

WorkCover SA

A guide to the 2008-09
SafeWork Incentive for
Large Employers

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Important disclaimer

While every effort has been made to ensure the accuracy of this guide, it is not a substitute for the *Workers Rehabilitation and Compensation Act 1986*, or the Regulations or Determinations made under the Act.

The information shown in this guide may change from year to year.

To ensure the correct information is being used, or for further information on the SafeWork Incentive for Large Employers, please contact WorkCover on 13 18 55.

Introduction

The SafeWork Incentive for Large Employers provides employers who have successfully implemented safe work strategies the opportunity to earn lower levy rates based on outcomes measured by the cost of all their workers compensation claims.

The major features include having rates calculated on an employer basis and including all claims costs to measure performance (ie, including the cost of secondary and unrepresentative disabilities in the claims costs).

Another feature of the SafeWork Incentive for Large Employers is that participating employers have access to discounts (bonuses) of up to 50 per cent of their industry levy rate (currently 30 per cent under the Bonus/Penalty Scheme). However penalties of up to 50 per cent, as exist under the Bonus/Penalty Scheme, still apply.

Bonus or penalty adjustments under this incentive are based on an employer's total experience and will be the same adjustment for each business location. It will be applied to each business location's own industry levy rate.

Prior to each financial year rates will be calculated and will remain unchanged for that year unless it transpires that the employer's data was inaccurate by way of misstatement or omission, or there is a substantial change in the employer's risk profile, or the employer exercises their review rights, resulting in change. Failure to comply with levy payment obligations (eg, paying levy within seven days of the end of each month) may result in a participating employer's agreement being terminated.

Eligible employers will have the option of choosing to either stay in the current Bonus/Penalty Scheme or enter into a two (2) year agreement to participate in the SafeWork Incentive for Large Employers subject to the outcome of the current levy review.

SafeWork Incentive criteria 2008-09

1. All the employer's business locations must have achieved conformance with all five SABS (Safety Achiever Business System) Performance Standards.
2. Employers must have a base levy of more than \$100 000 in the financial year 2006-07.
3. To meet the eligibility criteria, employer registrations under common managerial control may be grouped together to form one 'employer'. WorkCover reserves the right to decide the appropriateness or otherwise of grouping employer registrations for this scheme.

Agreement

The agreement to participate in the SafeWork Incentive for Large Employers is for two consecutive financial years. An employer who has completed the agreement cannot withdraw until the end of the agreement period.

However, WorkCover is now undertaking a review of the total levy system and this may impact on the term of the agreement. More information on the outcome of this review will be provided later in 2008.

Levy rate calculation

The information in this document provides a technical overview of the SafeWork Incentive for Large Employers.

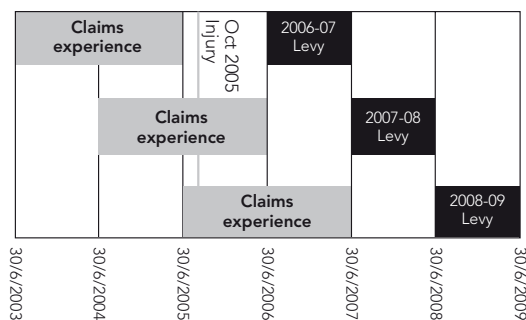
The aim of the formulas described is to simply compare an employer's claims costs to their base levy (eg, before any bonus or penalty, GST etc). Employers with low ratios of claims costs to levy earn lower levy rates than those with higher ratios.

Experience period for 2008-09

The 'experience period' is the period over which claims performance is measured in the bonus or penalty calculation. For the 2008-09 calculation, the experience period is 1 July 2005 to 30 June 2007. Claims payments up to 31 December 2007 are considered for claims with a date of injury within the claims experience period.

This places an automatic limitation on the cost of claims that could go for a lifetime and allows for the costs of injuries in May and June 2007 to be included in the calculations.

An experience period extending over two years is used to calculate a levy rate.



The diagram shows that the levy rate for the 2008-09 financial year is based on the experience period from 1 July 2005 to 30 June 2007.

The diagram also shows how an injury sustained in October 2005 would affect the levy rates for two successive financial years because the claims costs would be included in the calculations for two experience periods.

Excluded claims costs

The following claims costs will be *excluded* in the calculation of the total employer claim costs:

1. Claims costs on proven fraudulent claims (ie, where a conviction has been made).
2. Rejected, undetermined or withdrawn claims (ie, only accepted claims will be included in the calculations).
3. Estimated future liabilities and consideration for recoverable expenses.
4. The pro rata value of redeemed claims costs (costs apportioned for the period after 31 December 2007).

Please note: Secondary disabilities and unrepresentative claims are included in total employer claim costs. There is no recalculation of levy if claims costs are recovered.

Calculating levy rates for 2008-09

1. Each year a performance ratio (PR) will be calculated at the employer level (ie, for the total of all business locations) to determine the level of bonus or penalty. This bonus or penalty will then apply to each business location.
2. First, calculate the base levy.

The base levy is the aggregation of the amounts calculated for each of the employer's locations by multiplying the remuneration for each location by its industry levy rate prior to any other adjustment (eg, Bonus/Penalty Scheme).

