resumed on a full-time basis.

Figure 42 Entitlements to injured high-income employees



### Key points

- This scenario demonstrates the nature and use of weekly entitlement caps and total statutory upper limits.

## Jurisdictional notes

- Weekly entitlements are capped in New South Wales, Victoria, South Australia, Western Australia, Northern Territory and the Australian Capital Territory.
- Some jurisdictions have weekly payments indexed to average weekly earnings. For example, Western Australia caps weekly payments at 1.5 times the average amount the Australian statistician publishes as the all-employees average weekly total earnings in Western Australia the preceding financial year.
- Victorian weekly payments are indexed on the anniversary of the entitlements to weekly compensation by movement in average weekly earnings for all workers in Victoria. Dollar compensation therefore increases at 52 weeks and 104 weeks.
- Western Australia and Queensland cap the total amount payable for weekly entitlements at \$130 609 and \$150 000 respectively.
- The Queensland estimate assumes that at 104 weeks the injured worker had permanent impairment of greater than 15%. The benefit would otherwise step down to the single pension rate of \$226.40.

## Example 4: Workplace fatality

### Purpose

To examine the entitlements payable to dependants of an employee who was fatally injured at work. Entitlements to dependants are paid by way of a lump sum and/or weekly benefits, depending on the employee's circumstances.

### Scenario

The deceased employee in this scenario was 35 years of age with an award wage of \$500 per week, but whose income during the preceding 12 months averaged \$750 per week (with the inclusion of regular overtime). The employee had a dependent spouse and two children aged seven and eight – the older child entered the workforce at sixteen and the other remained in full-time education until age twenty-five.

Table 6 outlines weekly entitlements, lump sums and other provisions payable to the dependants of the deceased. It should be noted that pecuniary entitlements may be affected by common law payments in jurisdictions where there is access to common law redress. The date of death for this example is assumed to be 1 January 2003.

### Jurisdictional notes

- South Australia and the Northern Territory have no access to common law, while the Australian Government has limited access to common law.
- In Western Australia, any weekly payments to the deceased prior to their death would be deducted from the lump sum payment.
- In South Australia, if a child becomes orphaned (where both natural or adoptive parents are deceased), the South Australian scheme provides an entitlement to a lump sum of 50% of the entitlement payable to a dependant spouse (i.e. \$100 333).
- The lump sum entitlement under the Australian Capital Territory Private sector scheme is indexed to the consumer price index and may be divided between the dependants, but could also be kept as a single amount by the spouse.
- Under the Australian Government scheme, dependent children receive a percentage of the total lump sum payable to dependants, which is held in a trust until they turn 18. When there is one dependant child, the child would receive 10% of the lump sum. Multiple dependent children would each receive 5%, unless there are more than five dependent children when 25% of the lump sum would be equally divided. The dependent spouse cannot receive less than 75% of the lump sum.
- The New South Wales figure is based on statutory benefits as at 1 April 2003.

**Table 7 Weekly entitlements for dependants and miscellaneous provisions 2002–03**

| Benefit Type       | NSW                  | Vic   | Qld  | SA   | WA   | Tas   | NT   | ACT  | Aus Gov  | NZ   |
|--------------------|----------------------|---|--|--|--|---|--|--|--|--|
| Lump Sum Payments  | Dependent spouse     | \$177 080   | \$283 005  | \$200 665  | \$130 609  | \$174 452   | \$221 520  | \$152 258  | \$171 536  | \$4825   |
|                    | Each dependent child | \$9 830   | \$9 875  |  |  |   |  |  | \$9 530  |  |
| Weekly Entitlement | Dependent child      | \$25 per child until 16, or 21 if a full-time student             | \$56.05 per child per week until the age of 16, or 21 if a full-time student | \$93.75 per child per week until the age of 18, or 26 if a full-time student                     | \$34.30 per week until the age of 16, or 21 if a full-time student | \$47.28 per week until age 16, or 21 if a full-time student               | 85.20 per child per wk until the age of 16, or 21 if a full-time student | \$50.75 per child per week until the age of 16, or 25 if a full-time student | \$63.52 per child per week until the age of 16, or 25 if a full-time student | \$61.55 per week per child as a non-taxable allowance; as well as \$120 per week, per child in earnings related compensation until the age of 16, or 21 if a full-time student |
|                    | Dependent spouse     | \$475 for first 13 weeks, then \$250 for a maximum of three years | Nil  | \$375 per week, where there is continuing dependence   | Nil  | \$750 a week for first 13 weeks, \$638 to 52 weeks and \$525 to 104 weeks | Nil  | Nil  | Nil  | \$360 per week until the last dependent child turns 18   |
| Other Entitlements | Funeral benefit      | Reasonable costs paid   | Reasonable costs paid  | \$6170   | \$4567   | Reasonable costs paid   | \$4430   | \$4060   | \$4400   | \$4500   |
|                    | Medical expenses     | Family Counselling services to a maximum of \$1770                | Reasonable costs paid  | Reasonable costs. Employer to meet first \$150 cost transportation to hospital or medical expert | Maximum of \$39 183  | Reasonable costs paid   | Nil  | Nil  | Nil  | Nil  |

*This table shows entitlements for the dependant spouse and children in the scenario. Benefits may be payable to other dependants in other scenarios.*

## Example 5: Partial/gradual return to work

### Purpose

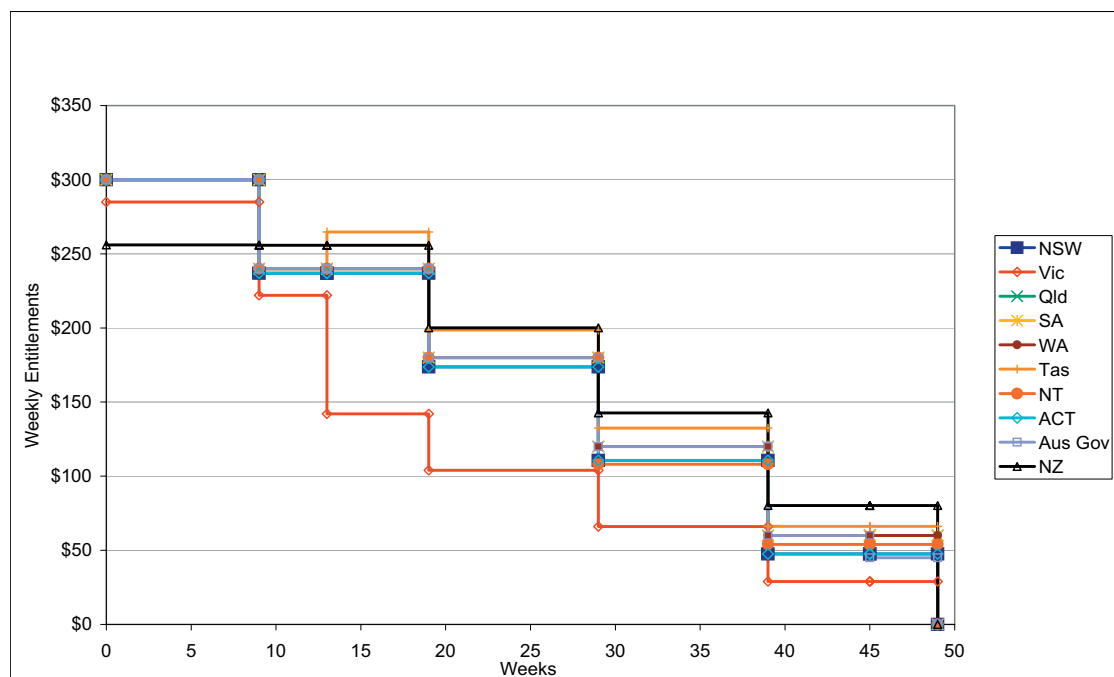
To illustrate benefit levels in the case of a partial/gradual return to work and to ascertain whether any economic incentives or disincentives exist.

