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A new approach to employer payments

Experience Rating System session

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January - February 2012

Information & consultation session overview

- Purpose of these sessions
- Overview of documents and key matters for comment
  - Regulations
  - WorkCover Premium Provisions
  - WorkCover Premium Order – Experience Rating System
  - Other employer payment related gazette documents
  - Forms
- Scenarios
- Timeframes and next steps
- Discussion and questions
- Time to complete feedback form

Background

- Legislation passed on 1 December 2011
- The legislation provides the framework and principles for the proposed premium system
- Regulations and gazette documents are needed to set out the more detailed and operational provisions
- A pack including the relevant documents and explanatory information was distributed in January including a feedback form

Why we are here

- Employers play an important role in influencing injury prevention and injury management outcomes
- Experience rating provides an incentive for employers to focus on preventing workplace injuries and helping injured workers to recover and remain at work, or return to work as soon as possible
- The new approach is an opportunity to influence the performance of the Scheme

Purpose of these sessions

- These sessions are intended to:
  - Provide you with further information about the new premium system
  - Seek your views on some outstanding matters as highlighted in the documents

- You will see this icon throughout the presentation (and in the pack of documents) where we are seeking your views on a particular issue

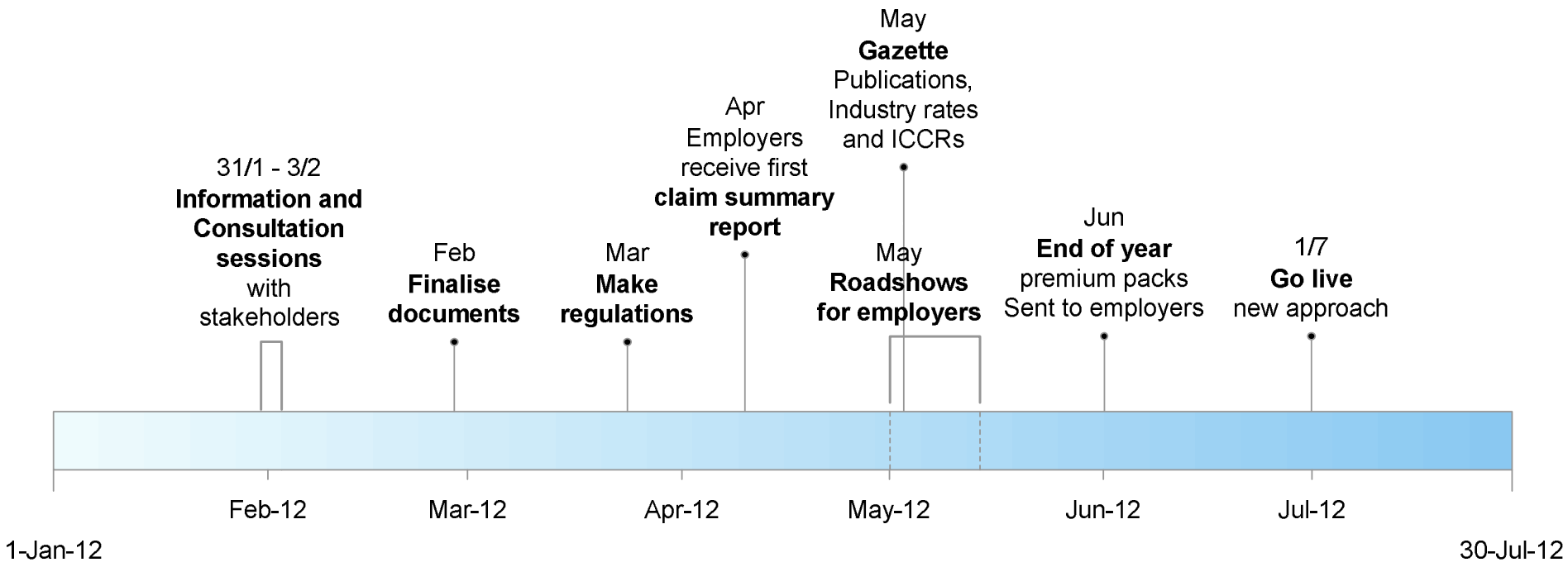
- You will also find a corresponding space on the feedback form to provide any comments
  - We encourage you to write down your comments throughout the session
  - There will also be some extra time at the end of today's session for you to complete the feedback form
  - Please submit your feedback form at the end of this session or email it to employerpayments@workcover.com by **Thursday 9 February 2012**

