

WorkCoverSA

A guide to the 2009-10 Bonus/Penalty Scheme

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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 Bonus/Penalty Scheme, please contact WorkCover on 13 18 55.

Introduction

WorkCover introduced the Bonus/Penalty Scheme in July 1990 to provide a financial incentive to employers that maintain lower claims costs.

The scheme adjusts the base industry rate of a business location depending on its workers compensation claims experience.

Actual claims costs are used to measure an employer's performance. Employers who maintain lower claims costs through safe work practices and by providing suitable alternative employment for injured workers may be rewarded with a lower levy.

Penalties collected under the Bonus/Penalty Scheme for poor claims performance are redistributed as bonuses within the scheme.

Important note: The WorkCoverSA Board has determined to continue the Bonus/Penalty Scheme only until 30 June 2010 whilst consideration is given to whether to design and implement a replacement scheme. Advance notice of any replacement scheme will be provided to employers.

WorkCover may change or vary the detailed rules of the current scheme during the year to assist the transition to any new scheme.

Excluded employers

Registered employers are automatically included in the Bonus/Penalty Scheme unless they are excluded by any one of the following criteria:

1 Base levy for 2007-08 was less than \$200

The base levy is declared remuneration for the 2007-08 financial year multiplied by the industry levy rate (the rate prior to any bonus/penalty adjustment) for 2007-08.

2 Business location commenced after 1 July 2006

If the business location did not employ or was self-insured on or before 1 July 2006, WorkCover considers the business location to be new* and excludes it from the Bonus/Penalty Scheme. Two complete financial years of history are required for a business location to establish sufficient claims experience to be included in the scheme.

3 Business has had no workers

If the business location did not employ workers during either 2006-07 or 2007-08 financial years, it will not be included in the 2009-10 Bonus/Penalty Scheme.

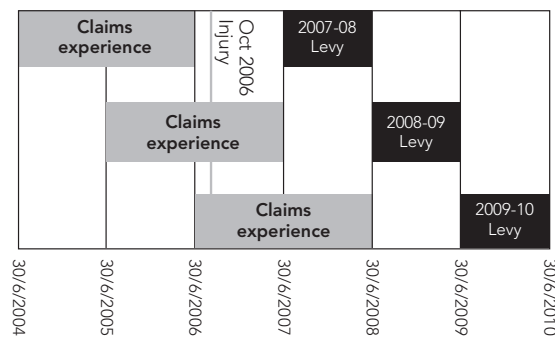
In addition to the employers that are excluded from the Bonus/Penalty Scheme, no bonuses will apply to employers who fail to submit an end-of-year reconciliation statement for either year used in calculating the bonus or penalty — penalties will still apply.

Experience period

The 'Experience period' is the period over which claims performance is measured in the bonus/penalty calculation.

For the 2009-10 financial year the experience period is 1 July 2006 to 30 June 2008. Claims payments up to 31 December 2008 are considered for claims with a date of injury within the claims experience period. This places an automatic limitation on cost of claims that could go for a lifetime and allows for costs of injuries which occur in May and June 2008 to be included in the calculations.

This provides us with more information to compare performance.



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

The diagram (above) shows that the levy rate for the 2009-10 financial year is based on the experience period from 1 July 2006 to 30 June 2008.

The diagram also shows how an injury sustained in October 2006 would affect the levy rates for two successive years because the claims costs would be included in the calculations for two experience periods.

Calculations

The Bonus/Penalty Scheme adjusts the industry levy rate for an employer's business location. This adjustment is based on the performance of the business location relative to all other business locations in the Bonus/Penalty Scheme.

Business locations with a comparatively better claims experience during the experience period earn bonuses while business locations with a comparatively worse claims experience will pay a higher levy through penalty.

Criteria for calculating levy rates in 2009-10

A business location's bonus or penalty for 2009-10 will be calculated in May 2009 based on the following:

1. Claims costs up to 31 December 2008 on claims at each business location for the period 1 July 2006 to 30 June 2008.
2. Remuneration (eg, wages, superannuation etc) for the 2006-07 and 2007-08 financial years.
3. Industry levy rate for 2009-10.
4. Industry levy rate for 2007-08 (used for calculation of the base levy (BL) for 2007-08).

