Part B

WORKERS' COMPENSATION

Comparison on:

- Average Premium Rates
- Recognition of Liabilities
- Benefit to Employee and other scheme cost
- Level of Benefits - Examples

INTRODUCTION

This part of the report contains performance indicators for the high level objective: 'Consistent and cost-effective workers' compensation'. To achieve this objective the provision of workers' compensation involves the benefits paid to injured employees, the service costs (medical, legal, etc) incurred to provide benefits, the administrative cost to manage the scheme and the cost to employers to fund the scheme.

Generally, employers meet the cost of workers' compensation by paying premiums to government schemes (as is the case, for example, in Queensland, Victoria and NSW) or to insurance companies in five of the Australian jurisdictions. Other employers carry the costs of workers' compensation by self-insuring, after meeting certain regulatory conditions set by the respective jurisdictions.

The 1998 Comparative Performance Monitoring Report reported on total cost to employers of workers' compensation (premiums, payroll payments, medical and associated costs incurred and common law settlements) using data from the last two Australian Bureau of Statistics (ABS) *Labour Costs Surveys* (LCS), 1993/94 and 1996/97. In this report a measure of average premium rates is provided, which could be considered a proxy for the indicator previously reported.

A measure of the recognition of liabilities for the individual schemes has been developed for this report. This measure seeks to inform on the ratio of net assets to outstanding claims liabilities. This measure should be considered in conjunction with the average premium rate information, although caution should be exercised due to the differing structural and governance arrangments across the schemes.

A series of measures have been developed to compare benefits to employees and other scheme costs. The structural arrangements for workers' compensation in Australia varies between the schemes. Some schemes bear the full costs of administration, including regulation and claims management, while some bear the costs of administering the regulatory function only, with claims management being undertaken primarily by the insurance sector. The indicators developed on this occasion also compare other operating costs associated with the provision of workers' compensation, such as medical and legal. These measures also need to be considered in the context of the measure on the recognition of liabilities.

Finally, to complete the package of comparing the workers' compensation systems we need to compare the benefits received by injured employees under the schemes. This part contains indicators based around case studies that show the benefits that would be received under the existing legislative arrangements. Work has commenced on developing indicators to measure actual benefits received by the injured employee in each jurisdiction.

PART B1

Average Premium Rates

Introduction

The first measure in this part compares premium rates across the jurisdictions. It can be misleading to simply compare published average premium rates levied on employers for workers' compensation in the different jurisdictions. Some of the main reasons are:

1 benefits and coverage for certain types of injuries differ between schemes;

2 there are different levels of accident frequency and severity;

3 claim management arrangements differ between schemes;

4 the funding arrangements for delivery of Occupational Health and Safety (OHS) services vary between schemes with a degree of cross-subsidisation existing in some jurisdictions;

5 different definitions of wages for premium setting purposes, different deductibles, the extent of self-insurance and different industry mixes;

6 the definition of wages, on which levies or premiums are based, differs between schemes;

7 premium calculation methodology differs between schemes, for example, some schemes have experience rating formulae, and some have exemptions for employers with low wagerolls;

8 premium rates can be calculated using different actuarial assumptions; and

9 some premium rates include stamp duty.

Accordingly, to develop comparable premiums a number of steps have been taken to standardise the measure. The measure does not remove variations due to different benefits, accident levels, claim management or OHS service provision arrangments (items 1 to 4 above) – these will be dealt with under the benefit and efficiency parts of the CPM project. The measure aims to remove the effects of different coverage, wage definitions, premium bases and actuarial assumptions (items 5, 6 and 8), so as to present a common basis for comparison of relative costs to employers of the current scheme arrangements. It does not remove the effects of stamp duty, but these effects are noted where appropriate.

It should be noted that the measure is based on premiums charged to employers. This may differ from the assessed cost of claims and expenses. Similarly, the overall average premium rate for a scheme may differ from the underlying cost of the scheme for a number of reasons. For example, schemes may levy a surcharge on premiums to cover future liabilities. At other times, schemes may charge premiums that, with the benefit of hindsight, prove inadequate, for example, schemes that provide for common law redress cannot predict costs as accurately and the judicial process has a considerable time lag. As issues such as these affect the actual premiums paid by employers, they would need to be adjusted to reflect underlying premiums.

It is anticipated that the standardised measure will be produced on a regular basis, so that the measure for those schemes that have charged lower premiums than the underlying scheme cost will increase, as the real costs are recognised. Thus, the trend in the measure will be as important as the absolute level at a point in time.

A separate analysis of New Zealand premium rates is provided at Appendix C.

Average Premium Rates

Figure 1

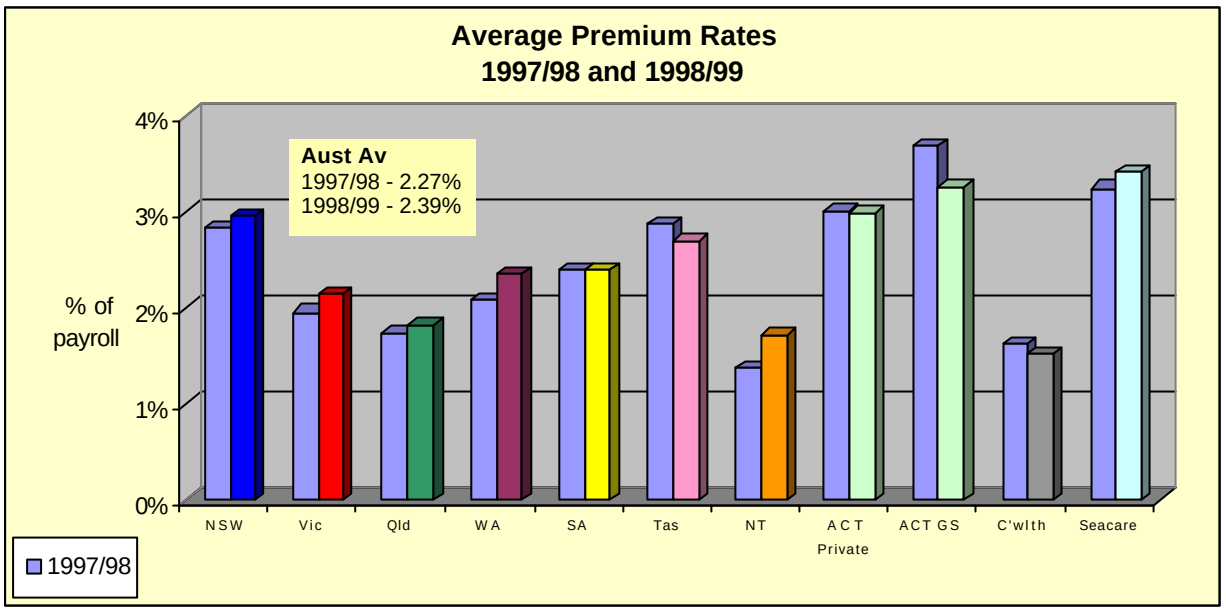


Figure 1 compares the 1997/98 and 1998/99 average premium rates across all Australian jurisdictions.

This measure is the average premium rate charged to employers, including workers' compensation costs of private and public sector self-insurers, for each scheme, assuming a standard:

- definition of wages (excluding superannuation);
- mix of industries (the Australian average); and
- excess or deductible (equivalent to payment of the first five days income benefit by employers, with no payment of medical costs).

A comprehensive explanation of the rationale and methodology used to arrive at a standardised average premium rate comparison is provided at Appendix A.

The Australian average premium rate increased significantly between 1997/98 and 1998/99 from 2.27% up to 2.39% of payroll.

The majority of jurisdictions reported an increase in average premium rates, the largest increase being observed in the Northern Territory (NT). South Australia (SA) recorded no change in its premiums and four jurisdictions recorded a decrease, the largest of which occurred in the ACT Government Sector (ACTGS). Some factors contributing to the overall increase include the following:

- Timing. It is to be noted that the average premium rates for the larger insured schemes have not changed significantly but the actual premium collected at the time of reporting was generally a higher percentage of remuneration than the quoted average rate. This may be partly a result of the 1998/99 data having been extracted at an earlier stage of development than the corresponding 1997/98 data. Many schemes make adjustments to remuneration and premiums to reflect final wage declarations, experience adjustments and refunds. It is likely that more of these adjustments had been made before the 1997/98 data were provided than was the case for 1998/99 data. These adjustments may reduce the 1998/99 collected premium rate to be closer to the quoted average rate;
- Self-insurer costs generally increased more than insured scheme costs. This may indicate improved recognition of liabilities;

- The rate of superannuation increased, largely due to an increased rate of the Superannuation Guarantee Charge from 6% to 7% of wages. This lead to increased premium rates (as a percentage of remuneration excluding superannuation) in Vic and SA (see Appendix B); and
- Premium rates in some of the privately underwritten jurisdictions have increased, in response to reviews of premium adequacy and, in some cases, increasing costs of common law claims.

Industry Rates by Jurisdiction

Figures 2 to 9 compare workers' compensation premiums across each industry ANZSIC group by jurisdiction. The rate for each jurisdiction allows for self-insurers, the exclusion of employer superannuation, and includes adjustments to bring all jurisdictions to a common 5 day deductible.

A weighted method is used to calculate the Australian average so that smaller schemes do not have an undue effect upon the overall average. The average is determined by the total of all premiums in a given industry divided by the total of all remuneration in that industry.

In both 1997/98 and 1998/99, the Agriculture, Forestry and Fishing industry group recorded the highest average premium rate in Australia (5.2% and 5.5% respectively). The Construction industry also recorded comparatively high premiums with rates rising from 4.3% in 1997/98 to 4.9% in 1998/99.

The Transport and Storage industry, an industry with a greater than average incidence of injury, remained unchanged with a premium rate of 3.4% for both the reference periods. Australia's Manufacturing premium rate increased 0.2% (to 3.7%) over the same period.

The industries with below average incidences of injury recorded very little movement in premium levels over the reference period.

Industry Rates by Jurisdiction

Figure 2

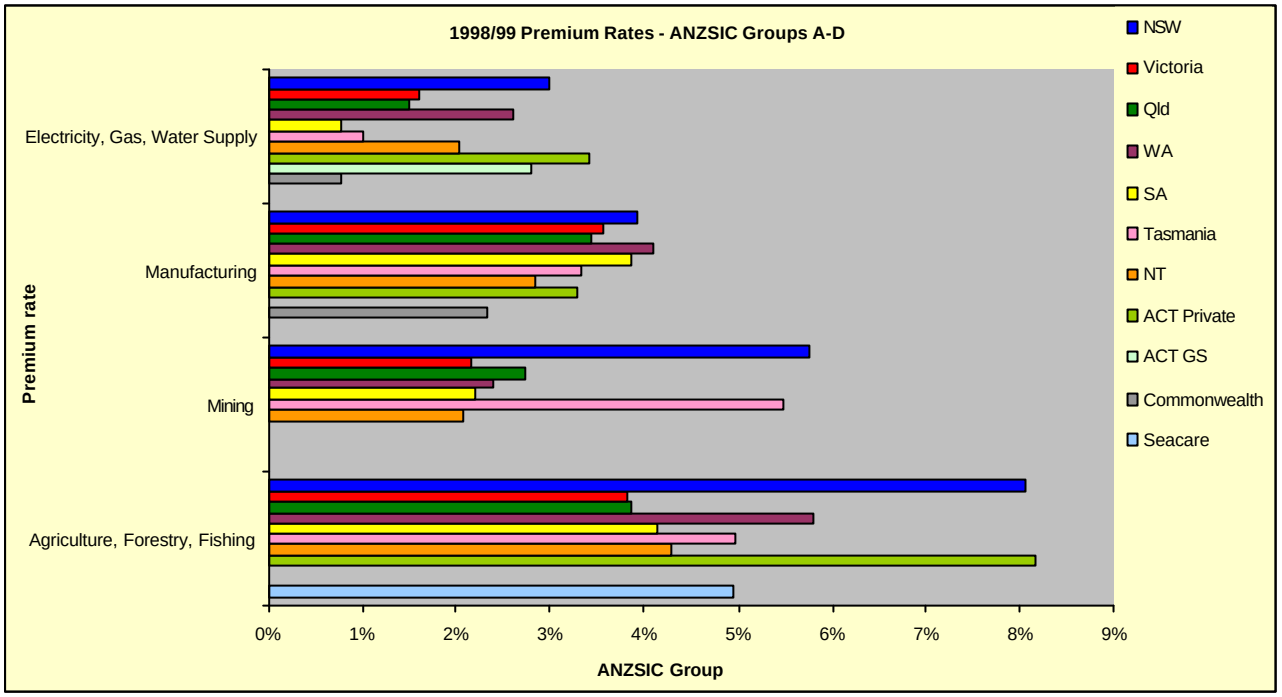
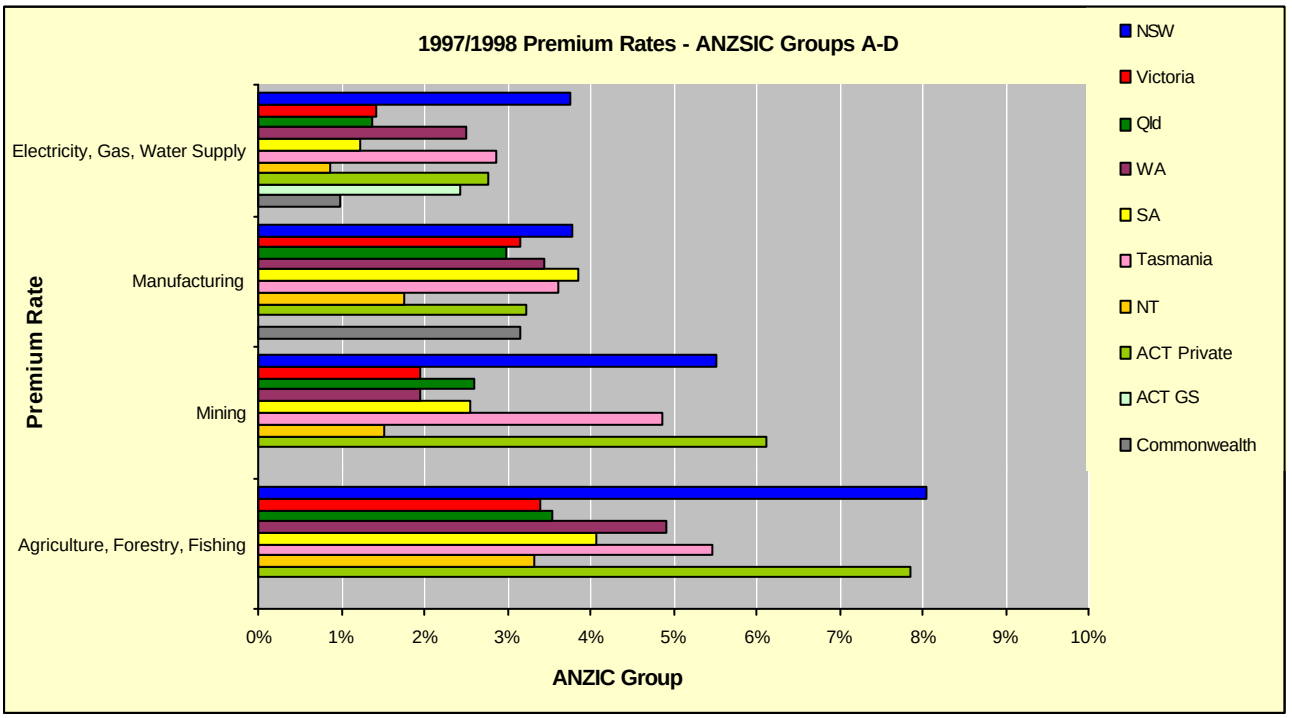


