

Scheme Actuarial Valuation as at 31 December 2020

ReturnToWorkSA

March 2021

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3 March 2021

Mr Greg McCarthy
Chair
ReturnToWorkSA
400 King William Street
ADELAIDE SA 5000

Dear Mr McCarthy

Scheme Actuarial Valuation as at 31 December 2020

Enclosed is our report on the 31 December 2020 scheme actuarial valuation.

As has been the case now over a number of years, there continues to be a larger than expected number of claimants seeking to access the Serious Injury benefit package. And with the legal basis on how WPI assessments should be undertaken still not settled – *Summerfield* being the latest case at the Full Court awaiting decision – considerable ‘legal uncertainty’ remains in the scheme. This legal uncertainty, when combined with the large number of open disputes and slow rate of dispute resolution, means there is still a material risk to the valuation results that Serious Injury claim numbers will be higher than we have allowed. In the absence of a clear legal decision on how these legislative provisions should operate in practice, it is likely to be at least another two years, and perhaps longer, before there is any real likelihood that this will change.

More pleasingly, the deterioration that was evident in Short Term Claims through to early-2020 has stabilised, and in some areas there now appears to be improvement emerging (even in spite of the COVID-19 disruptions). While COVID-19 impacts have not been anywhere near as adverse as previously feared they may be, the overall uncertainty level is still higher than normal.

We would be pleased to discuss our review and findings with your executive and Board as required.

Yours sincerely

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Glossary

Active Claim	A claim is regarded as 'active' in the valuation models if it had a payment in the relevant period.
Actuarial Release	A 'like with like' measure of how claims management activity has impacted on scheme financial performance since the previous valuation. See Section 11.3 for additional information.
APR	Average Premium Rate – the premium charged by ReturnToWorkSA to registered employers, on average, as a percentage of leviably wages.
BEP	Break Even Premium – the estimated cost of running the scheme for a year, including all future payments for claims incurred in the year after allowing for investment earnings, expressed as a percentage of leviably wages.
Development Quarter or DQ	The number of quarters between the injury date of a claim and the relevant activity (whether a claim report or claim payment).
ER	Incentives for early reporting of claims, introduced in 2008.
IBNER	Incurred But Not Enough Reported – an allowance for cost growth on known claims in addition to the reported cost.
IBNR	Incurred But Not Reported – claims where the accident has occurred, but ReturnToWorkSA is yet to be notified.
IS	Income Support (also known as weekly benefits) payments.
NWE	Notional Weekly Earnings.
OSC	Outstanding claims liability.
PPAC	Payments per active claim.
PPCI	Payments per claim incurred.
RTW	Return to work.
RTW Act	The Return to Work Act 2014, which governs the scheme.
Serious Injury or Serious Injury claim	A claim that meets the definition of a "Serious Injury" under the RTW Act.
Short Term claim	A claim that does not meet the Serious Injury threshold.
WRCA ('old Act')	Workers Rehabilitation and Compensation Act 1986, the previous Act which governed the scheme.
WPI	Whole Person Impairment.

Part I Executive Summary

1 Introduction

Finity Consulting Pty Limited (“Finity”) has been engaged by ReturnToWorkSA to undertake an actuarial review of the Return to Work Scheme (“the scheme”) as at 31 December 2020.

Our previous actuarial review was as at 30 June 2020, and was documented in a report dated 1 September 2020.

2 Scope of the Review

The scope of the review is specified in our contract with ReturnToWorkSA.

The primary purpose of the mid-year review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA to update its financial position, and as an input in determining the average premium rate for the coming year.

The actuarial review also aims to provide analysis of the major features of the recent scheme claims experience, and a projection baseline against which ReturnToWorkSA can manage outcomes and monitor emerging experience in the coming year.

3 Valuation Approach

Our estimate of the outstanding claims liability is a central estimate of the liabilities. This means that the valuation assumptions have been selected such that our estimates contain no deliberate bias towards either overstatement or understatement.

Our estimates of the outstanding claims liabilities project future benefits separately for Serious Injury claims and for Short Term claims, reflecting the differences in benefits available between the two groups under the RTW Act.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency. Our risk margins continue to include a higher than normal allowance for ‘legal uncertainty’, since the large number of open disputes and slow rate of dispute resolution still present a material risk to the valuation results, in particular for Serious Injury claims.

Related to the above point, we observe that despite a number of apparently ‘key cases’ having resolved over recent years, new avenues of challenge to the operation of WPI assessments continue to emerge. The case of *Summerfield*¹ is the latest where an appeal to the Full Court is awaiting decision; if this case does not resolve favourably for ReturnToWorkSA, there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). While legal uncertainty has been considered in the setting of the risk margin, the adopted risk margin loading has not been set at a level that would be sufficient to cover the additional costs if these key cases were to resolve against ReturnToWorkSA.

¹ Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

4 COVID-19 Impacts

The COVID-19 pandemic and related health and economic response has been an evolving issue in Australia and throughout the world over the last year. The unique set of circumstances associated with the COVID-19 pandemic means there is greater than normal uncertainty in relation to the broader financial and economic landscape, although thankfully the impacts in South Australia to date have been far less severe than in many other places.

Key uncertainties at this time include the length of the pandemic and effectiveness of recently commenced vaccination programs in containing and preventing infection, the potential for 'later waves' of outbreak, the related impacts of any slow-down in the broader economy, and the effectiveness of government initiatives to mitigate these impacts.

Depending on how these issues play out in South Australia, ReturnToWorkSA's liabilities may be impacted. While the impacts to date have been small, it is possible that this could change, given how the situation has evolved over the last year; for example, outbreaks in other parts of Australia have highlighted how quickly circumstances can change and therefore demonstrate that the level of uncertainty is heightened at the current time.

In undertaking our valuation work we have assumed that COVID-19 infections continue to remain low in South Australia and that there are no additional shutdowns, further economic disruption or major impacts on business confidence.

While we have made assessments that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on ReturnToWorkSA's liabilities with any level of certainty at the current time. While the unique set of circumstances means there is more than the general level of uncertainty around the valuation outcomes, the observation that actual claims performance in 2020 was overall better than in recent years helps give some confidence that under current infection rates any impacts should be at the low end of the range of potential outcomes.

5 Scheme Environment

In addition to the COVID-19 situation described above, recent developments which affect the scheme's operating environment and/or the liability estimate include:

- **Legal precedent:** the RTW Act continues to be tested through the scheme's dispute resolution processes, and clear and accepted implementation of a number of key legislative provisions is still not in place. The result is that there is still a range of circumstances where there is uncertainty about how and where the scheme's legislative boundaries will apply; as such, the real-world operation of the Act is still yet to be confidently known, and it is possible that more claims will access longer periods on benefits than has currently been projected. Of particular importance to our assessment are the provisions around WPI assessments, including how and when a claim is determined to be a Serious Injury.
- **Dispute resolution and appeals:** related to the above point, the number of open disputes remains high, and the resolution of disputes is slow. The slow resolution appears to be related to the fact that more claims are moving into the later stages of the dispute resolution process, including into appeal, following changes in the RTW Act that mean legal costs are no longer at risk until after the

early stages of an appeal. This is lengthening disputes and increasing legal costs, and has led to higher non-claimant related costs (e.g. medico-legal costs).

- **Evolution of the claims management model:** the claims management model continues to evolve, including proactive steps to support the earlier identification of Serious Injury claims, speeding up the WPI assessment process, and additional focus on early and sustainable RTW. On the back of these improvements, we are now seeing signs that the recent deterioration in claim durations has been arrested, and in some areas improvements are now beginning to occur.
- **Growth in Hearing Loss claims:** there has been very rapid growth in the numbers of Hearing Loss claims over the last three years, which appears to be the result of targeted provider activity, with the last two accident quarters on track to be the highest on record.

6 Recent Claim Experience

The key features of the claims experience in the six months to 31 December 2020 were:

- For claims managed entirely under the RTW Act:
 - ▶ New claim numbers have started reducing again, which is more consistent with longer term claim frequency trends than was seen in 2018 and 2019. Hearing loss claims are a key exception to this observation, as explained above.
 - ▶ However, as an offset to this, the proportion of claims receiving at least two weeks of wage replacement benefits, which is the threshold to be included in our Income Support claims count, has continued to increase over time. This has been a key driver of increased claim costs over the last few years.
 - ▶ After a period of deterioration through to early 2020, at an overall level claim durations have stabilised, and in some areas now appear to be improving again. While the June 2020 valuation projections anticipated that RTW rates would deteriorate due to COVID-19, this did not occur, and the actual experience has been more favourable than even our underlying projections would have anticipated (despite the pressures that COVID-19 introduced).
 - ▶ Lump sum payments have begun to speed up, following additional work to encourage WPI assessments. Importantly, at this stage there is no indication that the deterioration in RTW outcomes seen through 2018 and 2019 will lead to any increase in WPI scores, and we have not allowed for any; if this occurred it would lead to further material increases in the claims cost – for example through higher lump sums and/or more claims reaching the Serious Injury threshold.
 - ▶ The number of disputes per month has continued to rise, as the increase in lump sum activity has also increased dispute numbers. Further, more claims are progressing to the later stages of the dispute resolution process as noted above.
- For transitional claims, there continues to be a much higher than anticipated level of activity across a range of areas: for example, newly commenced WPI assessments have continued at similar levels over time (which has led to a further extension of the Transition Project), and there has been no material reduction in new dispute numbers over the last two years. With the current rate of activity it will be several years before the transitional cohort is finalised.

Furthermore, this continued ongoing assessment activity and high level of legal activity appears to be leading to additional claims gaining access to the Serious Injury benefit package over time.

- The level of Serious Injury activity (applications, disputes and new determinations) remains higher than expected, and has again resulted in an increase to our expected ultimate number of Serious Injury claims.
 - ▶ There continues to be a ‘tail’ of late emerging new Serious Injury claims, as mentioned in the transitional claims section above; this experience is quite different from our expectation that most applications would have been made shortly after the cessation of Income Support. For transitional claims, this means new Serious Injury claims are still emerging a number of years after the end of Income Support.
 - ▶ For fully RTW Act claims, ReturnToWorkSA has changed the claims management approach to identify ‘likely’ Serious Injury claims much earlier, which we view as a positive step. There has also been a change to the Serious Injury acceptance approach, following the Full Court’s *Mitchell* decision, which has led to fewer claims being accepted as Serious Injury.

Underpinning our IBNR allowance is the assumption that the speed-up in the identification of Serious Injury claims in recent years will reduce the tail of claims identified well beyond the two-year Income Support cap. If this does not hold, or the late identification of Serious Injury claims for older years does not start to run off soon, there will be material increases for both the outstanding claims liability and the breakeven premium rate for future years.

Overall, there continues to be a high level of uncertainty about how many Serious Injury claims will ultimately emerge for these cohorts, which is compounded by new areas of legal challenge continuing to emerge. It remains possible that our estimates will prove to be too low, even without an adverse legal decision.

