



WorkCoverSA

## Stakeholder consultation

# Introducing an Experience Rating System for medium and large employers

January 2011

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## **DISCLAIMER**

The information produced by WorkCover Corporation of South Australia in this publication is correct at the time of printing and is provided as general information only. In utilising general information about workplace health and safety and injury management, the specific issues relevant to your workplace should always be considered. This publication is not intended as a substitute for the requirements of the *Workers Rehabilitation and Compensation Act, 1986* or the *Occupational Health Safety and Welfare Act 1986*.

# 1. INTRODUCTION

## 1.1 Overview

WorkCoverSA provides for the rehabilitation and compensation of injured workers following a workplace injury, to help them to remain at work or to return to work and the community as soon as possible. It is important that the funds collected from employers to provide this service ensure a financially sustainable Scheme. It is also important that employers feel that levies are allocated in a way that equitably reflects their risk of making a workers compensation claim.

Providing employers with a payment allocation approach that is closely linked to their level of risk can be an effective way of encouraging employers to focus on workplace safety and injury and claims management in their business, which ultimately leads to better outcomes for their workers.

This discussion paper is part of the first stage in developing a new employer payments system that enhances the allocation approach and promotes better outcomes for injured workers.

### **Consultation on a new approach to employer payments**

WorkCover is exploring two related approaches within a new employer payment system in South Australia:

- an Experience Rating System for medium and large employers
- a Retro-Paid Loss System for large employers

The approach to calculating levy (premium) payable by small employers will not change and will continue to be determined by a calculation based on the employer's industry levy rate and the estimated remuneration paid to their workers.

For the discussion paper and feedback form specific to the Retro-Paid Loss System for large employers, go to the consultation page of the WorkCover website at [www.workcover.com/consultation](http://www.workcover.com/consultation)

## 1.2 The consultation process

In September 2010 the WorkCover Board gave approval for consultation to begin on a new employer payments system. This has been approached as a phased consultation process, beginning with a series of stakeholder consultation workshops held in October, November and December 2010.

Eleven workshops were held in October, November and December 2010 and attended by close to 150 representatives of employers, employer associations, unions, insurance companies and insurance brokers. Including insurance agents and brokers helped to give credibility to the models being discussed.

At these workshops a set of guiding principles for the design of an Experience Rating System was developed and key issues in the design of an Experience Rating System, and the structure required to support it, were discussed.

These workshops provided valuable insight into the employer community's appetite for some form of Experience Rating System. The feedback and comments that were received during these workshops have formed the basis for the discussion and issues included in this paper.

WorkCover is proposing to hold further workshops with the stakeholders who attended the initial workshops to refine the employer payments approach based on the feedback received on this discussion paper. To stay updated with the progress of the consultation, go to the Consultation page of the WorkCover website at [www.workcover.com/consultation](http://www.workcover.com/consultation)

At this stage, WorkCover is not seeking a commitment from stakeholders on the introduction of an Experience Rating System. At the moment we are identifying and exploring what such a system could include and the structure that would be required to support this.

**For updates on the progress of this consultation, visit [www.workcover.com/consultation](http://www.workcover.com/consultation)**

## 1.3 Aim of this paper

This paper forms the next stage in the consultation process on designing an Experience Rating System. WorkCover is seeking your thoughts on the possible features of such a system.

Many of the options discussed in this paper are modelled on the premium (levy) systems that are in place in the New South Wales, Victorian and Queensland jurisdictions, which are the most similar workers compensation environments to that in South Australia.

However, as there is a degree of flexibility in determining some features of the system, WorkCover is seeking input on how to customise these to best reflect the South Australian community needs, taking into account SafeWork Australia's approach to achieving greater consistency across schemes.

The purpose of the Experience Rating System is not to increase the amount of premium collected, rather it is to ensure that the amount of premium payable by employers is determined in an equitable way that also recognises an employer's industry and own claims experience. Regardless of the approach in allocating premiums to employers, the Scheme is required to collect a certain amount of money to cover its anticipated costs.

The workers compensation system is complex and comprised of many variables. While acknowledging these complexities and challenges, this paper focuses on design elements of an Experience Rating System and for the most part will not address broader aspects of the Scheme, for example, claims management.

General feedback previously provided through the workshops on the broader aspects of the Scheme has been taken on board and will be considered as part of future improvement strategies.

WorkCover is now inviting your feedback on the Experience Rating System.

## 1.4 Providing your feedback

It is recommended that you first read through this consultation paper in full and then consider the questions outlined.

When you are ready to provide us with your feedback, either fill in the feedback form or provide a submission to the contact details below.



Where you see this symbol, there will be a place to provide your opinion on the questionnaire feedback form.

### **Post, email or fax your feedback to:**

Employer Payments Project

WorkCoverSA

GPO Box 2668

ADELAIDE SA 5001

Email: [employerpayments@workcover.com](mailto:employerpayments@workcover.com)

Fax: 08 8233 2044

**Please provide your feedback no later than 5pm Tuesday 15 March 2011.**

If you have any questions, email [employerpayments@workcover.com](mailto:employerpayments@workcover.com) or call WorkCover's service centre on 13 18 55.

## 2. The Experience Rating System

### 2.1 Guiding principles of an Experience Rating System

It is important that any changes to employer payments in South Australia are guided by agreed principles. During the workshops there was broad agreement on the following principles:

**The Experience Rating System should:**

1. **Be transparent and easily explained**
2. **Be fair, and reflective of an employer's risk, as indicated by the employer's business activity and their claims experience**
3. **Be affordable and relatively stable, particularly for small and medium-sized employers**
4. **Provide incentives to influence employers to improve workplace safety and injury and claims management**
5. **Minimise 'gaming' by discouraging employers from using the system to inequitably reduce their premium**
6. **Reflect a balance between 'user pays' (each employer paying the full costs of their claims) and insurance protection (costs of claims spread across employers)**



**Would you support these principles?**

## 2.2 What is an Experience Rating System?

WorkCover acknowledges that employers have the ability to impact their claims experience.

Within an Experience Rating System, the amount an employer pays in premium is impacted by claim numbers/costs as the result of a claim, providing an incentive to employers to improve their claims experience through good Occupational Health, Safety and Welfare (OHSW) practices and injury and return to work management.

If an employer has increased claims numbers/costs the premium payable may increase. Or, if there is an improvement in their recent claims numbers/costs, the premium payable may decrease.

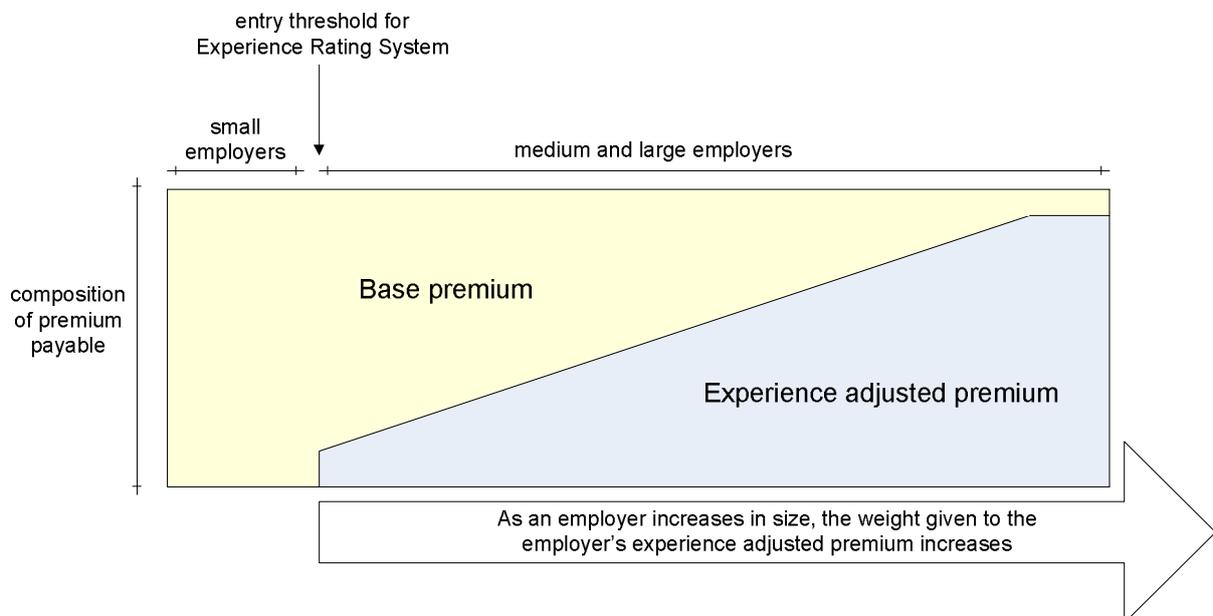
In the South Australian workers compensation scheme, the money payable by employers is referred to as a **levy**. In an Experience Rating System the word **premium** is more appropriate as it is more consistent with the concept of insurance, from which the experience rating approach originates. **In this paper the term premium is used instead of levy when referring to the Experience Rating System.**