Figure 3



Industry Rates by Jurisdiction

Figure 4

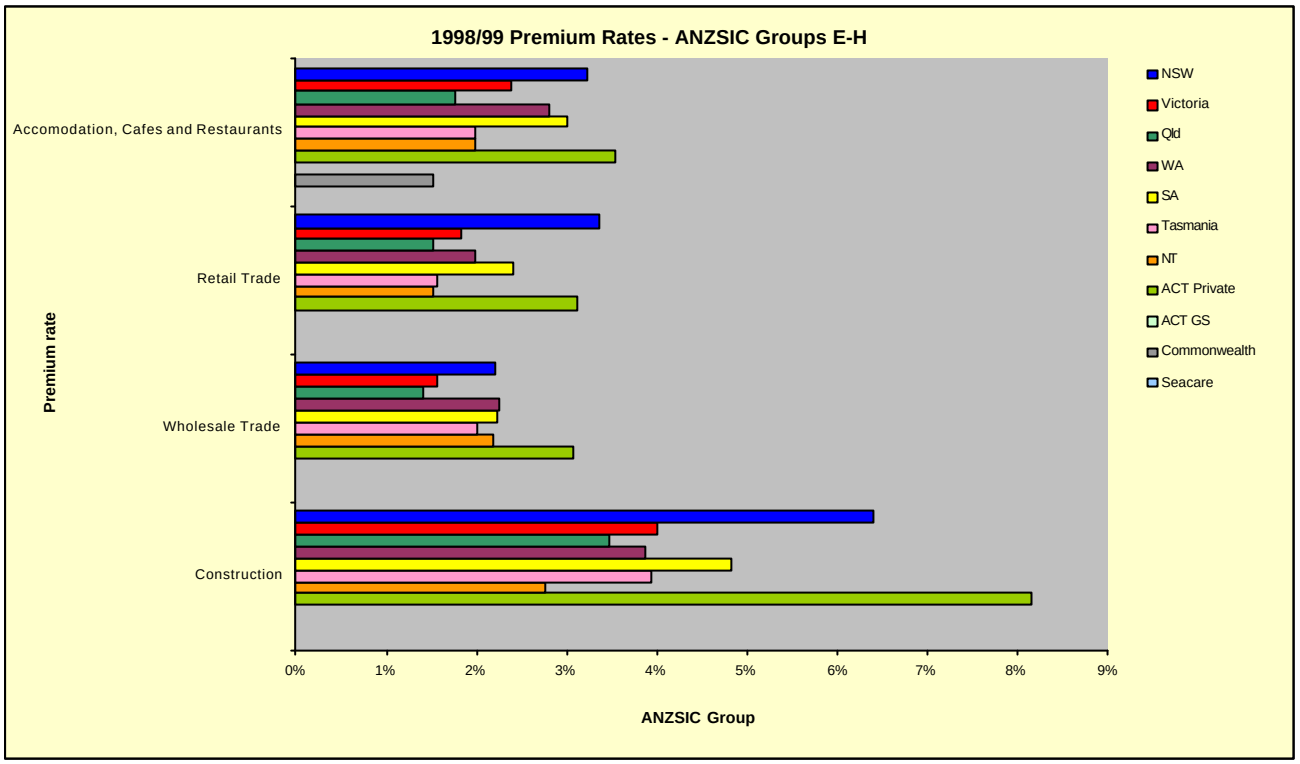
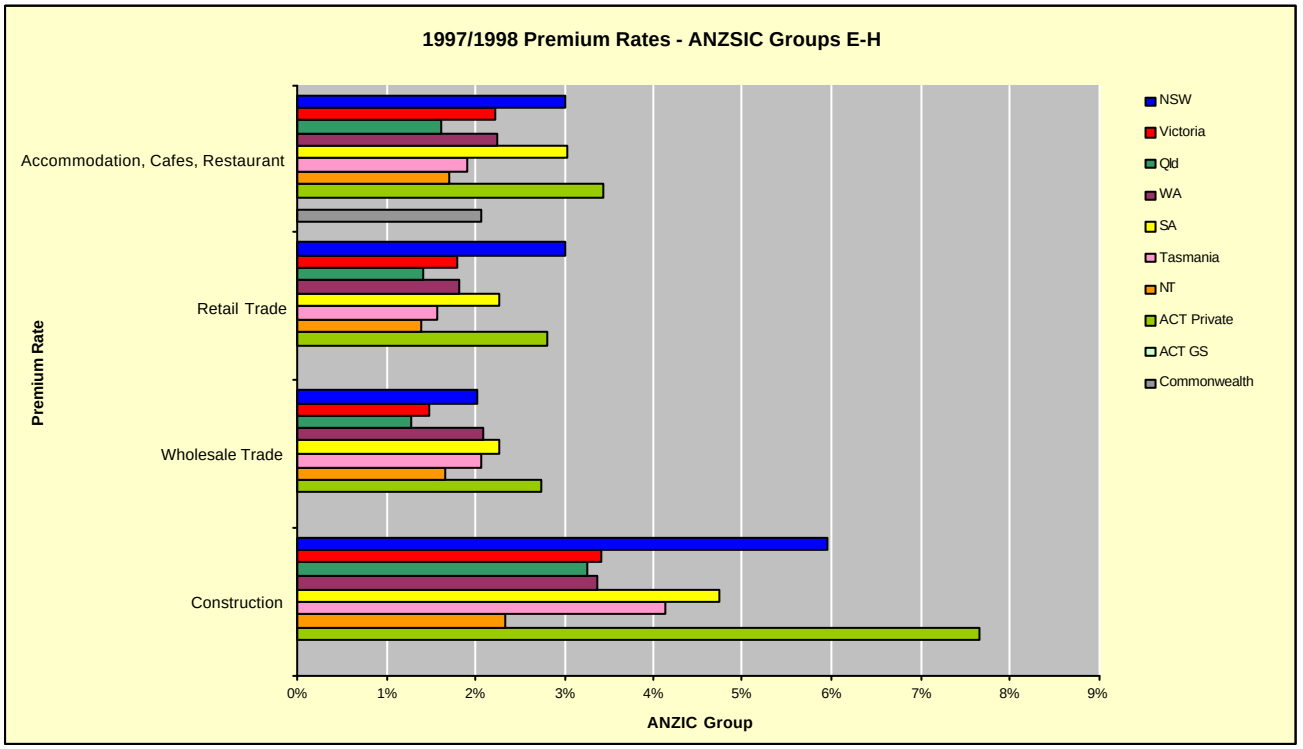


Figure 5



Industry Rates by Jurisdiction

Figure 6

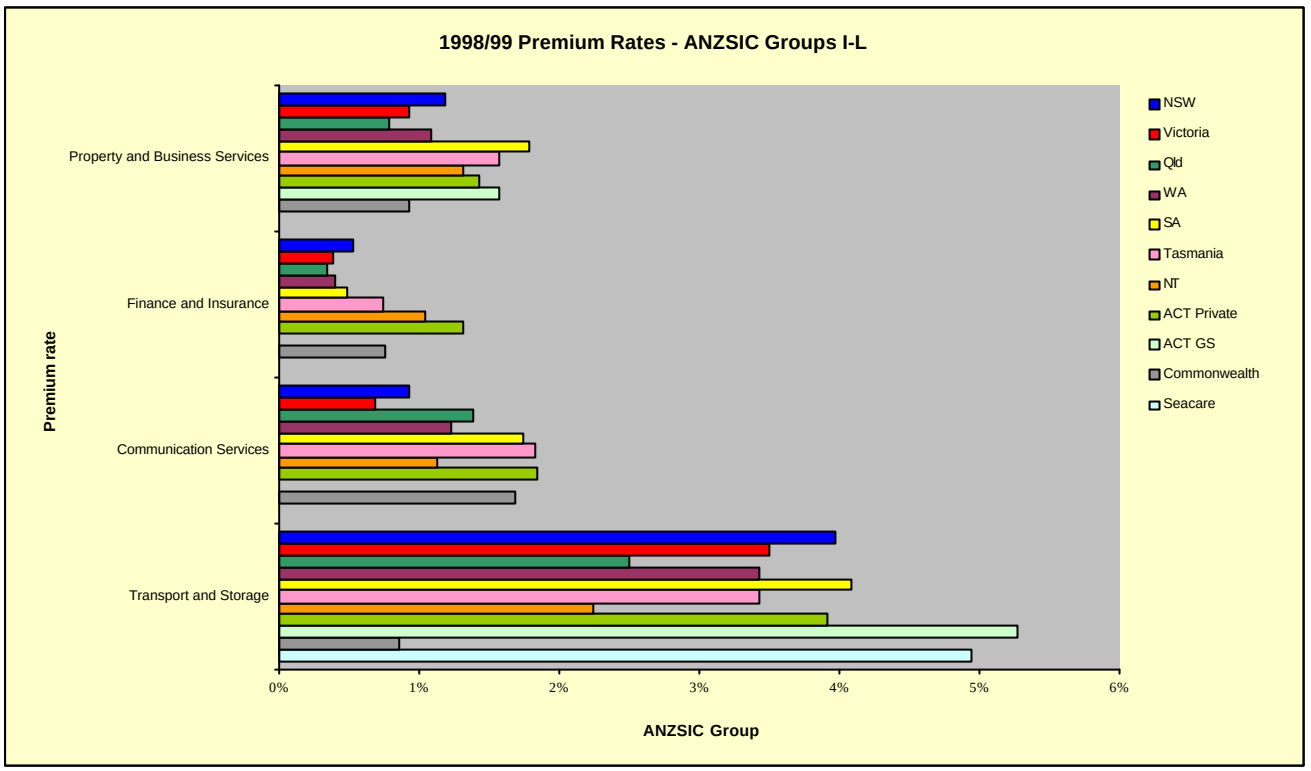
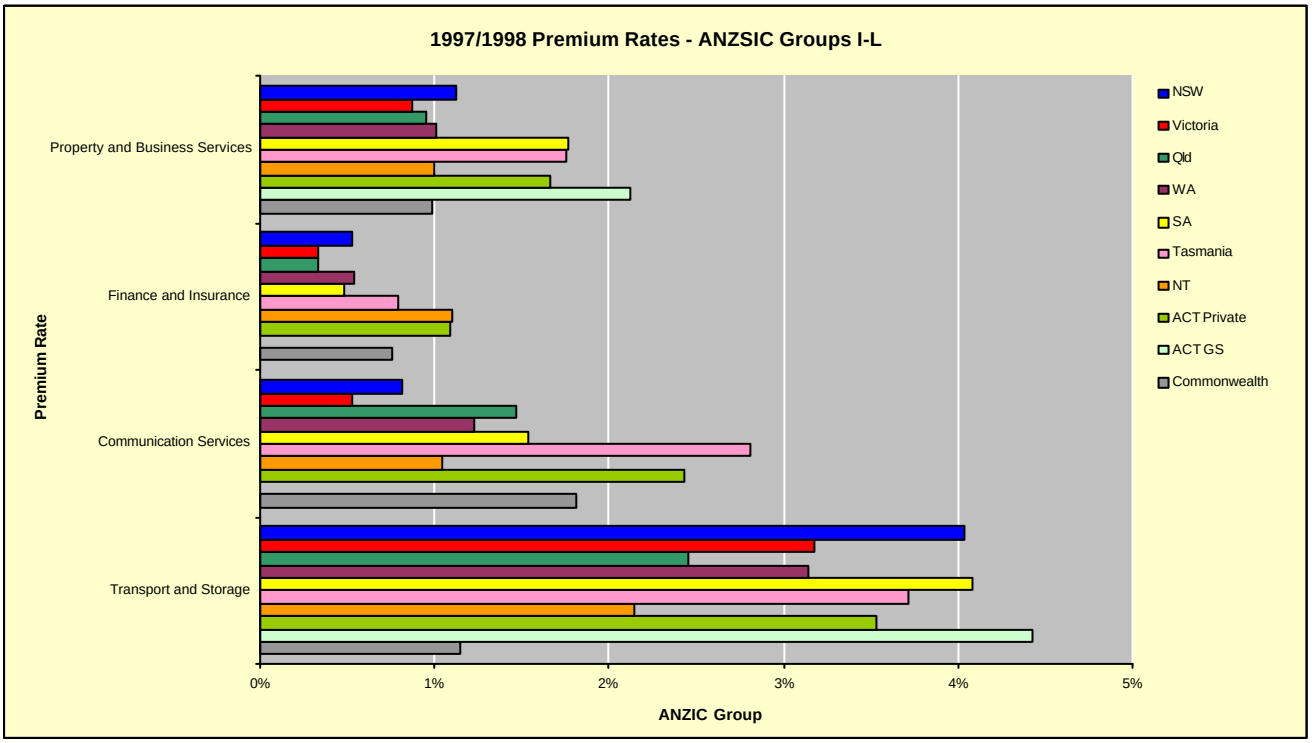