- ▶ Medical and treatment costs for Serious Injury claims have continued to generally be lower in the periods after initial treatment is completed. As previously noted, the only qualitative explanation we have received for this is that claimants “no longer need to look sick” to remain on benefits.

Total net claim payments in the six months were \$2.4 million (1%) higher than projected at the previous valuation, and remain at the high end of experience in the last few years. Legal costs and income support payments were the two largest drivers of the higher payments, with other benefit types having positive and negative differences that broadly net off.

7 Liability Valuation Results

Summary of Results

Our central estimate of the scheme’s outstanding claims liability for registered employers as at 31 December 2020 is \$3,045 million. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 14.1% (reduced from 14.3% previously) to produce a provision with a 75% probability of sufficiency, consistent with ReturnToWorkSA’s policy, gives an outstanding claims provision of \$3,475 million, as shown in Table 1. The provision includes an allowance for future claims handling expenses equivalent to 10% of gross claim costs.

Table 1 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	\$m	\$m	\$m
Gross Claims Cost - Serious Injuries	2,079		
Gross Claims Cost - Short Term Claims	763		
Claims Handling Expenses	273		
Gross Outstanding Claims Liability	3,115	439	3,554
Recoveries	-69	-10	-79
Net Outstanding Claims Liability	3,045	429	3,475

Table 1 indicates that the majority of the OSC liability relates to Serious Injuries. The balance will continue moving toward Serious Injury liabilities over time, particularly if lump sums continue to speed up.

The risk margin remains higher than it would be if the workers compensation system was operating with lower 'frictional costs'; the risk margin would reduce if there were fewer disputes, faster resolution of disputes, lower rates of appeal, and fewer key legal questions still being challenged.

Movement in Liability

Our central estimate is \$36 million higher than projected at the previous valuation. We have attributed the change in central estimate to two components:

- Movement in liability due to claims performance – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions. This step also includes the impact of changes in the timing of lump sum payments; slower than expected lump sums lead to an increase in the remaining liability.
- Impact of changes in economic assumptions – this component is mandated by accounting standards, and therefore outside ReturnToWorkSA's control.

This split also allows calculation of the 'actuarial release', where we add the difference between actual and expected payments to the movement in the liability due to claims experience, to give a measure of the 'profit' impact of claims management performance relative to the previous valuation, as shown in Table 2 below.

Table 2 – December 2020 Central Estimate and Determination of Actuarial Release/(Strengthening)

	Central Estimate		
	Liability Estimate ¹	AvE Payments in 6 mths to Dec-20	Actuarial Release/ Release/ (Strengthening) ²
	\$m	\$m	\$m
Liability at Jun-20 Valuation	2,944		
Projected Liability at Dec-20 (from Jun-20 valuation)	3,009		
Claims Movement - Short Term Claims	-9	-3	11
Claims Movement - Serious Injury	58	5	-63
Impact of Change in economic assumptions	-12		
Recommended Liability at Dec-20	3,045		
Total Actuarial Strengthening			-51

¹ Net central estimate of outstanding claims liability, including CHE

² Includes change in OSC and Act vs Exp payments.

There is an actuarial strengthening (increase) of \$51 million for the period, an unfavourable result for the scheme. Changes to economic assumptions decreased the central estimate by \$12 million. Each of these items is discussed briefly below.

Components of the Actuarial Release/(Strengthening)

Table 3 shows the \$51 million actuarial strengthening by entitlement group, and split between Short Term claims and Serious Injuries.

Table 3 – Actuarial Release/(Strengthening) by Entitlement Group

Entitlement Group	Short Term Claims ³	Serious Injury Claims ³	Total Actuarial Release ³	Release (Strengthening) as %
			\$m	
Income & Related	17	-48	-32	-5%
Lump Sums	-11	-12	-23	-6%
Legals	-4	-3	-7	-6%
Treatment Related ¹	2	1	3	0%
Rehabilitation	4	1	5	14%
Other Costs ²	1	0	1	13%
Recoveries	2	3	5	7%
Total Claim Costs	10	-58	-48	-2%
Expenses	1	-5	-4	-1%
Net Central Estimate	11	-63	-51	-2%

¹ Medical, hospital, physical therapy, travel, other

² Investigation, common law, commutation, LOEC

³ Includes change in OSC and Act vs Exp payments.

The major factors contributing to the \$51 million actuarial strengthening at the current valuation are:

- For **Short Term claims** there is an actuarial release of \$11 million, which is the result of:
 - ▶ A release of \$17 million for Income Support costs due to favourable claims experience – active claim numbers were better than projected across all durations, and claim outcomes were better than the underlying valuation basis despite COVID-19 impacts (which were anticipated to make RTW harder).
 - ▶ An increase of \$11 million for lump sum entitlements. This is due to a combination of higher sizes for both First Paid and Economic Loss lump sums, and higher numbers of hearing loss claims.
 - ▶ A release of \$4 million for Rehabilitation, reflecting expected future payment reductions. This follows increased oversight which has reduced new referral numbers.
 - ▶ An increase of \$4 million for legal costs, as new dispute numbers have continued to grow and disputes increasingly move into the later (and more expensive) stages of the dispute resolution process.
 - ▶ A release of \$2 million for medical and other treatment benefits due to a number of offsetting factors: the flow-on to lower medical costs from the improvements in Income Support claims, higher medical device costs for hearing loss claims, and continuing high medico-legal costs related to transitional claim WPI assessment and dispute activity.
 - ▶ A decrease of \$3 million for the remaining entitlements.

- For **Serious Injury claims** there was an actuarial strengthening of \$63 million. The commentary below groups up parts of the entitlement group movements (as shown in Table 3 above), to demonstrate the full financial impact of key drivers of this result. The \$63 million actuarial strengthening is due to:

- ▶ Higher claim numbers (including IBNR assumptions) resulted in a strengthening of \$41 million. This increase is across all entitlement groups, with the biggest components being: Income & Related (\$14 million), Lump Sums (\$10 million) and Treatment Related costs (\$16 million).

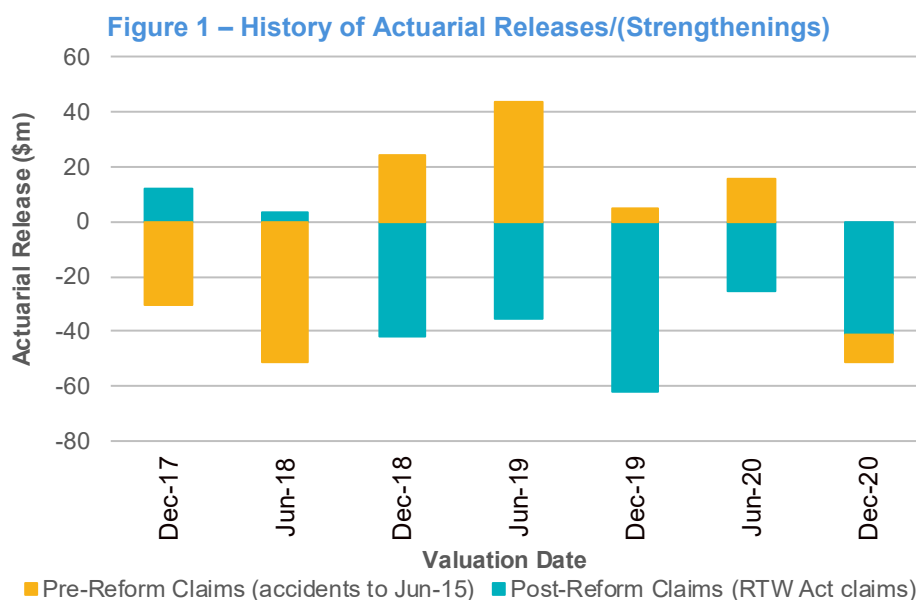
This strengthening is in response to the continued late emergence of Other Serious Injury claims for 2017 and prior accident periods and already high claims for the 2018 year, partially offset by lower Severe Traumatic Injury reports.

We caution that, even after including this strengthening, there is still only a very small allowance for remaining ongoing claims to ultimately reach the Serious Injury boundary. Compounding this risk, there continues to be a much larger than expected number of long duration claims still commencing WPI assessments, lodging new disputes and remaining active in the system. Further, we continue to interpret the higher numbers of Serious Injury claims being identified at early durations for recent accident years as a speed-up in the identification pattern, meaning we have not allowed for the late identifications that have been occurring on older accident years to continue for more recent accident cohorts. If either of these assumptions do not hold, there will be material implications for both the outstanding claims liability and average premium rate.

- ▶ The rules for determining whether a claim is likely to receive 'ongoing' future payments were reviewed, after an increasing number of claims were re-commencing income support benefits with large backpays, and resulted in a strengthening of \$25 million; the impact of this change is almost entirely due to increases in Income & Related entitlements.
- ▶ Other changes resulted in a \$9 million release – valuation basis changes led to a \$13 million release (mainly due to an \$18 million release for Treatment Related costs, and a \$6 million strengthening for Income & Related costs), with a \$5 million increase in the expense loading partially offsetting this.
- ▶ Actual payments were \$5 million higher than expected.

Our projections for the remaining entitlement types were also reviewed and updated, although none of the movements are significant in relation to the overall scheme liability.

Figure 1 shows the actuarial release/(strengthening) at each valuation over the last few years. The current results are the fifth in a row where there has been cost growth on RTW Act claims.



Impacts of Economic Assumption Changes

Changes to inflation and discount rate assumptions decreased the net central estimate by \$12 million.

Overall, the gap between discount and inflation rates is similar to the what was adopted at the June 2020 valuation. The main contributor to the decrease in liability is the reduction in expected wage inflation for the next five years, which mostly impacts Serious Injury claims.

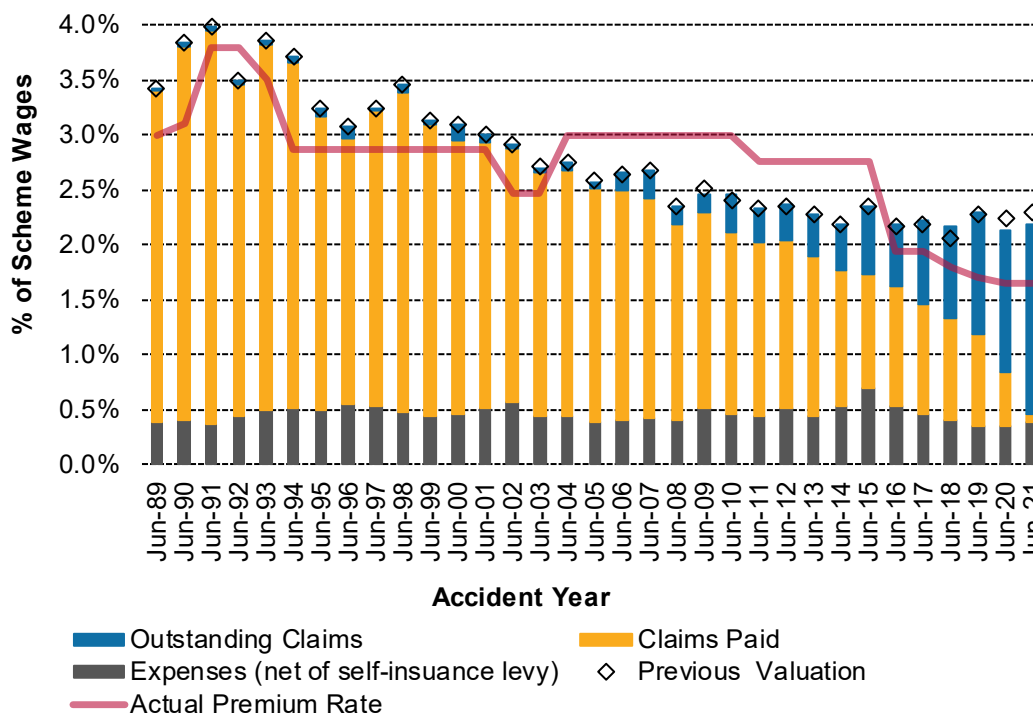
The current assumptions imply a negative real yield (i.e. projected wage inflation above the discount rate) out to around 12 years into the future.