Two key elements of an Experience Rating System are industry experience and employer experience. The extent each plays in determining the premium depends on the size of the employer.

### Employer Size and Experience Rating

The size of an employer is an important consideration in an Experience Rating System, as the larger the employer is the more impact they can have on their claims experience through OHSW and return to work practices.

To determine the **premium payable** by the employer, a **sizing factor** is applied. The relative proportions of base premium and experience adjusted premium that make up the total amount payable by the employer (premium payable) is determined by the size of the employer.



Essentially, the larger the employer, the more their total premium is based on their own claims experience.

## Calculating the Experience Adjusted Premium

The Experience Adjustment Formula, used to calculate the **Experience Adjusted Premium**, is designed to reflect the claims experience performance of a business compared to other employers in the same industry.

### Experience Adjusted Formula

$$\text{Experience Adjusted Premium} = \text{Base Premium} \times \frac{\text{Employer Claims Cost Rate (ECCR)}}{\text{Industry Claims Cost Rate (ICCR)}}$$

Where,

Base Premium = remuneration x industry premium rate

Employer Claims Cost Rate = the employer's claim costs based on past experience over 2-3 years divided by remuneration paid by the employer over the same period

Industry Claims Cost Rate = industry claim costs based on past experience over 2-3 years, divided by the total remuneration of the industry over the same period

The separate elements of the calculation are explained in further detail below.

### Base premium

The **base premium** for an employer is calculated by multiplying the remuneration paid by an employer by the relevant **industry premium rate**.

The industry premium rate is a dollar amount payable for every \$100 paid by an employer in remuneration. The rate is determined by actuarial assessment taking into account the claims history of all employers in a specific industry class.

In the South Australian workers compensation scheme, industry premium rates - referred to as industry levy rates - are published each year. Each of the 512 industry classes within the South Australian WorkCover Industry Classification (SAWIC) system is assigned a rate.

### Employer Claims Cost Rate and Industry Claims Cost Rate

When calculating an employer's experience adjusted premium, the **Employer Claims Cost Rate** (ECCR) is compared to the **Industry Claims Cost Rate** (ICCR) for their industry.

The ICCR is calculated annually by an actuary for each industry class by using an average of the previous three years' wages and claims data for that industry. The particular three-year period used to calculate the ECCR is different as it includes the current policy period (financial year). The components used to calculate an ICCR are the same as those used to calculate an ECCR; both take into consideration any caps on claims costs and exclusions.

Employers with an ECCR below their ICCR receive a discount on their base premium.

Conversely, employers with an ECCR that is worse than their ICCR will pay a premium that is above their base premium.

### Calculating the premium payable

Once the Experience Adjusted Premium for an employer is determined, an adjustment is made to take into account the size of an employer. Other payments such as OHSW levy and GST are incorporated in the final payment.

$$\text{Premium payable} = (\text{Base Premium} \times \text{sizing factor}) + (\text{Experience adjusted premium} \times \text{sizing factor}) + \text{OHSW} + \text{GST}$$

### Hindsight adjustment

An employer's premium is usually calculated twice for each policy period. The initial premium payable (called the **premium estimate**) is determined at the beginning of the policy period. At this point, the premium payable is calculated with an *estimate* of wages that the employer is likely to pay during the policy period and the claim costs from claims incurred in the previous two years.

The final premium payable (called the **hindsight premium**) is calculated at the end of the policy period. It is calculated using the *actual* amount of wages paid by the employer during the policy period, the adjusted claim costs from claims incurred in the previous two years *and* the adjusted claims costs from claims incurred during the current policy period.

If the hindsight premium is higher than the premium estimate (initial premium), the employer will need to pay the difference. If the hindsight premium is lower than the premium estimate, the employer will be either repaid or receive a credit for any overpayment.

**For an overview of the current levy collection approach and the previous employer payment schemes in South Australia (the Bonus/Penalty Scheme) see Attachment 4.1.**

### 3. Questions for feedback

This section outlines key issues that must be considered in establishing an Experience Rating System. The feedback form provided on the WorkCover website at [www.workcover.com/consultation](http://www.workcover.com/consultation) includes space for you to respond to all questions in this section.

#### QUESTION 1

#### How should the entry threshold for an Experience Rating System be determined?

For most small businesses, a workplace injury is a relatively rare occurrence – if an employer’s base premium is less than \$10,000, they are likely to make a claim only once every 27 years.

The table below shows that a small employer’s past claims experience is not a good predictor of their future claims experience. So applying the Experience Rating System to small businesses is less likely to provide an effective and equitable incentive to reduce claims numbers/costs.

Base premium (levy) indicating employer size	Likelihood of having a claim	% of registered employers
Less than \$2,000	1 claim in every 73 years	61.5
Less than \$10,000	1 claim in every 27 years	85.8
\$10,000 to \$100,000	1.3 claims per year	12.6
\$100,000 to \$500,000	6 claims per year	1.4
More than \$500,000	27 claims per year	0.2

If an entry threshold were set, small employers under the threshold would not benefit from relatively small premium reductions associated with good (or no) claims experience. But this also means that small businesses will not be exposed to potentially significant premium increases if they incur one or more significant claims.

For employers below the entry threshold in an Experience Rating System (small employers), increases or decreases in the premium payable will only occur if there is a change in their wages or the industry premium rate. For a reduction in the industry premium rate to occur, the cost of claims must improve across the industry.

The entry threshold for experience rating in Victoria is greater than \$200,000 in annual remuneration. In New South Wales the threshold includes employers paying \$10,000 or more in premium and \$300,000 or more in remuneration. A combination of remuneration and base premium is used in New South Wales

so that small employers are not excluded unfairly from the small employer category due to a high premium payment, which is a direct reflection of the industry they operate in rather than their actual size.

Queensland does not have an entry threshold to its experience rating approach; all employers have experience rating applied after being registered with the scheme for 18 months.

Note that a lower threshold results in more employers being included in experience rating who potentially have limited capability to effectively influence improvements in their occupational health, safety and welfare (OHSW) and injury management practices.

**Advantages:**

- With an entry threshold, small employers will not be exposed to a potential volatility in premium payable if a significant claim is incurred.

**Disadvantages:**

- With an entry threshold, small employers would not benefit from relatively small levy reductions associated with good or no claims experience.

**Workshop feedback:**

- General support for an entry threshold, however the level of the threshold requires further consideration.
- General support for using a combination of remuneration and base premium to determine whether an employer has reached the threshold.



**Should a combination of remuneration and premium be used to determine the threshold for entry into the Experience Rating System?**

## QUESTION 2

### **Would you support a move from ‘levy’ to ‘premium’, and should we issue employers with insurance-based documentation?**

WorkCover currently refers to the monies collected from employers to cover the cost of claims as a ‘levy’. The word ‘levy’ can imply a tax or a fee that the individual is required to pay and has limited or no ability to influence. The word ‘premium’ appears to be more appropriate for a scheme with an experience-based approach. ‘Premium’ is associated with the concept of insurance, and implies a degree of influence over how much is paid.