### Scenario

The employee received an award-determined pre-injury income of \$300 per week and has no dependants. The employee sustained an injury that allowed for a gradual return to work. The employee worked the following hours at \$7.89 per hour:

- 1 day (7.6 hours) after 9 weeks;
- 2 days (15.2 hours) after 19 weeks;
- 3 days (22.8 hours) after 29 weeks;
- 4 days (30.4 hours) after 39 weeks; and
- full time after 49 weeks.

**Figure 43** *Partial/gradual return to work*



### Jurisdictional notes

- New South Wales, South Australia, Western Australia, the Australian Government, the Australian Capital Territory and New Zealand all pay benefits which supplement wages to equal pre-injury earnings.
- This example highlights a 'legislative anomaly' in Tasmania with the employee in this scenario receiving a greater amount of compensation from 13 weeks when minimum payments rates are applied.

## Example 6: Permanent impairment

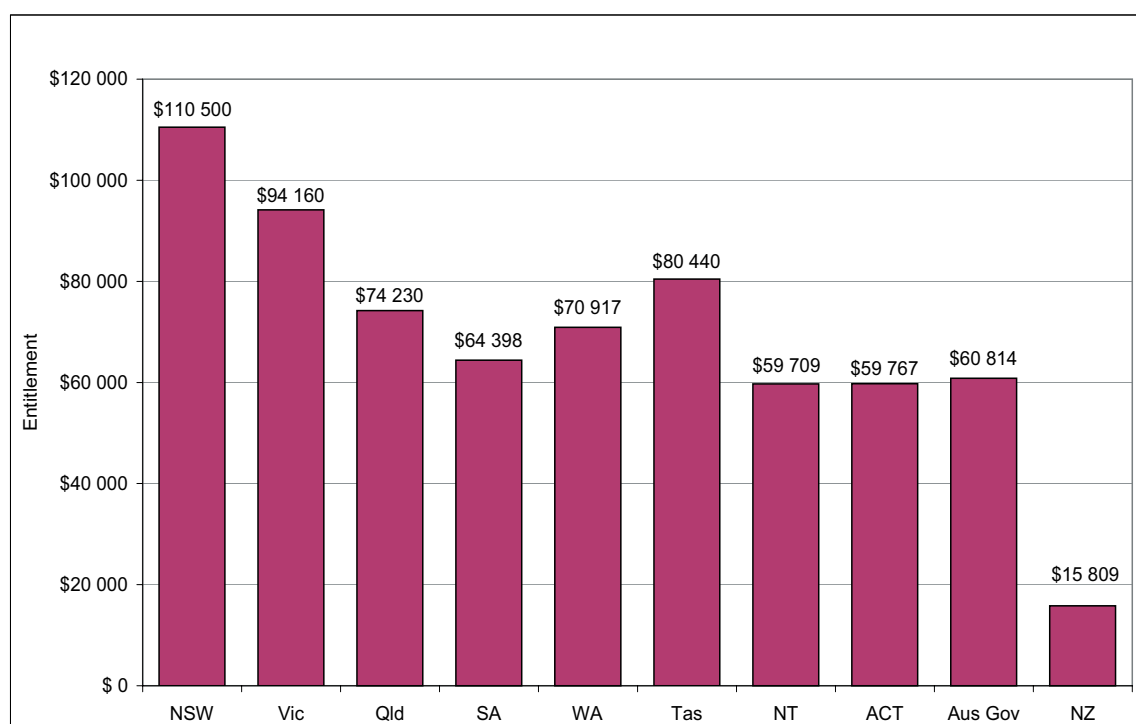
### Purpose

To examine the entitlements payable for a degree of permanent incapacity caused by a workplace injury.

### Scenario

The injured employee received an award wage of \$500 per week, performed no regular overtime and has a dependent spouse and no children. In a workplace incident the employee had two digits severed, with the loss of the thumb and forefinger of the right hand. The employee returned to full-time duties after six weeks off work.

**Figure 44** Permanent impairment - loss of part of body



### Key points

- Each jurisdiction has predetermined maximum lump sum payments for injuries causing permanent impairment. Maximum amounts are payable in cases of full and permanent impairment.
- Each jurisdiction differs in how it determines degrees of impairment and the percentage of maximum amounts payable for degrees of impairment.

- The estimates include six weeks compensation for income replacement. Access to common law redress could impact on pecuniary entitlements payable to employees.

## Jurisdictional notes

- In the New South Wales scheme there is a 15% whole-of-body impairment threshold for access to common law.
- Under the Victorian scheme, payment of an impairment benefit is entirely separate from any entitlement to compensation for loss of earnings. In addition, injured workers have to pass the 'serious injury' threshold tests for severity and permanence to gain access to common law; a whole person impairment of 30% or more is deemed automatically to pass the test.
- In Queensland, a worker who sustains permanent impairment of at least 20% or more, or statutory maximum compensation, is entitled to lump sum compensation and access to common law. A worker who sustains a permanent impairment of less than 20% must make an irrevocable decision between accepting the lump sum offered or access to common law.
- South Australia and the Northern Territory do not provide access to common law.
- Tasmania has a 30% whole-of-person impairment threshold for access to common law.
- Under the New Zealand scheme, a lump sum payment for permanent impairment applies if the injury occurred after 1 April 2002. If the injury occurred before this date an independence allowance of \$358.67 would be paid quarterly for the remainder of the claimant's life. The allowance is based on the level of impairment and may be reassessed from time to time.
- In Western Australia, lump sum payments of compensation for specified losses of function are calculated in accordance with percentages of the prescribed amount. For example, total loss of the thumb and forefinger, as in this scenario, equate to 35% and 17% respectively of the prescribed amount. Common law claims for work-related injuries caused by employer negligence may be pursued if the worker has a degree of permanent disability of 30% or more (a "serious disability"), or 16% or more but less than 30% (a "significant disability").