Excluded claims costs

Claims costs incurred on:

1. Claim costs from an unrepresentative disability (eg, an accident at place of employment occurring during an authorised break).
2. Claim costs from a secondary disability (eg, an aggravation of a prior disability).
3. Claim costs on proven fraudulent claims (eg, where a conviction has been made).
4. Claims cost on rejected or undetermined claims.
5. Costs actually recovered from a third party (deducted from the claim cost totals).
6. Estimates of WorkCover's future liability on claims.
7. Claim payments for the redemption of costs beyond 31 December 2008.
8. Claim payments made as a consequence of the buy-out option.

Around 60% of all claims costs on average are excluded from bonus/penalty calculations.

Performance index

The performance index (PI) is the indicator used to determine if a bonus or penalty applies.

Business locations with a relatively low PI are rewarded with a bonus to their industry levy rate (ILR) and business locations with a relatively high PI incur a penalty on their ILR.

The PI is the ratio of claims costs to remuneration paid to workers for the same period adjusted by the ILR. The ILR is based on the overall claims costs within an industry and is a reflection of the risk of injuries occurring at a business location.

The formula for calculating the PI at each business location for 2009-10 is:

$$PI = \frac{C}{R} \times \frac{RF}{ILR\%} \quad (\text{the answer is truncated to three decimal places})$$

- C** Claims costs (up to 31 December 2008) for claims at the business location with a date of injury in the period 1 July 2006 to 30 June 2008.
- R** Remuneration paid to workers at the business location for the period 1 July 2006 to 30 June 2008.
- RF** Rating factor always equals 1 unless the employer is a large employer with a base levy of greater than \$50,000 (See page 9 for further information about the rating factor).

ILR% Industry levy rate for the 2009-10 financial year (0.4% to 7.5%).

Important: This is the only calculation required for business locations with a base levy between \$40,000 and \$50,000. Business locations with a base levy of less than \$40,000 please see page 7 for information on the participation factor, and business locations with a base levy of greater than \$50,000 please see page 9 for information on the rating factor.

Allocation of bonuses and penalties

Performance index (PI)	Bonus	Performance index (PI)	Penalty
0.000	-30%	0.147	1%
0.001	-30%	0.155	2%
0.003	-29%	0.163	3%
0.005	-28%	0.171	4%
0.007	-27%	0.179	5%
0.009	-26%	0.186	6%
0.011	-25%	0.193	7%
0.014	-24%	0.200	8%
0.017	-23%	0.207	9%
0.020	-22%	0.214	10%
0.023	-21%	0.221	11%
0.026	-20%	0.228	12%
0.029	-19%	0.235	13%
0.032	-18%	0.242	14%
0.035	-17%	0.250	15%
0.038	-16%	0.260	16%
0.041	-15%	0.270	17%
0.047	-14%	0.280	18%
0.053	-13%	0.290	19%
0.059	-12%	0.300	20%
0.065	-11%	0.310	21%
0.071	-10%	0.320	22%
0.077	-9%	0.330	23%
0.083	-8%	0.340	24%
0.089	-7%	0.350	25%
0.095	-6%	0.360	26%
0.101	-5%	0.380	27%
0.107	-4%	0.400	28%
0.115	-3%	0.420	29%
0.123	-2%	0.440	30%
0.131	-1%	0.460	31%
0.139	0%	0.480	32%
		0.500	33%
		0.520	34%
		0.540	35%
		0.560	36%
		0.585	37%
		0.610	38%
		0.635	39%
		0.660	40%
		0.685	41%
		0.710	42%
		0.735	43%
		0.760	44%
		0.785	45%
		0.810	46%
		0.835	47%
		0.860	48%
		0.885	49%
		0.91 +	50%

If the performance index calculates out to a figure with more than three decimal places, only the first three decimals are used.

The performance index (PI) for the location is matched with the nearest value in the table which is less than or equal to the PI. The corresponding bonus or penalty (which may be further adjusted by a participation factor) is applied.