With the introduction of the concept of ‘premiums’, employers would be issued with an initial policy of insurance followed by ‘premium notices’ each year, which would set out details including the:

- calculation of the employer’s premium
- details of individual claims and their estimated total cost
- claims performance relative to other employers in their industry class.

Premium notices would also clearly articulate the adjustment factors that are applicable to that policy period.

Certificates of currency would also be provided indicating that the employer is registered and would include basic information such as the employer’s:

- industry classification
- number of workers
- estimated remuneration
- policy period covered.

#### **Advantages:**

- Changing to the term premium in South Australia would bring WorkCover in line with all other Australian jurisdictions.
- Employers are likely to have a better understanding of how claims impact their premium.
- Employers will see the link between improving workplace safety and injury management and their claims history.
- Including comparative average costs for their industry class will help employers to gauge their performance relative to their own industry.
- A certificate of currency would support principal contractors, providing evidence that a sub-contractor is registered with WorkCover (see Question 17).

**Disadvantages:**

- None identified

**Workshop feedback:**

- Misconception that the change in terminology is meaningless and insufficient insurance protection is provided.
- General support for changing terminology from 'levy' to 'premium'.
- General support for issuing annual premium notices and the use of certificates of currency. Some workshop participants indicated that certificates of currency would be useful in addressing prime / sub-contractor issues (further addressed in Question 17).

**Notes:**

*With this terminology change, it is not proposed that the liability for claims be shifted to the employer, as is the case in a pure insurance arrangement. Instead, this is a change in terminology and adoption of some relevant insurance practices such as issuing a policy of insurance, renewal premium notices and certificates of currency.*



**Would you support a move from 'levy' to 'premium'? Should we issue employers with insurance-based documentation?**

### QUESTION 3

#### Should WorkCover use a location-based or employer-based approach to calculating premiums?

WorkCover has more than 50,000 registered employers spread over more than 60,000 locations. This means that the majority of employers operate at a single location, with only 7% having multiple locations.

WorkCover currently operates a **location-based** approach for calculating levies (premiums). Each employer location is required to register and provide information about the annual remuneration paid to their workers and the predominant business activity of that location.

This information is used to assign an industry classification and calculate the levy payable for that location. Where an employer has more than one location, WorkCover calculates the levy amounts for each location. These amounts are consolidated and the employer is issued with one tax invoice for the total amount.

An **employer-based** approach for calculating premiums appears to be simpler from an employer perspective. The employer would provide WorkCover with information about the total remuneration paid, not an amount by each location. In most cases, the industry classification is determined as the classification that most accurately describes the entire business of the employer and the premium is calculated with the total remuneration and a single industry rate.

In Victoria a location-based approach is used to calculate premiums.

In New South Wales an employer-based approach is used to calculate premiums.

Note that in both New South Wales and Victoria, there is the option for an employer with either a single or multiple locations to have different industry classifications at locations where they can demonstrate clearly separate and distinct businesses. Support services such as clerical, administrative, sales and marketing, head office and warehousing activities are generally considered to be incidental to the main business activity. This already occurs in South Australia and can continue in an employer-based approach.

#### Advantages:

- An employer-based approach allows employers to provide one wages figure for all relevant locations, which means simpler administration and a reduction in red tape.
- With an employer-based approach, those employers who do not have an established process for allocating wages to each of their locations do not have to set up this process just for the purposes of their WorkCover premium.

#### Disadvantages:

- None identified.

#### Workshop feedback:

- Some employers saw the benefits of an employer-based industry classification, in that it allows the employer to use their discretion in distributing costs to each location.
- Some employers indicated that the task of distributing costs to each location would be too difficult or time-intensive for their business and would prefer to keep a location-based approach.



**Do you support a location-based or employer-based approach to calculation of premiums?**

## QUESTION 4

### **What are your thoughts on the use of claims estimates in the Experience Rating System premium calculation?**

There are two ways claims costs can be included in the Experience Rating System premium calculation.

- 1 Use the **actual claim costs** that have been paid in the years being measured.
- 2 Use the **actual claim costs** that have been paid in the years being measured and an **estimate of the future costs** for that claim.

Including the total paid and estimated cost of claims in the experience rated premium calculation, rather than just the costs paid in the measurement years, will produce a fairer result for employers. Otherwise, an employer who has a claim at the beginning of the policy year will have more claim costs included in the calculation than an employer who has a claim at the end of the policy year.

Claims estimates are a useful tool for illustrating upfront what a claim is expected to cost and its direct impact on an employer's workers compensation costs. Employers and the claims agent are encouraged to work together and intervene early to improve outcomes for the injured worker, which can also lead to reduced claims costs.

There are two approaches to estimating claims. In New South Wales manual claim estimates are used, and in Victoria statistical claim estimates are used.

#### **Statistical claim estimates**

- Statistically determined estimate of the lifetime cost of an individual claim based on key information entered into the system.
- Produce broadly similar claim estimates for similar injuries because they take into account statistical data from previous claims.

#### **Manual claim estimates**

- Carried out by the claims manager using a Claims Estimation Manual.
- Tend to be less standardised than statistical estimates, and more customised to the consideration of each individual claim and employer.

Both approaches produce an estimate of future costs for each individual claim, based on similar risk characteristics, including claimant characteristics (for example, age, gender, occupation), employer characteristics (for example, wages and location) and claim history (for example, length of time since injury and treatment received). Each estimate is periodically revised throughout the life of the claim to reflect actual costs paid and significant changes to the claim such as changes in treatment or disputes.

At this point, manual claim estimates would appear to be more appropriate for South Australia to implement as part of an Experience Rating System.

#### **Advantages:**

- Including the total paid and estimated cost of claims in the experience rated premium calculation, rather than just the costs paid in the measurement years, will produce a fairer result for employers.

**Disadvantages:**

- Without claims estimates, adjustment factors would be much greater and produce a cruder result.

**Workshop feedback:**

- Interest in the use of claims estimates in the experience adjusted premium calculation.
- Concerns were raised about employer reliance on the claims agent to reduce claims costs and improve outcomes for the worker.
- Concern that this approach may increase emphasis on keeping the cost of claims down, rather than on achieving the best outcomes for injured workers.
- Consider the use of statistical estimates, as used in Victoria.



**Should we use manual claim estimates?**

## QUESTION 5

### When you report a workplace injury within two business days, your costs are reduced. Should we extend the notification period to five calendar days?

Employers are currently required to cover the first two weeks of an injured worker's income maintenance payments (the claims excess).

WorkCover has a claims excess waiver arrangement in place to encourage early reporting of claims. Employers are financially rewarded for notifying the claims agent within two business days that an injury has occurred by not having to pay the first two weeks of income maintenance.

Similar arrangements exist in other jurisdictions:

	SA	NSW	VIC	ACT
Excess	Two weeks' income maintenance	One week's income maintenance	Medical expenses up to \$592 and two weeks' income maintenance	Income maintenance and medical costs incurred until claim is reported
Waiver	Report claim within two business days	Report claim within five calendar days	Excess Buyout option available	-

#### Advantages:

- The claims excess waiver encourages early reporting of claims, which means injured workers are assisted sooner.

#### Disadvantages:

- A longer claims excess waiver period might mean that injuries are not reported as quickly as they could be, and an injured worker might not be helped as quickly as they could be.

#### Workshop feedback:

- Support for retaining the two weeks of income maintenance payments as the excess.
- General support to change the notification period to five calendar days for the claims excess to be waived. Circumstances can make it difficult for employers, even with the best intentions, to provide notification of an injury to the claims agent within the two-day window.