## Example 7: Permanent incapacity

### Purpose

To examine the compensation levels payable following a workplace incident that resulted in severe injuries and incapacity for self-care.

### Scenario

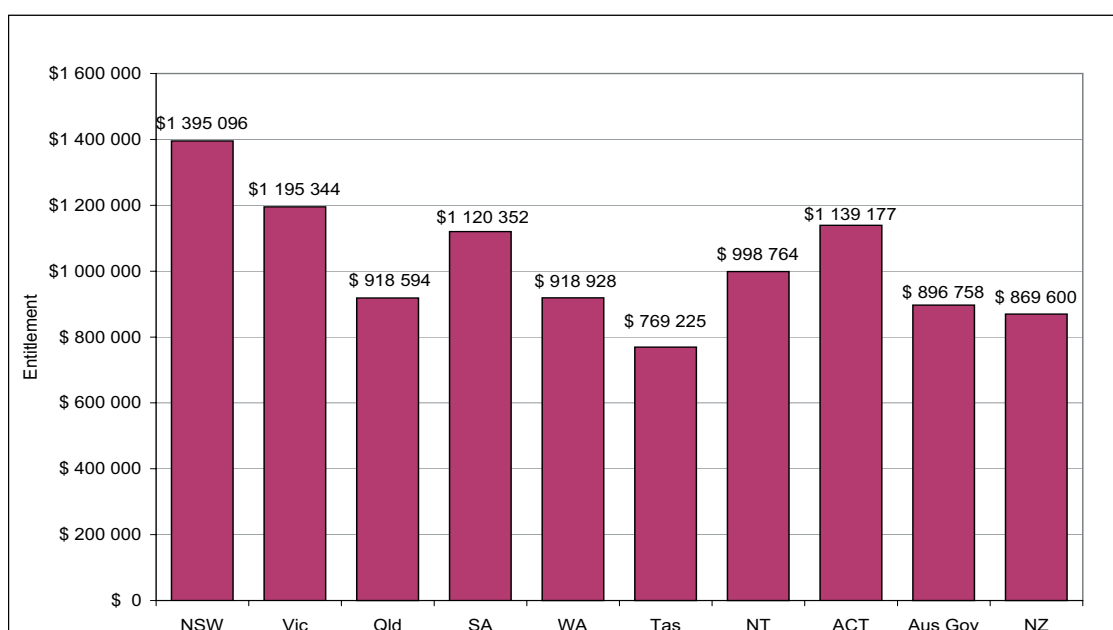
The injured employee is a 28 year old male who worked a 38-hour week with no overtime for an award wage of \$593.50 per week (\$500.00 after tax). The employee had no dependants at the date of injury but had intended to marry and have children.

As a result of a workplace incident, the employee was diagnosed with complete tetraplegia below the 6th cervical neurological segment. This resulted in paralysis of his hands, impaired upper body movement and paralysis of the trunk and lower limbs. He lost all lower body function and was wheelchair-bound. Incapacity was total and permanent and there was no real prospect of returning to work.

The employee expected to work to 65 years of age and contributed to a superannuation fund. There was no contributory negligence on his part and no mitigating factors.

The following graph details the entitlements payable to the injured employee and includes: the weekly benefits payable for the remainder of the employee's working life (37 years in this instance); and all lump sum payments for permanent incapacity, including estimates of common law settlements where applicable, but excluding medical and like services such as attendant care.

**Figure 45** Permanent incapacity - excluding medical and carer costs



## Key points

- In addition to payments for economic and non-economic loss, there are a range of other benefits to which the employee may be entitled. These include but are not limited to: fertility treatment, hospital and other medical, carer costs, pharmaceutical, aids and equipment, housing purchase, construction or modification of housing, housing upkeep, vehicle purchase, vehicle modification, provision of swimming facilities and physiotherapy services. Although payment for these additional benefits is not uniform among the schemes, there is a high degree of commonality in their funding. Most schemes adopt a reasonable cost or cost/benefit approach to payment of the majority of these services.
- In this example, it is explicit that there is no contributory negligence on the part of the injured employee. Settlement levels are reduced in cases where contributory negligence is proven, although the level of reduction can vary significantly across the jurisdictions.
- In some jurisdictions, superannuation entitlements may reduce the level of compensation paid.
- The weekly entitlements calculated under this example do not include allowances for indexation, which will vary between jurisdictions.

## Jurisdictional notes

### Common law access

- South Australia and Northern Territory are the only jurisdictions which do not have access to common law redress. These schemes are limited to statutory compensation schemes.
- Estimates for Queensland, Western Australia, Tasmania and the Australian Capital Territory are based on the compensation that could be expected from a common law claim. The injured worker could otherwise choose to be compensated by the statutory benefits available in these jurisdictions. Statutory benefits do, however, have to be repaid if common law damages are awarded. Estimates for these jurisdictions therefore do not include compensation the employee would have been entitled to if a common law claim had not been made.
- The New South Wales figure is based on statutory benefits as at 1 April 2003.
- The Victorian figure does not include an estimate of common law damages although the jurisdiction has reintroduced access to common law. A statutory permanent impairment lump sum benefit of \$337 380 has been included in the Victorian estimate.
- In Queensland, the estimated permanent impairment would be greater than 15%, so the injured worker would maintain the compensation rate of 65% of average weekly earnings for the 5 years.
- For Western Australia, the common law settlement figure provided is an estimate only, excluding any settlement for medical or like services etc. The maximum amount of damages which can be awarded at common law for workers with a significant disability who elect is \$274 278. In the case of workers whose disability is 30% or more, there is no cap on the amount of damages awarded and statutory benefits continue.
- The Australian Government scheme limits common law amounts to \$110 000.

- Under the New Zealand scheme, a lump sum payment for permanent impairment applies if the injury occurred after 1 April 2002. If the injury occurred before this date an independence allowance of \$837.07 would be paid quarterly for the remainder of the claimant's life. The allowance is based on the level of impairment and may be reassessed from time to time.

### Thresholds

- New South Wales, Victoria, Tasmania and Western Australia all impose thresholds before a common law action can be brought. This precludes recovery of damages for minor injuries. Thresholds allow these funds to compensate serious injuries more generously.