8 Historical Scheme Costs

We have estimated the 'historical premium rate', otherwise known as the Break Even Premium rate (BEP), for each past accident year; this is the amount that would have been sufficient to fully cover claim costs, expenses and recoveries, assuming the scheme achieved risk free investment returns each year and that the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (discounted to the start of that year at risk free rates) by the total scheme leviable remuneration in that year. We present the costs on this basis, using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, allowing current scheme performance to be assessed in a long term context.

Figure 2 shows a summary of the estimated BEPs, including a comparison with the estimates at our previous valuation and the scheme's actual average premium rate charged for each year.

Figure 2 – Break Even Premium Rate* and Actual Premium Rate Charged



* The Break Even Premium Rate in this Figure is calculated using the risk free rate, so that a like with like comparison can be made over the history of the scheme. For clarity, this is not the same as the scheme's pricing basis, as the scheme targets a higher than risk free rate of return when premiums are set.

The main points to note are:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to just under 2.5% of wages.
- For accident years between 2011 and 2018 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- The 2019 year has developed as a high cost year, due to a combination of high Income Support claim numbers, deterioration in RTW outcomes and a higher than normal Serious Injury cost (due to a number of very expensive Severe Traumatic Injury claims).
- The BEP estimates for 2020 and 2021 are lower than the 2019 BEP, due to fewer Severe Traumatic Injury claims. The reduction from the previous valuation estimates for these two years reflects the recent claim number and RTW improvements for Short Term Claims.
- The current estimate of the BEP for the 2021 accident year is 2.19% of wages, down from 2.30% at the June 2020 valuation. Around half of this decrease can be attributed to upward revision of the wages estimate (the claim outcomes were projecting off actual claims, whereas the wages estimate has only been revised up by ReturnToWorkSA as employer declarations were completed and were more favourable than expected). In terms of the components:
 - ▶ Short Term claim costs are projected to be 0.11% of wages lower than at the previous valuation
 - ▶ Serious Injury costs increased by 0.02% of wages, and
 - ▶ Scheme expenses reduced slightly, by 0.01% of wages.

We note that these calculations assume past and future investment earnings at risk free rates. All else being equal, any above risk free earnings or additional sources of income would act to reduce the required premium rate.

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2021 still involves estimation and with the COVID-19 related economic uncertainty it is possible this may move by more than normal over time.

9 Key Uncertainties

There is considerable uncertainty in the projected future claim costs, in particular around how and when claims are determined to be Serious Injuries. Section 12 details some of the uncertainties and sensitivities of our advice, in order to place our estimates in their appropriate context.

The main areas of uncertainty in our current estimates of the liabilities are:

- **Legal precedent risk** – risks here relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. In particular, there are still many claims in dispute seeking to access higher levels of benefits than ReturnToWorkSA has determined. Despite a number of apparently ‘key cases’ having resolved over recent years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge.

The case of *Summerfield* is the latest where an appeal to the Full Court has been heard, although a decision has not been delivered as yet; if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). Unless a clear and decisive legal position is established, this risk is likely to remain for at least another two years, and perhaps longer based on current dispute numbers and timeframes to resolution.

- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the lump sum for future economic loss payable to Short Term claims, means there is pressure on WPI assessments. The scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold or ‘WPI creep’. The robustness of the ‘once and for all’ WPI assessment rules under the RTW Act is an important area of risk.
- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, and deviations from our assumptions could therefore compound across multiple years. For the current valuation the key uncertainties are:
 - ▶ **Ultimate numbers of claims** – there are several areas of uncertainty in relation to Serious Injury claim numbers. These include the impact of late emerging claimants (whether due to delayed WPI assessments, late surgeries, etc) as well as the number of outstanding Serious Injury application disputes and other WPI disputes that could see claims ultimately meet the 30% WPI threshold.
 - ▶ **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections. There is some evidence emerging that life expectancy for this group could be shorter than is allowed, and we will continue to monitor this.

- ▶ **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. One example is the extent to which care costs that are currently not compensated by the scheme may become compensable in future, as family-based carers age and claimants increasingly require paid attendant care and/or move into residential care facilities. Another example is the potential increase in costs for care related specialists and facilities, due to wage pressures and/or market demand pressures for these specialists as the National Disability Insurance Scheme continues to scale up.
- **Claim durations for Short Term Claims** – between 2018 and early 2020 there was deterioration in claim durations – both more claims reaching the two week threshold to be counted as an Income Support claim, and longer durations on benefit thereafter due to slippage in RTW outcomes (relative to the much improved RTW rates seen over the preceding few years). While there are now signs that these adverse trends have generally been arrested, and in some cases are beginning to improve, it is not yet clear that these impacts will be sustained over time.

Further, we emphasise that no allowance has been made for the growth in longer duration Income Support claims to impact on WPI assessments – that is, we have not anticipated any slippage in WPI scores, nor any increase in the numbers of Serious Injury claims, as a result of the increase in claim durations over recent years.
- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has again meant that the discount rates used to determine the valuation results are low by historical standards. While employment related impacts have been less significant than originally feared over 2020, there is still a higher than normal risk that the economic environment could change in adverse ways.
- **COVID-19 impacts** – after a more positive finish to 2020 than was previously anticipated, and in the context of the commencement of the national vaccination rollout, our valuation work no longer makes explicit allowances for any COVID-19 impacts. If the health and/or economic situation changes for any reason, for example if there is an unexpected spike in infections, this could potentially lead to material disruption to claim outcomes.

Even though the RTW Act provisions commenced over five years ago, there are still key areas of the Act being tested in the courts, and there is as yet only limited information on the numbers of Serious Injury claims which will ultimately emerge. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience will differ materially from our current expectations.

To place these uncertainties and risk in context, Figure 3 shows some of the key risks and uncertainties in the central estimate (orange), as summarised in Section 12 of the report, relative to the risk margin adopted in the liability reserves (blue). The risk areas below are largely independent of each other, so it is possible that a number of these risks could crystallise at the same time.

Figure 3 – Comparison of Reserving Risk Margin to Key Risks and Uncertainties

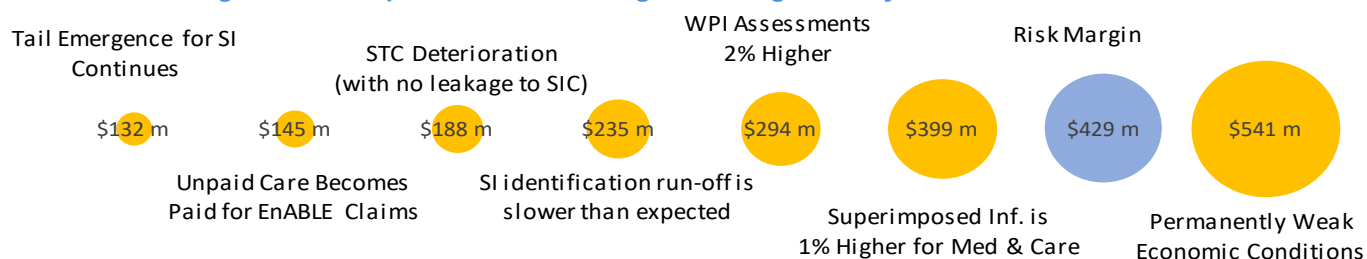


Figure 3 indicates that there is a range of plausible scenarios that could see the liability move by several hundreds of millions of dollars. While the most significant scenario relates to long term economic conditions (which will most likely continue to be the case now for the fund given its very long mean term of liabilities), most of the other scenarios relate primarily to Serious Injury claim numbers and/or costs.

We observe that while most of the larger uncertainties would emerge over the long term, a significant increase in the liability reserves could occur more quickly – in particular, adverse legal precedent which increased the number of claims who meet the criteria for Serious Injury benefits would have immediate consequences for the liability.

10 Reliances and Limitations

Our results and advice are subject to a number of important limitations, reliances and assumptions. This executive summary must be read in conjunction with the full report and with reference to the reliances and limitations set out in Section 13 thereof.

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 1. At ReturnToWorkSA's request, we consent to the release of our report to the public, subject to the reliances and limitations noted in the report.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

While due care has been taken in preparation of the report Finity accepts no responsibility for any action which may be taken based on its contents.

This report, including all appendices, should be considered as a whole. Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Part II Detailed Findings

1 Introduction and Scope

1.1 Introduction

Finity Consulting Pty Limited (“Finity”) has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 31 December 2020.

Our previous actuarial review was as at 30 June 2020, and was documented in a report dated 1 September 2020.

1.2 Scope of the Review

The scope of the review is specified in our contract with ReturnToWorkSA.

The primary purpose of the mid-year review is to provide ReturnToWorkSA with an independent estimate of the liability for outstanding claims and projected claim costs for registered (non self-insured) employers. These estimates are used by ReturnToWorkSA to update its financial position, and as an input in determining the average premium rate for the coming year.

The actuarial review also aims to provide analysis of the major features of the recent scheme claims experience, and a projection baseline against which ReturnToWorkSA can manage outcomes and monitor emerging experience in the coming year.

1.3 Compliance with Standards

Professional Standard 302 issued by the Institute of Actuaries of Australia sets out the expectations of actuaries preparing estimates of the liability for outstanding claims of statutory authorities involved in general insurance activities. Our valuation, and this valuation report, have been prepared in accordance with PS 302’s requirements (refer to Appendix L).

We understand that Australian Accounting Standard 1023 (AASB1023) is adopted by ReturnToWorkSA in preparing its financial statements, and we have prepared our estimate of the outstanding claims to be consistent with our understanding of AASB1023’s requirements.

1.4 Control Processes and Review

Our valuation and this report have been subject to Technical and Peer Review as part of Finity's standard internal control process:

- Technical review focuses on the technical work involved in the project. The technical reviewer reviews the data, models, calculations and results, and also reviews our written advice from a technical perspective.
- Peer review is the professional review of a piece of work. The peer reviewer reviews the approach, assumptions and judgements, results and advice.