What we are consulting on

- Consultation has occurred since October 2010 (15 months) page ii
- In this stage we are consulting on items that have changed or are new since the previous consultation process
  - We do not plan to specifically discuss items that are part of WorkCover's existing processes or have already been consulted on
  - If you wish to raise those items, please do so as we move through the consultation pack

Timeframes

- New approach to be in place for 2012-13



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Regulations

Workers Rehabilitation and Compensation (Employer Payments) Variation Regulations 2012

Workers Rehabilitation and Compensation (Disclosure of Information) Variation Regulations 2012

Regulations

Workers Rehabilitation and Compensation (Employer Payments) Variation Regulations 2012

- These variation regulations:
  - reflect the changes to the Act (such as terminology or references to sections of the Act)
  - facilitate the new employer payments approach
  - include matters that are either current practice or were previously consulted on, for example:
    - Criteria for setting industry rates (current practice) page 15
    - Establishment of employer categories (previously consulted on) page 13

There are some outstanding matters where we are seeking your feedback

Regulations

CHANGE FROM CALENDAR YEAR TO FINANCIAL YEAR

- This regulation relates to the registration exemption for small employers
- An employer is currently required to be registered with WorkCover if they pay more than $11,597*, per calendar year
- This change allows very small employers to report their remuneration by financial year rather than by calendar year
- The need for this change was identified by the small employer community and it will contribute to red tape reduction for businesses

Do you support the change from calendar year to financial year in Regulation 9?

Refer to page 12

* This is the amount for 2012; it is indexed annually

As per regulation 9(6), $11,597 will be used to determine the requirement for employers to register in 2012-13

Regulations

UPDATING REGISTRATION INFORMATION

- This sub-regulation prescribes the circumstances and period in which an employer must provide information relating to a change in their registration or activity details under new section 62(3) of the Act
- Employers will be required to lodge a registration amendment form (or an additional location form for more than one location) when any of the details they provided on their initial registration form have changed
- They will be required to do this within 30 days of the change in circumstances.

Do you support new sub-regulation 11(4)?

Refer to page 13

Regulations

MAXIMUM FINE RELATED TO GROUPING INFORMATION

- This is a new regulation under new section 72A(6) of the Act which imposes a $5,000 maximum fine for an individual employer providing false, misleading, insufficient or defective information relating to their organisation being part of a ***group***
- The $5,000 maximum will apply in circumstances where an employer has provided false information to WorkCover to avoid being grouped, with an aim to reduce their premium
- There will be a 12 month moratorium on imposing all new fines
- In New South Wales, the fine is 500 penalty units (this equates to $55,000)

Do you support the maximum fine of $5,000 in regulation 16?

Refer to page 16

Regulations

Workers Rehabilitation and Compensation (Disclosure of Information) Variation Regulations 2012

- These variation regulations include the confidentiality regulation required under section 112AA(1)(h) to support the new transfer of business provisions
- This variation regulation is being made separately due to special commencement provisions for Regulations made under section 112AA
- This new regulation authorises that the information employers can disclose to prospective buyers is what is included on the claim summary reports, not full worker details
- It is anticipated that when a business is marketed for sale, prospective buyers will request information relating to the claims history and remuneration of the business as part of their due diligence process

Do you support the information that may be provided to prospective employers?

Refer to page 24

Regulations

Do you have any questions on the Regulations?

Are there any issues on which you'd like further clarification?

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Gazettes

Gazettes

- There are three main gazettes under the new premium approach

WorkCover Premium Provisions	WorkCover Premium Order (Experience Rating System)	WorkCover Premium Order (Retro-Paid Loss Arrangement)

Focus of today's session

- Any substantive changes in the future will be made in consultation with stakeholders
- These gazettes will be published annually after consultation with the Minister

Gazettes

WorkCover Premium Provisions 2012-13

- Includes premium related terms and conditions relevant to all registered employers
- The new approach aims at increasing WorkCover's level of transparency, which means that matters that were previously WorkCover policy are now published in the Government Gazette
- Examples include:
  - principles for transfer of business page 32
  - calculation of the apprentice and trainee incentive amount page 32
- The content of the Premium Provisions either replicates existing practices or includes matters that have been previously consulted on

Do you have any questions on the Premium Provisions?