## Example 8: Long-term illness followed by return to work in a different position

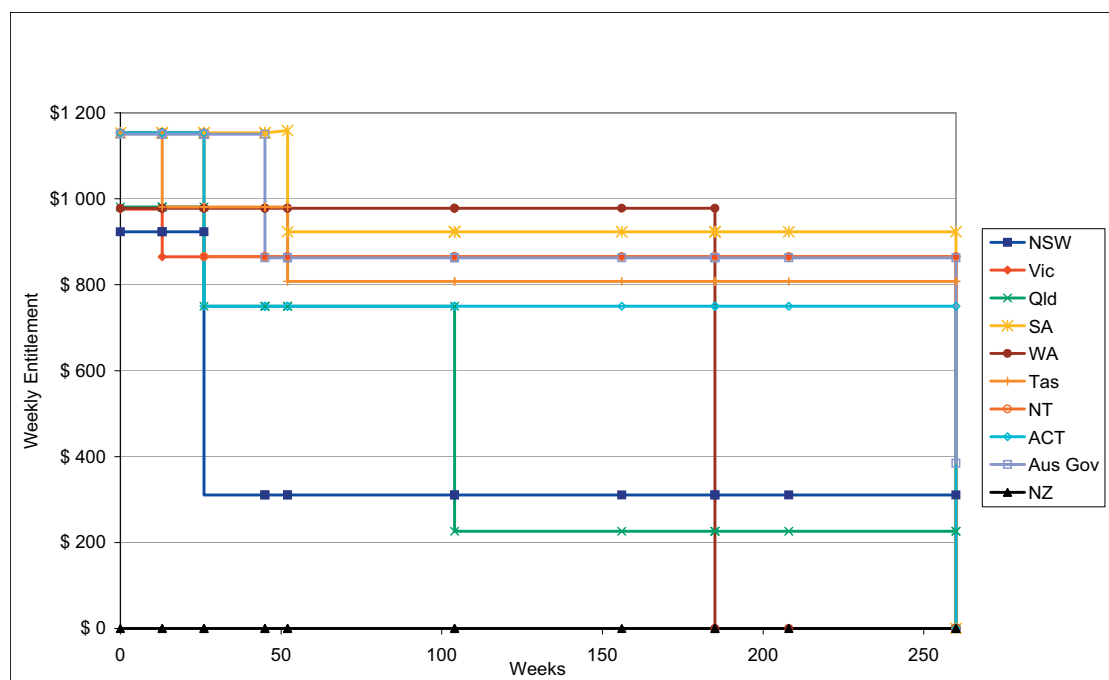
### Purpose

To illustrate the level of entitlements payable in the case of a long-term illness, and to highlight the step down in benefits for a long-term case.

### Scenario

A 32 year old night manager of a large city hotel, earning \$60 000 per annum, is held up at gunpoint and is terrorised. As a result of the incident, the employee is diagnosed as suffering from post traumatic stress disorder and is unable to return to work for a period of 5 years. The employee returned to work, having not suffered any permanent incapacity, but to a position at a lower level earning \$40 000 per annum. There is no contributory negligence or mitigating factors associated with the incident.

Figure 46 Long-term illness followed by return to work in a different position



### Key points

- Levels of compensation vary due to a range of factors including weekly caps placed on benefits, step-downs and, in the case of New Zealand, the treatment of psychiatric illness.

## Jurisdictional notes

- In Victoria the worker would be likely to receive an impairment benefit for psychiatric injury. The worker may also be able to access separate statutory compensation as a victim of a crime. This worker would also be likely to succeed in a common law application for non-economic loss damages.
- Queensland estimates a common law claim settlement of \$240 581.
- Western Australia caps total weekly payments at \$130 609, which would exhaust weekly payments after 134 weeks. The estimate assumes that the employee gained an extension of \$50 000, which may be available through the WorkCover Western Australia Conciliation and Review Directorate, extending payments for a further 51 weeks.
- The New Zealand scheme provides cover for employees who suffer mental injury because of their physical injuries or as a result of certain criminal acts. Common law redress is available although the level of any settlement is not known due to the very small number of common law cases in New Zealand.
- The New South Wales figure is based on statutory benefits as at 1 April 2003.

## Example 9: Changing income level during injury period

### Purpose

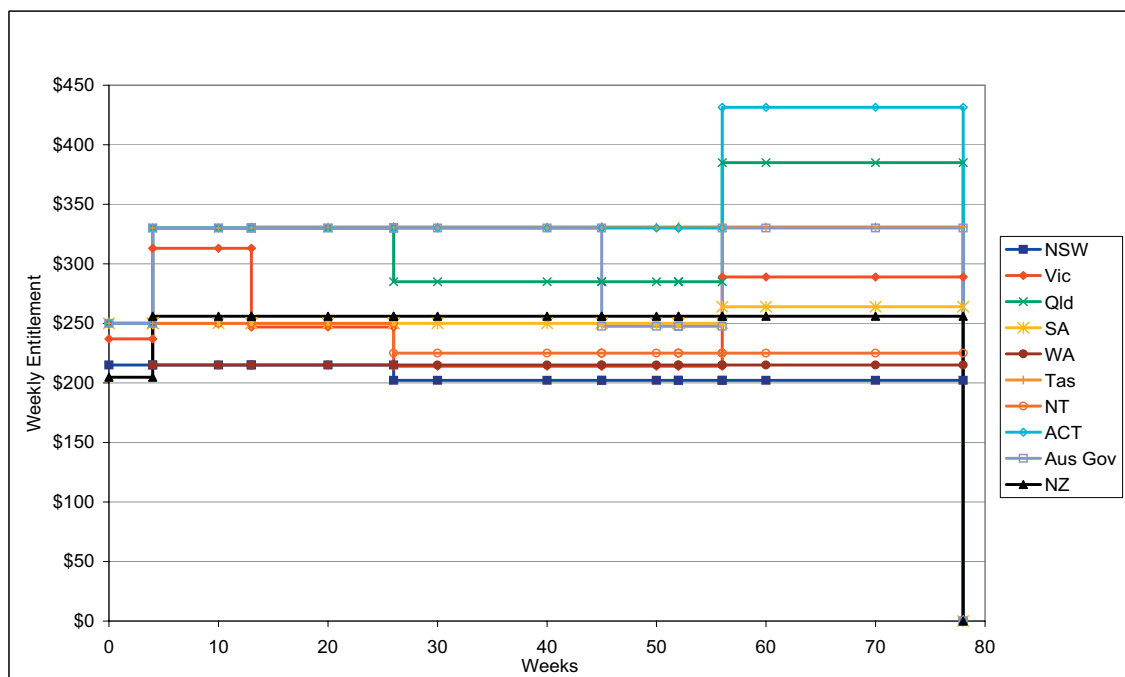
To examine the entitlements payable to an employee whose level of income changes while on compensation.

### Scenario

The injured employee is a 17 year old apprentice earning a first year award wage of \$215 (\$250 with regular and predictable overtime). The employee is entitled to a second year award wage of \$285 (\$330 with overtime) and a third year award wage of \$385 (\$440 with overtime).

Four weeks before completing her first year of an apprenticeship, the employee was injured and was unable to work in any capacity for 18 months. There was no contributory negligence or mitigating factors associated with the incident.

Figure 47 *Changing income levels during injury period*



### Jurisdictional notes

- Some jurisdictions calculate entitlements according to the award wage at the time of injury, while others take into consideration potential earnings and overtime earnings.
- Western Australia includes overtime for the first four weeks, and then pays the first year wage without overtime until the employee is able to go back to work.