**Should we extend the claims excess waiver period from two business days to five calendar days?**

## QUESTION 6

### **Should the amount of compensation recovered from a third party be proportionate to the degree of fault?**

Section 54 of the *Workers Rehabilitation and Compensation Act 1986* (the Act) establishes the 'no-fault' nature of the Scheme. This section protects employers from common law liability of any kind, whether through direct legal action or a recovery. This means that workers injured in the course of work cannot sue their employer at common law as it is a first-party relationship; they must make a statutory workers compensation claim.

However, workers injured in the course of work can still sue a third party whose negligence contributed to the injury, if such a third party exists.

A worker (or WorkCover) can pursue third-party wrongdoers for 100% of the total damages, irrespective of their degree of fault. A third-party wrongdoer cannot seek contribution from a negligent employer, as the employer is protected by section 54 of the Act.

This is a significant issue for industry groups in sectors such as construction, group training and labour hire. For construction and group training sectors, issues arise from the principle/sub-contractor relationship. For labour hire and group training businesses, the host employer is not the true legal employer of the worker that they host and therefore is not protected by section 54. As a result they are at risk of exposure to a common law suit or recovery action.

#### **What happens in other states?**

South Australia is the only jurisdiction that exposes third-party wrongdoers to 100% liability for common law damages regardless of their degree of fault. Other jurisdictions have 'proportionate' liability.

This means that in other jurisdictions a third-party wrongdoer can only ever be found liable for their proportion of fault (this is called **contributory negligence**).

Construction, labour hire and group training representatives have previously claimed that being exposed to 100% of the total damages has contributed to difficulties in obtaining affordable public liability insurance.

This situation has caused an imbalance in the national market, and some South Australian employers have indicated that they can't be competitive because they are paying more for public liability insurance than their interstate counterparts.

#### **Advantages:**

- A third party's liability bears some relationship to their degree of fault.
- Changing to proportionate liability would bring South Australia in line with other Australian jurisdictions.
- The cost of public liability insurance may decrease for some employers.

**Disadvantages:**

- Worker groups may not want the current provisions to change, as this may limit workers' rights to obtain full common law damages against a third party.
- Reduction in the level of recoveries received by the Scheme.

**Workshop feedback:**

- Employers and employer representatives are very keen for WorkCover to move to a contributory negligence approach.
- Employers would not support this if it exposed them to common law action.
- Concern that if WorkCover could only recover the costs proportionally attributed to the third party, there may be an associated increase in premiums.



**Should we move to contributory negligence for third parties, or keep the current arrangements?**

## QUESTION 7

### How should we define compensable injuries in the Scheme for the purposes of calculating premiums?

#### Definition of an injury

The South Australian *Workers Rehabilitation and Compensation Act 1986* (the Act) defines a physical or mental injury as a **disability**.

By defining workplace injuries as disability, South Australia is out of step with all other jurisdictions in Australia. The definition also runs counter to the fact that the majority (79% in 2009-10) of injured workers either do not take time off work, or return to work within two weeks of an injury.

#### Advantages:

- Changing to the term 'injury' from 'disability' would bring South Australia in line with other jurisdictions and send a more positive and accurate message to employers and injured workers.

#### Disadvantages:

- None identified at this stage.

#### Workshop feedback:

- General support for change in terminology.



Should the definition of injury within the Act be changed to 'injury' from 'disability'?

#### Link between injury and employment

The definition of what contribution employment must have for an injury to be compensable differs across jurisdictions. In South Australia a **compensable disability** is one that arises 'out of or in the course of employment'. A secondary injury is compensable under the Scheme if the current employment 'contributed to' the injury.

Within the Act, **secondary disability** means 'a disability that is, or results from, the aggravation, acceleration, exacerbation, deterioration or recurrence of a prior disability'.

An **unrepresentative disability** includes injuries arising out of an employment-related journey or an authorised break as outlined in the Act.

The table on the following page shows the required contribution of employment to an injury for it to be compensable in each jurisdiction and how work-related injuries are defined.

State	Definition of work-related injury	Contribution of employment for compensability	
		Primary Injury	Secondary injury
South Australia	A disability is compensable if it arises from employment	Arises out of or in the course of	contributed to
New South Wales	Personal injury arising out of or in the course of employment	substantial contributing factor	significant contributing factor
Victoria	An injury arising out of, or in the course of, any employment	arising out of, or in the course of	significant contributing factor
Queensland	A personal injury arising out of, or in the course of, employment	major significant factor causing	major significant factor causing
Western Australia	A personal injury by accident arising out of or in the course of employment	arising out of, or in the course of	contributed to a significant degree
Tasmania	An injury, or a disease, arising out of, or in the course of employment	arising out of, or in the course of	contributed to a substantial degree
Northern Territory	A physical or mental injury... out of or in the course of employment	arising out of, or in the course of	contributed to a material degree
ACT	A physical or mental injury...arising out of, or in the course of, the worker's employment	arising out of, or in the course of	substantial contributing factor
Commonwealth - Seacare - Comcare	A physical or mental injury arising out of, or in the course of the employee's employment	arising out of, or in the course of	arising out of, or in the course of

The costs associated with all compensable injuries must be covered within the WorkCover Scheme, regardless of whether they are included in an employer's claims experience for the purpose of calculating their premium.

In New South Wales and Victoria, claims costs associated with secondary injuries are included in the employer's claims experience and therefore impact on the premium paid.

However, both these jurisdictions have different definitions for connecting secondary injuries with employment – employment must be a significant contributing factor. Unrepresentative injury claims costs are excluded from an employer's claims experience and covered within the industry rate.

An alternative approach to that used in New South Wales and Victoria would be to exclude both secondary injuries and unrepresentative injuries from employers' claims experience and distribute the cost of these claims across the entire industry, resulting in an increase in the industry premium rate.

**Advantages:**

- Including secondary injuries within the employer's claims experience for calculating the experience adjusted premium creates a clear link between the employer and the injured worker to ensure appropriate injury management and return to work support is provided.
- Changing the definition for connecting secondary injuries with employment to a 'significant contributing factor' would decrease the claims numbers/costs included in an employers claims experience.

**Disadvantages:**

- Changing the definition for connecting secondary injuries with employment to a 'significant contributing factor' would result in a very small reduction in the number of workers who are currently eligible for workers compensation.

**Workshop feedback:**

- In favour of secondary claims costs being included in the experience rating calculation if the contribution definition was changed to that used in Victoria and New South Wales of 'significant contributing factor'.
- Employers did not support the inclusion of claims costs of secondary and unrepresentative in the experience rating calculation with the current contribution definitions.
- Employers questioned whether changing the definition would change the claims agent and employer culture of challenging whether a secondary injury is compensable.



**Would you support a change to the definition connecting secondary injuries to employment?**

**If the definition connecting secondary injuries is changed, should secondary and unrepresentative injuries be included in an experience-rated premium calculation?**

## QUESTION 8

### Should employers have more options for paying premiums?

As part of introducing an Experience Rating System, we will review the options available for employers when they pay their premium.

South Australian employers are required to pay their WorkCover levy (premium) in advance, as are employers in all other jurisdictions. Employers with a levy of \$2,000 or below are required to pay in full. All other employers have the option to pay in instalments (ten instalments over 12 months).

In New South Wales and Victoria, employers are provided with additional options for paying their premium and a discount for full payment in advance (see Attachment 4.2 for details).

WorkCover would like your feedback on the following payment options:

- 1 Employers whose annual premium is \$1,000 or less must pay annually, upfront.
- 2 An option of quarterly or monthly payments for employers whose annual premium is more than \$1,000.
- 3 A discount (% to be determined) for employers whose annual premium is more than \$1,000 and who pay the full amount upfront.

#### Advantages:

- Increased options would provide consistency with New South Wales and Victoria.
- Provides alternatives for employers and flexibility in how they pay their premium.

#### Disadvantages:

- None identified.

#### Workshop feedback:

- Support for increased options for payment of premium and making available a discount for those who, although not required to, pay annually upfront.
- A discount for paying the premium upfront would be very attractive for some employers.