Gazettes

WorkCover Premium Order (Experience Rating System) 2012-13

- This Premium Order details how the premium will be calculated for registered employers in the Experience Rating System, including:
  - maximum premium caps **page 42**
  - claim costs used in the claims experience **page 48**
  - transitional provisions **page 48**
- As with the Premium Provisions, the Premium Order also includes matters that were previously WorkCover policy, such as:
  - how a transfer of business impacts the premium **page 45 (Part 4 clauses 3 & 5)**
- Most of the detail in the Premium Order is consistent with previous consultation apart from some outstanding matters where we are seeking your feedback

WorkCover Premium Order (Experience Rating System) 2012-13

APPRENTICE AND TRAINEE WAGES

- WorkCover has offered an incentive for employing apprentices and trainees since 2008-09
- The wages associated with apprentices and trainees were previously taken out of what is now known as the base premium
- We are proposing to include these wages within the Experience Adjusted Premium and then deduct them after

Experience Adjusted Premium

$$P = (((BP \times (1 - S)) + (EP \times S)) - A) + SuR + GST + OHSW/WHS$$

Premium payable — Base Premium — Sizing factor — Experience Premium — Apprentice and trainee incentive — Supplementary payments — Fee for SafeWorkSA

WorkCover Premium Order (Experience Rating System) 2012-13

APPRENTICE AND TRAINEE WAGES

- This will impact both the sizing factor and the employer claims cost rate as they will include all worker remuneration
  - The sizing factor will therefore be larger, which will benefit employers with low claims costs and will disadvantage employers with high claims costs
  - The employer's claim costs compared to remuneration will look more favourable with apprentice wages included
- This is consistent with New South Wales and makes it clear where the incentive is offered in the premium calculation

Do you support the approach to apprentice and trainee wages in the premium payable?

Refer to page 42

WorkCover Premium Order (Experience Rating System) 2012-13

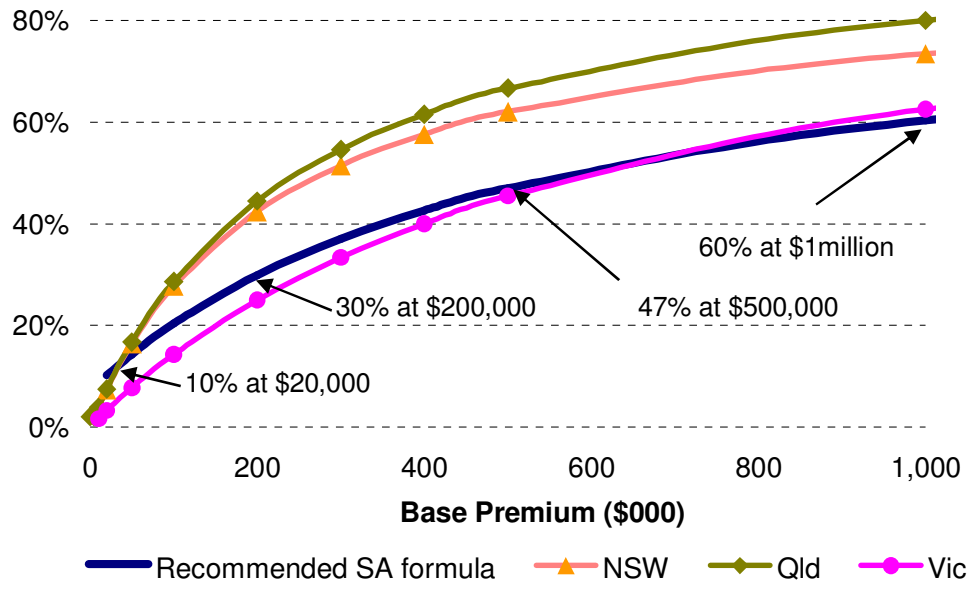
SIZING FACTOR

- The sizing factor determines:
  - the relative weight given to an employer's claims experience
  - the maximum discount an employer may receive
  - the volatility of an employer's premium
- The volatility of the premium is limited by the protections in place (large claims cap, maximum premium cap and 25% transition cap)
- The formula developed for South Australia is consistent with the principles for the sizing factor previously discussed in consultation and the Position Paper