1.5 Structure of this Report

Section 2 Describes the approach we have taken to the valuation, and provides a brief overview of the information provided to us.

Section 3 Summarises the current operational landscape impacting on the scheme.

Section 4 Summarises high level recent claims experience.

Sections 5 to 9 Detail our analysis of scheme experience and valuation assumptions.

Section 10 Sets out other valuation assumptions, including the economic assumptions of inflation and discount rates, and the risk margins and claim handling expenses adopted in setting accounting provisions.

Section 11 Shows detailed tabulations of the outstanding claims valuation results.

Section 12 Provides sensitivity analysis of the valuation to key assumptions and highlights some of the key uncertainties in our projections.

Section 13 Sets out important reliances and limitations.

Section 14 Summarises the key events and changes in the South Australian scheme over time.

The appendices include detailed specifications of the valuation models and results.

Figures in the tables in this report have been rounded. There may be instances where the rounded information does not calculate directly to the total shown.

In this report, we use the current titles "ReturnToWorkSA" and "RTW scheme" to include the previous authority (WorkCoverSA) and scheme (WorkCover scheme), where relevant.

2 Approach and Information

2.1 Approach

The Return to Work Act 2014 (“RTW Act”) made significant changes to entitlements and to the scheme operations, with all of the new features commencing on or before 1 July 2015. Under the RTW Act, Serious Injury claims have very different entitlements from other claims. We have modelled these claims separately, with the remaining claims modelled as ‘Short Term claims’. Serious Injury claims are valued using an individual claim based approach by payment type, and Short Term claims are valued using aggregate methods, by payment type.

Table 2.1 summarises where the entitlement and claim cohorts are documented in this report.

Table 2.1 - Report Structure by Claim Cohort

	Short Term Claims	Serious Injury Claims	Other Assumptions	Overall Results
Valuation Basis and Results	Sections 5 to 8	Section 9	Section 10	Section 11
Economic Impacts	Section 10 (basis) and Section 11 (results)			

2.1.1 Basis of the Valuation

Our estimate of outstanding claims is a central estimate of the liabilities. This means that the valuation assumptions have been selected such that our estimates contain no deliberate bias towards either overstatement or understatement. The estimates are shown discounted to allow for the time value of money using a risk free discount rate, consistent with accounting standards.

We have also provided a recommended provision for outstanding claims which increases the central estimate to a level intended to achieve 75% probability of sufficiency.

We observe that despite a number of apparently ‘key cases’ in relation to the operation of the RTW Act having resolved over recent years, new avenues of challenge to the operation of WPI assessments continue to emerge. The case of *Summerfield*² is the latest where an appeal to the Full Court has been heard (but the decision has not yet been delivered); if this case does not resolve favourably for ReturnToWorkSA then there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). To be clear, while legal uncertainty has been considered in the setting of the risk margin, the adopted risk margin loading has not been set at a level that would be sufficient to cover the additional costs if this key case, or others like it, were to resolve against ReturnToWorkSA.

2.2 Information

2.2.1 Standard Data Extracts

Claims data was provided in the form of a transaction file with complete scheme history to 31 December 2020. We have not independently verified or audited the data, but we have reviewed it for general reasonableness and consistency, including reconciliations to the previous actuarial review information and to information from ReturnToWorkSA’s financial statements. The claims data appears to be of high quality and contains extensive detail.

² Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

As for previous valuations, our experience analysis excludes all claims related to employers who have become self-insurers (including claims before they became self-insured).

Appendix B shows summaries of the claims data, including data reconciliations.

2.2.2 Qualitative and Additional Information

In addition to the standard data extracts, we obtained additional information from ReturnToWorkSA and its claims agents EML and Gallagher Bassett. This included briefing sessions on 15 December 2020 and operational information that was provided separately.

The additional information we received included:

- Tableau-based monthly monitoring reports showing:
 - ▶ Claim reports
 - ▶ Payments by benefit type
 - ▶ Open, closed and lodged disputes by month
 - ▶ Income Support continuance rates and numbers
- Serious Injury claim list containing:
 - ▶ All claims that are currently included in our ultimate claims, with the information as to why they have been included
 - ▶ Flags to indicate whether they should be valued for Income Support and medical benefits
 - ▶ General information pertinent to Serious Injury claims such as determination status and WPI
 - ▶ Information on any disputes relating to Serious Injury applications
- EnABLE case estimates covering:
 - ▶ Estimated half-yearly costs by payment type
 - ▶ The level of care that is currently unpaid (that is, where there is gratuitous care that is generally provided by a family member)
 - ▶ Description of the injury and current condition
- Information on WPI assessments including:
 - ▶ Completed and in-progress assessments by claim number
 - ▶ Disputed assessments by claim number
 - ▶ Lump sum payment status of completed disputes
- Information on disputes including:
 - ▶ List of open and finalised disputes by accident year and latest disputation phase
- Additional information including:
 - ▶ List of Transitional Regulation 5 applications and their current status
 - ▶ List of pre-approved surgeries and current status
 - ▶ Remuneration projections for 2019/20 and onwards.

3 Scheme Environment

This section summarises changes in the scheme's legislative and operational landscape which are considered in our valuation.

3.1 Legislation

There have been no changes to the scheme's legislation or Regulations since the June 2020 valuation.

3.2 Legal Precedent under the RTW Act

The RTW Act continues to be tested through the scheme's dispute resolution processes. As has been the case for a number of years, there remains a large number of open disputes, including a higher than usual number of cases on appeal to the Full Bench of SAET and to the Supreme Court. Until there is a settled legal basis that provides clarity around how the scheme's key boundaries should operate in practice there will be uncertainty as to the financial costs which eventuate under the RTW Act benefit package.

The types of cases that are key to the long term operation of the Return To Work scheme that are still to be resolved include:

- 'Combining' of injuries for WPI assessment and lump sum purposes – many claims remain in various stages of the dispute resolution process that relate to the WPI assessment rules.

Despite a number of apparently 'key cases' having resolved over recent years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge. The case of *Summerfield*³ is the latest where an appeal to the Full Court has been heard (but the decision has not yet been delivered); if this case does not resolve favourably for ReturnToWorkSA then there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of serious injury claims).

- Whether employment is the significant cause of secondary injuries or injuries away from the workplace – these types of cases have the potential to extend the benefit eligibility period beyond the 104 week cap by 're-starting the clock' on account of a new injury being recognised.
- Issues related to the functioning of the dispute resolution system, for example: the reviewability of decisions, the validity of past agreements and consent orders, and rules relating to legal costs.

Given the slow rate of dispute resolution (discussed below) and continued emergence of new legal challenge to the RTW Act boundaries, it is likely that it will still be at least another two years, but probably longer, until there is confidence about how the various RTW Act legislative provisions apply in practice. In some areas it may take years before all areas of outstanding issues are resolved.

3.3 COVID-19 Impacts

The COVID-19 pandemic and related health and economic response has been an evolving issue in Australia and throughout the world over the last year. The unique set of circumstances associated with the COVID-19 pandemic means there is greater than normal uncertainty in relation to the broader financial and economic landscape, although thankfully the impacts in South Australia to date have been far less severe than in other places.

³ Return to Work Corporation of South Australia v Summerfield [2020] SAET 106

Key uncertainties at this time include the length of the pandemic and effectiveness of recently commenced vaccination programs in containing and preventing infection, the potential for 'later waves' of outbreak, the related impacts of any slow-down in the broader economy, and the effectiveness of government initiatives to mitigate these impacts.

Depending on how these issues play out in South Australia, ReturnToWorkSA's liabilities may be impacted. While the impacts to date have been small, it is possible that this could change given how the situation has evolved over the last year; for example, outbreaks in other parts of Australia have highlighted how quickly circumstances can change and therefore demonstrate that the level of uncertainty is heightened at the current time.

Current Assessment of Impacts from COVID-19

Table 3.1 summarises a number of areas where COVID-19 has or may impact on the scheme's operations, and our assessment of the current impact of each.

Table 3.1 – Potential COVID-19 Impacts

Impact	What we know
Actual COVID-19 claims	Very few actual COVID-19 claims have been reported. The SA infection rate is very low, so IBNR cases should be trivial or nil in relation to the valuation; any future outbreak could impact future premiums.
Disruption to patterns of work	There was a material reduction in the level of work being undertaken in the June quarter, and a shift to working from home where possible. Subsequently, it appears that South Australia has been on a trajectory back towards normal work operations across a range of employment indicators.
Changes in RTW opportunities	At our previous review there were claimants impacted by the unavailability of suitable duties at their pre-injury employer. Increases in the unemployment rate likely mean new employment opportunities are somewhat more difficult to find as well. Overall though, these impacts have been much less significant than was anticipated six months ago.
Claims processing disruptions	Mobile claim management was temporarily suspended during the initial lockdown period, and again in November, and the claims management workforce has increasingly utilised working from home arrangements. We are advised that both claims managers are currently running at better than normal levels on their various operational productivity measures. Dispute resolution has been slowed down in some cases due to restrictions on cases being heard in person.
Delays to treatment	We are advised that treatment has largely returned to normal levels; payment experience supports this view.
Economic factors	There has been major disruption to investment markets and the economic outlook. The inflation expectations and risk free yields incorporate this outlook as explained in Section 10.

Allowances for COVID-19 Impacts in the Valuation

Our valuation basis assumes that COVID-19 infections continue to remain low in South Australia and that there are no additional shutdowns, further economic disruption or major impacts on business confidence.

The experience over 2020 has been used to guide the setting of the valuation assumptions as to the claims experience in a COVID-19 impacted world; in doing this, when interpreting the recent claims experience we have been conscious to identify areas where the 2020 experience is not, or might not, be

the best indicator of ongoing performance (for example where there was a large dip in claim numbers at the initial shutdown, and when hospital costs dropped as surgeries were restricted). Under this approach the valuation assumptions incorporate the expected 'COVID-19 impacts' and so additional explicit adjustments are not required.

While we have made assessments that we consider to be reasonable, it is impossible to estimate the impact of COVID-19 on ReturnToWorkSA's liabilities with any level of certainty at the current time. While the unique set of circumstances means there is more than the general level of uncertainty around the valuation outcomes, the observation that actual claims performance in 2020 was overall better than in recent years helps give some confidence that under current infection rates any impacts should be at the low end of the range of potential impacts.

3.4 Other Operational and Environmental Changes

This section describes recent trends in the scheme environment. Section 14 provides an overview of earlier operational and legislative changes which are useful in understanding the scheme's historical experience.

3.4.1 Evolution of the Claims Management Model

Earlier Identification of Potential Serious Injury Claims

Over the last three years ReturnToWorkSA has progressively improved its claims management approach to identify 'likely' Serious Injury claims much earlier. This allows targeted activity to take place earlier in the claim and helps to ensure that those with the most serious injuries do not 'slip through the cracks' due to incomplete or unresolved WPI assessments.

While there (necessarily) still remains a high degree of uncertainty as to the ultimate number of Serious Injury claims that will emerge over time, particularly given the slow process to resolve disputes, the earlier identification of most serious injuries is a positive step.