Example performance index (PI) calculation

$$PI = \frac{C}{R} \times \frac{RF}{ILR\%}$$

$$= \frac{\$4,100}{\$1,800,000} \times \frac{1}{5.0\%}$$

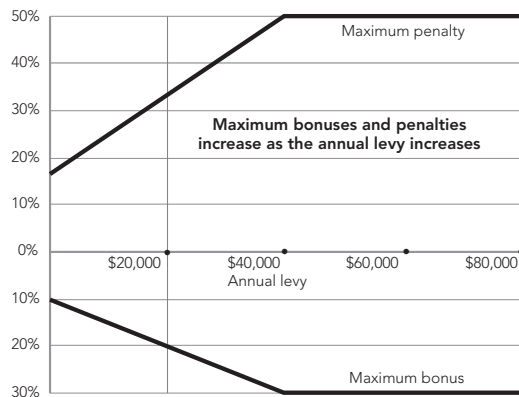
$$= 0.045$$

$$= 15\% \text{ bonus}$$

Participation factor

The participation factor (PF) only impacts on business locations with a base levy (BL) for 2007-08 of less than \$40,000. It's designed to protect small employers from excessive levy rate changes that may occur from one year to the next.

The smallest business locations (with a base levy of \$200) receive a maximum bonus of 10% and maximum penalty of 17%. As the size of the business location increases the maximum bonus and penalty increases to 30% and 50% respectively.



For example: An employer location paying \$20,000 in levy could expect to earn a bonus up to a maximum of 20% or incur a penalty up to a maximum of 33%, whereas an employer paying \$40,000 or over could expect bonuses up to 30% and penalties up to 50%.

Basic levy (BL)	Participation factor	Basic levy (BL)	Participation factor
200	0.337	20 000	0.667
1000	0.350	22 000	0.700
2000	0.367	24 000	0.733
4000	0.400	26 000	0.767
6000	0.433	28 000	0.800
8000	0.467	30 000	0.833
10 000	0.500	32 000	0.867
12 000	0.533	34 000	0.900
14 000	0.567	36 000	0.933
16 000	0.600	38 000	0.967
18 000	0.633	40 000	1.000

The 2009-10 Bonus/Penalty Scheme uses the following formula to determine an employer's participation:

$$PF = 1 + \frac{BL - \$40,000}{\$60,000} \quad (\text{the answer is rounded to three decimal places})$$

[Note: If BL is greater than or equal to \$40,000 then PF is 1]

The BL for 2007-08 is calculated by multiplying the remuneration (R) for 2007-08 by the industry levy rate (ILR) for 2007-08 for the business location.

$$\mathbf{BL (2007-08) = R (2007-08) \times ILR\% (2007-08)}$$

The allocated bonus or penalty (B/P) from the performance index calculation is then multiplied by the PF to determine the business location's bonus or penalty (B/P):

$$\mathbf{B/P = Allocated B/P \times PF (the answer is rounded to nearest whole percentage)}$$

Example participation factor (PF) calculation

Step one - calculate performance index (PI)

$$\begin{aligned} \mathbf{PI} &= \frac{\mathbf{C}}{\mathbf{R}} \times \frac{\mathbf{RF}}{\mathbf{ILR\%}} \\ &= \frac{\$500}{\$200,000} \times \frac{1}{4.5\%} \\ &= 0.055 \\ &= 13\% \text{ bonus} \end{aligned}$$

Step two - calculate base levy (BL)

$$\begin{aligned} \mathbf{BL} &= \mathbf{R (2007-08) \times ILR\% (2007-08)} \\ &= \$100,000 \times 4.5\% \\ &= \$4,500 \end{aligned}$$

Step three - calculate participation factor (PF)

$$\begin{aligned} \mathbf{PF} &= \mathbf{1 + \frac{(BL - \$40,000)}{\$60,000}} \\ &= 1 + \frac{(\$4,500 - \$40,000)}{\$60,000} \\ &= 0.408 \end{aligned}$$

Step four – calculate actual bonus

$$\mathbf{PF \times bonus \ or \ penalty = actual \ bonus \ or \ penalty}$$

(rounded to nearest whole %)

$$0.408 \times 13\% \text{ bonus} = 5\% \text{ actual bonus}$$

Rating factor

The rating factor (RF) only impacts on business locations with a base levy for 2007-08 of greater than \$50,000 and was first included in the calculation of an employer's bonus/penalty in the 1993-94 financial year.

The RF was introduced by WorkCover to provide an added incentive for large business locations to achieve higher bonuses. The factor reduces a business location's performance index resulting in a smaller penalty or larger bonus.