WorkCover Premium Order (Experience Rating System) 2012-13

- The formula developed for South Australia:
  - starts at a higher percentage than other jurisdictions to ensure a meaningful incentive is offered at the entry threshold
  - produces a flatter curve and lower values for larger employers than NSW and Qld

Recommended sizing factor and comparison to other jurisdictions (Finity Consulting, Jan 2012)

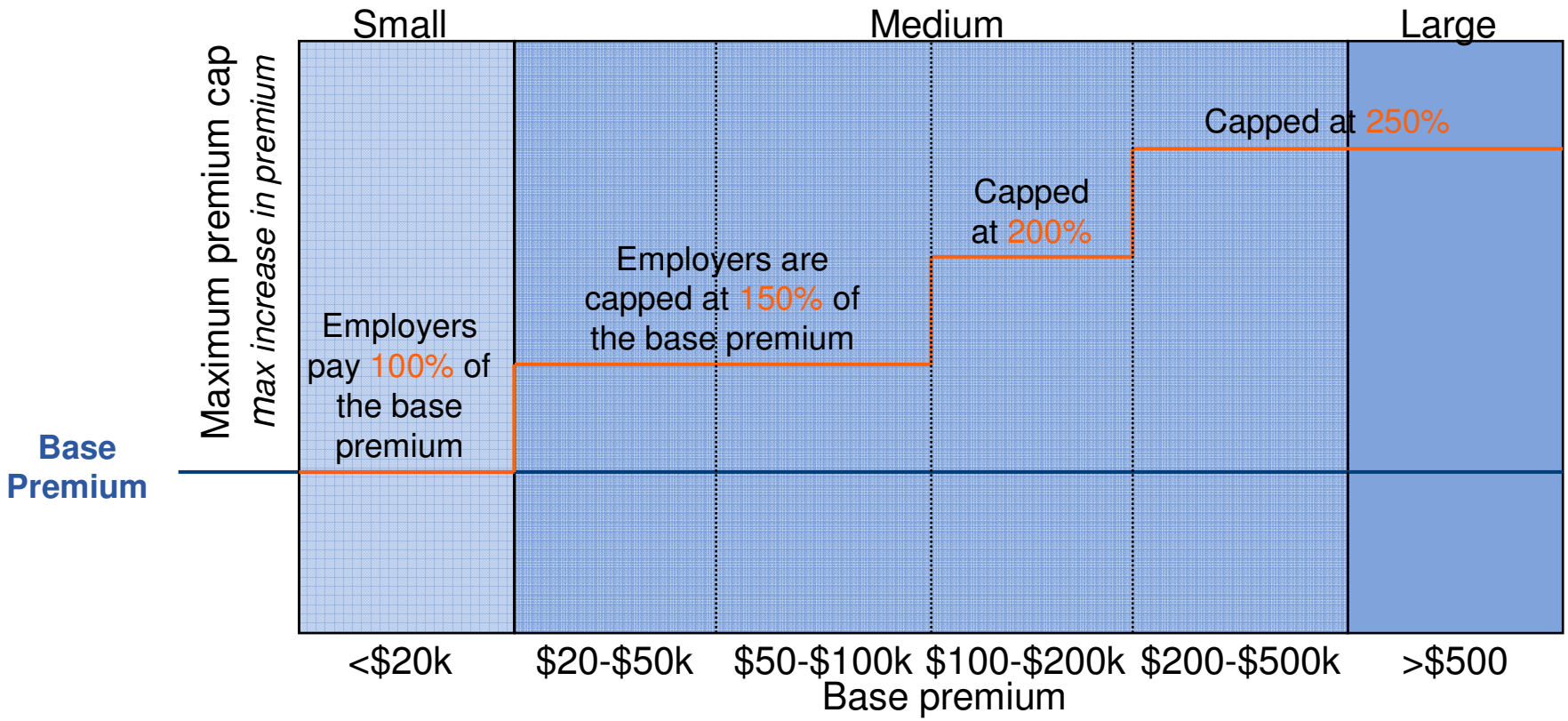


Do you support the formula for the sizing factor as expressed in the Premium Order?