Figure 7



Industry Rates by Jurisdiction

Figure 8

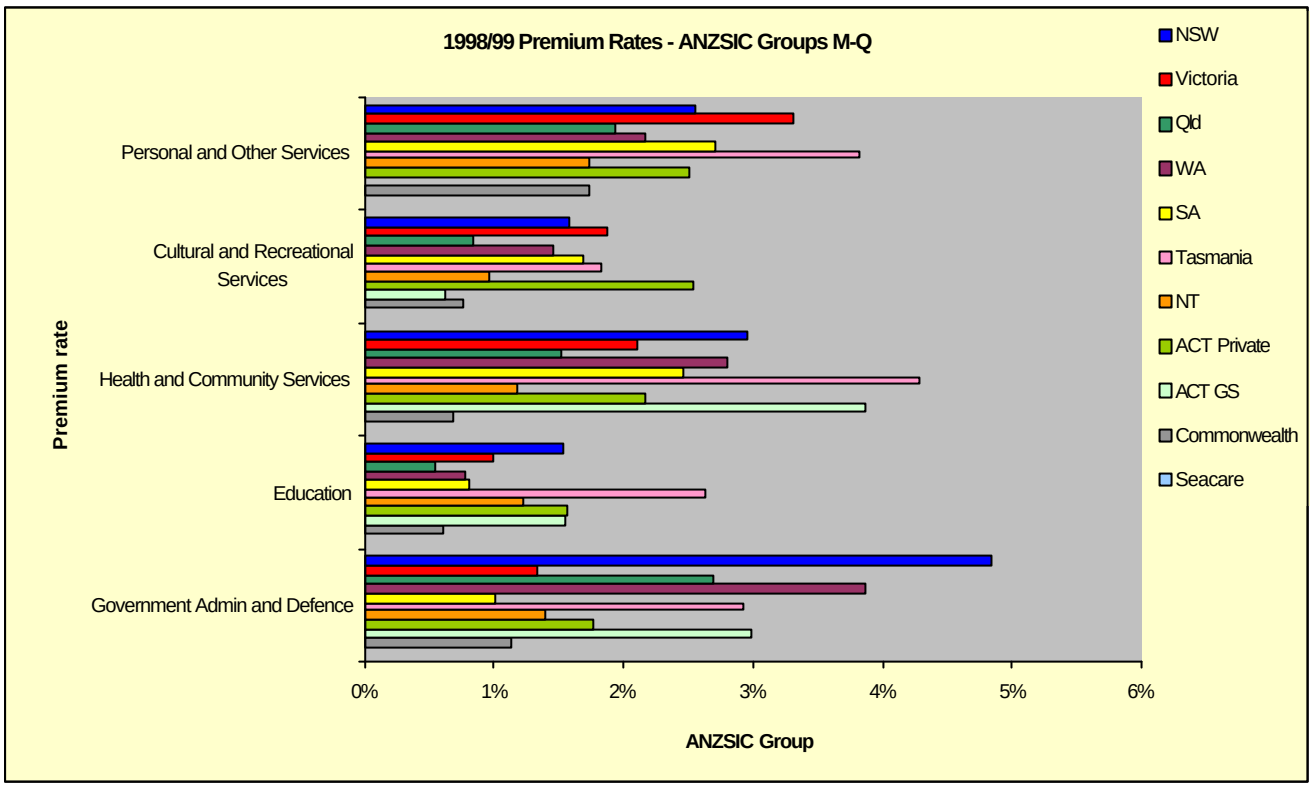
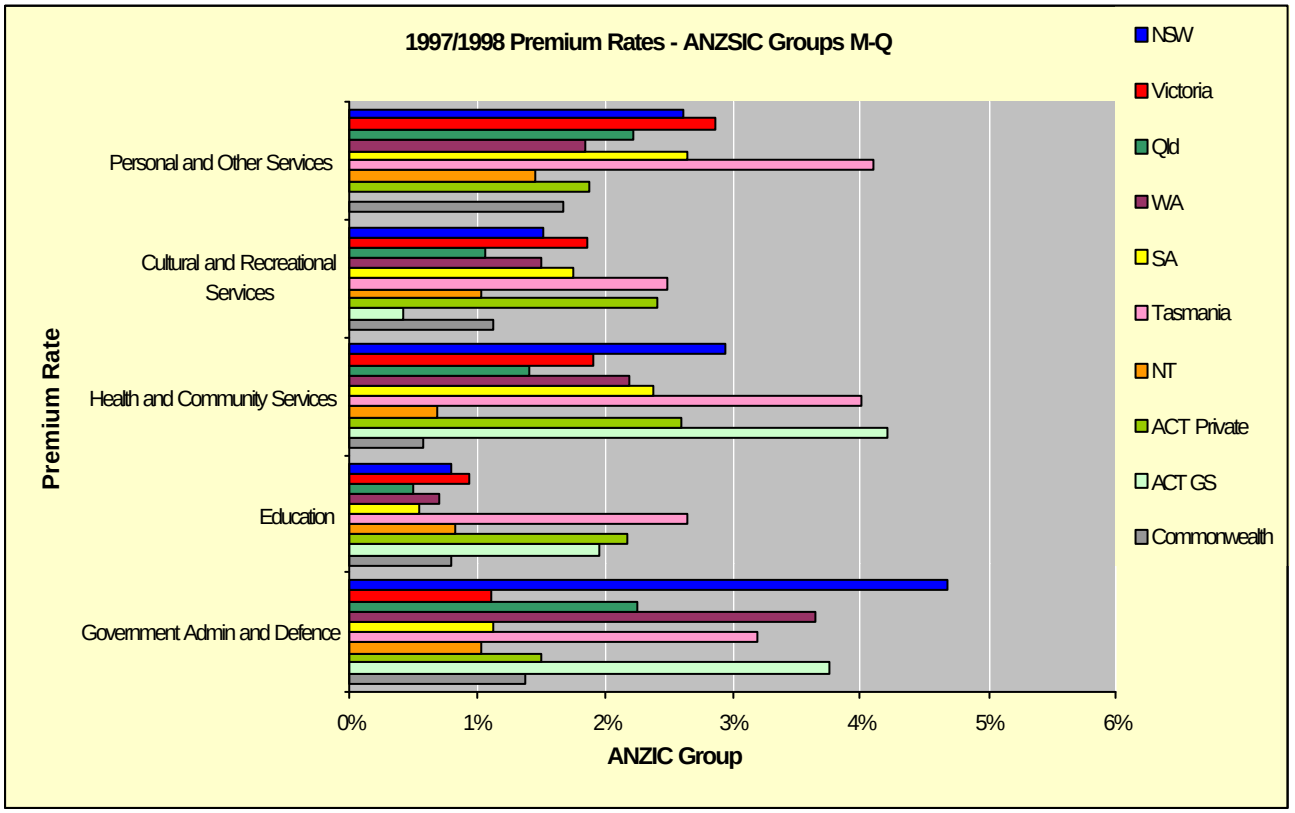


Figure 9



APPENDIX A

Development of Comparative Measure

Cost of Schemes

The average premium rate measure is based on premiums charged to employers, which may differ from the assessed cost of claims and expenses. Similarly, the overall average premium rate for a scheme may differ from the underlying cost of the scheme, for a variety of reasons. Three major reasons are:

- schemes may levy a surcharge on premiums to cover previous shortfalls;
- schemes may charge premiums that prove inadequate; and
- insurers in privately underwritten schemes must include margins to cover the cost of capital supporting workers' compensation business. This distorts comparison with monopoly schemes that do not require such margins.

All of these affect the actual premiums paid by employers but it was decided, for comparative purposes, premiums should not be adjusted on account of them. While these issues could be overcome by basing the comparison on the underlying cost of the scheme, the underlying cost requires estimation of the future claim costs of recent injuries. This estimation is available for many schemes, but is often not routinely provided for self-insurers or privately underwritten schemes. The work required to undertake such estimation is significant, and it was considered that by using the range of measures set out in this report, combined with new proposed measures on benefits and reporting consistently over time, for those schemes that have charged lower premiums than the underlying scheme cost will increase, as the real costs are recognised.

Other Issues

Journey claims

Roughly equal numbers of jurisdictions include and exclude journey claims from coverage. Experience of several schemes that have analysed journey claim costs suggests that they total around 6% to 7% of total claim costs. It was decided that no adjustment should be made to premiums on account of journey claim costs. Allowance for journey claims, along with a range of other types of claims, is part of the structure of a scheme. The impact on premiums rates on the one hand, and benefits to employees on the other, is a matter for governments to consider in designing the structure of their respective scheme.

Industry cross-subsidies

A number of schemes, for example the WA scheme, adjust premium rates to cross-subsidise between small and large employers. The calculation of standardised premium rates used in this measure is based on weighting by remuneration, so that cross-subsidies should not bias the results of standardisation.

Wage under-declaration

If there are significant differences in the rate of under-declaration between jurisdictions, either overall or for particular industry groups, premium rates will be artificially inflated. It was considered that similar levels of under-declaration were likely to be experienced by most jurisdictions. The introduction of Australian Business Numbers (ABN) may reduce the rate of under-declaration, so that the trend of future remuneration will indicate whether it has been a major issue in the past.

Self-insurers

Self-insurers may record claim payments from day one of incapacity, whereas insured schemes record them from the first day after the deductible period (with the exception of WA). This may increase the apparent cost of those jurisdictions with higher levels of self-insurance. The impact of this overstatement is considered to be small. There is uncertainty associated with estimation of self-insured claim costs plus expenses, and the effect of self-insurers recording payments from day one of incapacity is likely to be negligible in comparison with those uncertainties.

Capped claim costs

Some jurisdictions cap claim costs when calculating experience adjustments for individual employers. If employers in one industry group have more capped claims than average, this may distort the industry group premium rates. This was not considered to have had a material impact on premium rates for any jurisdiction.

Industry classification changes

There has been a trend in some industries towards the use of contractors rather than employees, which may cause industry classifications to change. Therefore one major change in industry classification was identified - Electricity, Gas and Water industry in Vic - the effect of this trend will be significant only if it occurs at a faster rate, or to a greater extent, in some jurisdictions than others.

APPENDIX B

Factors Affecting Premium Rates

Premium Rates Standardisation

Table 1 illustrates the effect of the process of standardisation of the average premium rates allowing for one additional factor at a time.

Table 1 - Standardised Average Premium Rates

Jurisdiction	Standardised Average Premium Rates[1] (%)									
	Insured[2]		Include self-insurers[3]		Exclude super[4]		5 day deductible[5]		Standardised[6]	
	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99
	%	%	%	%	%	%	%		%	
NSW	2.71	2.88	2.77	2.91	2.77	2.91	2.77	2.91	2.82	2.96
Vic	1.87	1.95	1.77	1.89	1.86	2.04	1.89	2.08	1.96	2.14
Qld	1.80	1.84	1.80	1.91	1.80	1.91	1.80	1.91	1.73	1.82
WA	2.40	2.71	2.33	2.62	2.33	2.62	2.30	2.59	2.07	2.35
SA	2.88	2.93	2.34	2.37	2.50	2.54	2.53	2.57	2.39	2.38
Tas	2.67	2.54	3.13	2.98	3.13	2.98	3.13	2.98	2.87	2.7
NT	1.53	1.9	1.50	1.91	1.50	1.91	1.48	1.88	1.38	1.71
ACT Private	2.59	2.59	2.59	2.59	2.59	2.59	2.56	2.55	3.02	2.99
ACT Govt	3.06	2.6	3.06	2.6	3.06	2.6	3.03	2.57	3.70	3.26
C'wlth	1.17	0.98	1.50	1.3	1.50	1.3	1.47	1.27	1.62	1.5
Seacare[7]	4.98	4.98	4.98	4.98	4.98	4.98	4.95	4.59	3.25	3.42
Australian Average	2.22	2.34	2.22	2.33	2.26	2.39	2.27	2.39	2.27	2.39

Notes:

1. For cover during or policies issued in the given year
2. Average rate for insured employees only
3. Average rate including self-insurers
4. Average rate including self-insurers, excluding superannuation from definition of remuneration
5. Average rate including self-insurers, excluding superannuation from remuneration, standardised to 5 day deductible
6. Average rate including self-insurers, excluding superannuation, 5 day deductible, based on standard industry mix.
7. Seacare data represents a single industry subsector as its jurisdiction is limited to the Maritime industry. The nature of the sector is such that in the following ANZSIC charts, Seacare data appears in both the transport and storage and agriculture forestry and fishing industries.

There are two important observations to be made about the premium rates in Table 1:

(i) the rates in the first column are based on premiums collected from employers, and final remuneration declared by them. This leads to differences from published rates; and

(ii) standardisation results in significantly different rates (in the right hand column) from average rates published by each jurisdiction.

Premium Comparison

The three most significant factors affecting premium rate comparisons are:

(i) Self-insurers;

(ii) Definition of remuneration, particularly the treatment of superannuation; and

(iii) Industry mix in jurisdictions.

The other factor that can affect premium rates is the impact of an excess where the employer meets costs for the first 5 or 10 days and/or the employer meets medical expenses to a capped amount. To enable comparability, it was decided to use a common deductible of the first 5 days' compensation, with no medical costs.

Self Insurers

Most jurisdictions allow self-insurance by employers considered large enough to manage the financial and other risks of assuming responsibility for their workers' compensation claims. Several jurisdictions have established separate administration of public sector workers' compensation claims.

As a result, the average premium rates for the group of employers covered by the scheme are higher or lower than they would be if self-insured or public sector employers were included.

Self insurers have the ability and incentive to keep workers' compensation costs down. A further possible factor contributing to lower apparent self-insurer costs is the recognition and reporting of claim costs by self-insurers which is generally less rigorously reviewed than that of insurers or central schemes. This can lead to the potential for understatement of costs.

The premium rate for self-insurers was taken to be the estimated annual claim cost, plus a 25% loading for expenses. For some schemes the estimate was based on self-insurer returns of payments plus estimated liabilities, and for others it was projected from past payment history.

Jurisdictions that have widespread self-insurance were affected most by the inclusion of self-insurer experience. These were NSW, SA, Commonwealth and Tas, with Vic, WA and NT affected slightly. Although, it is to be noted that the Commonwealth scheme is itself a self-insurance scheme.

The cost of workers' compensation reported by self-insurers in jurisdictions where most self-insurers are private sector employers is generally lower than the corresponding premium rate charged by insurers or central schemes (examples are Victoria, South Australia and Western Australia).

Table 2 below shows the effect on the average premium rate for each jurisdiction, where data was provided. Note that these rates are before any other standardisation, so that Table 2 shows only the effect of including self-insurers.

Table 2 - Effect of Including Self-Insurers on Average Premium Rates

Jurisdiction	Average Premium Rate for Insured Employers[1]		Average Premium Rate Including self-insurers[2]	
	1997/98	1998/99	1997/98	1998/99
	%	%	%	%
NSW	2.71	2.88	2.77	2.91
Vic	1.87	1.95	1.77	1.89
Qld	1.80	1.84	1.80[3]	1.91
WA	2.40	2.71	2.33	2.62
SA	2.88	2.93	2.34	2.37
Tas	2.67	2.54	3.13	2.98
NT	1.53	1.9	1.50[4]	1.91[4]
ACT Private[5]	2.59	2.59	2.59	2.59
ACT GS[6]	3.06	2.6	3.06	2.6
C'wlth	1.17	0.98	1.50	1.3
Seacare	4.98	4.98	4.98	4.98
Average	2.22	2.34	2.22	2.33

Notes:

1. Average rate of premium among employers insured by scheme or private insurers
2. Average rate of premium including insured and self-insured employers, including public sector self-insurers
3. Self-insurance commenced 1 June 1998, so negligible effect in 1997/98
4. Excludes Public Sector scheme
5. Privately underwritten scheme operating under Workers' Compensation Act 1951
6. ACT Government Sector covered under Safety, Rehabilitation and Compensation Act 1988

Remuneration Definition

All jurisdictions express premiums as a percentage of remuneration. For the purpose of calculation of premiums, remuneration generally includes gross wages, salaries, remuneration, commission, bonus, overtime, allowances and the like, directors' fees and other benefits.

Most exclusions are minor, and include (in some schemes) workers' compensation benefits, apprentice and trainee remuneration, shareholder dividends, accommodation or remote locality allowances, termination payments and reimbursement for motor vehicle usage.

The most significant exclusion is employer superannuation contributions. All jurisdictions except SA and Victoria exclude these contributions from remuneration for premium purposes. The inclusion of superannuation in remuneration *increases* the base on which premiums are calculated, and therefore, *reduces* the premium percentage required to achieve a required premium income.

Adjustments were made to SA and Victorian remuneration to remove the employer superannuation contributions. The inclusion of employer superannuation contributions in the remuneration base for the determination of premiums was significant in reducing the average premium rate for Victoria and SA. Table 3 contains the results of the standardisation (note these rates include insured employers and self-insured).

Table 3 - SA and VIC - Average Premium Rates expressed as a percentage of remuneration excluding superannuation

Jurisdiction	Average premium rate[1]		Average premium rate excluding superannuation	
	1997/98	1998/99	1997/98	1998/99
	%	%	%	%
SA	2.34	2.37	2.50	2.54
Vic	1.77	1.89	1.86	2.04

Notes:

1. Average premium rate as a percentage of remuneration including superannuation

Industry Mix

Industry mix may be unique to a jurisdiction thus influencing individual scheme rates.

The industry mix derived from ABS information on employee compensation for Australia was compared with the mix derived from aggregate remuneration supplied by the jurisdictions subdivided by ANZIC group.

It was found that the proportions of compensation in each ANZSIC group is broadly consistent. This means that the standardised average premium rates are not sensitive to different assumptions about the proportion of compensation in each ANZSIC group. The areas of difference relate to lower recorded renumeration in the public sector, due primarily to some public sector self-insurer data being unavailable.

Other Factors

Deductibles

It is estimated that the additional cost of moving from a 10 day deductible to 5 days increased the average premium rate by between 0.02% and 0.03%. This was taken to be 0.025% for the current comparison. Similarly, the reduction in premium rate by moving from no deductible to a 5 day deductible is estimated to be 0.03%.

The additional cost of moving from a $400 medical deductible to no deductible was taken to be an addition to the premium rate of 0.01%, and moving from a $200 medical deductible to no deductible was taken to be 0.005%. The impact of deductibles is reported in Table 1 above. The results on deductibles illustrate that the effect of deductibles on average premium rates is small. This reflects the often quoted fact that the majority of most schemes' costs are attributable to long-term or serious claims (which are a small minority of claims by number).

Stamp Duty

Queensland advised that stamp duty was included in the premiums charged to employers. This has not been removed from the comparison, as in most other jurisdictions, no stamp duty is levied on workers' compensation premiums. The stamp duty included in Queensland premiums is part of the premium paid by employers, and so should be included in the comparison.

West Australian Rates

In WA, recommended premium rates are gazzetted. Insurers then have the capacity to discount or surcharge dependent upon the employer's risk and claims experience.

The premium measures are based on work undertaken by Taylor Fry Consulting. Full details on the approach and methodology used are available by contacting cpm@dewrsb.gov.au .