## Return to work

This section presents return to work measures compiled from data published in the 2002–03 Australia and New Zealand *Return To Work Monitor* (RTW Monitor), which reports on return to work outcomes and injured workers' perceptions of the return to work process. Data for the RTW Monitor are drawn from a survey conducted by Campbell Research and Consulting on behalf of the Heads of Workers' Compensation Authorities of injured workers who have been paid 10 days or more compensation. The RTW Monitor can be viewed at [www.hwca.org.au/documents/CampbellReport.pdf](http://www.hwca.org.au/documents/CampbellReport.pdf).

The figures reported for the Australian Government include the Australian Capital Territory Public Service. Australian Capital Territory Private Sector data are reported separately. Western Australia and the Northern Territory do not currently participate in this survey.

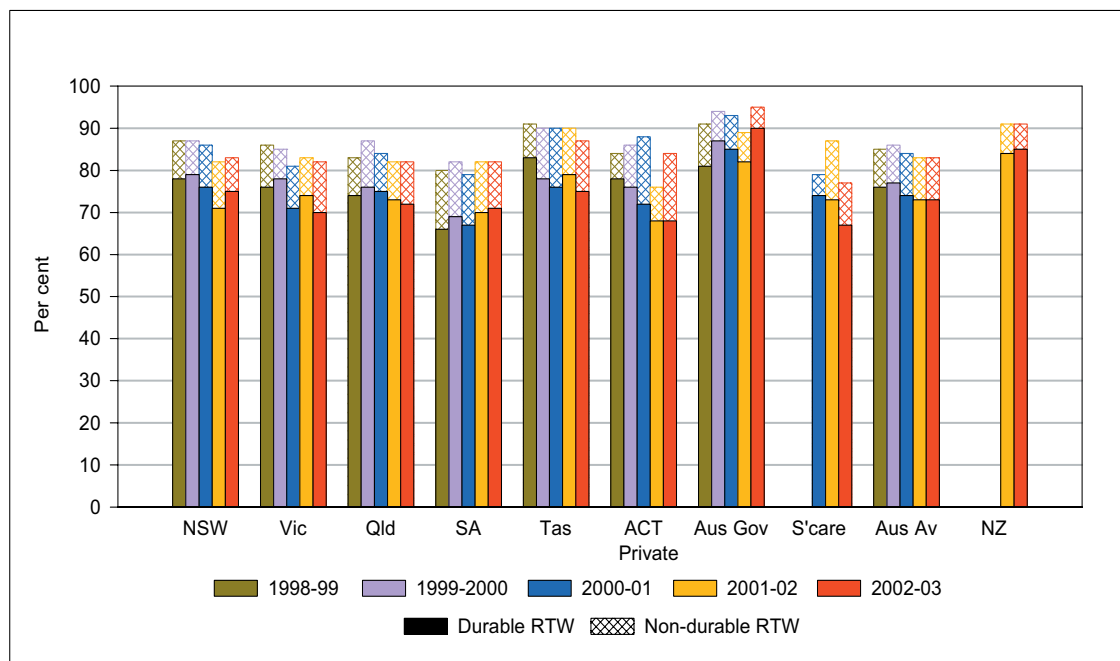
The indicators reported in this section include:

- durable and non-durable return to work. 'Durable' return to work refers to injured workers who had returned to work and were in a paid job at the time of the survey. 'Non-durable' return to work refers to injured workers who had returned to work at some stage since the lodgment of their claim but were not working in a paid job at the time of the survey;
- reasons injured workers are not at work;
- partial return to work; and
- the use of return to work plans.

## Return to work outcomes

Figure 48 shows the proportion of injured workers who reported durable return to work and non-durable return to work outcomes. Durable return to work is where the injured worker is working at the time of interview. Non-durable return to work is where the injured worker has returned to work since lodging a claim for compensation but is not working at the time of interview.

**Figure 48** Proportion of injured workers returning to work



The 2002–03 national average for injured employees with a durable return to work outcome was 73%. This figure has not changed from last year, although it has fallen from 1999–2000 when it was 77%. An average of 10% of injured workers had a non-durable return to work, with 17% having not returned to work at any stage. These figures remain the same as last year.

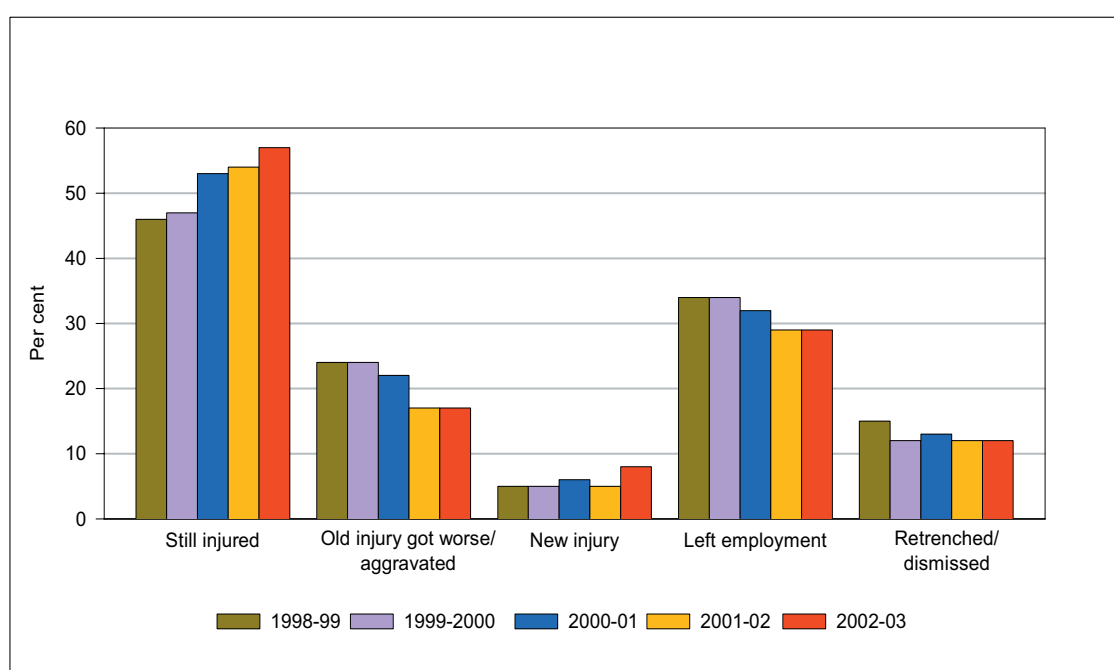
The Australian Government (90%) and New Zealand (85%) have the highest durable return to work rates, while the Australian Capital Territory Private (68%) and Seacare (67%) schemes have the lowest. There appears to have been an increase in the durable return to work rate over the past year in New South Wales and the Australian Government, while for Victoria, Tasmania and Seacare this rate has decreased. All other schemes had minimal movements.