**Would you like more payment options?**

**What do you think about a discount for employers who pay their full premium upfront?**

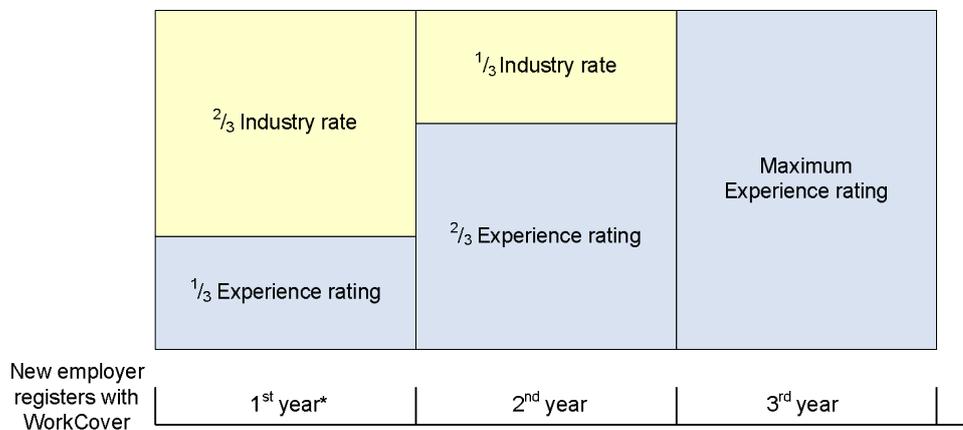
## QUESTION 9

### Should new employers be introduced to the Experience Rating System with a phased approach?

There are two options for applying an experience rating approach to new employers registering with the Scheme who are eligible to participate in the Experience Rating System. ('New employers' are those employers where there has not been a 'transfer of business'.)

- Option 1:** Use the industry rate to calculate the employer's annual premium until the employer has sufficient experience in the Scheme. After two full years of registration with the Scheme, the employer's full premium payable is then calculated using the experience rating formula. This is similar to Queensland where employers are experience rated after being registered with the scheme for 18 months.
- Option 2:** Use a graduated application of the experience rating formula for new employers. In the first year the experience rating formula is used to calculate one third of the employer's premium and the other two thirds are based on their industry rate (as levies are calculated currently). For the next policy period, two thirds weighting is given to the experience rating formula and one third to the industry rate. In the following period that the employer is registered with the Scheme, the experience rating formula is applied to calculate the full premium.

#### Composition of premium payable for new employers



\*Could apply for a period of 6 to 18 months – depending on where the policy renewal period falls.

Both New South Wales and Victoria use a variation of **Option 2**.

**Advantages:**

- A graduated application (Option 2) would provide a clear and transparent introduction to employers showing how experience rating will impact on their premium.
- A graduated application (Option 2) gives new employers an immediate incentive to focus on their OHSW and injury management approach.

**Disadvantages:**

- Option 1 leaves open the possibility of new employers not understanding the impact of their OHSW and injury management approach on their claims experience and subsequently the cost of their premium.

**Workshop feedback:**

- Indicated a preference for Option 2.
- With Option 1 the premium based on experience rating and the premium based on their industry rate could be quite different – so at the two-year mark this could pose financial implications for the employer that they had not anticipated.



**Which approach would you support?**

## QUESTION 10

### Should 'related' employers be grouped together?

Grouping related employers for the purpose of calculating their experience rating premium is an important feature of most experience based systems.

The sizing factor applied to the premiums of related employers (that is, the weight given to the experience adjusted premium based on the employer's size) could be calculated using the combined base premium of the group.

A determination regarding related employers would be made consistent with the definitions used in the Commonwealth *Corporations Act 2001*. (See pages 8-10 for an explanation of the sizing factor.)

In New South Wales, employers register as a group in any of these situations:

- The employers are related corporations within the meaning of the *Corporations Act 2001*.
- A person or set of persons has a controlling interest in each of two businesses; the persons who carry on those businesses constitute a group.
- An entity and a corporation form part of a group if the entity has a controlling interest in the corporation.

The Toll Group is one example of a **group of employers**; it includes transport and logistics businesses such as Toll Ipec Pty Ltd and TNT Australia Pty Ltd. Under the experience-rated approach, the combined base premium of all employers in the Toll group would be used to assess the weight of the experience formula in calculating each employer's premium.

Grouping can be an effective mechanism to prevent employers from finding ways to avoid paying their fair share of premium. (One way that companies can avoid paying their fair share is to split their organisation into multiple operations to take advantage of lower thresholds, rates and caps available within the system.)

Grouping occurs in the Experience Rating Systems in New South Wales and Victoria. As identified in a 2005 New South Wales 'Premium review' discussion paper, before grouping was introduced in New South Wales there were examples of large group employers structuring their business to benefit from system features designed for small employers to avoid claims costs. These costs were then transferred to the other New South Wales employers through increased premiums.

It is noted that it is really not possible to distinguish between a company splitting for premium avoidance purposes and a company splitting for legitimate business reasons.

#### Advantages:

- Grouping can be effective in preventing employers from finding ways to avoid paying their fair share of premium.
- Grouping attempts to ensure equity for all employers.

#### Disadvantages:

- None identified.

**Workshop feedback:**

- Broad support from the workshops that the grouping principle is a necessary feature of an Experience Rating System.
- Some concern was raised over how related employers would be identified.



**Should 'related' employers be grouped?**

## QUESTION 11

### **Should claims experience be transferred with a business?**

As part of an Experience Rating System, when a business is transferred (for example, sold or merged) the claims experience of that business is usually transferred.

#### **Advantages:**

- This approach prevents employers taking advantage of the system by restructuring businesses to improve the claims experience component of their premium, and therefore provides greater equity for all employers in the Scheme.
- As the claims experience may be considered by any prospective buyers with this approach, it encourages employers continue to strive to improve their claims experience until the sale date.
- A key focus of the Scheme - looking after injured workers - is maintained.

#### **Disadvantages:**

- There are implications for an employer acquiring an existing business, including unexpected expenses, if they have not done appropriate due diligence.

#### **Workshop feedback:**

- General consensus that claims experience should be transferred.

#### **Notes:**

*The Commonwealth Fair Work Act 2009 provides a guide to the definition of a 'transfer of business' from a previous employer to a new employer.*



**Should claims experience be transferred?**

## QUESTION 12

### **Should costs associated with fraudulent claims be taken out of an employer's claims experience?**

In other jurisdictions, when a claimant is successfully prosecuted for fraud, the costs associated with that claim are retrospectively deducted in calculating an experience-rated premium. In effect, the employer's claims experience is reset as if the fraudulent claim was never incurred.

#### **Advantages:**

- An employer's premium is not adversely affected by a claim where there has been a successful prosecution for fraud.

#### **Disadvantages:**

- The effectiveness of this approach for employers relies on whether fraudulent claims and recoveries are actively identified and/or pursued.

#### **Workshop feedback:**

- Broad agreement with this approach.



**Do you support this approach?**

## QUESTION 13

### Should the industry rate cap be increased or removed completely?

The levy rates associated with each of the South Australian WorkCover Industry Classifications (SAWIC) are currently subject to a cap of 7.5%. This results in approximately \$30 million being cross-subsidised by employers in those industries whose levy is set lower than 7.5%.

Approximately 88% of employers registered with the scheme are providing this cross subsidy, which equates to an average 7% increase on their annual levy rate.

Capped industry rates mean that employers in high risk industries are not paying according to their level of risk and claims experience. Other jurisdictions have a higher cap on their industry rates.

**WorkCover could maintain the industry rate cap at 7.5%, increase the industry rate cap or remove the industry rate cap completely.**

#### Impact if industry rate is capped

Dollar impact to levy	% of employers affected if industry rate is capped at 10%	% of employers affected if industry rate is capped at 15%
Reduction or no change	90.6	90.6
\$1 to \$10,000 increase	8.5	8.4
\$10,000 to \$100,000	0.8	0.9
More than \$100,000	0.1	0.1

#### Advantages:

- Increasing the industry rate cap would be an incentive for poor-performing industries to focus on improving their claims management by supporting workers to remain at work or return to work sooner. Over time, it would be expected that the industry rate would decrease.
- An increase in the industry rate cap would decrease the level of cross-subsidy in the Scheme and better-performing industries would have a lower industry rate.