APPENDIX C

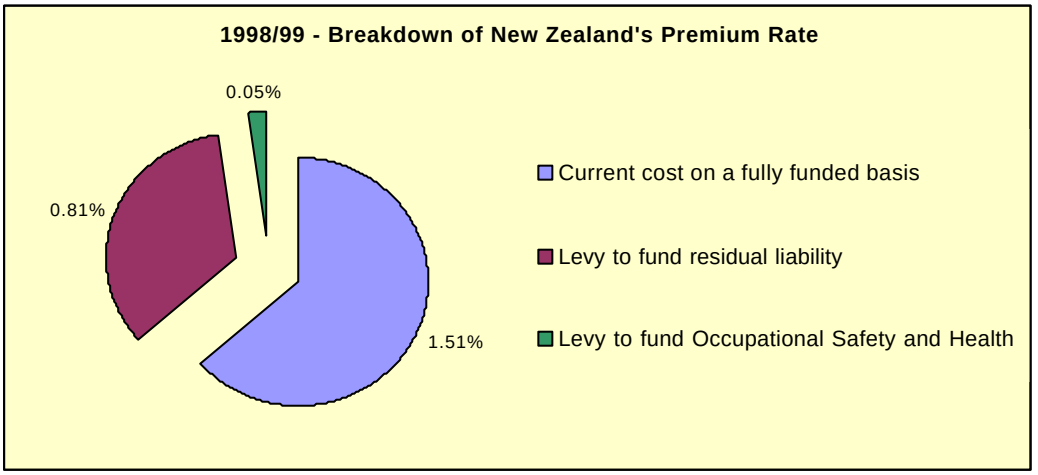
Premium Rates in New Zealand

In 1998/99, New Zealand's workers compensation fees covered three distinct elements:

- the current cost of workers compensation (assessed on a fully funded basis). This was at an average rate of 1.51% of wages;
- a levy designed to fund the residual liability of the previous pay as you go scheme over a 15 year period. This was at an average rate of 0.81% of wages; and
- a levy designed to fund the Occupational Safety & Health service. This was at a rate of 0.05% of wages.

A graphical representation of the premium rate breakdown is provided in Figure 1.

Figure 10

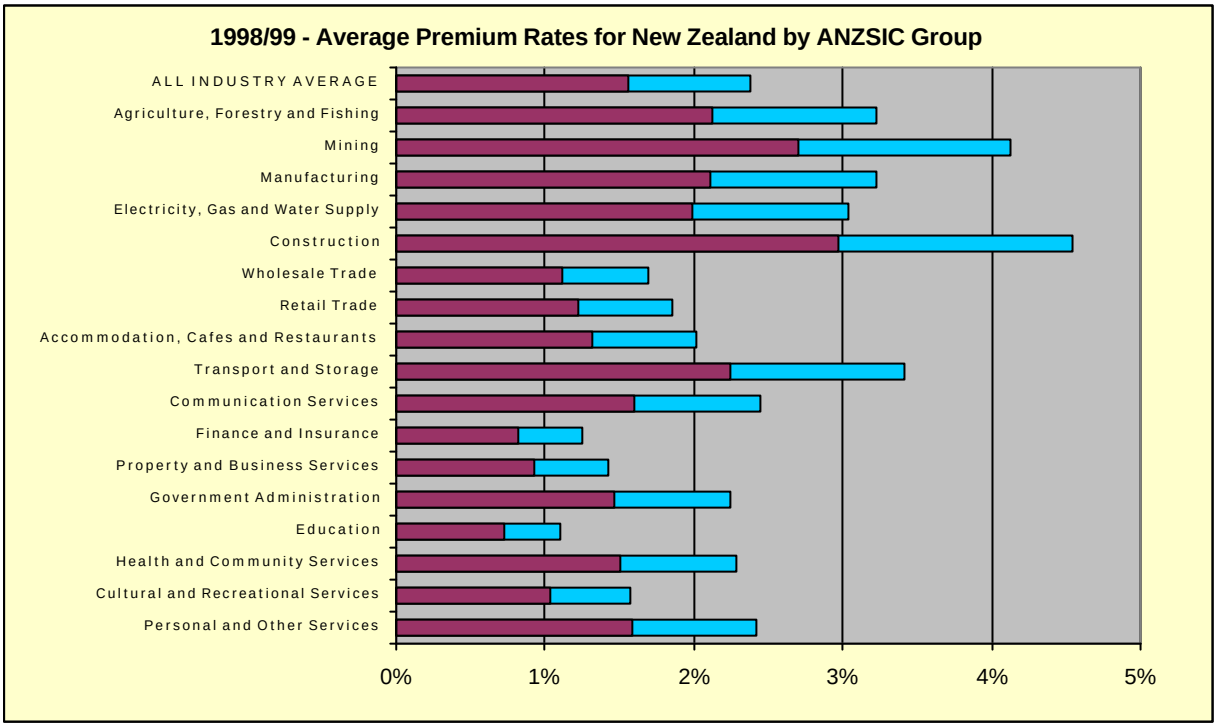


The residual liability levy is being reduced and for the 2000/01 financial year the levy is 0.40% of wages. Incremental reduction means that over time New Zealand's published rates will better reflect the current cost of workers' compensation.

Figure 2 illustrates average the premium rates across each industry ANZSIC group (an all industry average is provided in capitals) . The red bar denotes the cost of providing workers compensation insurance and Occupational Safety and Health services in 1998/99. It does, in essence, represent underlying costs.

The blue bar denotes the proportion of fees that are allocated to fund residual liability, ie., liability accrued in a previous period . The total of the red and blue components represent the average cost to employers in each ANZSIC group over the period.

Figure 11



PART B2

Recognition of Liabilities

Introduction

This part of the report relates to the high level outcome "the recognition of present and future workers' compensation liabilities". The measure aims to report on the ratio of net assets to outstanding claims liabilities.

Several State schemes, the Commonwealth and the New Zealand scheme operate as a central fund. This means that the assets set aside to meet future workers' compensation payments are identified in the accounts of the scheme. Other schemes are underwritten by private insurance companies and the assets set aside to meet their liabilities are commingled with the assets from all the other classes of business underwritten by those insurers. In addition, the Australian insurers are required to maintain adequate free reserves by the Australian Prudential Regulatory Authority (APRA). These free reserves are not allocated to particular classes of business.

For central funds, the identification of net assets and liabilities is straightforward. For privately underwritten schemes, it is not possible (for the reasons described above) to identify the net assets apportioned to the workers' compensation business of a private insurance company in a State or Territory. The most appropriate measure of the recognition of workers' compensation liabilities was considered to be the balance sheet provisions held by insurers as at 30 June 1998. These provisions must, along with all other claim provisions, be matched by assets considered to be adequate by APRA. Thus the balance sheet provisions were considered to be a proxy for net assets.

The liabilities for privately underwritten schemes require assessment of the outstanding claims for the whole scheme at 30 June 1998. Most privately underwritten schemes do not carry out an independent review of liabilities because they require insurers to supply actuarial or other reports supporting their provisions. Accordingly, the ratio of balance sheet provisions to independently assessed, scheme-wide outstanding claim liabilities, was not available for most privately underwritten schemes.

Assets to Liabilities

Figure 1

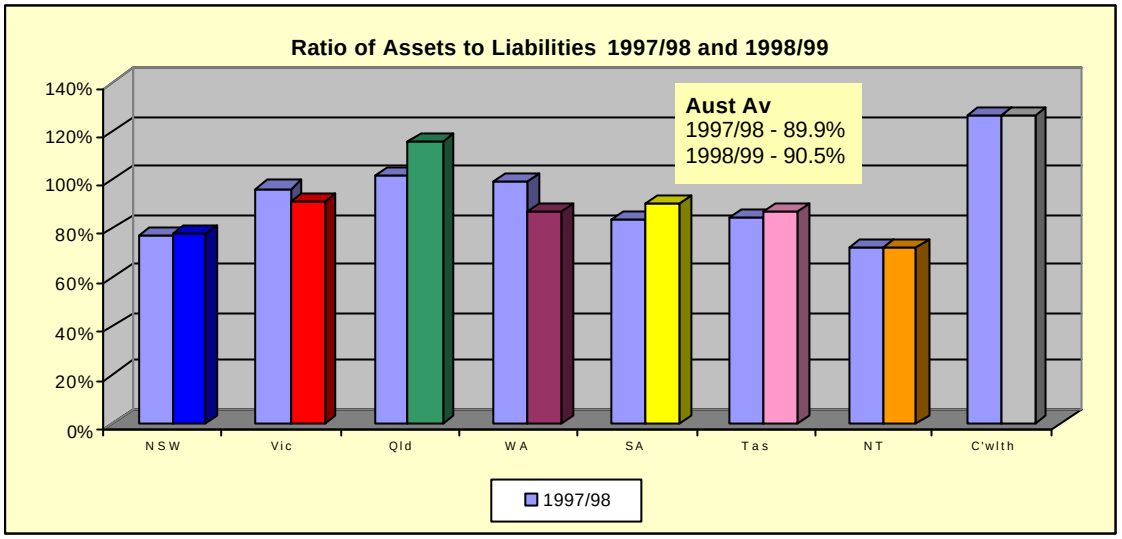


Figure 1 compares the recognition of liabilities, represented by the ratio of net assets to outstanding claim liabilities (referred to as the funding ratio in some schemes) on a standardised basis for the last two financial years.

While the financial position of three workers' compensation schemes deteriorated over the last two financial years, the majority of schemes recorded an identical or marginally improved financial position.

In order to make schemes comparable, a standardisation process has been undertaken that compares the financial position of different schemes by removing the effect of differing measures of liability. These arise due to:

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

The Australian average asset to liability ratio improved over the last two financial years. The average for 1998/ 1999 was 90.5%, and up from 89.9% in 1997/1998.

The trend in this measure will be an important reflection of the premium rates that the various schemes apply. As well, the outcomes for this measure should be considered in conjunction with the outcomes reported in the next part of the report (Part B3). Table 1 below sets out the details for each scheme.

Table 1

Jurisdiction	Standardised Ratio of Assets [1] to Liabilities [2]	
	1997/98	1998/99
NSW	77.3%	78.0%
Vic	96.3	91.4
Qld	102.0	116.1
WA	99.3	87.0
SA	83.9	90.2
Tas	84.6	86.9
NT [3]	72.4	72.4
C'wlth	127.0	126.8

Notes:

1. Net Assets of central funds at 30 June 1999. Taken as sum of insurers' provision as at 30 June 1999 for privately underwritten schemes.
2. Estimated net outstanding claim liabilities as at 30 June 1999, excluding margins.
3. 30 June 1999 value not available at date of report. Taken to be unchanged from 30 June 1998.

Methodology

For each jurisdiction, the liabilities were estimated from the actuarial report and adjusted to a consistent economic basis without any prudential or other margins. The assets are taken as investments less current liabilities (staff and other provisions). Where private insurers underwrite a scheme, assets were taken to be equal to the sum of insurers' claim provisions. The ratio of assets to liabilities (adjusted to a consistent economic basis) was calculated as an indicator of the level of recognition of liabilities.

The consistent economic basis was derived by adjusting outstanding liabilities to the average economic assumptions, as follows:

(i) calculate the average inflation and discount rates used in the estimation of the outstanding claims liabilities;

(ii) assume a discounted mean term of the outstanding liabilities of three years; and

(iii) apply the average rates of inflation and discount to each jurisdiction, using the assumed mean term.

Information for this part of the report was prepared by Taylor Fry Consulting and a copy of the consultants' full report for both years is available by contacting cpm@dewrsb.gov.au.

PART B3

Comparison of benefits paid to employees and other scheme costs

Introduction

This part of the report provides a number of performance indicators for Australian workers' compensation systems based on expenditure by the various schemes. The measures developed seek to compare how the income received by a scheme is used.

In considering the performance of each scheme, it is important to bear in mind that significant differences exist among the schemes in key areas, such as their administration, insurance arrangements, benefit levels and structure (set by legislation), dispute resolution procedures and rehabilitation/return to work programs. It should also be noted that as these figures are based on current expenditure, the comparisons may not fully represent the underlying cost structures of the schemes. This is particularly the case where schemes are making payments for liabilities accrued in previous periods or where there have been recent major changes in the benefits or administration of a scheme. As with all measures used in this report, the trend in outcomes over time is the key indicator of performance of the individual schemes.

The income for each scheme in a year is by way of premiums or levies, which are generally based on the wages and salaries paid by employers, and income from investments of past years' premiums. The schemes use this income to pay benefits to injured employees; to pay for services that will assist the rehabilitation and return to work of the injured employees; to administer the scheme; and, in most schemes, to undertake workplace injury prevention activities.

For the purposes of this report, activities have been grouped into three main types of expenditure:

(i) Benefits Paid – compensation or payments made directly to an injured employee; including lump sum settlements which may be paid to a third party for the benefit of the injured employee;

(ii) Medical and Other Services – payments made for services, which assist an employee's recovery and return to work. These include medical costs, rehabilitation costs, employees' legal costs and payments to employee advisory services; and

(iii) Administration Costs – costs incurred for the regulation and administration of the workers' compensation system. This includes either the provision of claims management or services to assist insurers in assessing claims.

These three types of expenditure have been compared for the last three financial years across a number of jurisdictions as a percentage of:

- Total Payments – the cost of all benefits paid, including medical and other services and administration costs on a financial year basis. This effectively represents the cost of operating/providing a workers' compensation system in the respective jurisdiction;
- Total Scheme Revenue – includes premiums paid by employers, investment returns and other funds collected and earned by the scheme; and
- Wages and Salaries – the total wage and salaries bill for employees covered by the workers' compensation system.

Due to the differences in funding and operation of the prevention activities across the schemes, for the purposes of this report, occupational health and safety expenditure has been excluded. Likewise, self-insurer information has been excluded from all comparisons due to the difficulty in obtaining comparable data and in determining scheme income and costs for self-insurers. Further work will be undertaken into these two areas in the future.

Adjustments have also been made to all figures in these comparisons to remove both prevention and self-insurance impacts from costs, income and wages.

Comparisons are provided for the financial years, 1996/97, 1997/98 and 1998/99. While steps have been taken to make these comparisons as consistent as possible, an initial analysis revealed that discrepancies existed in the measurement of investment income in private insurance schemes and therefore caution must be applied when making comparisons. These discrepancies have, however, been rectified as far as possible based on currently available information.

A further explanation of expenditure determinants and agency functions is provided at Appendix A.

Total Expenditure

Figure 1a

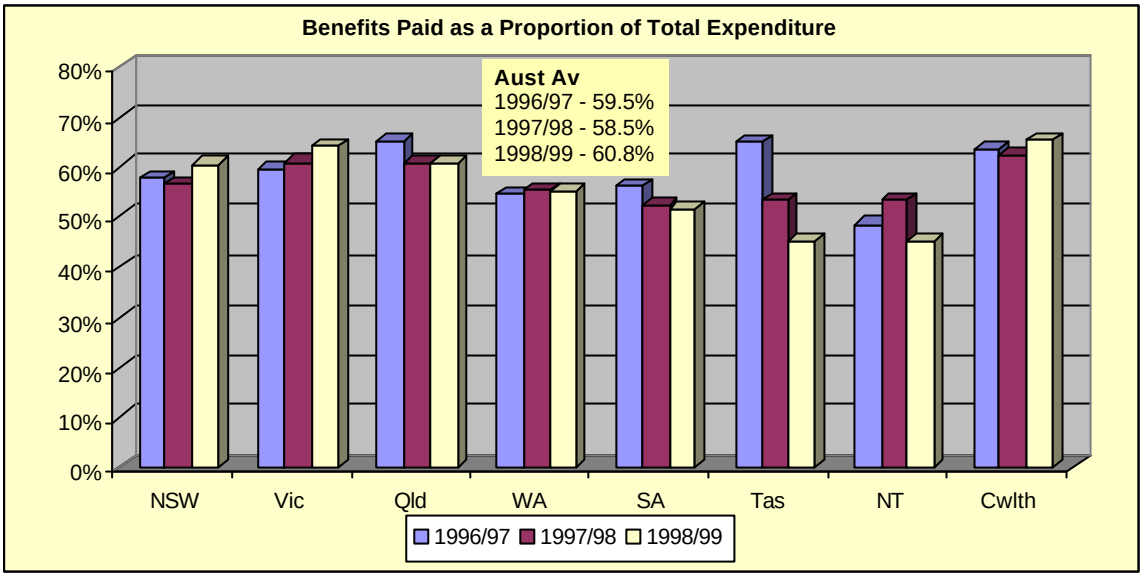


Figure 1a indicates benefits paid to injured employees as a percentage of total expenditure.