## Reasons for not returning or staying at work

Figure 49 shows the reasons injured workers had not returned to work at all by the time of the survey or had experienced a non-durable return to work. Reasons an injured worker may not be at work could include one or more of the following:

- still injured;
- old injury became worse or was aggravated;
- suffered a new injury;
- left employment; or
- retrenched/dismissed

**Figure 49** Reasons for not returning to work or non-durable return to work



Total of all percentages for each year can be greater 100% because multiple responses are accepted.

'Still injured' remains the single main reason for not working at the time of the survey and injury related reasons ('still injured', 'old injury got worse/aggravated' and 'new injury') were by far the most common reasons for not working. The percentage of injured workers reporting that they were 'still injured' has continued to climb over the last five years. There has also been a rise in the number of workers citing 'new injury' as the reason they did not return to work, with this reason being at its highest level for the past five years. Despite this, 'new injury' remains by far the least reported of these reasons for not returning to work and the comparative increase is only slight.

## Durable return to work

Figure 50 compares the percentage of durable return to work outcomes (i.e. still working at time of interview) for workers who returned to work on a full or partial basis. New South Wales and the Australian Government appear to have slight increases in the durable return to work rates (i.e. both full and partial) when compared to last year, while Victoria, Tasmania and Seacare appear to have slight decreases. All other jurisdictions showed little change in their durable return to work rates, and the Australian average has remained stable.

Note that full return to work is not the same as full-time return to work, since the injured worker may have been working on a part time basis at the time of injury. Rather, it means return to a level of paid employment equivalent to that at the time of injury.

**Figure 50 Durable return to work - full and partial return to work**

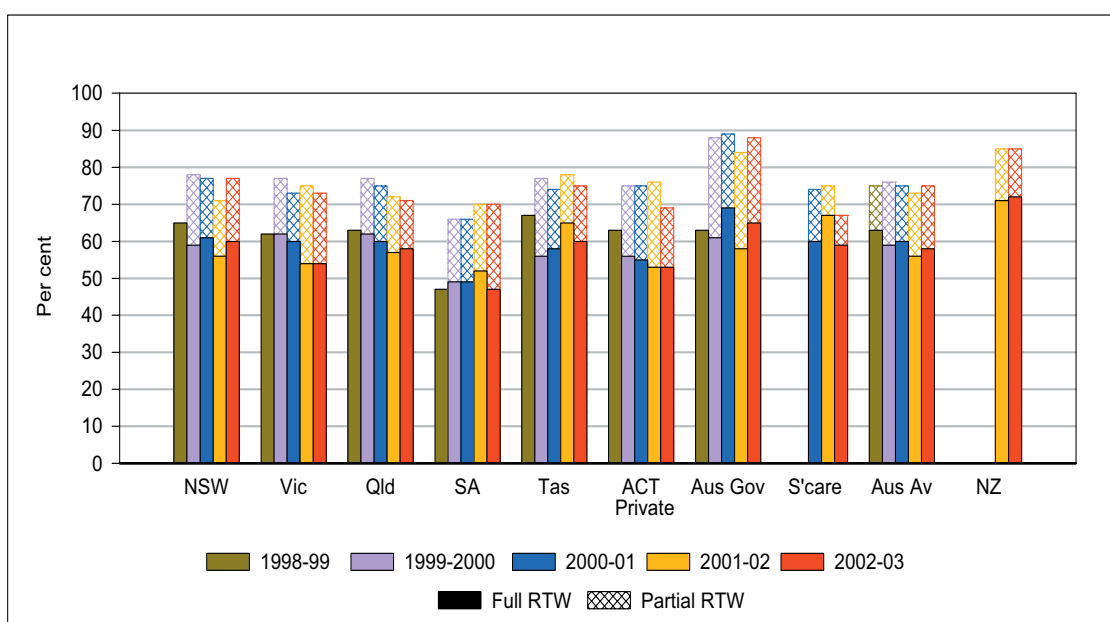


Figure 51 shows the number of employees who had a partial return to work upon first resuming work. Nationally, 23 per cent of injured workers resumed work on a partial basis when they first returned to work.

South Australia, and the Australian Government consistently have more injured workers return to work on a partial basis than the Australian average, and the Australian Capital Territory Private Sector’s partial return to work rates have been increasing.

These data appear to show that there is little correlation between partial return to work and the achievement of a durable return to work outcome.

**Figure 51** Partial return to work upon resumption of work

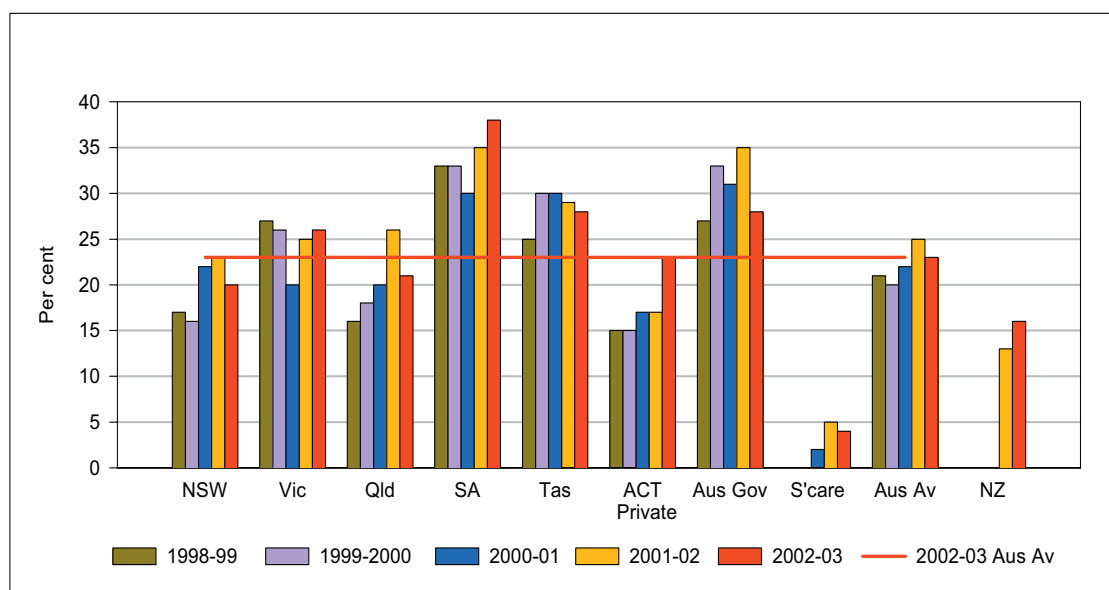
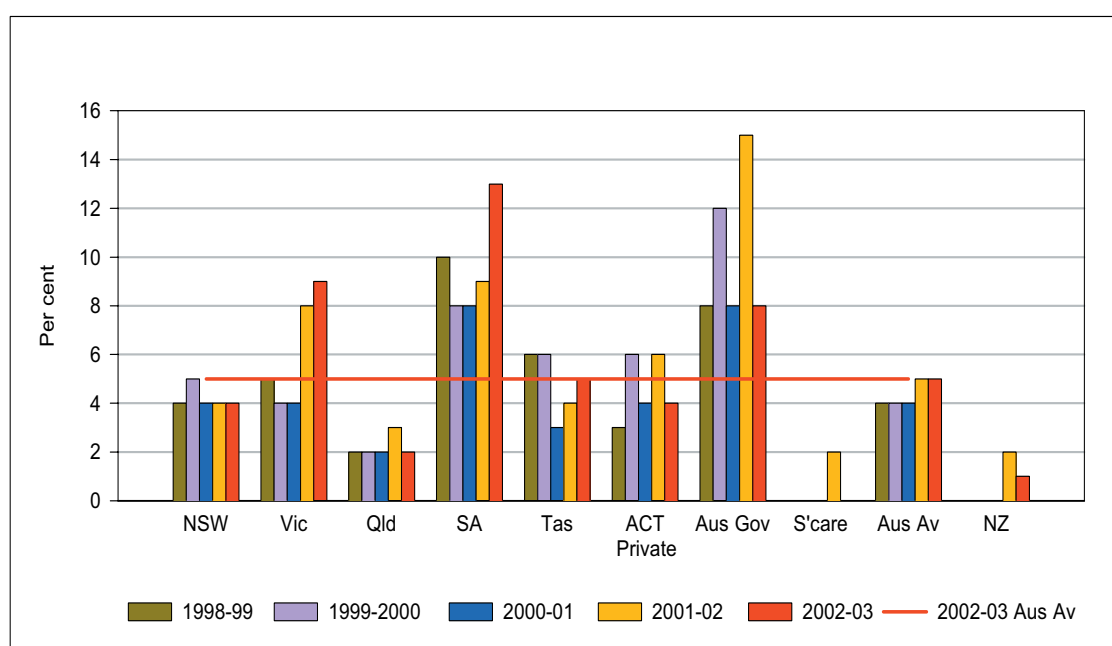