#### Disadvantages:

- Increasing the industry rate cap will mean that industries with naturally higher industry rates will experience an increase in their industry rates.

#### Workshop feedback:

- Concern from industry representatives whose industry rates are currently capped at 7.5%, as they are unsure of the financial consequences.
- Concerns were also raised from government-funded organisations about the timing of an increase in the industry rate, as their budgets are set up to 18 months in advance.



**What do you think of these options?**

## QUESTION 14

### Should there be a cap on the costs that can be attributed to a single claim when calculating an employer's premium?

For the purposes of calculating an employer's premium in the Experience Rating System, the claims costs incurred by an employer are compared to the average claims costs of their industry.

Placing a cap on the costs that can be attributed to a single claim is an effective way to protect employers from the potential premium increase associated with a significant injury.

**Example** - Entitlements associated with a claim where there has been a work-related fatality:

Lump sum payment	\$426,255
Funeral payment	\$7,470
Weekly payments	\$400 per week

A claim such as this would significantly increase an employer's incurred claim costs.

#### Other jurisdictions with a claims cap in place

	Claims cap (for any one claim)	Comments
New South Wales	\$150,000	Not revised since 1995
Victoria	\$305,500	Indexed annually
Queensland	\$175,000	For claims received after 1 July 2009

#### Advantages:

- Capping costs is an effective way to protect employers from the potential premium increase associated with a significant claim.

#### Disadvantages:

- None identified.

#### Workshop feedback:

- Broad support for some form of large claims cap.



Should there be a cap on the costs of a single claim?

## QUESTION 15

### Do you support a cap on premium increases and decreases?

Having a cap on the amount premiums can increase from year to year provides protection to employers against the potential volatility of premium costs within an Experience Rating System.

Jurisdictions with a cap in place:

- In **South Australia** increases in industry rates are capped at one percentage point per year. There is no cap on the amount the industry rate can decrease.
- In **New South Wales** there are two caps. The first is a cap on industry rates moving up or down by a maximum of 15%. The second is a set of policy capping rules that are applied to employer's experience-adjusted premiums. For employers who pay a basic premium of:
  - Less than \$50,000: overall premium is capped at 1.5 times the industry rate
  - \$50,000 to \$150,000: overall premium is capped at 2 times the industry rate
  - \$150,000 to \$300,000: overall premium is capped at 2.5 times the industry rate
  - Over \$300,000: no limit applies

There is no cap on the amount a premium can go down due to good claims experience. However, the minimum premium payable is set at 10% of the industry rate.

- In **Victoria**, employer premiums are limited to a 30% increase or decrease each year.

Note that there would also be 'transitional' caps put in place while we move from the current levy system to the Experience Rating System to protect employers from potentially large premium increases. We will seek your feedback on transitional caps in the next question.

#### Advantages:

- With a cap on premium increases, employers are protected against volatile premium costs.

#### Disadvantages:

- None identified.

#### Workshop feedback:

- A scaled approach, similar to that used in New South Wales, was the preferred option. However, it was also proposed that rather than having unlimited increases for large employers that they should also be capped at 2.5 times the industry rate.
- Concern was raised about the level of cross-subsidy that would arise from a cap on premium increases.



Do you support a cap on premium movement?

## QUESTION 16

### Should there be a cap on premium increases during the transition to an Experience Rating System?

It is important to ensure employers do not experience significant changes in their premium while a new approach such as the Experience Rating System is implemented.

Transitional arrangements were in place in New South Wales and Victoria when they introduced new employer payment systems:

- **New South Wales:** If there was an increase in an employer's premium, it was capped at a 25% increase per year for the first three years. There was no cap on premium decreases due to good claims experience.
- **Victoria:** If there was an increase in an employer's premium, it was capped at a 30% increase per year (this is the same cap that normally applies). There was no cap on premium decreases due to good claims experience.

#### Advantages:

- Employers do not experience significant change in their premium while the Experience Rating System is implemented.
- Employers would be provided with an indication of what their full experience based premium would be, which could give an immediate incentive to improve their OHSW and injury management approach to attempt to avoid future premium increases.

#### Disadvantages:

- None identified.

#### Workshop feedback:

- General support for a cap on the amount premiums can increase as part of transitioning to a new employer payments system.



**Do you support a cap on the amount premiums can increase as part of moving to the Experience Rating System?**

## Question 17

### **How can WorkCover clarify and strengthen the provisions for principal/sub-contractor relationships related to premium (levy) collection?**

Concerns about the clarity of provisions in the Act regarding principal / sub-contractor relationships and WorkCover's approach to premium collection were raised during the first stage of the consultation process.

In some circumstances a principal contractor may engage a sub-contractor who is not registered with WorkCover. This is often only identified when an injury occurs and the claims management process identifies that the sub-contractor is unregistered. The Act currently allows WorkCover to deem the principal contractor as the employer (instead of the unregistered sub-contractor), however the legislation provides limited guidance on how or when the provision should be exercised.

In practice WorkCover would pursue the unregistered sub-contractor to register and pay the unpaid levy. If the unregistered employer is not able to be located, the levy remains unpaid and the costs of the claim spread across all employers.

Currently, WorkCover can fine an employer who fails to pay their levy, whether registered or unregistered, an amount not exceeding three times the levy they should have paid. There is also a maximum penalty of \$10,000 for each worker employed for employers who fail to register in accordance with the Act. The penalty is determined and payable through South Australia's legal system (that is, court proceedings) and the fine process is determined and administered internally by WorkCover.

The concerns that have arisen during this consultation related to unregistered sub-contractors include that:

- the true employer is not held financially accountable for their employee's workplace accidents or for managing their injured worker's recovery and return to work outcomes
- it is therefore unequitable for all employers if the claims costs attributed to unregistered employers are distributed across the Scheme
- there needs to be stronger protection for the Scheme to ensure the appropriate levy is collected
- there needs to be stronger protection for principle contractors, as it can be difficult for them to identify whether a sub-contractor is registered.

Similar approaches to the principal / sub-contractor relationship have been adopted in other jurisdictions but have clearer legislative guidelines. For example, in New South Wales and Victoria the chain of accountability is clear.

In New South Wales, employers who fail to register are subject to a fine of twice the premium payable and must also pay for all claims costs incurred during the time that the employer was unregistered. This could be a substantial cost for an employer depending on the injuries that occur (for example, a significant injury could incur over \$400,000).

In circumstances where the unregistered employer cannot be identified, it is clear that the principal contractor is liable for the payment of any workers compensation premiums payable by the subcontractor (for work done in connection with the contract) unless the principal contractor has a written statement of workers compensation coverage. The onus is therefore on the principal contractor to obtain

evidence, as part of their due diligence processes, as to whether or not contractors are appropriately registered (or not registered) in accordance with the Act.

In New South Wales and Victoria, the principal contractors are supported through the issuing of all registered employers with a certificate of currency.

It is important that registered employers have assurance that there are sufficient mechanisms in place to ensure all relevant employers are registered and contributing to the South Australian workers rehabilitation and compensation scheme.

The move from levy to premiums, as well as other changes outlined earlier in this paper, will provide support to principal contractors in the same way as in New South Wales and Victoria. If agreed and successfully legislated, all registered employers will receive a certificate of currency on an annual basis. This will provide the required evidence for principal employers to identify if a sub-contractor is registered with the Scheme.

Where sub-contractors are not required to be registered (for example, if their annual remuneration is less than the required amount to register), the sub-contractor will need to provide a statement or evidence to the principal contractor to confirm that registration is not required.