The impact of this change on observed Serious Injury claim numbers is discussed further in Section 4.1.

Improved Management of Long Term Claims

Further to the above point, the improved knowledge relating to serious injury claimants is also leading to proactive decision making that leads to better social and financial outcomes. Two examples of this are:

- In the EnABLE cohort, where it was identified that some providers operate at materially higher cost than others, changes to purchasing arrangements have led to provider changes that are forecast to save many millions of dollars.
- Serious Injury RTW Project – a review of work prospects and opportunities for those with serious injuries has commenced, with an initial focus on those with already certified work capacity. Whilst it is still early in the project, there are already examples of claimants returning to work who would otherwise have remained on Income Support benefits. At this stage we have not anticipated further successful outcomes beyond those already known, but it is possible that this program could lead to material financial savings in the serious injury claims liability.

Resolution of Transition Claims

For almost two years ReturnToWorkSA and their claims agents have been proactively working with claimants to try and resolve as many 'old Act' claims as possible. For the most part these claimants

ceased receiving Income Support and medical treatment a number of years ago as per the scheme's legislative provisions (the exceptions are for claims such as dependent benefits and late surgeries), and so remaining costs are largely to do with lump sums, medico-legal assessment, and the resolution of disputes.

While the need to await key legal precedent somewhat explains the slow progress in resolving this cohort, more so it is the continued emergence of new referrals into this cohort that have meant the timeline has been extended over time – Section 3.4.2 below provides additional context to these observations.

Response to Hearing Loss Claims Spike

As explained in Section 3.4.5 below, noise induced hearing loss claim numbers have rapidly increased over the last three years. Most of this increase has come from a small number of providers (including both legal providers and medical providers).

To help manage this spike in new claims, ReturnToWorkSA is increasing the number of specialist staff in its claims agents, with a focus on ensuring there are sufficient resources with the technical skill set required to assess these claims. In addition to the extra staffing resources, new claim forms have been developed to ensure that the proper employment history has been gathered and is available when assessing the claim.

“Back to Basics”

Following growing claim numbers and increasing claim duration over 2018 and 2019, there have been a number of strategies commenced that are intended to lead to improved claim outcomes; a key enabler of this has been an increase in the number of claims managers, to help return key case load and ‘mobile claim manager’ metrics back to the level they were previously operating at. This is intended to lead to:

- Improved RTW outcomes, via reduced caseloads and refinement in the model to have more experienced resources undertaking key roles. Mobile claims managers are also increasingly being aligned to key industry sectors to ensure they have the best possible knowledge of potential RTW options in those sectors.
- Faster and tighter claim acceptance practices, including additional support in calculating pre-injury earnings and overtime amounts.
- More focus on the appropriate goal for each claimant, whether that be at the pre-injury employer or with a new employer.
- More targeted referrals to vocational rehabilitation providers.

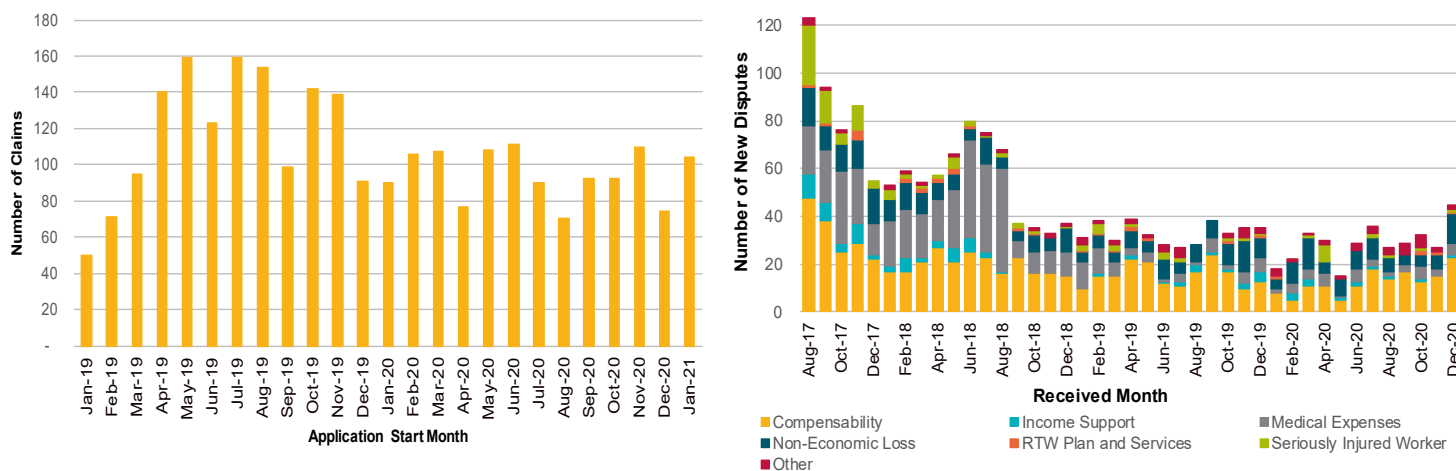
In each case above we can already see changes in relevant ‘lead indicator’ trends that suggest the actions are impacting on claim outcomes. As discussed in Section 5, the aggregate impact of these changes is now improving income support claim outcomes, which is also leading to financial savings for the scheme.

3.4.2 Continued Activity on Transitional Claims

As mentioned above, ReturnToWorkSA has been seeking to resolve as many ‘old Act’ transitional claims as possible over the last two years, although progress has been slow.

As demonstrated by Figure 3.1 below, the key reason for this is that claims have continued to emerge into various claim processes at similar levels to the past. As a result, there are still well over 1,000 non-serious injury claims open from pre-June 2015 claims, even though many of the claims originally open when the project commenced two years ago have now resolved.

Figure 3.1 – Activity from Transitional Claims (i.e. pre-June 2015 injuries only)
New Applications for WPI Assessments **New Disputes Commencing**



As this shows, for claims with injury dates prior to June 2015 (that is, more than five years in the past):

- The number of transitional claimants still commencing WPI applications continues to be high. Completing the assessments, finalising disputes that follow the assessments, and then completing outstanding lump sum payments on eligible claims is therefore likely to take a number of years.
- The number of new disputes continues to average around 30 per month, with no obvious 'runoff' pattern (that is, there is no obvious downward trend toward zero) – indeed December 2020 saw the highest monthly number of new disputes for this cohort since mid-2018.

In each case these processes are taking much longer to complete and 'runoff' than we anticipated. Further, and despite each of these processes having moved well past the level we expected it to, it is far from clear when there will be finality to new claims, disputes, WPI assessments, etc, emerging from these older periods. Compounding this, the continued new activity also appears to be leading to additional claims gaining access to the Serious Injury benefit package over time, as discussed in Section 4.2.

The continuation of activity on these older claims has led to further increases in our cost projections, particularly for legal costs, lump sums and serious injury costs. On current trends, it will be at least another two years until the transition cohort is genuinely down to a small runoff level; if the activity levels do not begin reducing soon, then it is likely that further valuation increases will result.

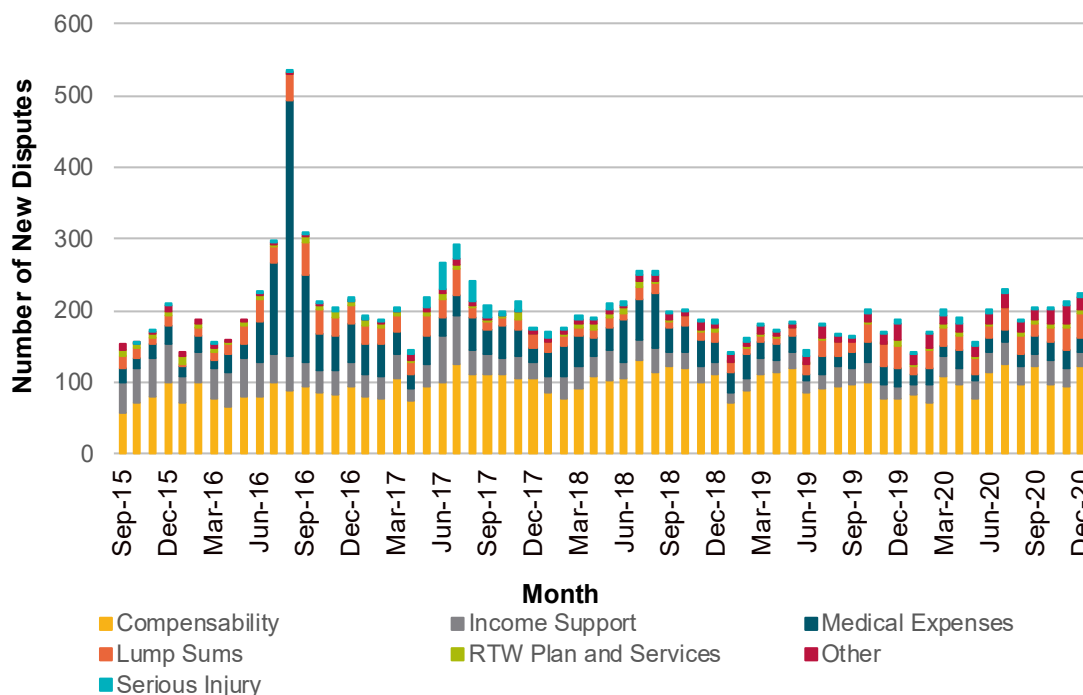
The lump sum valuation basis is discussed further in Section 6, legal costs in Section 8.2 and Serious Injury claim numbers are discussed in Section 4.1.

3.4.3 Dispute Numbers and Dispute Resolution

Since the RTW Act commenced in 2015, dispute numbers have tended to be between 150 and 200 new disputes per month, although there have been a number of 'spikes' as key boundaries commenced:

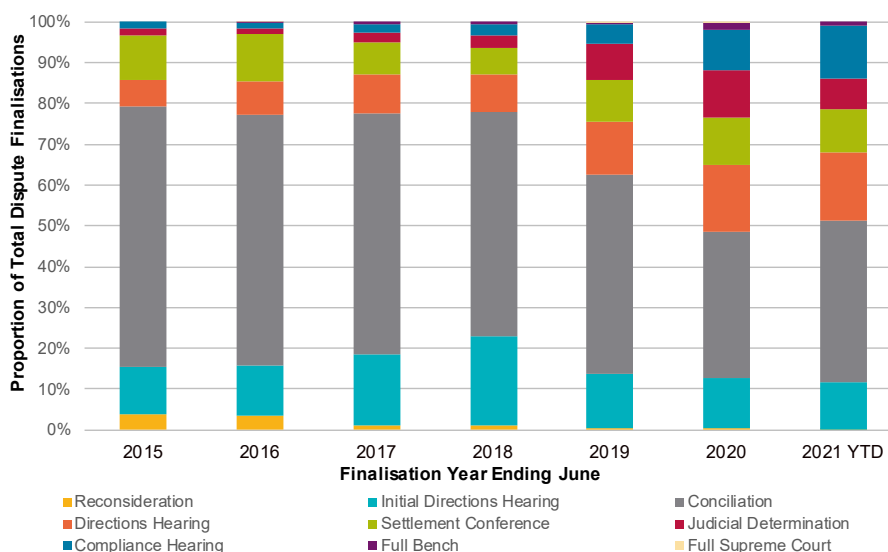
medical expense disputes spiked after June 2016, due to a significant number of disputes around future surgery applications, and Serious Injury disputes increased around June 2017, as shown in Figure 3.2.