Refer to page 44

Experience Rating System 2012-13

- Employers are protected from potential increases in premium
- The **maximum premium cap** limits the maximum amount an employer can pay

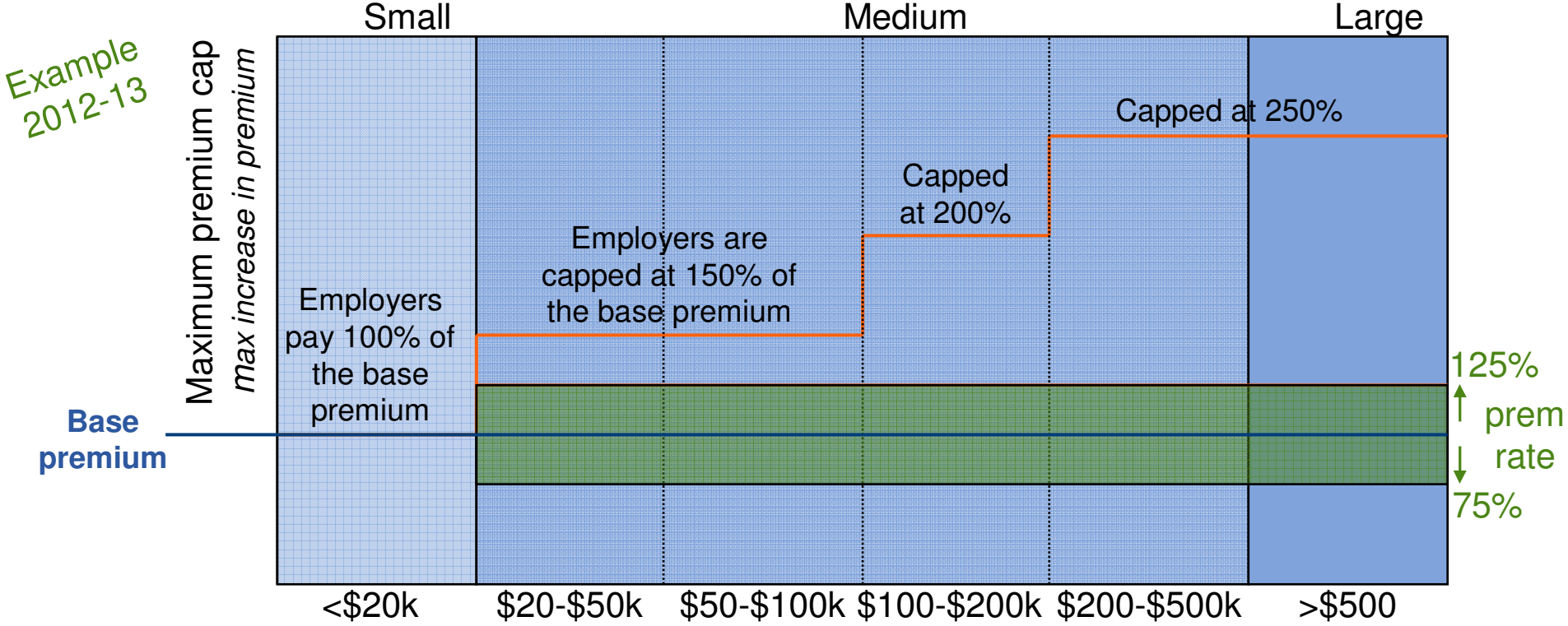


Number of emp (Finity, Oct 2011 data)	47,615	2,877	1,062	551	321	140

- The maximum premium cap is an ongoing part of the Experience Rating System

Experience Rating System 2012-13

- The **transitional arrangements** – A cap on increases and decreases at 125% and 75% of the previous year's premium rate for the first four years (to 30 June 2016)



% of employers (Finity, Oct 2011 data)	90.6%	5.5%	2.0%	1.0%	0.6%	0.3%
% of claim costs	25%	16%	13%	13%	16%	19%

9.4% of employers represent 75% of claim costs

Experience Rating System 2012-13 – Impact on employers

- *More experience rating employers will receive a reduction in premium than an increase*

Table – Expected number of experience rating employers with Premium Rate Movement (with transition protection) - Finity, Jan 2012					
Base premium	**Reduces 10% to 25%**	**Reduces up to 10%**	**No change**	**Increases up to 10%**	**Increases 10% to 25%**
$20-50K	1,367	690	-	176	562
$50-$100k	514	162	-	81	304
$100-200K	237	64	-	55	195
$200-$500k	129	32	-	28	132
>$500k	53	14	-	7	66
Total	**2,300**	**962**	**-**	**347**	**1,259**