The 2009-10 Bonus/Penalty Scheme uses the following formula to determine a business location's rating factor:

$$\text{RF} = \frac{1}{0.98 + (4 \times \text{BL} \times 0.0000001)} \quad (\text{the answer is rounded to three decimal places})$$

Example rating factor (RF) calculation

Step one - calculate base levy (BL)

$$\begin{aligned} \text{BL} &= \text{R (2007-08)} \times \text{ILR\% (2007-08)} \\ &= \$4,500,000 \times 3.5\% \\ &= \$157,500 \end{aligned}$$

Step two - calculate rating factor (RF)

$$\begin{aligned} \text{RF} &= \frac{1}{0.98 + (4 \times \text{BL} \times 0.0000001)} \quad (\text{answer is rounded to three decimal places}) \\ &= \frac{1}{0.98 + (4 \times \$157,500 \times 0.0000001)} \\ &= \frac{1}{1.043} \\ &= 0.959 \end{aligned}$$

Step three - calculate performance index (PI)

$$\begin{aligned} \text{PI} &= \frac{\text{C}}{\text{R}} \times \frac{\text{RF}}{\text{ILR\%}} \\ &= \frac{\$15,500}{\$9,000,000} \times \frac{0.959}{3.5\%} \\ &= 0.047 \\ &= 14\% \text{ bonus} \end{aligned}$$

Calculating total rate (TR)

2009-10 ILR%	3.500%
B/P (-14% of ILR)	-0.490%
WorkCover levy rate (WLR)	<u>3.010%</u>
*GST (10% of WLR)	0.301%
**OHSW Fee (0.6% of WLR)	<u>0.018%</u>
2009-10 TR%	<u><u>3.329%</u></u>

* Under the current legislation, workers compensation levy is subject to GST.

** The OHSW fee is not subject to GST. WorkCover collects the OHSW fee on behalf of the South Australian Government.

Reviews

Employers can apply for a review of a decision that relates to the granting of a remission of a levy or imposition of a supplementary levy (bonus or penalty).

An application for a review of a decision made by WorkCover must be made within two months from the time the employer was given notice of the decision.

In the first instance, an employer should contact us to discuss the matter further. Levy review application forms can be obtained from WorkCover or from the Levy Review Registry.

The application for review should be lodged with:

Levy Review Registry
C/- WorkCover
GPO Box 2668
ADELAIDE SA 5001

Questions and answers

Q1 I have no claims, yet my bonus is less than 30%. Why?

Small business locations (ie, those with a base levy of less than \$40,000) have their bonus or penalty reduced by the participation factor, which is a size factor. It is used to determine a business location's level of participation in the Bonus/Penalty Scheme and to calculate their net bonus or penalty.

This size factor was introduced to reduce the volatility of levy rates for small business locations. Under the original Bonus/Penalty Scheme there was no size factor and the main complaint from small business was that a single claim (even a relatively small claim) could cause substantial increases in levy rates due to the loss of bonuses or the imposition of penalties.

The participation factor was introduced to protect small business locations from significant levy rate changes and to provide stability in the Bonus/Penalty Scheme.

Q2 What claim costs are excluded?

The following claim costs are excluded from the 2009-10 bonus/penalty calculation:

1. Claim costs from an unrepresentative disability (eg, an accident at place of employment occurring during an authorised break).
2. Claim costs from a secondary disability (eg, an aggravation of a prior disability).
3. Claim costs on proven fraudulent claims (eg, where a conviction has been made).
4. Claims cost on rejected or undetermined claims.
5. Costs actually recovered from a third party (deducted from the claim cost totals).
6. Estimates of WorkCover's future liability on claims.
7. Claim payments for the redemption of costs beyond 31 December 2008.
8. Claim payments made as a consequence of the buy-out option.

Around 60% of all claims costs on average are excluded from bonus/penalty calculations.

Q3 The injury was not my fault. Why am I being penalised?

South Australia's Workers Rehabilitation and Compensation Scheme is a no-fault scheme.

The question of fault or negligence has no impact on the decision to include the cost of a claim in the bonus/penalty calculation. This ensures that a fair and equitable system exists in which all employers are compared on a similar basis.

In some cases, WorkCover is able to recover the cost of a claim from a negligent third party. If this does occur, an adjustment may be made to the business location's bonus/penalty and total rate.

Q4 Why are claim costs up to 31 December 2008 included when the cut-off date for the date of injury on claims is 30 June 2008?

These dates have been set to provide us with the best possible indication of a business location's performance.

The cut-off date of 31 December 2008 places an automatic limitation on claim costs that could go on for a lifetime and allows the cost of claims for injuries in May and June 2008 to be included in bonus/penalty calculations. This provides us with more information on which a business location's comparative performance can be measured.