Figure 52 shows the percentage of workers working on a partial basis at the time of interview. Nationally 5% of injured workers still had a partial return to work at time of interview. As expected, this is significantly down from the 23% who had a partial return to work when they first returned to work.

South Australia (13%), Victoria (9%) and the Australian Government (8%) had a higher partial return to work rate at time of interview than the other jurisdictions. It should be noted however that the Australian Government has dropped its rate by nearly half from 2001–02 when it was 15%.

**Figure 52** Partial return to work at interview



## Return to work plans

Figure 53 shows that the proportion of all injured workers who had a return to work plan varies greatly between jurisdictions. Nationally the trend has been increasing to be at 49% of all those surveyed. These data appear to show that there is little correlation between the increase of the use of plans nationally and durable return to work outcomes.

**Figure 53** *Proportion of injured workers with a return to work plan*

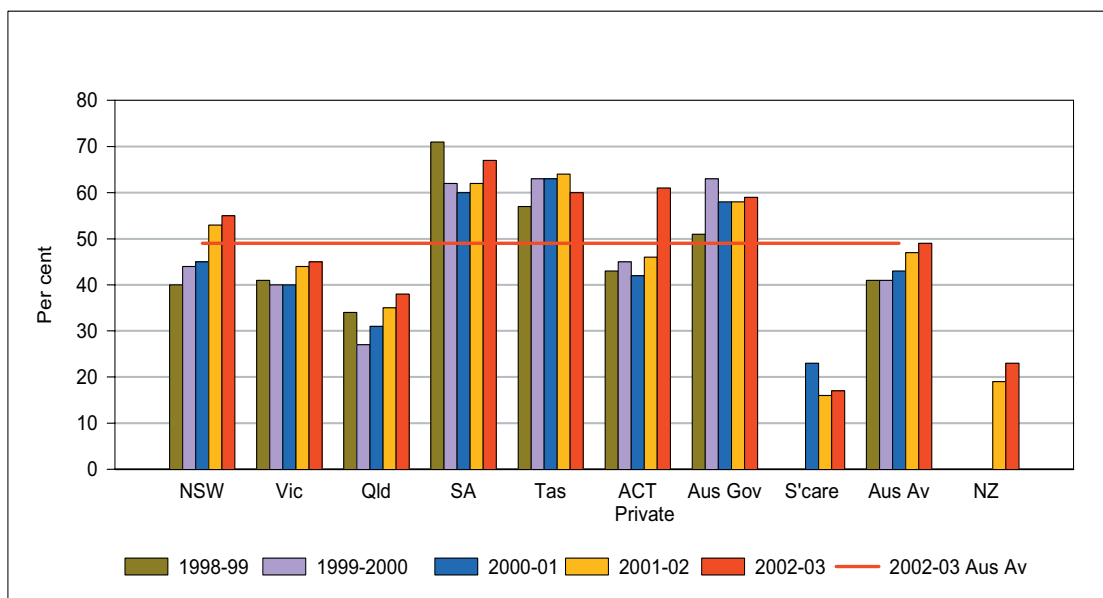
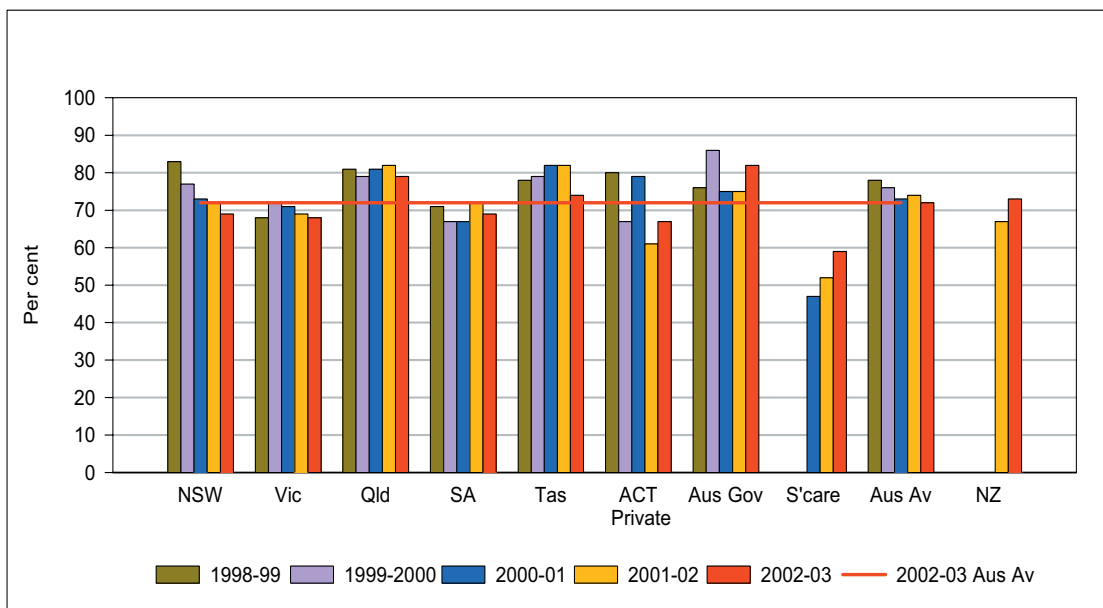


Figure 54 shows that 72% of injured workers with a return to work plan reported that the plan was helpful. However while there has been a steady rise in the use of plans, the number of injured workers who felt that they were helpful appears to be decreasing. Despite the decrease in the national result, improvements were recorded for Australian Capital Territory Private, Australian Government and Seacare. New Zealand also reported an improvement.