The national average proportion of expenditure on benefits has risen marginally over the three years from 58.5% to 60.8%. NSW, Vic, WA and the C'wlth all reported increased expenditure on benefits while Qld, SA, Tas and NT reported falls.

Figure 1b

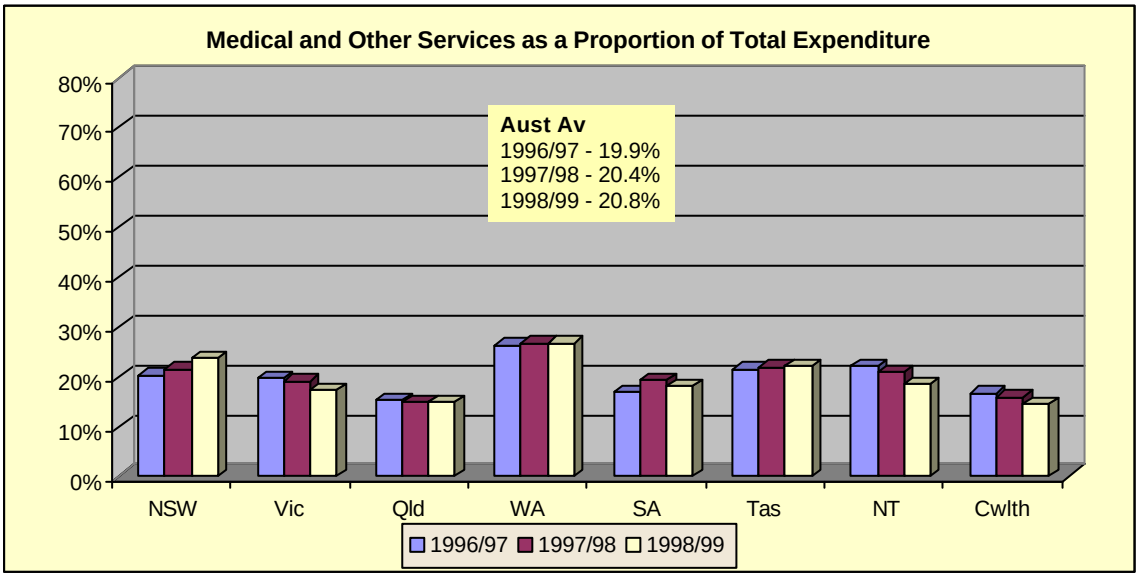


Figure 1b compares the total expenditure on medical and other services (such as rehabilitation and employee advisory services) provided to injured employees.

Nationally, expenditure on services has increased in each of the three years moving from 19.9% in 1996/97 to 20.8% in 1998/99. WA reported expenditure on medical and other services above the national average - 26.7% in 1998/99, although this is marginally down from 1997/98.

The C'wlth and Qld have the lowest expenditure on medical and other services. Over the three years, in Vic and NT expenditure on services declined as a proportion of total expenditure, while in NSW the proportion of costs expended on these services has increased each year.

Figure 1c

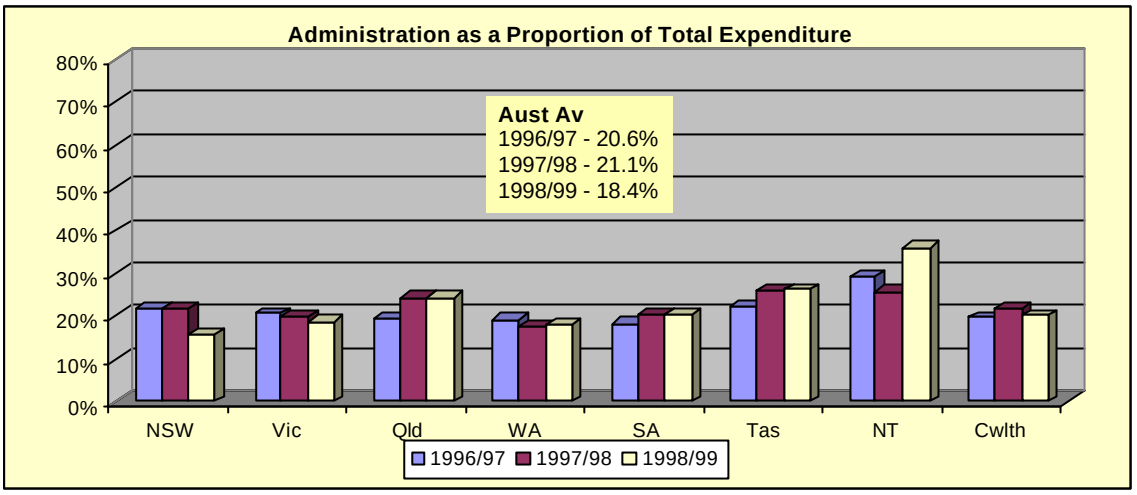


Figure 1c shows administration costs as a percentage of total expenditure.

As a proportion of total expenditure, the cost of administering schemes in Australia reduced in 1998/99 (18.4% of total expenditure compared to 20.6% in 1996/97).

A comparison of the administration costs between the privately underwritten schemes (WA, Tas and NT) and the publicly underwritten schemes (NSW, Vic, Qld, SA and the C'wlth) reveals that the privately underwritten schemes reported both the lowest (WA) and the highest (NT) costs. Of the public schemes, the C'wlth has remained relatively constant, Vic has reduced costs each year as expenses on benefits and services have grown at a faster rate than administrative expenses. NSW reported a significant reduction in 1998/99, while Qld and SA expenditure on administration increased in 1997/98 then remained constant in 1998/99.

Scheme Income

Figure 2a

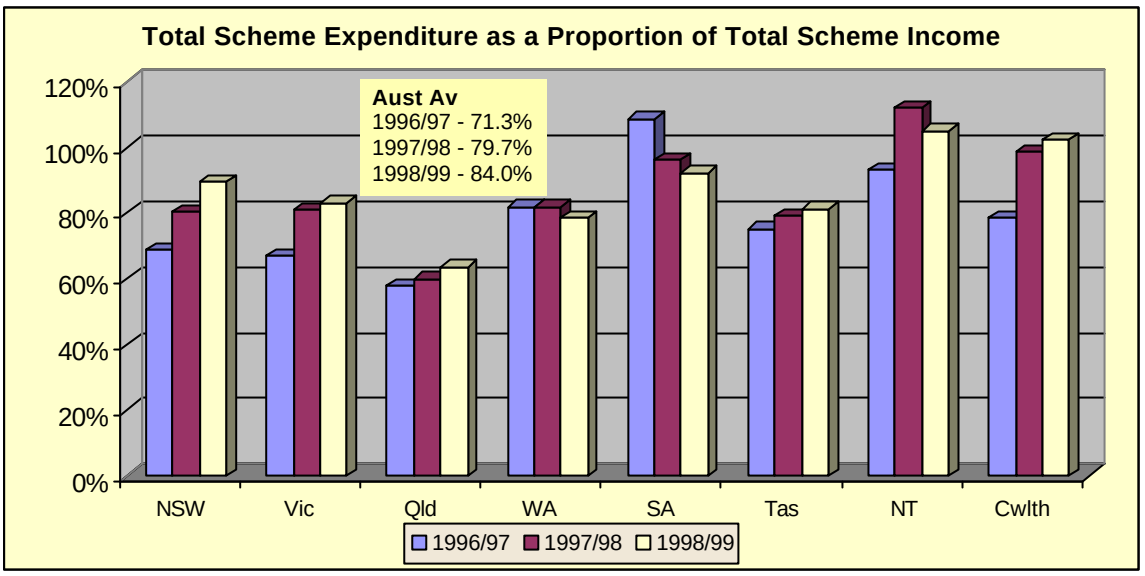


Figure 2a compares expenditure by the schemes against income received (premiums and investment) in each of the last three financial years.

The outcomes in Figure 2a need to be considered in context with the outcomes reported under Part B2 - Recognition of Liability - that compared the ratio of a scheme's net assets to its overall claims liabilities. In Figure 2a, the measure reports on the cash surplus or deficit in a financial year that will impact on the scheme's recognition of liability outcome.

However, caution must be exercised when drawing conclusions from the outcomes in Figure 2a because of the nature of workers' compensation insurance which means that premiums collected in a year are used to pay for the costs of claims incurred in that year and over a number of years. Likewise, expenditure in a given year will primarily relate to claims accepted over a number of previous years. Therefore, any comparison is best made over a longer period.

Nationally, scheme expenditure absorbed an increasing amount of scheme income (both premiums and investment income) over the three years (71.3% in 1996/97 up to 84.0% in 1998/99). There is, however, a large variation in outcomes across the schemes.

Notably, the gap between scheme income and expenditure decreased substantially in NSW, Vic, NT, and the C'wlth with Tas experiencing a marginal decrease. Conversely, SA reported a shift from 1996/97 when scheme expenditure exceeded scheme income to a position in 1998/99 when income exceeded expenditure. The position in WA and Qld has remained relatively stable over the period.

Figures 2b, 2c and 2d show expenditure as a percentage of total scheme income (premiums and investment income).

Figure 2b

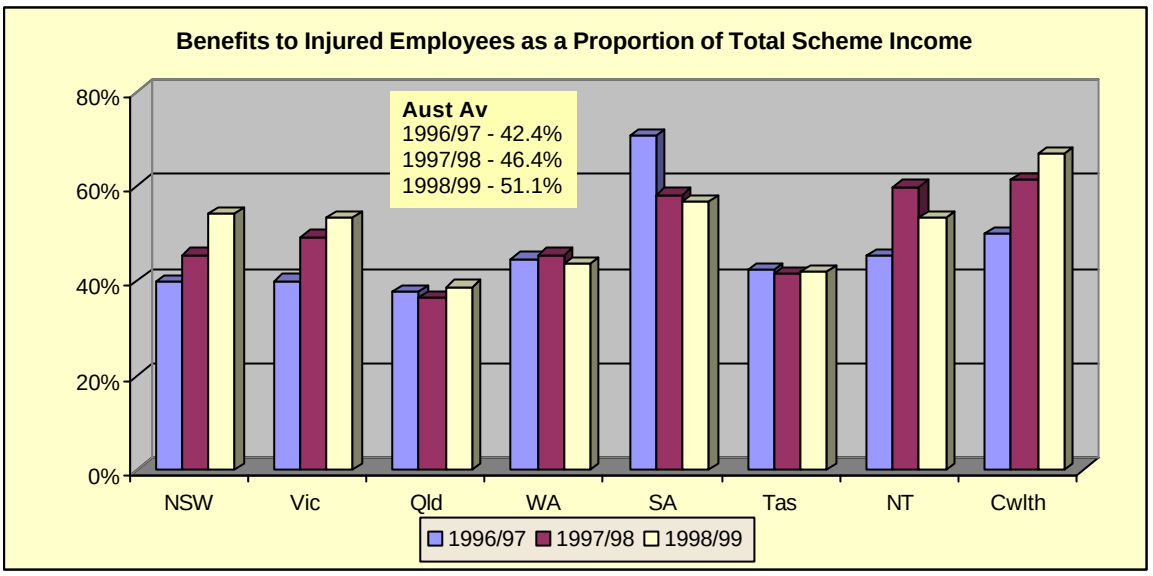


Figure 2b shows benefits paid as a percentage of total scheme income.

Over the three years, the schemes have reported a substantial increase in benefits paid to injured employees as proportion of total scheme income (rising from 42.4% to 51.1%). At the same time, expenditure on medical and other services and administration have increased as a proportion of income, but at a lower rate.

Figure 2c

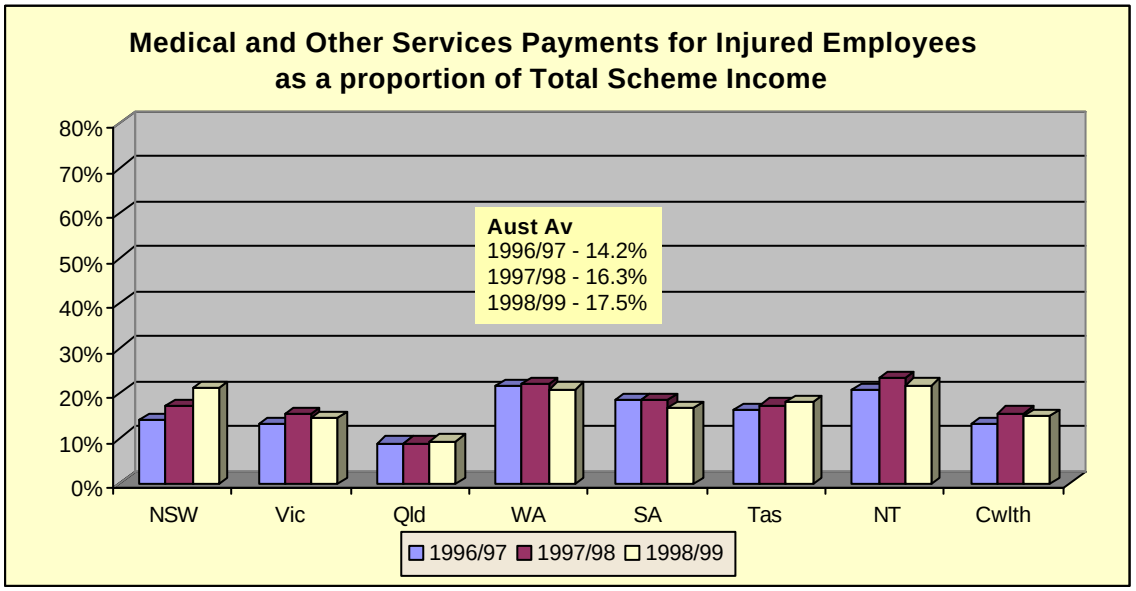


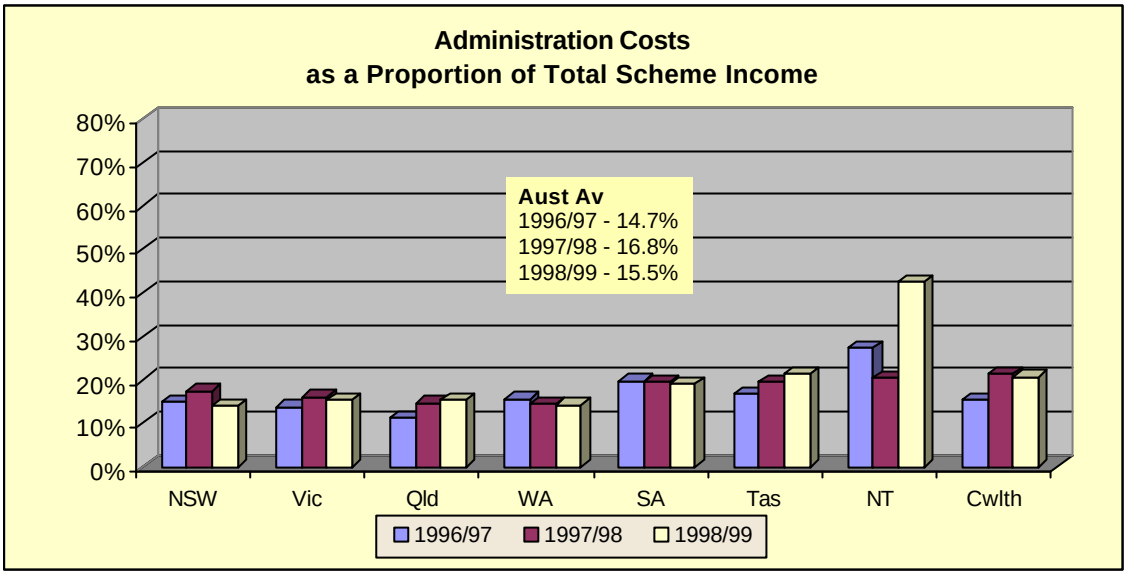
Figure 2c shows costs for medical and other services as a percentage of total scheme income.