Finity Consulting, based on Oct 2011 data and excludes employers with <$300k in remuneration

3,262 ***versus*** ***1,606***

Experience Rating System 2012-13 – Impact on employers

- *67% of experience rating employers will receive a reduction in premium, compared with 33% experiencing an increase*

Table – Expected percentage of experience rating employers with Premium Rate Movement (with transition protection) - Finity, Jan 2012

Base premium	Reduces 10% to 25%	Reduces up to 10%	No change	Increases up to 10%	Increases 10% to 25%
$20-50K	49%	25%	-	6%	20%
$50-$100k	48%	15%	-	8%	29%
$100-200K	43%	12%	-	10%	35%
$200-$500k	40%	10%	-	9%	41%
>$500k	38%	10%	-	5%	47%
Total	**47%**	**20%**	**-**	**7%**	**26%**

Finity Consulting, based on Oct 2011 data and excludes employers with <$300k in remuneration

67% ***versus*** ***33%***

Experience Rating System 2012-13 – Impact on employers

- Premium payable scenarios for employers with a 7.5% industry rate and claim costs HIGHER than their industry (indicative only)

	Small	Medium	Medium	Large
Base premium (BP)	$18,500	$50,000	$150,000	$740,000
Sizing factor	n/a	14.3%	25.5%	54.7%
Claim costs (each year)	any cost	$50,000	$100,000	$500,000
Experience Adjusted Premium (EAP) (without capping)	$18,500(*)	$74,734(*)	$225,518(*)	$1,445,312(*)
EAP payable (with capping if applicable)	$18,500 (capping does not apply - less than 25%)	$62,500 (25% transition cap applies)	$187,500 (25% transition cap applies)	$925,000 (25% transition cap applies)
Difference between BP and EAP in first year	$0 no change	$12,500 increase	$37,500 increase	$185,000 increase
Indicative premium in NSW	$20,491(*)	$75,000(*)	$267,429(*)	$1,872,512(*)
Sizing factor NSW	6.8%	16.4%	36.0%	69.0%

Finity Consulting, based on Oct 2011 data
ICCRs will be further updated in April/May for 2012-13

(*) NSW does not have any transitional capping arrangements in place at this time, so the comparison should be made between the premiums with (*)

Experience Rating System 2012-13 – Impact on employers

- Premium payable scenarios for employers with a 7.5% industry rate and claim costs LOWER than their industry (indicative only)

	Small	Medium	Medium	Large
Base premium (BP)	$18,500	$50,000	$150,000	$740,000
Sizing factor	n/a	14.3%	25.5%	54.7%
Claim costs (each year)	2,000	$2,000	$20,000	$50,000
Experience Adjusted Premium (EAP) (without capping)	$18,500(*)	$44,138(*)	$134,550(*)	$457,147 (*)
EAP payable (with capping if applicable)	$18,500 (capping does not apply - less than 25%)	$44,138 (capping does not apply - less than 25%)	$134,550 (capping does not apply - less than 25%)	$555,555 (25% transition cap applies)
Difference between BP and EAP in first year	$0 no change	$5,862 reduction	$15,450 reduction	$184,445 reduction
Indicative premium in NSW	$17,886(*)	$43,377(*)	$130,286(*)	$393,608(*)
Sizing factor NSW	6.8%	16.4%	36.0%	69.0%

Finity Consulting, based on Oct 2011 data
ICCRs will be further updated in April/May for 2012-13

(*) NSW does not have any transitional capping arrangements in place at this time, so the comparison should be made between the premiums with (*)

Experience Rating System 2012-13
Impact on experience rating employers by industry division

Table – Percentage of experience rating employers with Premium Rate Movement (with transition protection) - Finity, Jan 2012

Industry division	Decrease in premium	Increase in premium	% of ER emp
Agriculture, Forestry, Fishing and Hunting	69%	31%	5.4%
Communication	50%	50%	0.1%
Community Services	61%	39%	12.7%
Construction	71%	29%	16.8%
Electricity, Gas and Water	80%	20%	0.2%
Finance, Property and Business Services	72%	28%	6.4%
Manufacturing	66%	34%	21.9%
Mining	65%	35%	1.5%
Public Administration and Defence	100%	0%	0.0%
Recreation, Personal and Other Services	68%	32%	8.9%
Transport and Storage	67%	33%	9.0%
Wholesale and Retail Trade	67%	33%	17.1%
Total	**67%**	**33%**	**100.0%**