Q5 How long will a claim impact on my levy rate?

Each claim can only affect your levy rate for two financial years. Your performance is compared with all other business locations for this two-year period and a bonus or penalty is applied.

Two years was selected as the optimum period for assessing the performance of a business location.

A period shorter than this would cause extreme fluctuations in levy rates and would not provide a true indication of the performance of a business location.

A longer period of assessment would make levy rates less responsive to changes in a business location's behaviour. The majority of employers would also argue that events that happened more than three years ago are totally irrelevant to assessing a business location's current performance.

Q6 I have only had one claim. Why has this affected my levy rate?

Small to medium sized business locations can go for years without having a claim and earn the maximum bonus (after application of the participation factor) year after year. However, when they have a claim their comparative performance is generally worse than the majority of other business locations. The result of this is an increase in levy.

Q7 I have recently taken over this business. Why should I have to pay for the previous employer's poor performance?

The Bonus/Penalty Scheme was introduced to provide a real financial incentive to business locations that maintain lower claim costs. Business locations that earn a bonus or penalty through their claims performance should receive the benefits or pay the costs. Therefore, on the sale or transfer of the business location, the bonus or penalty passes to the new owner. This means the value of the business location is either higher or lower depending on whether a bonus or penalty is passed on.

All accountants and brokers should understand this requirement and provide details of the former owner's claims experience to reflect the previous performance and expected future costs of the business location. WorkCover can release this information, but only with the written approval of the original owner.

A business location with a penalty presents an opportunity for increased capital appreciation if the new owner is a good risk manager — improving the claims performance will produce a bonus, and so increase the value of the business location.

Q8 Why has my levy rate increased?

An increase in levy rate may be due to:

- an increase in the industry levy rate of the business location
- a rate adjustment from the Bonus/Penalty Scheme, based on the relative performance of the business location
- a change in the participation of the business location in the Bonus/Penalty Scheme
- a combination of the above.

An increase in the industry rate is based on a review of claims experience for the industry as a whole. An individual business location's performance has very little effect on the industry levy rate — unless the business location is both very large and a much better or worse performer than the rest of the industry.

It is the bonus/penalty calculation that reflects the comparatively better or worse performance of an individual business location. Investment in occupational health and safety may produce immediate savings in internal costs from a reduction in claims but, for a business location to receive the full benefits from the Bonus/Penalty Scheme, it must sustain a better performance over the full experience period of the scheme.

One good year following a year with relatively high claims experience will not always be enough to completely reduce penalties.

Q9 The levy I have paid is greater than my claims costs. Can WorkCover reduce my levy rate to compensate?

No, WorkCover is operating a scheme that collects levy to pay for all workers compensation claim costs. The levy paid by a business location is reflective of the risk of covering these costs.

It is misleading to make a comparison between levy paid and claims costs.

Business locations that have no claims costs receive substantial bonuses through the Bonus/Penalty Scheme. Penalties that are collected from the worst performing business locations are redistributed as bonuses.

Q10 Why do I pay the same levy rate to cover my clerical workers (who have very few claims) as the workers I have in the factory?

Under workers rehabilitation and compensation legislation, business locations are classified under an industry according to their predominant activity. The industry levy rate is set to collect the amount needed to cover the expected cost of claims for each individual industry. This industry rate is then adjusted by a bonus or penalty based on a business location's claims performance.

The scheme is industry-based not occupation-based.

The industry levy rate takes into account the fact that many locations undertake a mix of both low and high-risk activities. The bonus/penalty adjustment reflects whether the business location has a lower risk profile than others.

An occupation-based scheme would be far more complex to administer, as the number of classifications would be much higher. Costly administration controls would be required to confirm that workers were correctly classified yet the overall levy charged to cover claims costs would be much the same.

If an employer sets up separate business locations for different activities (eg, an administration office) each location would be treated as ancillary to the main activity and would receive the same industry levy rate. However, a separate bonus/penalty calculation will apply to each location.

If related business locations are operating out of the same premises and are employing in the same industry, the claims costs and remuneration for each business location will be combined for the purpose of the bonus/penalty calculation. This will produce the same rate for each business location.

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If you would like this information in a language other
than English, please call (08) 8226 1990 and ask for
an Interpreter to call WorkCover on 13 18 55. This is
available at no cost to you.

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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