Nationally, the cost of medical and other services consumed over 17% of all revenue in 1998/99, up from 14.2% in 1996/97. Qld reported the lowest expenditure on these services for each of the years (9.5% in 1998/99), while NSW, WA, Tas and NT were above the national average.

Scheme Income

Figure 2d shows administration costs as a percentage of total scheme income.

Figure 2d



Of the total revenue collected by the schemes, the national expenditure on administration was 15.5% in 1998/99.

NSW had the lowest proportional expenditure on administration, reporting a rate of 14.1% in 1998/99 (a substantial fall from the 17.4% recorded in the previous period). SA, TAS, NT and the C'TH were all above the national average.

Figure 3a

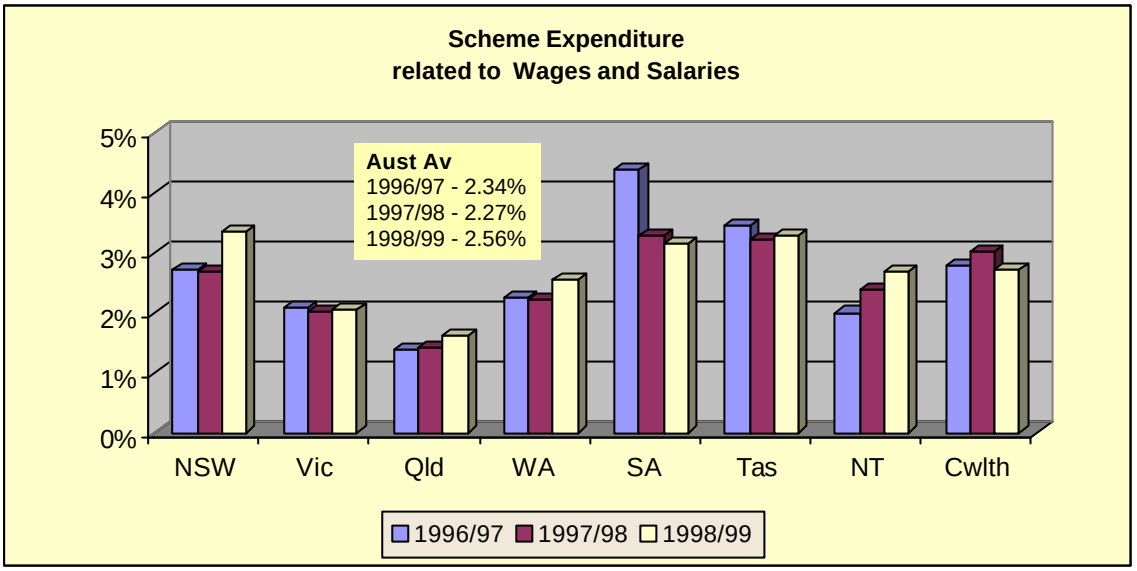


Figure 3a compares the total expenditure in each of the three financial years on current year and past year's claims related to the wage and salaries bill of employers (excluding self-insurers) for that financial year.

This measure deals solely with the actual expense incurred in a financial year and the proportion of salaries and wages that would be required to fund the expenditure in the same financial year. It is therefore a measure that looks at the expenditure changes over time relative to salary and wages covered by the scheme.

This measure is not a comparison of the premiums that would be required for the respective financial years as expenses cover claims from the current year and a number of previous years. As noted in Part B1 where premium rates are compared, a number of variables can influence the premium rate set by a scheme as premiums are intended to cover future liabilities. The scheme's existing financial position and investment income have a major bearing on premium rates, as do public policy factors.

In 1996/97, in Australia the average workers' compensation payment against remuneration was 2.34%, reducing to 2.27% in 1997/98. However, in 1998/99 an increase in payments in a number of jurisdictions, notably NSW, Qld and WA, resulted in an increase in the Australian rate to 2.56%.

Figures 3b, 3c and 3d compare the three types of expenditure: direct benefits paid to workers, medical and other services and administration costs for each jurisdiction over the last three financial years relative to wages and salaries.

These charts illustrate where relative difference occurred between individual schemes.

For example, in Figure 3a in the year 1996/97, SA had a much higher level of payments overall . Figure 3b demonstrates that this is in part a result of markedly greater expenditure, as a percentage of wages and salaries, on benefits paid to injured employees. At this time SA was settling large numbers of claims and implementing legislation relating to redemptions and commutations.

Some key outcomes that can be observed:

- The size of the scheme does not appear to influence outcomes;
- the funding arrangements for the scheme, ie., publicly as compared to privately underwritten, does not appear to have a significant impact on outcomes related to costs. Two of the larger schemes, Vic and WA (publicly and privately underwritten respectively) reported similar costs over the three years. The only notable difference relates to WA reporting a higher level of expenditure on medical and other services; and
- in NSW, Vic and SA the costs for the administration of the schemes has been trending downwards over the last three years, however, for most schemes the reverse was observed.

Figure 3b

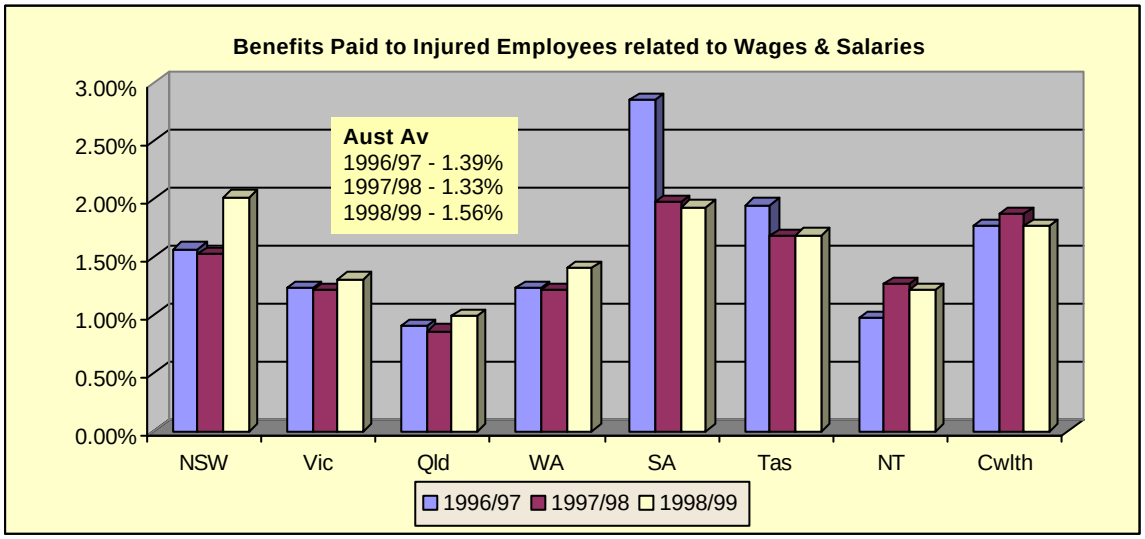


Figure 3c

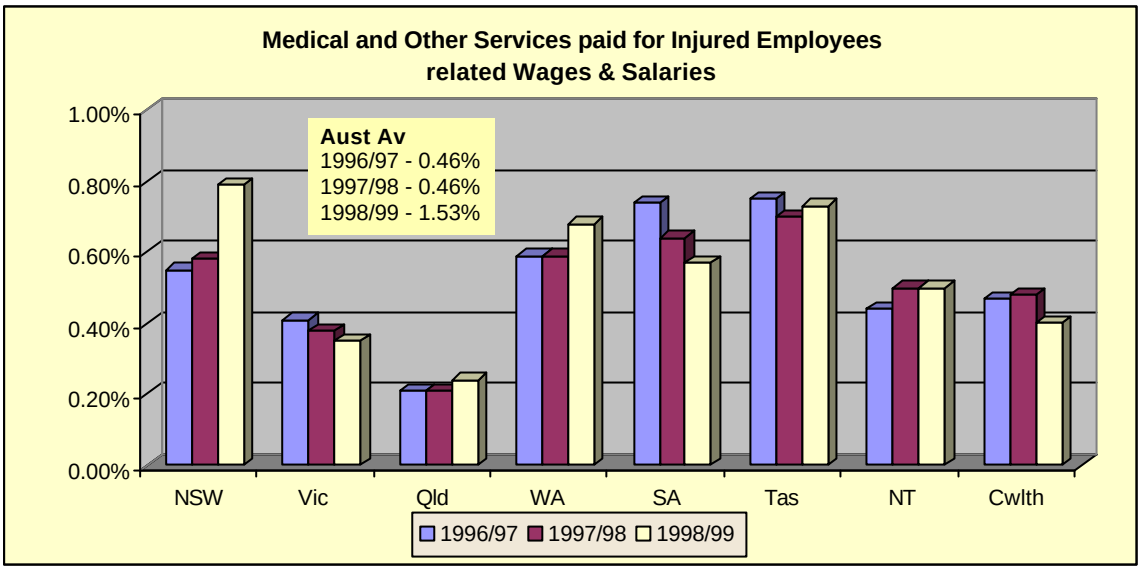
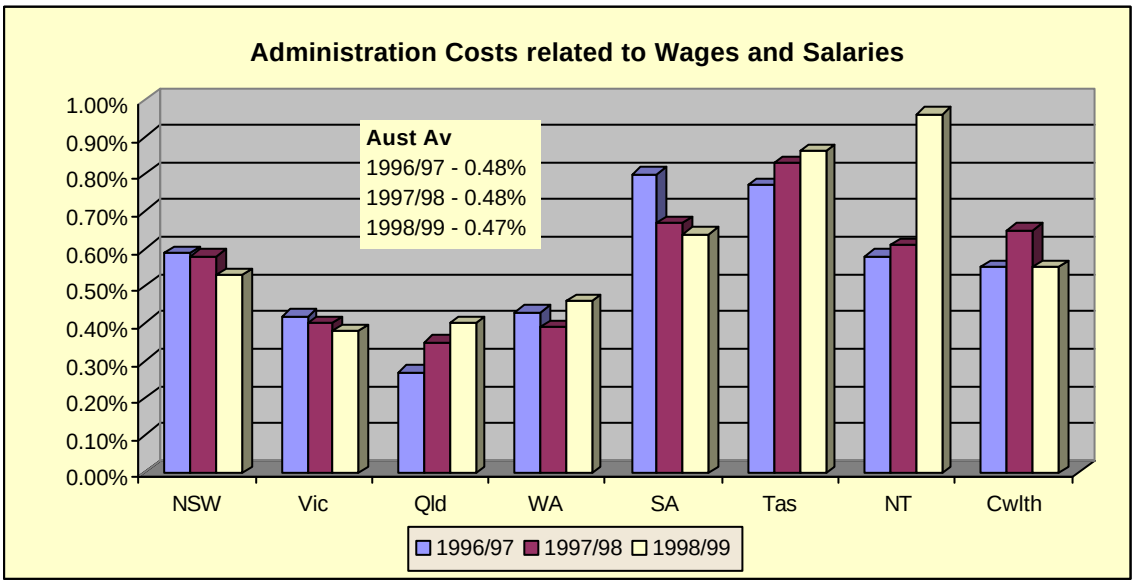


Figure 3d



APPENDIX A

Expenditure Determinants and Agency Functions

Benefits

The expenditure on benefits were extracted from central claim payment systems or from data supplied by insurers. The data are for payments made in the relevant year.

The benefit includes payments for:
- weekly benefit;
- redemptions;
- common law settlements (excluding legal costs); and
- non-economic loss benefits.

Medical and Other Services

These payments include services that directly assist an injured employee. It includes:
- medical and like services;
- injured worker legal costs;
- return to work assistance;
- transport costs; and
- interpreter costs.

Services used to manage a claim, for example; insurer/agent legal costs, medical examination costs and claim investigation costs, are classified as administration costs and excluded from this category.

In some jurisdictions difficulties were experienced in identifying worker legal costs as these are often included in a settlement, or in some instances borne by the worker. Where legal costs associated with common law were not identified separately, 10% of settlements were treated as a legal cost.

Administration Costs

General agency costs plus claims costs relating to the management of claims were combined to determine total administration costs.

The mix of central agency functions varies markedly between the different systems. Therefore, to make valid comparisons between jurisdictions there is a need to standardise the administration costs data to ensure that differences in functions/services do not unduly distort comparisons.

The major differences in functions between the central agencies are the provision of:
- claims management functions;
- dispute resolution functions; and
- workplace OHS inspection, promotion and associated field service functions.

To enable valid comparisons between the various systems, central agency costs have been classified as:

1. Management, administration and regulation of Worker's Compensation System (Regulator);
2. Claims and premium management functions (Insurance Functions);
3. Dispute resolution costs; and
4. OHS services, including inspectorate and injury prevention functions.

Details of the functions/services funded by the central workers' compensation agency are:

Table 1. Central workers compensation agency functions

Jurisdiction	Workers Compensation System Administration	Claims & premium management functions	Dispute resolution functions	OHS services, including workplace inspectorate functions
NSW	Yes	Yes	Yes	Yes
Vic	Yes	Yes	Yes	Yes
Qld	Yes	Yes	Yes	No
WA	Yes	No	Yes	No
SA	Yes	Yes	Yes	No
Tas	Yes	No	Yes	Yes
NT	Yes	No	No	No
ACT	Yes	No	No	Yes
Comcare	Yes	Yes	Yes	No

Where a function was provided by another agency, the costs of providing these functions were obtained or estimated. The major functions where central agency data maybe incomplete in some jurisdictions are:

- claims management functions provided by private insurers;
- some dispute resolution services (e.g. court costs); and
- provision of OHS services.

A review of data suggests that dispute resolution costs are understated in a number of jurisdictions. These variations have been recognised as far as possible but in some instances the exact costs are extremely difficult to identify. Dispute resolution costs are not a substantial cost within most systems, however, the remaining inconsistencies should have a small impact on the results.

Several workers compensation agencies also provide workplace health and safety services. These costs have been identified and excluded from the final comparisons. Where these services are funded from revenue generated by the worker's compensation system (eg., from worker's compensation premium) the revenue has been reduced by the cost of providing these services.

As the self-insurer component of the jurisdictions have been excluded from the analysis of payments, self insurer contributions to revenue and self insurer wages have also been excluded. The administration costs of each jurisdiction have been reduced by the amount of the self-insurer contributions.

PART B4

Level of Benefits - Examples

Introduction

This part of the report looks at the level of benefits provided to employees or their dependants following a workplace incident.

Seven possible examples were examined, based around a range of factors that could influence the level of benefits payable by the various schemes under the existing legislative arrangements. The factors that have guided the selection of the examples include:

- the level of income at the time of injury; examples include low, medium and high income earners to take into account the differingapproach to the definition of earnings; some examples illustrate the treatement of overtime and other payments;
- the duration and type of injury; examples take into account injuries which result in varying periods of time off work and how an injured employee retuning to work is compensated;
- the personal circumstances of an employee; to allow for injured employees who are with and without dependents; and
- the type of benefits payable; to take account of injured employees who receive either weekly or lumpsum benefits or a combination of both.

Given the multitude of variables associated with workplace injury and workers' compensation administration, it is difficult to construct representative examples. The examples are, therefore, designed primarily to highlight possible rather than representative differences in actual compensation levels paid subsequent to a workplace injury. How representative the examples are is not known, however, work is currently in progress to develop actual benefits outcomes across all schemes.

Jurisdictions implement different benefit determination policies. For the examples illustrating actual weekly benefits payable, the principle variables used were:

- whether minima or maxima apply and, if so, how these amounts relate to the average weekly wage in respective jurisdictions;
- whether 'earnings' are calculated from actual earnings or the relevant award;
- whether 'earnings' are inclusive or exclusive of overtime and other regular payments;
- whether absolute amounts apply after a given period;
- whether the weekly benefits are capped by a total amount payable;
- whether it is the capacity for work that determines benefit or an actual return to work; and
- whether the payments adjust for a partial return to work, highlighting any net financial gains or losses resulting from a gradual reintroduction to full time work.