Reviewing the legal structure and consequences WorkCover can administer to employers who fail to register may assist in reducing the incidence of unregistered sub-contractors. With these mechanisms in place to strengthen the recognition of registration, such as the issuing of certificates of currency and the use of fines for unregistered employers, it would be fairer to recognise the principle contractor as the employer in situations where the sub-contractor is unregistered and cannot be identified.

This clause would provide protection for the Scheme by ensuring adequate levies are collected and would also ensure each injured worker has an employer who is held accountable for their injury and recovery.



**What are your thoughts on:**

- **harsher fines and/or penalties for employers who fail to register or provide a false statement to a principal contractor?**
- **principal contractors holding responsibility to evidence that sub-contractors are registered?**
- **issuing a certificate of currency to registered employers to help principal contractors in confirming a sub-contractor's registration?**

## 4. Attachments

### 4.1 The current employer payment system

#### Workers rehabilitation and compensation in South Australia

The South Australian Workers Rehabilitation and Compensation Scheme (the Scheme), provides protection to workers and employers in the event of workplace injury.

WorkCoverSA is a statutory authority that manages the State's workers rehabilitation and compensation scheme on behalf of more than 50,000 employers (referred to as registered employers) and about 437,000 employees. There are currently 67 self-insured employers, as well as the State public sector agencies, which manage their own claims but under the same laws.

#### Why levies are collected from individual employers

Employers are required to share the cost of the South Australian workers compensation scheme. At 30 June 2010, the actuarial assessment of the cost of the Scheme for the 2010-11 year was \$610 million.

The graph on the following page shows how the money collected from employers in a particular financial year is used to fund certain costs relating to that year. These costs include:

- **The claim costs for the claims that were incurred in that financial year (for example, a claim that occurred on 2 July 2009 is included in the 2009-10 financial year):**

The graph on the following page shows claim costs in two separate parts. One part is the claim cost paid in the relevant financial year. The other is the outstanding claim costs/liability for that year.<sup>1</sup>

- **Other costs such as administration of the Scheme and the Goods and Services Tax (GST):**

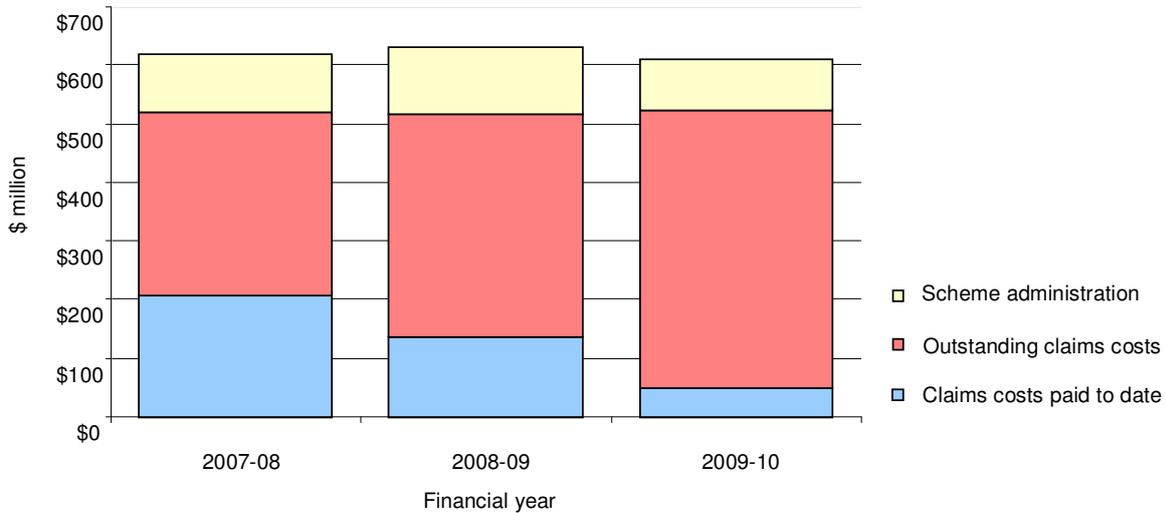
WorkCover administrative costs include the operating budget that WorkCover has to fund its regulatory and operational functions and payments to its claims agent, currently Employers Mutual. It also includes funding of the following bodies:

- SafeWork SA (50%)
- Workers Compensation Tribunal
- Medical Panels SA
- WorkCover Ombudsman

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<sup>1</sup> These are an estimation of costs that will be paid in the future which could, for example, extend for 40 years or more in respect of younger workers who never return to work.

### Composition of annual levy collected



WorkCover's liabilities are long-term in nature, for example, a significant injury today may still incur costs in 40 to 50 years' time. As a result, the levy collected in any financial year will exceed the amount paid for the claims incurred in that year to ensure adequate monies are available to meet unpaid costs (that is, the outstanding liabilities) as they fall due in the future.

It is important to note that the Scheme needs to collect a predetermined dollar amount each financial year to cover the actuarially assessed costs of the Scheme, including administration and the cost of claims.

The key driver of the amount of levy required to be collected is the cost of claims for that year from registered employers.

#### How levies are currently calculated for individual employers

WorkCover has an industry-based classification system – the South Australian WorkCover Industrial Classification (SAWIC). On the basis of an employer's predominant activity (from information recorded on their registration form), each employer location is assigned an appropriate industry class.

There are 512 SAWIC industry classes, and each of these industry classes has an industry levy rate that reflects the risk of injury associated with their type of work.

The industry levy rate is based on the claims history of all employers in that industry class over a number of years, so that the levy paid by all employers within a particular industry reflects their associated risk.

Levies paid by all employers registered with WorkCover are determined by a calculation based on the employer's industry levy rate and their estimated remuneration paid to their workers.

This provides the base levy payable. The GST component and OHSW fee are then added to the base levy payable.

**Example: Medium employer**

A furniture company pays approximately \$2,500,000 a year in remuneration and has an industry levy rate of 2.80%.

The total rate for the company including GST and OHSW fee is 3.098%. This is calculated in the following way:

Industry levy rate (ILR)		2.800%
+ GST (10% of ILR)		0.280%
+ OHSW Gov fee (0.65% of ILR)		<u>0.018%</u>
Total rate	=	3.098%

The total amount due is calculated in the following way:

$$\begin{aligned} &\text{Estimated remuneration } \$2,500,000 \times \text{Total rate @ } 3.098\% \\ &= \text{Total Payment due } \$77,450.00 \end{aligned}$$

Further information on how levy rates are calculated is available on the WorkCover SA website at [www.workcover.com](http://www.workcover.com) > Employer > Levy information.

**History of employer payment methods in South Australia: the Bonus/Penalty Scheme**

WorkCover had a Bonus/Penalty Scheme in place for registered employers from 1990 until 30 June 2010. The Bonus/Penalty Scheme was a form of experience rating that rewarded or penalised employers through the levy system based on claim payments for the previous two years.

The Bonus/Penalty Scheme was a large-scale program affecting about 90% of employers in South Australia. It affected all employers paying more than \$200 in base levy per annum, and provided high maximum bonuses and penalties to the smallest employers (10% and 17% respectively), increasing to 30% and 50% respectively for employers paying more than \$40,000 in base levy per annum.

The Bonus/Penalty Scheme was weighted towards most employers receiving bonuses due to small employers, with inherently low claim rates, being included within the scheme. In 2009, employers eligible for bonuses received reductions totalling approximately \$75 million in levy payable, while employers who received penalties received increases totalling approximately \$25 million in levy payable. So that the Scheme collected the overall required amount, the net \$50 million under-collection in bonuses was spread across all employers by artificially increasing individual employer levy rates by about 8%.

In July 2008 the WorkCover Board decided not to renew the Bonus/Penalty Scheme after its natural expiry on 30 June 2010.

While the Bonus/Penalty System was a type of experience rating, there were flaws specific to its design that meant it had little influence on employer behaviour or improving outcomes for injured workers.