Finity Consulting, based on Oct 2011 data and excludes small employers

Experience Rating System 2012-13 – Impact on employers (in summary)

- More experience rating employers will benefit
  - 67% of experience rating employers are expected to have a reduction in their premium and 33% are expected to have an increase
- Experience Rating employers are protected from large increases
  - Transitional protection – 25% cap on increases and decreases compared to previous year's premium rate for four years (to 30 June 2016)
  - The maximum premium cap (1.5BP, 2.0BP and 2.5BP) is part of the ongoing system
  - Large claim cap ($200,000) is part of the ongoing system

An employer will benefit if they have a lower claim cost rate than their industry – if they are higher, they have a financial incentive to improve their claim cost rate

Experience Rating Premium Order

Do you have any questions on the Experience Rating Premium Order?

Are there any issues on which you'd like further clarification?

Other employer payment related gazette documents

- WorkCover currently publishes a number of employer payments related determinations in the Government Gazette
- These have been reviewed and amended to reflect the new employer payments arrangements, terminology and Act references
- The four gazettes are:

1. **Definition of Remuneration Determination 2012** page 53
   - Previously gazetted 16 Dec 2010
   - Minor changes to formatting and to the structure to aid clarity
2. **Provision of Remuneration Information Notice 2012** page 57
   - Parts of this gazette were previously included within the Act or regulations; due to the restructuring of the Act they are now required to be published in the Gazette
3. **Premium Review Panel Determination 2012** page 59
   - Previously gazetted 29 Oct 2009
   - Changes to reflect new premium approach and sections of the Act
4. **Payment of Statutory Payments Notice 2012** page 67
   - Previously gazetted 27 May 2010
   - Minor changes to formatting and to the structure to aid clarity

Gazettes

Do you have any questions on the Gazettes?

Are there any issues on which you'd like further clarification?

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Designated forms

Publication of Designated Forms Notice 2012

- This Gazette establishes the publication of the forms and the manner in which information may be provided
- Information published in various previous gazettes is now consolidated in this one notice

There is one outstanding matter where we are seeking your feedback

Publication of Designated Forms Notice 2012

MANNER OF PROVIDING INFORMATION

- WorkCover offers a number of ways for employers to provide information
- The option of providing information over the phone has been added to give more options to employers and reduce red tape
- Appropriate security verification will be required

Do you support the option of providing information over the phone?

Refer to page 75

Forms

There are six employer payments related forms WorkCover is publishing in the Gazette:

1. Application for registration as an employer page 77
   - Minor changes to terminology and inclusion of relevant penalties
   - Inclusion of space to provide remuneration information (this was previously required on a separate form) and grouping information
2. Application to amend employer registration details page 82
   - Minor changes to terminology and inclusion of relevant penalties and space to provide grouping information
3. Certificate of Registration page 86
   - Replaces current confirmation of registration
   - Includes information about employer obligations
4. Remuneration return page 87
   - Minor changes to terminology, dates and sections of the Act
5. Reconciliation statement page 88
   - Minor changes to terminology, dates and sections of the Act
6. Revised estimate of remuneration page 89
   - Consolidates three existing forms, with minor changes to terminology

Forms

Do you have any questions about the forms?

Are there any other issues on which you'd like further clarification?

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What's next?

Expected timeframes

Feb 2012	Finalise documents
Mar 2012	Make Regulations
Apr 2012	Employers receive first claim summary report and letter Premium calculator available on website Claim estimation manual available on website Premium Provisions and Orders published
May 2012	Employer information roadshows held in Adelaide and regional areas Industry rates and ICCRs published
Jun 2012	Employers receive annual end-of-year pack
Aug 2012	Employers receive premium renewal pack
Sept 2012	First premium payment due

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Any questions?

Please take some time to complete your feedback form or email by Thursday 9 February 2012

Regular updates on the employer payments project are available on WorkCover's website:

www.workcover.com/consultation

EMAIL: employerpayments@workcover.com

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