Some of the examples incorporate charts detailing the lump sum amount payable for permanent impairment, and pain and suffering. These are designed to illustrate benefit levels, which are affected by the use of maxima, the differences in impairment tables, the set amounts for which impairment is apportioned, the interaction of lump sum and weekly payments and the degree to which one may supplant the other.

Technical detail regarding the mechanism for calculating benefits payable is available via a publication of the Heads of Workers' Compensation Authorities entitled 'Comparison of Workers' Compensation Arrangements'. This publication can be accessed under 'Jurisdictional Comparisons' at http://www.hwca.org.au/main2.html.

For each graph and chart, 'Commonwealth' refers to the entire Commonwealth scheme which, under the *Safety Rehabilitation and Compensation Act 1988,* covers all Commonwealth employees including the Australian Defence Forces and licensed authorities such as Telstra and Australia Post.

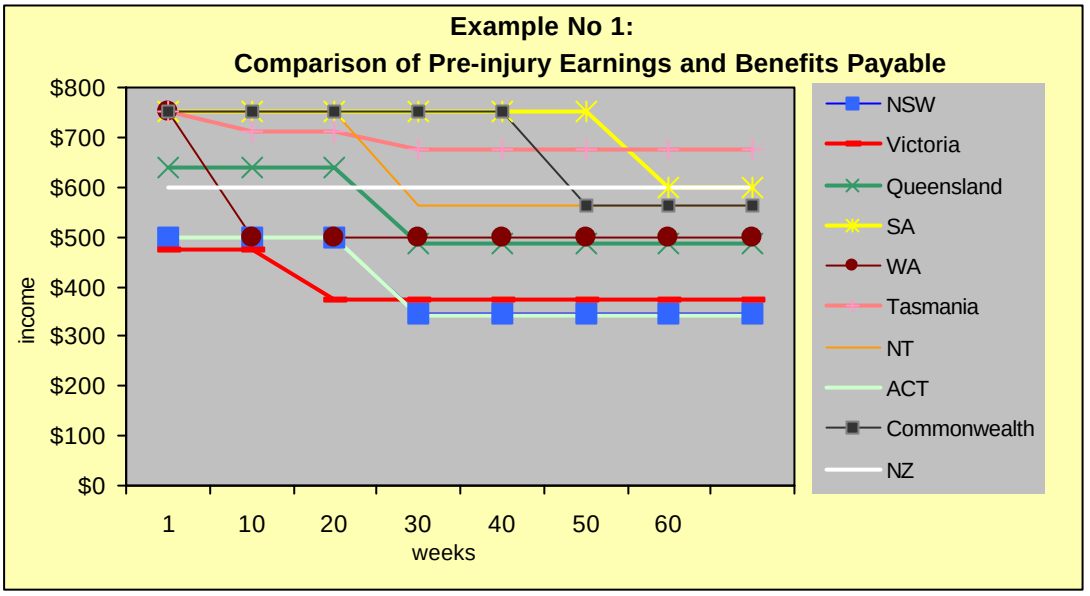
The Seacare scheme is not included in this section due to the unavailability of an analysis of the legislative benefits. Seacare and all other jurisidictions are, however, about to participate in a broader comparision of the level of income replacement.

The examples provided in this section, while correct at the time of publication, are the subject of frequent legislative change. Benefits payable are regularly amended to take account of external factors such as broader economic change. This section should be considered a snapshot, and if further information is required the relevant jurisdiction should be contacted directly.

Example No1: Comparison of Pre-injury Earnings and Benefits Payable

The purpose of this example is to examine the varying legislative and administrative bases for weekly benefit determination and the actual benefits paid to an injured employee.

The injured employee in question is 35 years of age working in an industry 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 has a dependent spouse but no children. As a result of a serious workplace injury the employee is unable to return to work for 120 weeks at which time full duties are resumed on a full time basis.



This example illustrates the bases for the determination of weekly benefits for all schemes. The different outcomes at week one are the result of a differing approach to pre-injury earnings. While pre-injury income determination in part explains differences over time, reductions may also be explained by 'step-down' provisions. Step-downs are benefit reductions for all claimants after a given period of time. All schemes have at least one stepdown, although the timing and the magnitude of reductions varies markedly. The outcomes of stepdowns are illustrated in the majority of the case studies.

The differences in week one are explained by the inclusion or otherwise of the various components that may make up an employee's pay. The principal pay components include base pay (through an industrial or workplace instrument such as an award or agreement), normal payments above the award, any overtime worked in the period, shift bonuses and allowances such as clothing, climate and equipment allowances.

In this example some jurisdictions excluded overtime and allowances from their calculation of pre-injury earnings. WA excluded overtime after four weeks. In this instance overtime was regularly worked for the preceding 12 months, however if the overtime were performed less regularly the payments would again differ. TAS, for example, averages overtime over the preceding 12 months but many jurisdictions exclude overtime that is not in a regular and established pattern. SA, where applicable, includes some payments for the loss of non-cash entitlements such as a company vehicle.

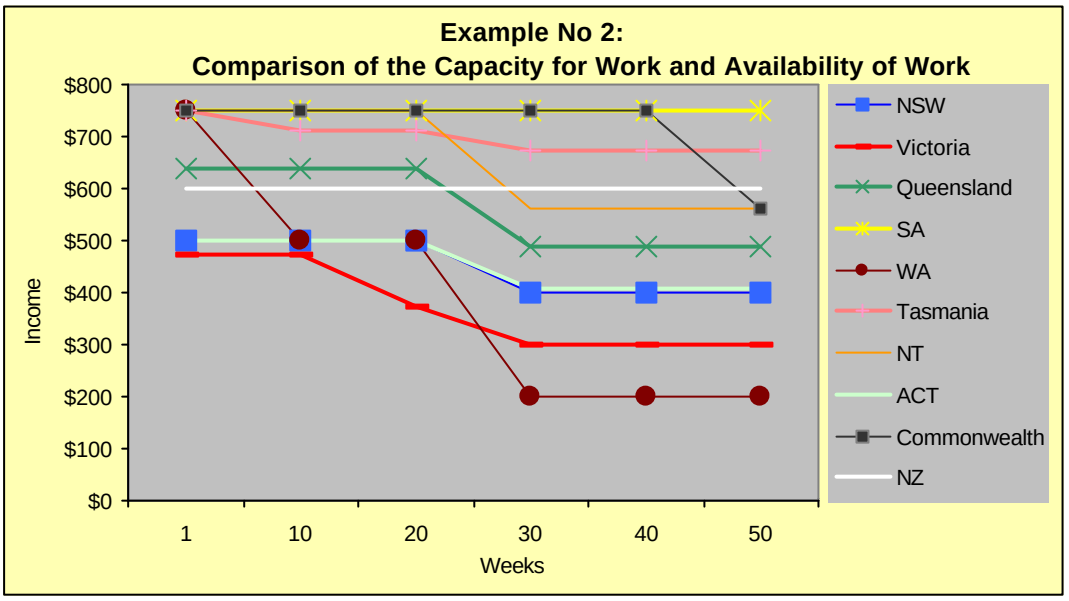
The importance of allowances is diminishing as a result of award simplifications and workplace bargaining. The importance of overtime varies significantly between industry sectors with an average of 26% of private sector employees and 18.5% of public sector employees receiving paid overtime. The amount of overtime also varies significantly with private sector employees (who received overtime pay) performing an average of 7.8 hours per week and public sector employees (who received overtime pay) performing 6.1 hours (Australian Bureau of Statistics., Quarterly Labour Force publication).

Example No 2: Comparison of the Capacity for Work and Availability of Work

Example two examines the concept of work capacity and the relationship between the capacity for work and the availability of suitable work.

The injured employee is again averaging a gross income of $750, which includes an award of $500 with the balance comprising overtime and shift bonuses. Of difference to this scenario is the number of financial dependents, with the employee in question having a spouse and two young children.

The employee sustains an injury that leads to total incapacity for 20 weeks but is declared fit for light or alternative duties at 21 weeks. Although only now partially incapacitated, the employer is unable to provide light or alternative duties and the employee returns to work on full duties after 52 weeks.



Example two illustrates the relationship between injury and work. The capacity for limited work does not always coincide with the availability of suitable work and this can lead to a worker being deemed capable but not actually working. The treatment of this outcome is not uniform across the various schemes and may, in some cases, result in a reduction of benefits if there is a current capacity for work and the employer demonstrates that it is not possible to provide work.

In WA, payments are based upon an assessment of the duties that the worker has the capacity to perform. Compensation payments therefore comprise the difference between the normal compensation rate and the capacity to earn.

In NSW, Qld, the ACT and the NT the decreases over time are explained by the stepdowns of a particular scheme, not an assessment of work capacity.

The above qualification notwithstanding, Qld has a cap of $117,820 upon the total amount payable for weekly benefits.

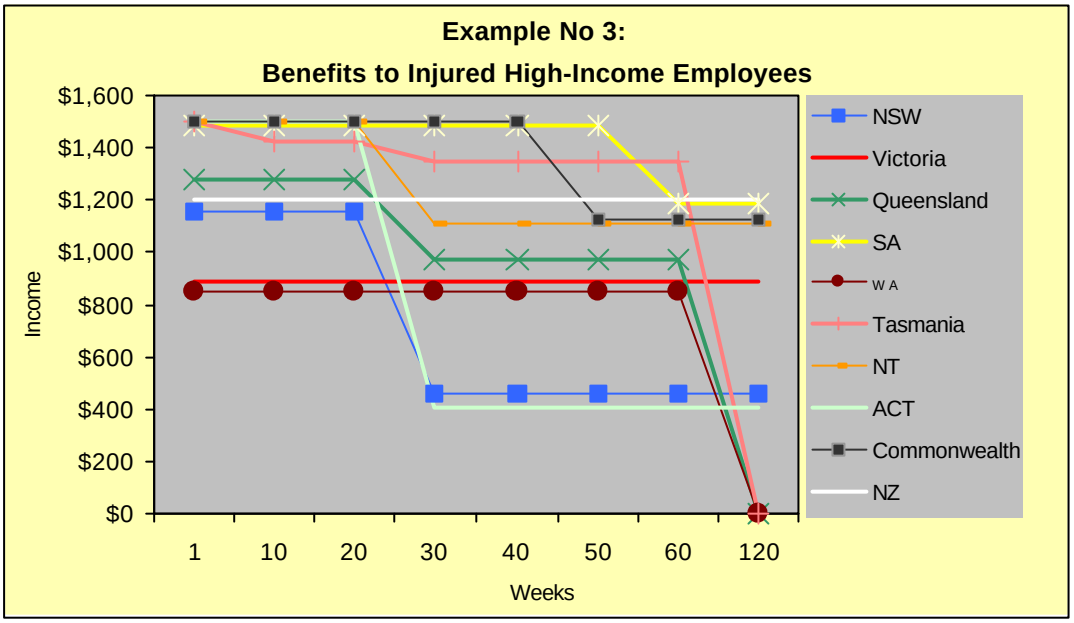
Example No 3: Benefits to Injured High-Income Employees

Example three examines how the schemes compensate relatively high-income employees. As with example two, our employee has a spouse and two children. The difference in this example being that the employee earned a pre-injury salary of $78,000 per annum or $1500 per week.

The employee remains unable to work for 120 weeks then returns to previous duties on a full time basis.

Example three examines how the schemes compensate relatively high-income employees. As with example two, our employee has a spouse and two children. The difference being that the employee earnt a pre-injury salary of $78,000 per annum or $1500 per week.

The employee remains unable to work for 120 weeks then returns to previous duties on a full time basis.



Example three idemonstrates the nature and use of weekly benefit caps and total statutory upper limits. Four jurisdictions (NSW, Vic, SA and WA) have a cap upon weekly benefits. This cap can be static, for example, NSW, after 26 weeks, has a cap of $272.60 with additional benefits for dependent spouse and children. Alternatively it can be indexed for average weekly earnings, for example, WA caps at the ABS published figure for state full-time adult average weekly earnings.

The Commonwealth introduces a cap at the 45 week step-down, the NT at 26 weeks. Qld initially uses (where the worker is not under an award or agreement) the greater of 85% of normal weekly earnings or 70% of Qld ordinary time earnings and a stepdown at 26 weeks reduces this to 65% and 60% respectively.

Three jurisdictions (WA, Qld and Tas) have a cap on the total amount payable for weekly benefits. In WA the current prescribed amount is $119,048. This means that benefits cease after 73 weeks. Prior to the expiration of the 73 weeks the worker may apply to the Conciliation and Review Directorate for an extension up to a maximum of $50,000 if they have a permanent and total incapacity for work. The Directorate must be satisfied that the worker's financial and social circumstances justify the additional amount. In Tas the cap of $151 618.41 (as at 1/1/99) would be reached after 110 weeks.

In Qld the benefit structure from two years onward is dependent on an assessment of permanent incapacity. If, as is the assumption in this case, the injury resulted in permanent impairment of more than 15%, benefits would continue for up to five years. If, after two years, the employee were assessed to have less than 15% permanent incapacity then the employee would receive an amount equal to the Department of Social Security single person pension rate.

Example No 4: Workplace Fatality - benefits to dependents

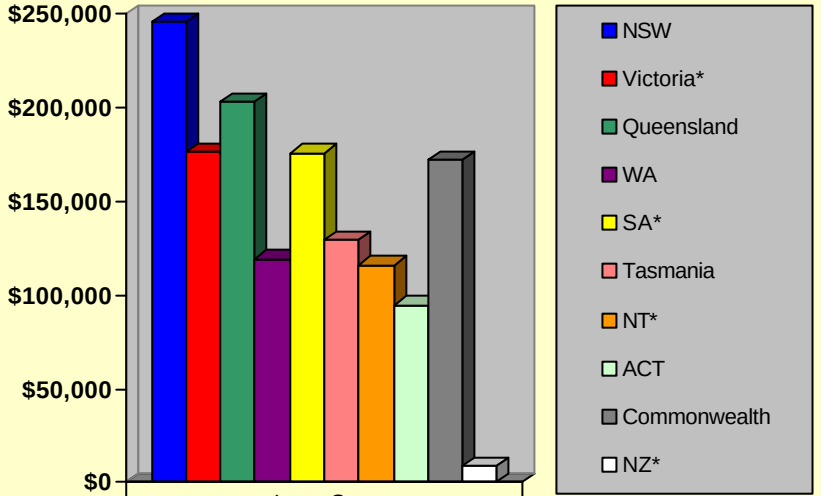
Example four examines the benefits payable to dependents subsequent to a workplace fatality. Benefits to dependents are generally paid by way of a lump sum and/or weekly benefits depending upon the employees' circumstances.

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 former entering the workforce at sixteen the latter remaining in full time education until age 25.

To compare the benefits across the schemes, Chart A and its accompanying table detail the lump sum payments to dependents, while Chart B details the weekly benefits payable to the dependents of the deceased. It should be noted that the right to common law redress may affect the pecuniary benefits received by the dependents in those schemes that have this avenue.