## 4.2 Levy payment options in other states

New South Wales and Victoria provide employers with some additional options for paying their levy (called premium in New South Wales and Victoria) and a discount for full payment in advance. The table below outlines the provisions available in these jurisdictions.

SA	NSW	VIC
<p>Employers with an annual levy of \$2,000 or less are required to pay their levy in full in advance.</p> <p>Employers with a levy of more than \$2,000 may choose to pay their levy in full in advance or by 10 equal instalments over 12 months.</p>	<p>Employers whose basic tariff premium (levy) is \$1,000 or less must pay their annual premium in full in advance.</p> <p>All other employers may choose to pay their premium in full or pay by instalments.</p> <p>Employers with a basic tariff premium of more than \$1,000 and less than or equal to \$5,000 have the option of paying in quarterly instalments.</p> <p>Employers with a basic tariff premium of more than \$5,000 have the option of paying in quarterly or monthly instalments.</p> <p>Payment of the annual premium in full in advance by the due date entitles employers to receive a 3% discount on the premium.</p>	<p>Employers whose basic tariff premium (levy) is \$1,000 or less must pay their annual premium in full in advance.</p> <p>All other employers have the option of paying in quarterly instalments or monthly instalments of 10 equal payments.</p> <p>Payment of the annual premium in full in advance by the due date entitles employers to receive a 3% discount on the premium.</p>

### 4.3 Glossary of terms used in this paper

This list will help to clarify some of the terms used in both of the consultation papers. For a full glossary of all terms you may encounter through WorkCoverSA, go to [www.workcover.com](http://www.workcover.com) > Employer > Reference library > Glossary, or click here: [link to Glossary](#).

<b>adjustment factor</b>	applied within the Retro-Paid Loss System to an employer's cost of claims to calculate the premium adjustments during the run-off period. These factors ensure sufficient funds are collected for the administration of the Scheme and to cover those claims costs that are excluded from all employer's cost of claims (for example, costs above the large claims cap)
<b>average levy rate</b>	is assessed annually by the Scheme actuaries to ensure that sufficient premium is collected to cover the anticipated claims costs and Scheme expenses for the year and used to set the industry rates
<b>average weekly earnings</b>	includes salary, overtime, shift and other allowances, bonuses, commissions, payments to working directors, payments for public and annual holidays, payments for sick leave and other non-cash benefits. See section 4 of the <i>Workers Rehabilitation and Compensation Act 1986</i>
<b>base levy / premium</b>	calculated by multiplying the employer's remuneration by the industry rate of the applicable South Australian WorkCover Industrial Classification (SAWIC)
<b>Bonus / Penalty Scheme</b>	an experience based system that rewarded or penalised registered employers through the levy system – ceased on 30 June 2010
<b>certificate of currency</b>	issued annually to registered employers at the start of each policy period. Includes the calculation of the employer's premium, details of individual claims and their estimated total cost, performance relative to other employers in their industry class and insurance coverage

<b>claims agent</b>	an agent appointed by WorkCover to manage claims
<b>claims costs</b>	see costs of claims
<b>claims estimate</b>	an estimate of the future payments arising from the claim and taking into account the severity and details of the claimant's injury
<b>Claims Estimation Manual</b>	a guide for calculating a claims estimate
<b>claims excess</b>	generally, an employer is required to pay the first two weeks of weekly payments for each claim by a worker
<b>claims excess waiver</b>	employers may have the claims excess waived if they notify the claims agent of the injury within two days of the injury occurring
<b>claims experience</b>	the claims incurred by an employer in the policy period
<b>costs of claims</b>	all payments made by a claims agent in respect of a claim and the estimated costs of all future payments arising from that claim
<b>deposit premium</b>	calculated at the beginning of the Retro-Paid Loss policy period, using an estimate of remuneration and adjusted by their size and the claim cost cap selected
<b>Employer Claims Cost Rate (ECCR)</b>	the employer's claim costs divided by remuneration paid by the employer
<b>employer size</b>	generally assessed according to the employer's base levy or remuneration
<b>experience adjusted premium</b>	a mix of the employer's base premium and claims experience
<b>income maintenance</b>	the weekly benefits payment made to an injured

worker unable to work as a result of a workplace or work-related injury, in place of their income

**hindsight adjusted premium**

is calculated at the end of the Experience Rating System policy period, based on the actual remuneration paid

**Industry Claims Cost Rate (ICCR)**

industry claims cost based on past experience over a number of years, divided by the total remuneration of the industry over the same period

**industry classification**

these are set out in the South Australian WorkCover Industrial Classification (SAWIC) system. The sectors are: Agriculture, Forestry and Fishing; Mining; Manufacturing; Electricity, Gas and Water; Construction; Wholesale and Retail Trade; Transport and Storage; Communication; Finance, Property and Business Service; Public Administration and Defence; Community Services; Recreational, Personal and Other Services.

**industry levy / premium rate**

see South Australian WorkCover Industrial Classification (SAWIC) rate

**large claim cap**

the maximum cost of an individual claim used in calculation of an employer's experience adjusted premium, or Retro-Paid Loss premium

**levy**

the funds collected from employers

**levy payable**

the total levy due, including GST and the OHSW fee

**manual claim estimates**

an estimate of a claims future cost, generally carried out by the claims manager using a Claims Estimation Manual

**Medical Panels SA**

a statutory authority established under Part 6C of the *Workers Rehabilitation and Compensation Act 1986* to answer medical questions that arise when there is a disagreement or uncertainty about aspects of an injured worker's medical condition

<b>new employer</b>	an employer who has recently commenced business and where there has not been a transfer of business
<b>OHSW</b>	Occupational Health, Safety and Welfare
<b>policy of insurance</b>	issued to an employer when they first register with the Scheme. Premium notices are then issued each subsequent year, to renew the policy
<b>policy period</b>	the relevant financial year that the premium payable relates to
<b>policy renewal year</b>	the financial year in which the policy period commences
<b>premium</b>	the funds collected from employers
<b>premium adjustment</b>	calculated at specific points during the Retro-Paid Loss run-off period to reflect the costs of claims paid and estimated, including an adjustment factor relative to the chosen large claims cap
<b>premium notice</b>	issued annually to an employer to renew their policy of insurance
<b>premium payable</b>	the total premium due, including any adjustments for the employer's size and including GST and the OHSW fee
<b>related employer</b>	an employer is currently related to another employer if they are related corporations as defined in the Corporations Act 2001 of the Commonwealth
<b>remuneration</b>	a payment made to or for the benefit of a worker by an employer, further details of inclusions and exclusions can be found on WorkCover's website
<b>run-off period</b>	the period following the Retro-Paid Loss policy period, in which premium adjustments are made to the deposit premium

<b>SafeWork SA</b>	responsible for administering occupational health, safety and welfare laws and certain industrial relations laws in South Australia
<b>SAWIC</b>	see South Australian WorkCover Industrial Classification
<b>sizing factor</b>	determines the relative weighting placed on an employer's experience and base levy
<b>South Australian WorkCover Industrial Classification (SAWIC) system</b>	is the industry classification system used to classify businesses for the purpose of setting and calculating levies / premiums
<b>South Australian WorkCover Industrial Classification (SAWIC) rate</b>	the levy percentage rate applicable to the South Australian WorkCover Industrial Classification (SAWIC) of the employer
<b>the Act</b>	<i>Workers Rehabilitation and Compensation Act 1986</i>
<b>total levy</b>	see levy payable
<b>unfunded liability</b>	where the balance of the liabilities exceeds the assets of the WorkCover Scheme
<b>WorkCover Ombudsman, Office of the</b>	an independent Office that investigates complaints about the operation of the WorkCover Scheme and reports problems with the Scheme to the Minister for Industrial Relations
<b>WorkCover Scheme</b>	the South Australian workers compensation scheme, which does not include self insurers and most government employers
<b>Workers Compensation Tribunal</b>	an independent dispute resolution providing a forum for the appropriate, fair, just, timely and cost-effective resolution of workers compensation disputes