Figure 3.2 – New Disputes by Dispute Type (monthly)



Over the last six months dispute numbers have drifted higher, to average around 200 disputes per month. Compounding this, there has been a clear shift in dispute finalisation patterns, with far fewer disputes resolving at or before conciliation, as shown in Figure 3.3 below. In the graph, the stages of dispute are ordered, with the bottom of the bars showing the early and therefore ‘cheaper’ stages of resolution, and the upper ends showing the later and more costly stages.

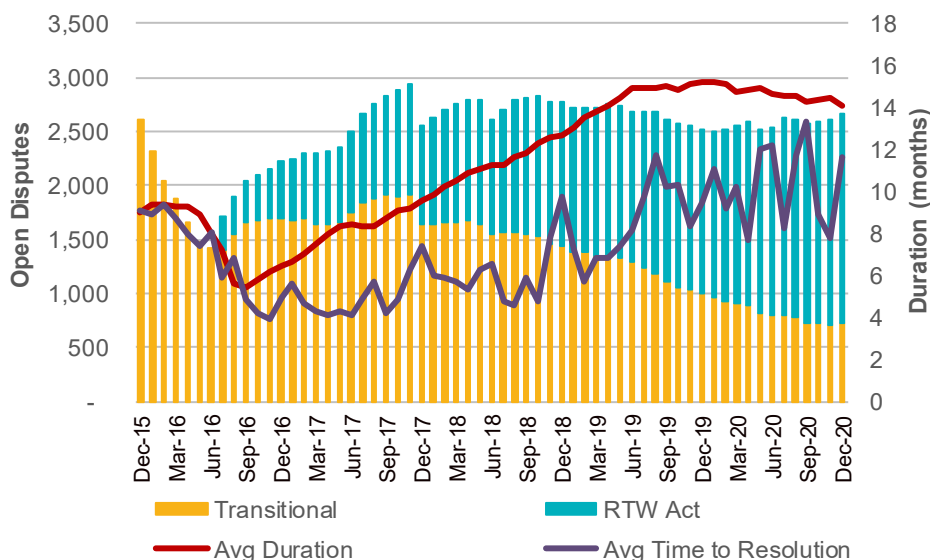
Figure 3.3 – Stage of Resolution for Disputes



The significant growth in the number of disputes moving beyond conciliation has led to a considerable lengthening of dispute timeframes over the last few years. The result is that the number of open disputes remains high, at around 2,600 disputes. Figure 3.4 shows the number of open disputes over time, split

between RTW Act claims and transitional claims, and the average duration of open and finalised disputes.

Figure 3.4 – Open Dispute and Duration



Our observations are:

- The level of open disputes has again started increasing, and is now at around 2,600 disputes, with growing RTW Act claims on top of an only slowly reducing number of open transitional claim disputes. This indicates the new scheme is not yet at a 'steady state' for disputes. There is still uncertainty as to the ongoing level of disputes under the RTW Act and the impact of these disputes on claim outcomes.
- There are still over 720 disputes open for transitional claims.
 - ▶ Five years after the RTW Act commenced we are still consistently seeing new disputes commencing from transitional claims (as shown in Figure 3.1), and this group continues to represent a material risk to our liability estimate.
 - ▶ The open dispute count on transitional claims reduced by only 80 disputes in the last six months, and at this rate it will still be at least 2 to 3 years before there are negligible transitional disputes left.
- The duration for open disputes has more than doubled since July 2016, from around seven months to 14 months. The duration for finalised disputes has grown at a more modest pace, suggesting the more complex and costlier disputes have yet to settle.
- Since Income Support benefits for most claims are capped under the RTW Act, even a 10 month dispute resolution timeframe is considered slow.

3.4.4 Potential for New Silicosis Claims

Around 18 months ago, following high numbers of new interstate silicosis claims from the benchtop industry, a project commenced in South Australia to screen for these types of claims among higher risk workers.

As reported in our December 2019 valuation, this screening program led to the diagnosis of just over 20 workers with forms of silicosis or lung disease, although none had lodged workers compensation claims.

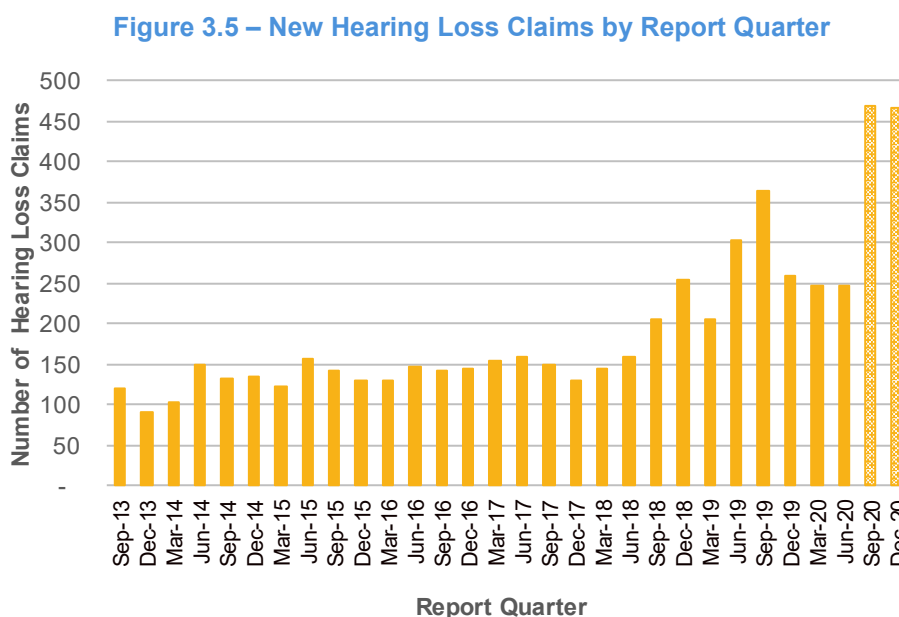
At the current valuation, and as was the case at the June 2020 valuation, there is essentially no new information to add and no increase in workers compensation claims.

In light of this, we have continued our previous approach that no additional allowance is made in the central estimate liability on account of the known diagnoses. The potential for any additional costs is included in our risk margin considerations.

Consistent with the above observations, our previous view remains – that is, the South Australian experience with these types of claims is considerably better than in the Eastern states. As previously noted, this is believed to be a genuine difference which is attributed to a lower use of engineered stone in South Australia along with a correspondingly smaller workforce (for example, some suppliers will order in the benchtops from interstate).

3.4.5 Increasing Numbers of Hearing Loss Claims

Noise induced hearing loss claims are only a small proportion of total claim numbers, but their numbers have been growing rapidly. While this is in part a longer term trend, more recently it appears to be the result of targeted provider activity. Figure 3.5 below shows the numbers of new Hearing Loss claims by report quarter.



As explained in our June 2020 report, the lower new claim numbers in the three quarters to June 2020 were thought to be due to interstate assessors that are strongly linked with certain legal firms being unable to travel to South Australia through the COVID-19 period, which meant fewer new claims emerged from these firms. This has proven to be the case, with new claim numbers reaching record highs in the last six months – at triple the level of just two and a half years ago. The projections relating to Hearing Loss claims are discussed in Section 4.1.2 and Section 6.3.

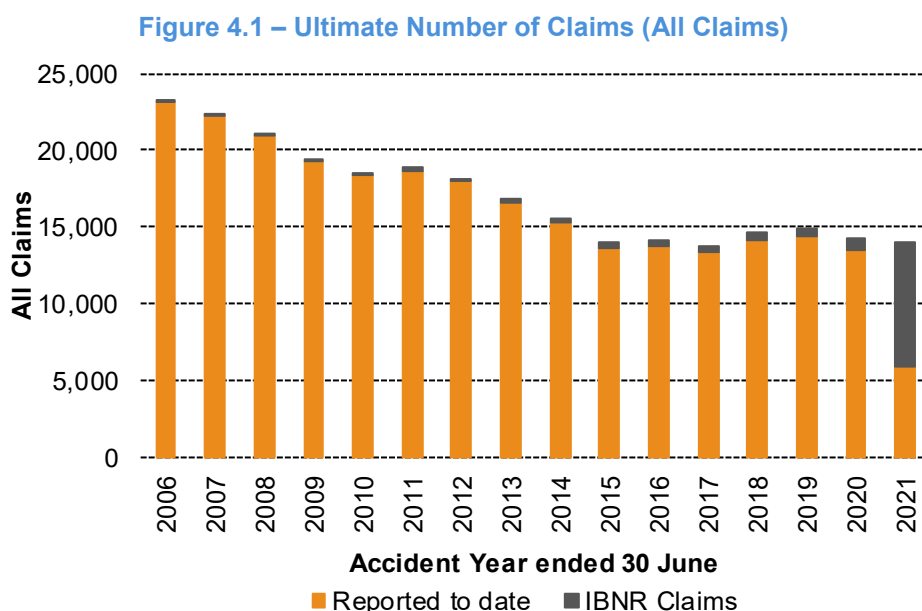
4 Recent Claims Experience

This section provides a high level analysis of scheme experience, including the numbers of new claims and overall payment trends.

4.1 Claim Incidence

4.1.1 All Claims

Figure 4.1 shows the estimated numbers of claims incurred in recent accident years (excluding reports which are determined as 'incidents'). The graph separates the actual numbers reported to date and our projection of claims incurred but not yet reported (IBNR).



The key features of the recent experience are an increase in claim numbers between 2017 and 2019, after a long term general downward trend, which has been followed by a reduction in 2020 and 2021.

There were three primary factors driving the higher claim numbers over 2017-2019:

- Claim frequency deterioration: the construction and manufacturing industries in particular experienced an increased claim frequency trend.
- Strong growth in the numbers of hearing loss and mental injury claims.
- Higher exposure growth in 2018 and 2019, after an extended period of lower wages growth.

In 2020 claim frequencies then reduced again, including a materially lower result due to COVID-19 in the June 2020 quarter. Whilst it is still only early days, it appears that the claim frequency improvement is continuing into the 2021 accident year.