Example No 4 Chart A:
Workplace Fatality - benefits to dependents

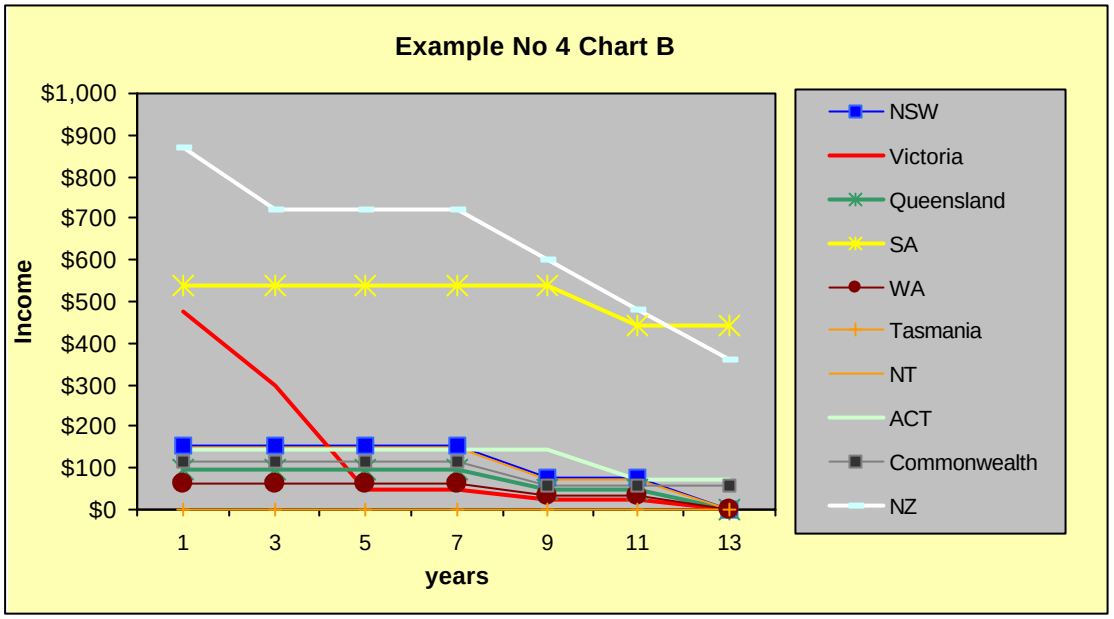


	Lump Sum
NSW	$245,550.00
Victoria*	$176,310.00
Queensland	$202,680.00
WA	$119,048.00
SA*	$175,875.00
Tasmania	$129,430.00
NT*	$115,752.00
ACT	$94,436.00
Commonwealth	$171,641.00

*No access to common law (although in Victoria, in the case of a fatality, there is access to common law redress under the *Wrongs Act 1958*)

Example No 4 Chart B

The differing outcomes in Chart B are, in part, explained by the eligibility of the spouse and the eligibility period for payments to the children. The majority of schemes only pay ongoing benefits to the children until the children reach a certain age, often 16 or 21 if still in education (25 years old in the case of Comcare and the ACT).



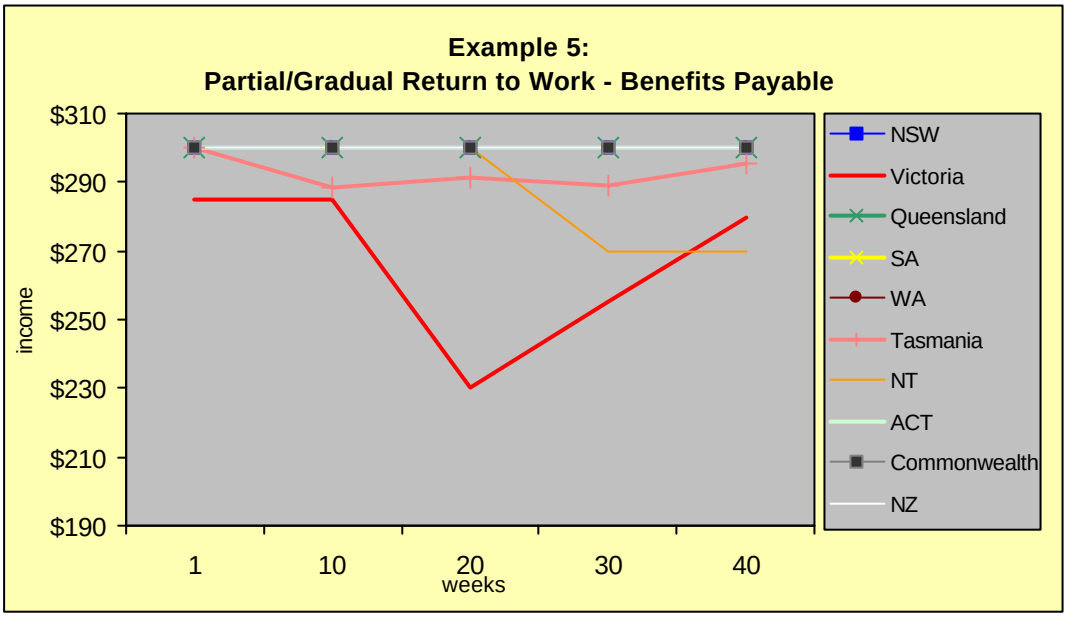
SA (where there is ongoing dependence), Vic (for a maximum of three years), and NZ maintain payments to the spouse. In addition to payment maintenance, NZ also provide an ongoing childcare benefit of $60 per child per week.

Example No 5: Partial/Gradual Return to Work - Benefits Payable

Example five illustrates the scheme outcomes in the case of a partial and gradual return to work, and in particular, whether any economic incentives or disincentives exist.

In this scenario the employee received an award wage and pre-injury income of $300 per week. The employee has no dependents and the injury sustained allows for a gradual return to work as follows:

- 8 hours after 9 weeks;
- 16 hours after 19 weeks;
- 24 hours after 29 weeks;
- 32 hours after 39 weeks;
- full time after 49 weeks.



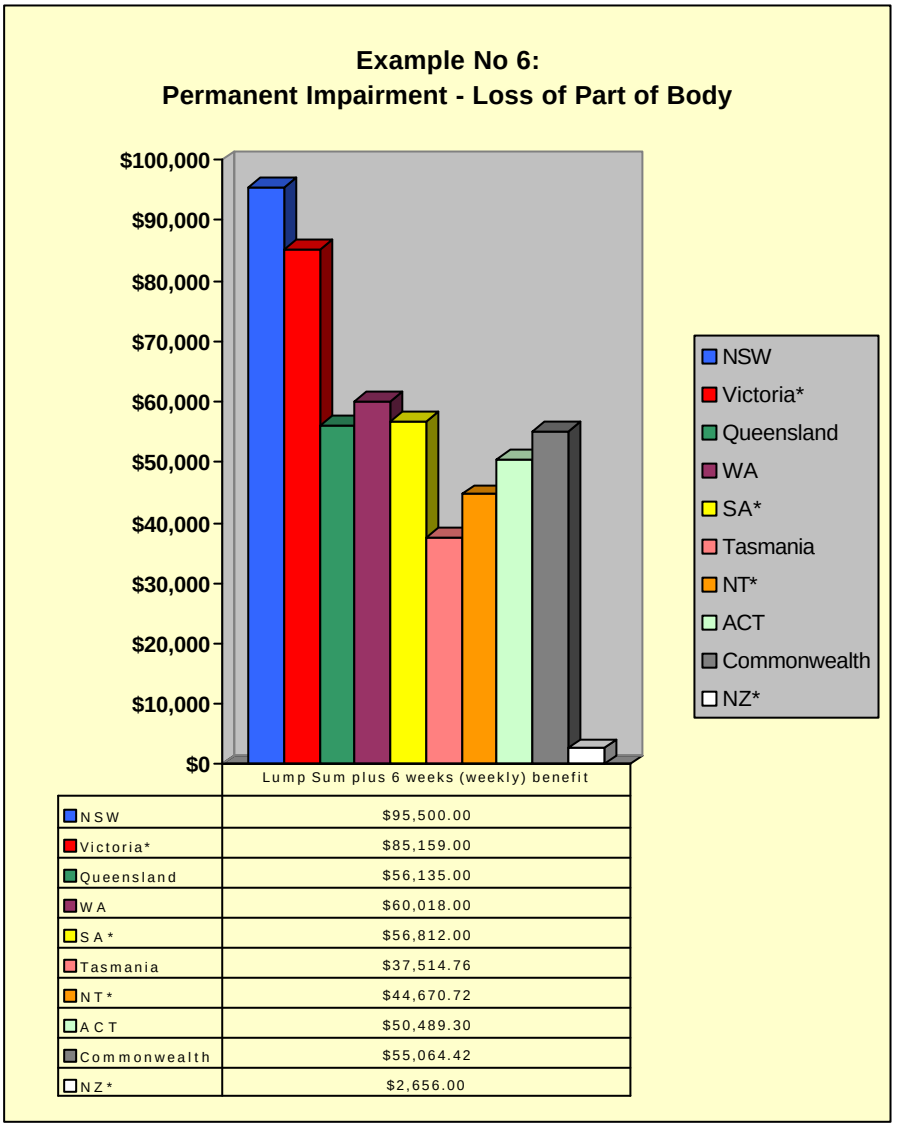
Example five examines the various approaches to the compensation of a partial reintroduction to the workforce. For example, in the case of Vic and Qld, the benefit calculation formulae, while initially decreasing benefits (either through stepdowns or due to a current work capacity), allow for a benefit increase in response to increased work time.

In Tas, the stepdown in weekly benefit is only applied to the weekly benefit and not to the combined earnings, thus providing a return to work incentive. The ACT, rather than using a proportion benefit model, has a flat rate ($269.14) after the first 26 weeks of injury. NSW, WA, SA, the Commonwelath (although the worker returns to full duties before a 45 week stepdown is evidenced) and NZ all maintain pre-injury income (in the case of NSW the usually flat rate maximum is increased by the employee's earnings).

Example No 6: Permanent Impairment – Loss of Part of Body

Example six examines the differing level and type of payments following a degree of permanent incapacity.

In this instance, the injured employee received an award wage of $500 per week and performs no regular overtime. The employee has a dependent spouse but the couple are childless. The injury sustained concerns the severance of 2 digits, the thumb and forefinger, on the right hand. While there is no partial return to work, the employee returned to full time duties after 6 weeks.



	Lump Sum plus 6 weeks (weekly) benefit
NSW	$95,500.00
Victoria*	$85,159.00
Queensland	$56,135.00
WA	$60,018.00
SA*	$56,812.00
Tasmania	$37,514.76
NT*	$44,670.72
ACT	$50,489.30
Commonwealth	$55,064.42
NZ*	$2,656.00

* No access to common law

In example six the differences are explained by the maxima placed upon lump sum payments, which provide the figure for which injuries are paid a proportion thereof. The methodology used to arrive at a percentage of these maxima is also an issue. Different schemes use different methodology to assess the degree of permanent impairment and this can lead to a divergence in outcomes across jurisdictions.

Also included in the figure presented is a total of six week's compensation provided as weekly income replacement.

As with example four, the right to, or lack of, common law redress is likely to impact upon the pecuniary benefits received by the employees.

Example No 7: Permanent Incapacity

Example seven examines the types and level of compensation payable following a workplace accident that resulted in severe injuries and an incapacity for self care.

The twenty-eight year old male worker was working a 38 hour week with no overtime when he sustained injury on 24 December 1997. There was no element of contribution in the circumstances of the accident.

The worker's injury was diagnosed as 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.

At the time he sustained injury, he was in receipt of the award wage which was $500 nett per week. He had been taxed at a rate of $93.50 per week. He had expected to work to 65 years of age. He contributed to a superannuation fund.

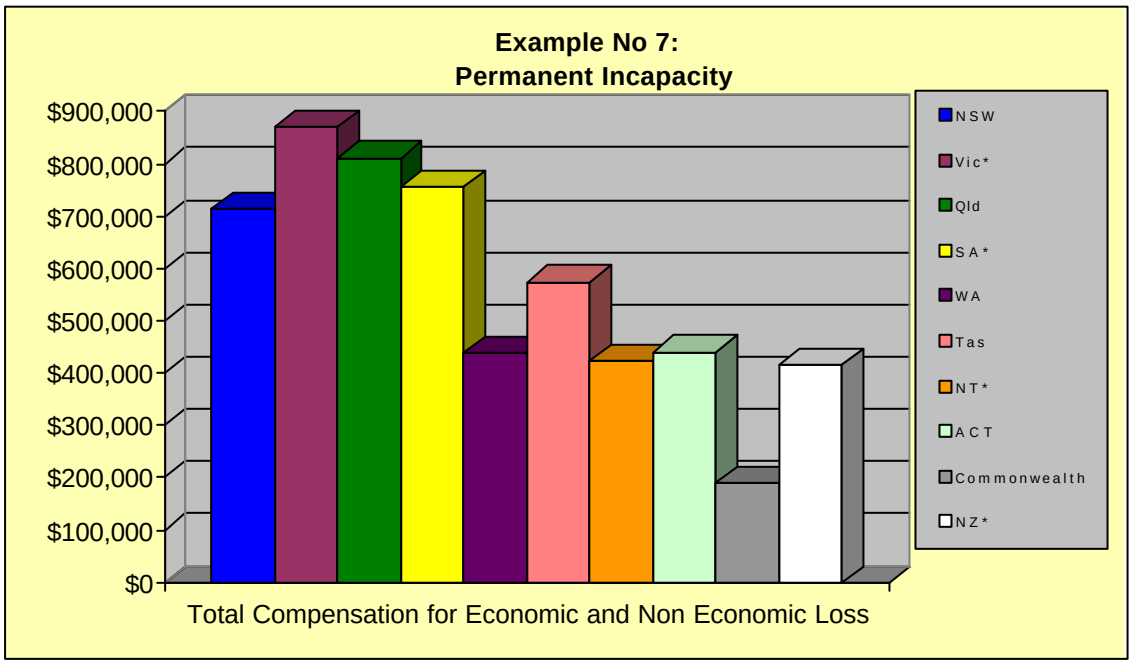
There was no real prospect of him being able to return to employment.

The worker required a carer five hours a day, seven days a week.

The worker had no dependents at the date of injury but had intended to marry and have children.

The following chart details the benefits payable to the injured employee and includes:

- the weekly benefits that would be payable for the remainder of the individual's working life (or 40 years, which ever is the sooner). The weekly benefits are converted to net present value (NPV) at a rate of 7%. NPV is used because it provides a more accurate 'value' for income over time;
- all lump sum payments for permanent incapacity; and
- estimates of common law settlements, where applicable.



* No access to common law

Calculations are as at 24 December 1999.

In addition to payments for economic and non-economic loss there are also 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; pharmaceutical; aids & equipment; housing purchase, construction or modification; housing upkeep; vehicle purchase, construction or modification; and the provision of swimming facilities and physiotherapy services. Although the provision of these benefits is not uniform between the schemes, there is a high degree of commonality in the funding of these services with a 'reasonable cost' or cost/benefit approach adopted by the majority of schemes for the majority of services.

Considerable caution should be exercised when considering this example as there are a number of factors, both jurisdictional and cultural, which inevitably give rise to anomalies when comparing the possible outcomes.

Jurisdictional influences include:

Common law access

Some jurisdictions which have no right of access to common law may have generous benefits payable under their statutory compensation schemes. The calculations from these jurisdictions (shown above) will therefore be enhanced by the inclusion of components which are excluded in the case of schemes with access to common law redress.

Conversely, the benefits listed on the preceding page are excluded from the economic and non-economic loss chart. In jurisdictions which provide a right to common law access, payments may be higher than stated to account for issues such as future medical costs.

For these reasons there is not direct parity between schemes which have common law access and schemes which do not.

Contributory negligence

In this example it is explicit that there is no contributory negligence. However, for similar cases contributory negligence may be applied differently across jurisdictions. In practice this process reduces settlement levels in some jurisdictions much more than in jurisdictions where contributory negligence is rarely applied.

Thresholds

Some jurisdictions with common law access impose a threshold before an action can be brought. Because of these limitations, which in some juridictions preclude recovery of damages for more minor injuries, fund monies are able to be more generously applied to serious injuries.

Superannuation

In some jurisdictions superannuation entitlements would reduce the level of compensation paid, for example, under Comcare the employee would be entitled to superannuation of $408.05 per week or $234,150.00 in total. This is in addition to the preserved entitlements.

Cultural influences can effect both the incidence of injury and consequential costs. For example:

- industry makeup and geographic factors effect the prevalence of serious injury;
- geographic and urban/rural lifestyle issues effect the costs of transport and other services;
- climatic conditions affect the provision of swimming facilities; and
- issues such as geography, climate, and custom also effect the type of housing modification, and therefore costs.