Calculate the base levy using the formula:

$$BL = [(Ra \times ILRa\%) + (Rb \times ILRb\%) + \dots + (Rn \times ILRn\%)]$$

Second, calculate the total employer claim costs (C) using this formula:

$$C = Ca + Cb + \dots + Cn$$

Third, calculate the PR using this formula:

$$PR = \frac{C}{BL} \quad (\text{answer is truncated to three decimal places})$$

Refer to the table 'Allocation of bonuses and penalties according to an employer's performance ratio for 2008-09' on the following page to allocate the bonus or penalty for each location.

BL	Base levy
a,b...n	Employer's business locations
Ra, Rb...Rn	Remuneration at each of the employer's business locations in the experience period 1 July 2005 to 30 June 2007
ILRa%, ILRb%...	Industry levy rate per cent at each of the employer's business locations in the experience period 1 July 2005 to 30 June 2007
Ca, Cb...Cn	Claim costs at each of the employer's business locations (up to 31 December 2007) for claims in the experience period 1 July 2005 to 30 June 2007
C	Total employer claim costs (up to 31 December 2007) for claims at each of the business locations in the experience period 1 July 2005 to 30 June 2007
PR	Performance ratio

Table - Allocation of bonuses and penalties according to an employer's performance ratio for 2008-09

Performance ratio	Bonus	Performance ratio	Bonus	Performance ratio	Penalty	Performance ratio	Penalty
0.000	-50%	0.118	-24%	0.257	1%	0.447	26%
0.051	-49%	0.122	-23%	0.264	2%	0.457	27%
0.053	-48%	0.126	-22%	0.271	3%	0.467	28%
0.055	-47%	0.130	-21%	0.278	4%	0.477	29%
0.057	-46%	0.134	-20%	0.285	5%	0.488	30%
0.059	-45%	0.139	-19%	0.292	6%	0.499	31%
0.061	-44%	0.144	-18%	0.299	7%	0.510	32%
0.063	-43%	0.149	-17%	0.306	8%	0.521	33%
0.065	-42%	0.154	-16%	0.313	9%	0.533	34%
0.067	-41%	0.159	-15%	0.320	10%	0.545	35%
0.069	-40%	0.164	-14%	0.327	11%	0.557	36%
0.071	-39%	0.169	-13%	0.334	12%	0.569	37%
0.074	-38%	0.174	-12%	0.341	13%	0.581	38%
0.077	-37%	0.180	-11%	0.348	14%	0.593	39%
0.080	-36%	0.186	-10%	0.355	15%	0.605	40%
0.083	-35%	0.192	-9%	0.363	16%	0.617	41%
0.086	-34%	0.198	-8%	0.371	17%	0.630	42%
0.089	-33%	0.204	-7%	0.379	18%	0.644	43%
0.092	-32%	0.210	-6%	0.387	19%	0.659	44%
0.095	-31%	0.216	-5%	0.395	20%	0.675	45%
0.098	-30%	0.222	-4%	0.403	21%	0.692	46%
0.101	-29%	0.229	-3%	0.411	22%	0.710	47%
0.104	-28%	0.236	-2%	0.420	23%	0.729	48%
0.107	-27%	0.243	-1%	0.429	24%	0.749	49%
0.110	-26%	0.250	0%	0.438	25%	0.770	50%
0.114	-25%						

Note: If the performance ratio calculates to a figure with more than three decimal places, only the first three decimal places are used. The performance ratio for the employer is matched with the nearest value in the table that is less than, or equal to, the ratio. The corresponding bonus or penalty is applied to the industry levy rate for each business location of the employer.

Example calculation

The following example shows how the performance ratio is calculated for an employer with two locations where:

At first location (two years data)

$$\begin{aligned}\text{ILR\%} &= 7.5\% \\ R &= \$5\,000\,000 \\ C &= \$75\,000\end{aligned}$$

At second location (two years data)

$$\begin{aligned}\text{ILR\%} &= 4.5\% \\ R &= \$3\,000\,000 \\ C &= \$10\,000\end{aligned}$$

Step one - calculate the base levy (BL)

$$\begin{aligned}\mathbf{BL} &= \mathbf{[(Ra \times \text{ILRa\%}) + (Rb \times \text{ILRb\%}) + \dots\dots\dots(Rn \times \text{ILRn\%})]} \\ &= (\$5\,000\,000 \times 7.5\%) + (\$3\,000\,000 \times 4.5\%) \\ &= \$375\,000 + \$135\,000 \\ &= \$510\,000\end{aligned}$$

Step two - calculate the total claims costs

$$\begin{aligned}\mathbf{C} &= \mathbf{Ca + Cb + \dots + Cn} \\ &= \$75\,000 + \$10\,000 \\ &= \$85\,000\end{aligned}$$

Step three - calculate the performance ratio using the formula

$$\begin{aligned}\mathbf{PR} &= \frac{\mathbf{C}}{\mathbf{BL}} \\ &= \frac{\$85\,000}{\$510\,000} \\ &= 0.166 \text{ (truncated to three decimal places)}\end{aligned}$$

Refer to table 'Allocation of bonuses and penalties according to an employer's performance ratio for 2008-09' on page five to determine the bonus or penalty.