Our estimate of ultimate numbers for 2020 has decreased by 1.6% since the previous valuation and the current estimate for 2021 is 1.9% lower than 2020. Our valuation response reflects the following observations:

- Hearing loss claims continue to emerge at a high rate after a brief hiatus in activity due to COVID-19 restrictions during the March and June 2020 quarters. We have again increased our estimate of ultimate claims for 2020 and prior accident years in light of the experience. For 2021 our estimate is largely unchanged as we had already anticipated a higher number at the previous valuation, and in light of the increased activity on claim acceptance for these claims we have taken a 'wait and see' approach with the valuation assumptions at this time.
- We have let the lower frequency experience flow through to the basis for Mental injuries, in response to favourable experience for actual claim numbers after a number of 'lead indicators' showed improvement at June.
- For Physical Injury claims, the emerging experience for 2020 and 2021 has been favourable and we have allowed this to flow through to the basis.
- The development factors for Other injuries beyond development quarter six have been reduced reflecting the emerging experience. This has resulted in a slight reduction in ultimate numbers across most injury periods.
- There has been further deterioration in the experience for Musculoskeletal claims, with the September 2020 injury quarter experiencing a particularly high number of reports to date. We have let this experience flow through to the basis, resulting in an increase in the claim numbers for the 2020 and 2021 accident years.

4.1.2 Income Support Claims

Income Support (IS) claims are those which receive more than 10 days of lost time benefits.

Figure 4.2 shows our projected ultimate numbers of IS claims, split into those who have already received an IS payment and those who are expected to receive their first IS payment in future (IBNR).

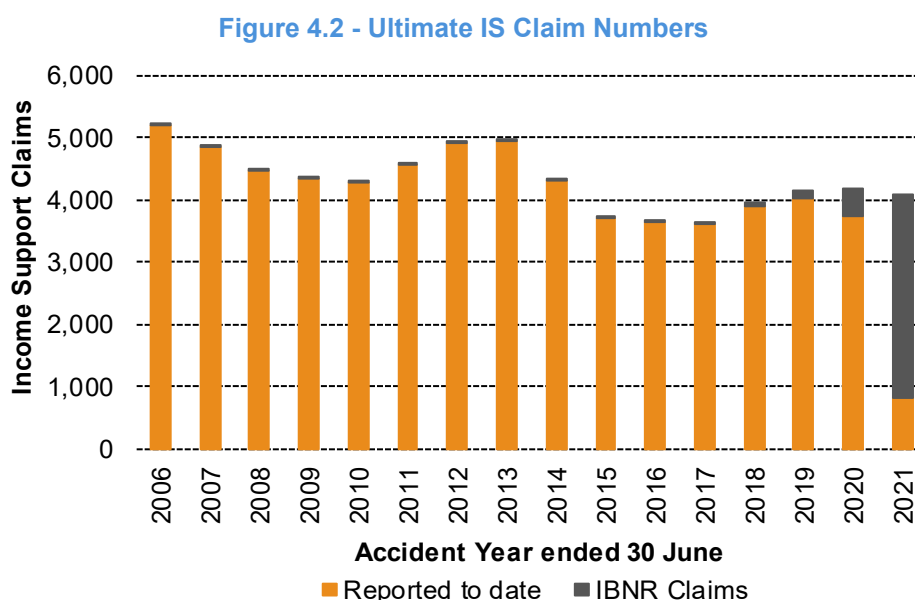


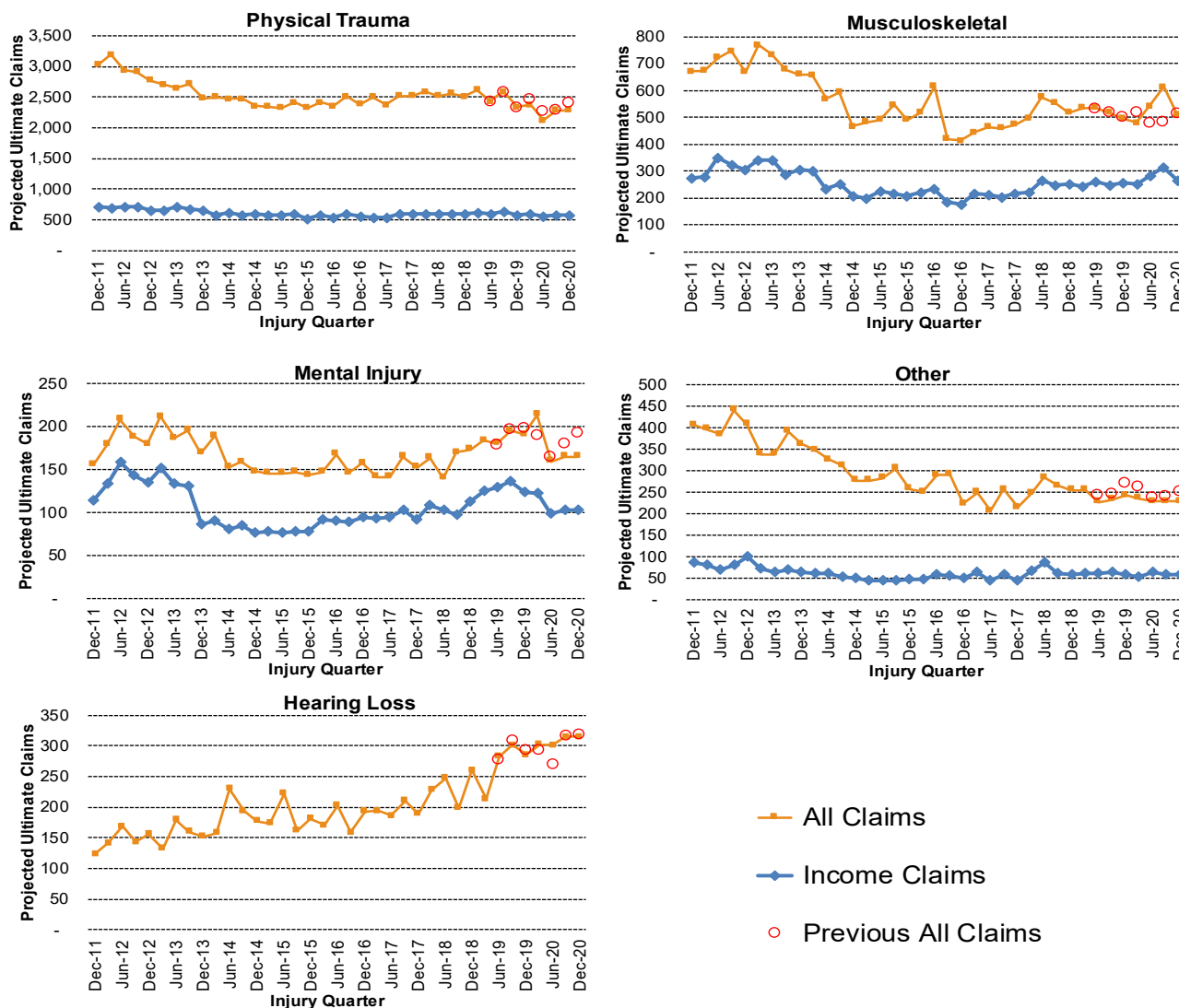
Figure 4.2 shows:

- IS claim numbers dropped by 17% between 2006 and 2010, and then rose again over the next two years to sit at about 5,000 claims per annum in 2012 and 2013.

- IS claim numbers reduced again in 2014 and in 2015, and were then stable at around 3,750 per annum for three years; this experience represents the lowest level since the scheme commenced.
- Between 2017 and 2019, IS claim numbers rose quite noticeably. The estimate of IS claim numbers for 2018 is 9% higher than 2017, and the 2019 estimate is 5% higher than 2018.
- For the 2020 injury year, and despite it being significantly impacted by COVID-19 with lower claim numbers overall, we have still seen a small increase in Income Support claims – this means the proportion of claims getting Income Support has increased, which may also indicate that the reduction in claim numbers during COVID-19 disruptions was more to do with people choosing not to report more minor injuries.
- 2021 is showing some early signs of improvement and a break in the recent trends. The reduction from 2020 is due to a combination of lower Physical and Mental injuries, partly offset by higher Musculoskeletal injuries. As seen in the graph, considerable development of claim numbers is still expected for the latest accident year (i.e. a lot of the projection still sits as IBNR claims), and so there is more uncertainty around the ultimate outcomes for this year.

In order to better understand the trends in IS claim numbers, we separately model claim numbers by type of injury. Figure 4.3 shows, by injury type, the total numbers of claims as well as IS claim numbers.

Figure 4.3 – All Claims and IS Claims by Type of Injury



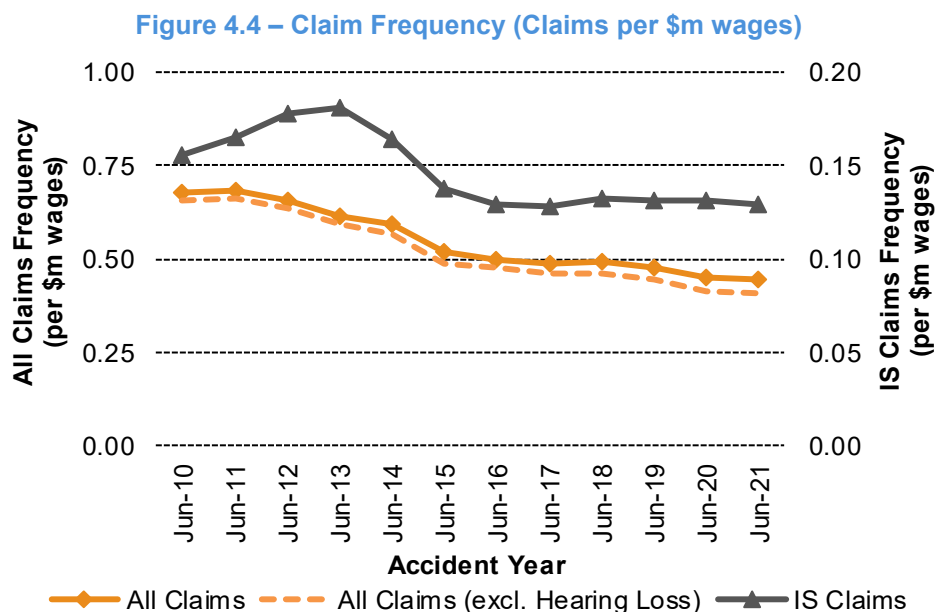
The key features we note from Figure 4.3 are:

- COVID-19 restrictions led to reduced claim numbers in the June 2020 quarter for Physical Trauma injuries. IS claims however did not reduce to the same extent.
- For mental Injury claims, after a period of strong growth over the two years to December 2019, there has been a significant drop-off in the number of “All” and IS claims. This coincides with recent claims management initiatives as noted in Section 3.4.1.
- After what appeared to be signs of a flattening off in Hearing Loss claims up to June 2020, the last two quarters have increased even further and are on track to be the highest on record.
- Musculoskeletal claims have seen an increase in claim numbers since the start of COVID-19 and this has translated into higher IS numbers as well.

The mix of claims by injury type has important implications for longer term IS claim costs, as there are noticeable differences in claim durations between the different groups.

4.1.3 Claim Frequency – All Claims and IS Claims

Figure 4.4 compares the trends in (1) total claim frequency ('all claims' numbers from Section 4.1.1), (2) total claim frequency excluding hearing loss claims, and (3) IS claim frequency (IS numbers; Section 4.1.2). The frequencies are expressed relative to covered scheme wages (in current values). The two series are shown on different scales so the trends can be directly compared.