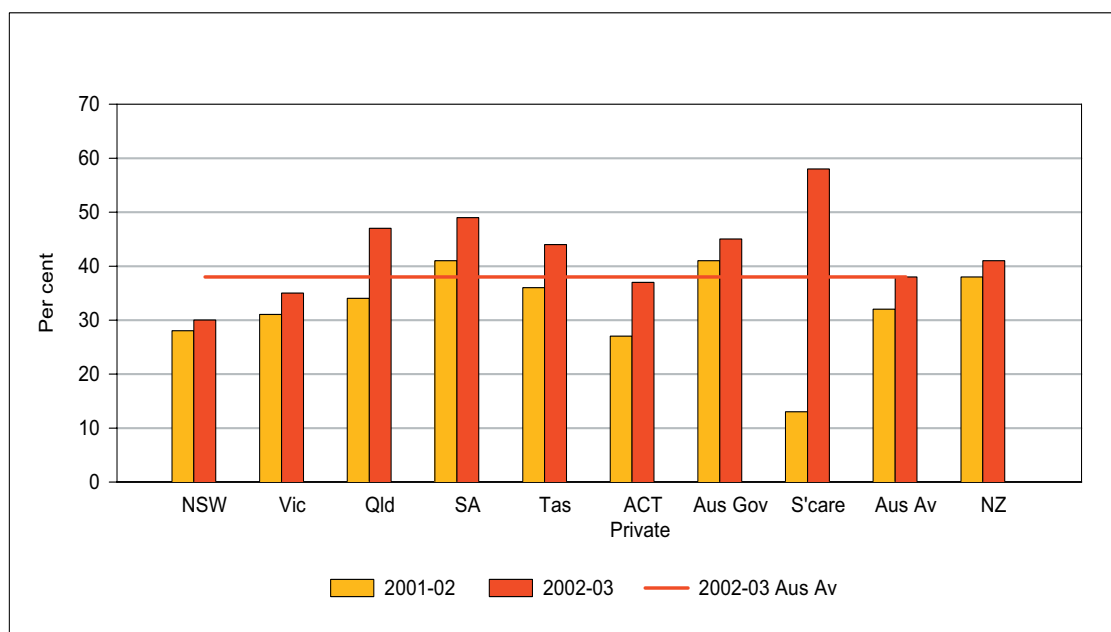
**Figure 54** *Proportion claiming return to work plan was helpful*



## Previous compensation claims

Figure 55 shows the proportion of injured workers who reported having made a claim prior to their claim in September or October 2002. These data were collected for the first time in 2001–02

**Figure 55** *Proportion of injured workers with a previous claim*



In 2002–03, 38% of injured workers nationally had previously made a compensation claim, up from 32% in the previous year. All jurisdictions recorded an increase in the number of workers with a previous claim, with the most notable increase being for Seacare. Queensland, South Australia, Tasmania and the Australian Government all show rates above the Australian average of 38%. New Zealand recorded a rate of 41%.

## Explanatory notes for part C

The Return to Work Monitor survey is conducted in November and May each year. The 2002–03 sample consisted of 2966 injured workers who made a workers' compensation claim in one of the Australian jurisdictions (except Western Australia or Northern Territory) or New Zealand. The aggregate survey monitors the return to work outcomes and processes for these jurisdictions.

The sample selected for all RTW Monitor surveys consisted of injured workers who had:

- submitted a claim seven to eight months before the date of the survey or seven to nine months for Tasmania, Australian Capital Territory Private and the Australian Government, due to their small population sizes. For Seacare, due to their even smaller size, the entire population of claimants are invited to be interviewed over four rounds in August, November, February and May.
- more than 10 days compensation paid, inclusive of any excess; and
- not been included in another workers' compensation survey in the previous 12 months.

### Sample size by jurisdiction 2002–03

| Jurisdiction                 | Total Sample Size |
|------------------------------|-------------------|
| New South Wales              | 600               |
| Victoria                     | 601               |
| Queensland                   | 600               |
| South Australia              | 408               |
| Tasmania                     | 341               |
| Australian Capital Territory | 145               |
| Comcare                      | 241               |
| Seacare                      | 30                |
| <b>TOTAL</b>                 | <b>2966</b>       |
| New Zealand                  | 570               |

## Sampling Error

The following paragraphs are taken from the 2002–03 Australia and New Zealand Return to Work Monitor prepared by Campbell Research and Consulting.

In the RTW Monitor differences between jurisdictions and financial years are reported if there was a statistically significant difference in proportions or means at the 95% confidence level. This means it can be assumed that there was a 95% likelihood that the difference was due to survey responses and not sampling variance.

The following table provides survey estimates of 50% and 80% at the 95% confidence interval for the sample sizes in the Monitor. For example, if 50% of the 2002–03 sample of 2966 gave a particular response, we can be 95% certain that between 48.2% and 51.8% of the entire population from which the sample was drawn (injured workers with more than two weeks compensation paid) would give this response. If the estimate was 80% we can be 95% certain that between 78.6% and 81.4% would give that response.

**Survey estimates of 50% and 80% at 95% confidence interval**

| Sample size | Survey estimate of 50% |            |            | Survey estimate of 80% |            |            |
|-------------|------------------------|------------|------------|------------------------|------------|------------|
|             | Confidence interval    | Lower band | Upper band | Confidence interval    | Lower band | Upper band |
| 2966        | +/- 1.8%               | 48.2%      | 51.8%      | +/- 1.4%               | 78.6%      | 81.4%      |

**Interpretation of Seacare Authority Results**

Seacare Authority injured workers face unique problems in attempting to return to work which need to be considered when interpreting Seacare results. To facilitate graduated return to work for an injured seafarer, a supernumerary position on a ship needs to be found and there are few supernumerary positions available. Also, it can be difficult to include shore-based duties as part of a graduated return to work, as many seafarers live in different locations to their employers' offices.

Injured seafarers have to be passed as medically fit under fitness-for-duties regulations to resume full pre-injury duties. The injury time for seafarers may also be extended by the fact that ships are away from port for four to six weeks, meaning that injured workers may not be able to resume work immediately after they are deemed fit to do so. These factors can result in injured workers waiting additional time to return to work.