Bonus is 14% for each location.

Questions and answers (from 1 July 2008)

Who will qualify as an employer?

Employers will qualify for participation in the incentive if:

- all business locations achieved conformance with all five SABS Performance Standards for 2007-08
- their total base levy was more than \$100 000 in the financial year 2006-07
- levy is being paid (and has been paid) within seven days after the end of each month.

Employer registrations under common managerial control may be grouped together to form one 'employer' subject to WorkCover's approval.

How will an employer participate?

- If you are not already participating, invitations will be sent to qualifying employers from June 2008.
- Written acceptances should be sent to us within 14 days of receipt of your invitation to participate.
- A notice of withdrawal will not be effective until you have participated for two consecutive financial years.

Will I need to satisfy WorkCover that I have achieved SABS Performance Standards again next year?

Employers are expected to maintain their SABS performance standards throughout the life of the agreement.

Although the agreement will be for two years (subject to outcome of the levy review) no additional formal or extensive evaluation is likely to be carried out.

If you elected to participate in the new arrangements from 1 July 2008 your next SABS evaluation could be in early 2010. If this incentive scheme continues, employers who entered an agreement from July 2007 would probably need to register as a SABS participant in late 2008 ready for evaluation in early 2009.

The formulas are complicated. How can I forecast if, after satisfying SABS, I will get a discount on my levy rate?

WorkCover cannot forecast discounts for future years. You may be able to work out some indicators for your own business.

The aim of the formulas described is to simply compare an employer's claims costs to base levy (eg, before any bonus or penalty, GST etc). Employers with low ratios of claims costs to levy earn lower levy rates than those with higher ratios.

For example, if your base levy paid over two years is around \$500 000 and costs to 31 December for claims with a date of injury over the same period are about a quarter of that figure (\$125 000), your performance ratio would be 0.25.

In terms of the scheme, a ratio of 0.25 is not considered relatively good or bad and according to the table on page five neither a bonus or a penalty would apply.

The agreement is for two years. What will my levy rate be next year (2009-10)?

Levy rates for next year (2009-10) cannot be predicted. They will depend on an employer's own claims experience and the industry rates (set in May 2009) to apply for 2009-10. You will be advised of your levy rate (2009-10) prior to the commencement of the 2009-10 financial year.

Continuation of Safe Work Agreements for 2009-10 are subject to the outcome of the current levy review

What is base levy?

Base levy means the total levy calculated for an employer by adding the remuneration for each location multiplied by its industry levy rate, prior to any other adjustment (eg, Bonus/Penalty Scheme).

If I agree to participate what will my levy rate be based on?

Each year a performance ratio (PR) will be calculated for your entire business to determine the level of bonus or penalty. The same bonus or penalty will apply to the industry levy rate for each business location.

For 2008-09, the PR will be calculated by dividing accepted claims costs up to 31 December 2007 on claims with a date of injury in the period 1 July 2005 to 30 June 2007 by the employer's base levy for the same period.

What will the level of my bonus or penalty be?

The performance ratio will be matched to a bonus or penalty as in the table 'Allocation of bonuses and penalties according to an employer's performance ratio for 2008-09' on page five.

What are the advantages of participating in the SafeWork Incentive for Large Employers over the Bonus/Penalty Scheme?

Participating in the SafeWork Incentive for Large Employers provides the opportunity for qualifying large employers to have their levy rates more closely aligned to their total claims costs through the application of larger discounts (up to 50 per cent). Penalties up to 50 per cent still apply.

Less emphasis will be placed on the performance of individual locations and more on the employer's total operations.

Because of the inclusion of all claim costs in the performance ratio calculations, the extent of bonuses available at various ratios are more generous than under the Bonus/Penalty Scheme.

What are accepted claims costs?

When calculating 2008-09 bonus or penalty rates, 'accepted claims costs' means total claims costs to 31 December 2007 excluding:

- proven fraudulent claims (ie, where a conviction has been made)
- rejected, undetermined or withdrawn claims (only accepted claims included in the calculations)
- estimated future liabilities and consideration for recoverable expenses
- the pro rata value of redeemed claims costs (costs apportioned for the period after 31 December 2007).

Will my levy rate for 2008-09 change after 1 July 2008?

Rates for 2008-09 will be set for the year. If a claim cost is recovered later, levy rates will not be recalculated.

Future changes in claims costs (after levy rates have been set), whether they are positive or negative, will not be considered unless it transpires that the data was inaccurate either by way of misstatement or omission (eg. late submission of income maintenance reimbursement slips).

If the risk profile of an employer changes substantially during the year, eg, from wooden container manufacturing to a retail operation, or vice versa, rates may be revised.

Employers have the right to apply for a review.

Note: Application of penalties through failure to provide suitable employment for injured workers may still be applied and could impact on future participation.

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WorkCover is a statutory authority that manages
the Scheme established under State legislation and
funded by employers to compensate and rehabilitate
South Australians injured at work.

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