The IS claim frequency was on a similar trend to the all claims frequency prior to 2010, before diverging between 2010 and 2013. After the steep improvement in the IS claim frequency between 2013 and 2015, trends in the IS claim and all claim frequencies were broadly in line until 2018, when the IS claim frequency began to deteriorate again. While they are only early signs, there are now some indications that the gap between IS and all claim frequencies appears to have stabilised over 2020.

The current reducing trend in the all claim numbers frequency is a product of growth in hearing loss claims offset by reducing claim frequencies in other claim types, which is broken down further in Table 4.1.

Table 4.1 – Projected Ultimate Claim Frequency: Comparison to Previous

Accident Year	All claims (excl. hearing loss)				Hearing Loss Claims			
	Claim Freq (per \$m of wages)	Year on Year % Change	Prev. Freq	Change from Prev	Claim Freq (per \$m of wages)	Year on Year % Change	Prev. Freq	Change from Prev
Jun-18	0.46	0%	0.46	-0.3%	0.03	13%	0.03	13.0%
Jun-19	0.44	-4%	0.45	-0.5%	0.03	4%	0.03	1.4%
Jun-20	0.41	-7%	0.42	-1.9%	0.04	24%	0.04	2.5%
Jun-21	0.41	-2%	0.42	-3.5%	0.04	7%	0.04	-1.4%

4.2 Serious Injury Claims

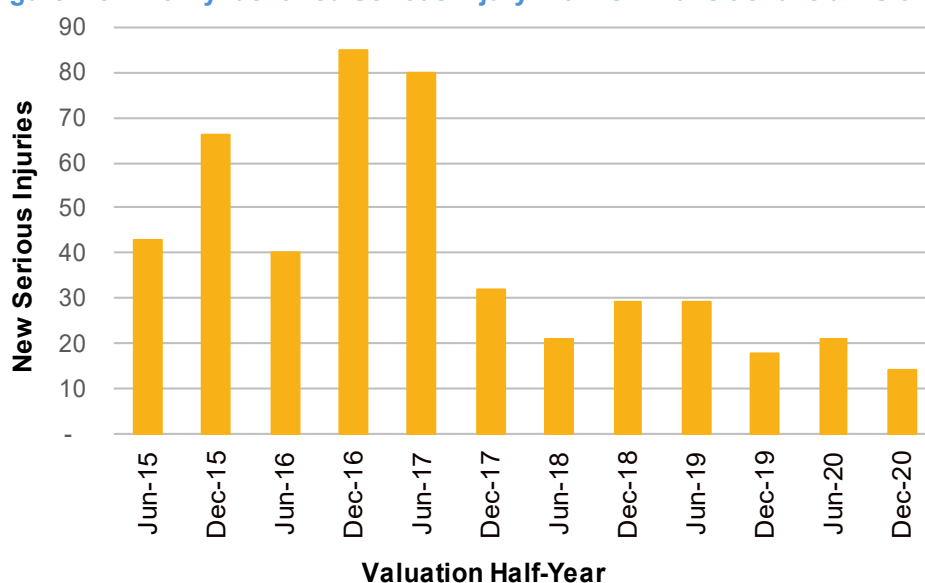
The Serious Injury threshold of 30% WPI is the most material scheme boundary from a financial perspective.

The formal process for recognising a claim as being a Serious Injury is a determination by ReturnToWorkSA once a claim is assessed as having a WPI of 30% or more. For our valuation work we also consider claims that are not yet formally determined as being a Serious Injury but who are expected to become so in future. We do this by using information on claims identified as 'potential' Serious Injury

claims, based on profiling and review work by ReturnToWorkSA which uses the medical and claims file evidence (for example, information on the injury and any need for future surgeries) on a claim by claim basis. The list of likely Serious Injury claims is updated over time as claims are re-reviewed, such as when there is a change in the claim situation that suggests a claim will or won't meet the 30% WPI threshold; all claims are ultimately confirmed as either meeting or not meeting the requirements to be considered a Serious Injury.

We are now six years into the RTW Act, and the emergence of Serious Injury claims from the transitional cohort has continued for much longer than expected. Even though very few (non-Serious Injury) pre-RTW Act claims are still in receipt of Income Support payments, Serious Injury claims continue to emerge and the number of open Serious Injury application disputes and/or unresolved WPI disputes remains high, as was discussed in Section 3.4.2; we are now also seeing similar types of behaviour from RTW Act claims. This means there continues to be uncertainty around Serious Injury claim numbers well beyond when claims hit the two year Income Support boundary. Figure 4.5 shows the emergence of the current cohort of Serious Injury claims for transitional periods (excluding Severe Traumatic injuries as these tend to be identified quickly).

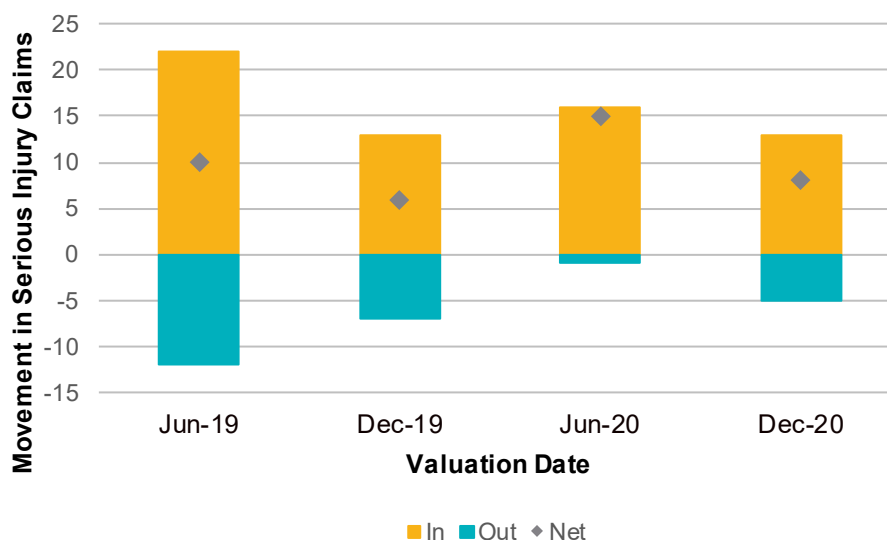
Figure 4.5 – Newly Identified Serious Injury Claims - Transitional claims only



Although new Serious Injury claims for transitional periods have been lower since 30 June 2017, the run-off since this point has been very slow, with an additional 14 claims in the last six months identified as a Serious Injury claim. In previous valuations the number of newly identified Serious Injury claims has been partially (but not fully) offset by the removal of some claims from the 'potential' group as additional information became available. Given the size of the 'potential' cohort is now minimal, any continued late identifications beyond the valuation allowances will likely result in a net increase in ultimate claim numbers for transitional periods.

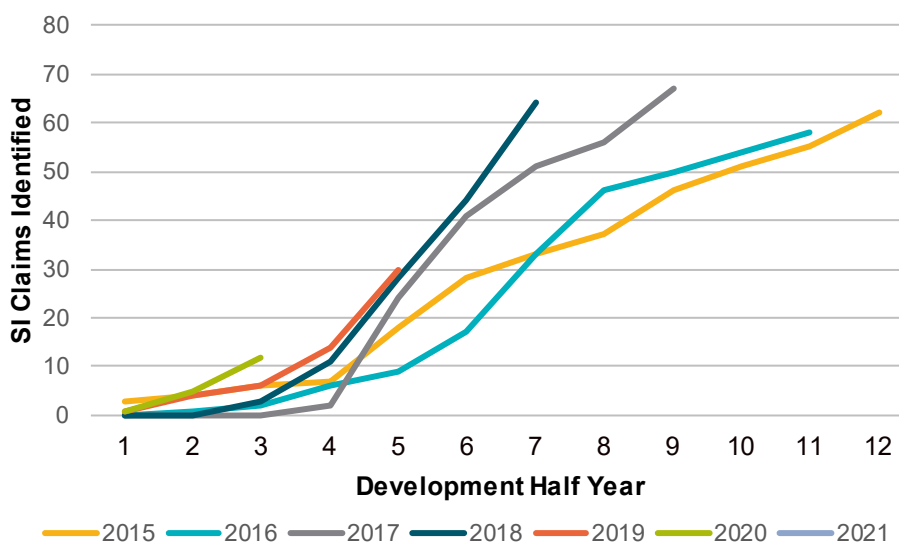
Figure 4.6 below highlights this feature for the 2014 to 2016 accident years. The 'in' movement has shown little to no reduction, particularly over the last three valuations, which is surprising given all these claims are well beyond the two year Income Support boundary. For the three valuations to June 2020 the 'out' movement had a clear reducing pattern reflecting the reduction in the 'potential' cohort. While there was an increase in the 'out' movement over the last six months, this was the result of a re-review for the majority of the 'potential' cohort. With this re-review now complete, we expect that the opportunity for further 'out' movements is again diminished as this is essentially bringing forward the recognition of 'outs' that would have occurred over the next few valuations.

Figure 4.6 – Serious Injury Claim Movements: 2014-16 Accident Years



For RTW Act periods the emergence of Serious Injury claims continues to quicken, following changes ReturnToWorkSA has made to the claims management model to aid early identification as discussed in Section 3.4.1. As explained above, it is likely that a small number of identified claims, mainly for more recent accident years, will become ‘outs’ in future, and this will somewhat help to ‘flatten off’ the emergence pattern. The emergence pattern for recent accident years is shown in Figure 4.7 below.

Figure 4.7 – Serious Injury Emergence for Recent Accident Years



The combination of continued late Serious Injury identification (i.e. the absence of any real ‘flattening off’, even well beyond the two year Income Support cap) and the change in the speed of emergence for more recent accident years means it is challenging to estimate ultimate numbers based on historical patterns.

Further complicating this is the legal environment, with key parts of the RTW Act still being tested and legal precedent being slow to emerge. Relating to this, following the favourable *Mitchell* decision ReturnToWorkSA advised us that their interpretation regarding combining surgery related injuries is different than it was prior to the decision (to align with the *Mitchell* decision). This interpretation will not allow for the inclusion of surgery related injuries on parts of the body that are not related to the initial injury to be considered in the WPI assessment. This change will lead to fewer claims reaching the

Serious Injury threshold; for clarity we note that claims that have already been determined or interim determined will not be affected by this change, as only new Serious Injury applications will be assessed using this interpretation.

To assess the potential impact of this revised interpretation ReturnToWorkSA reviewed all currently identified Serious Injury claims from the 2014 to 2016 accident years to see if they would have still reached the Serious Injury threshold. This review indicated that this post-Mitchell interpretation would remove around five claims per accident year⁴. We note that this interpretation is yet to be tested through the dispute resolution process, although ReturnToWorkSA are confident in it given it flows directly from the Full Court's *Mitchell* decision.

Given this, our approach to setting ultimate Serious Injury numbers (other than Severe Traumatic Injury) uses a similar framework to previous valuations:

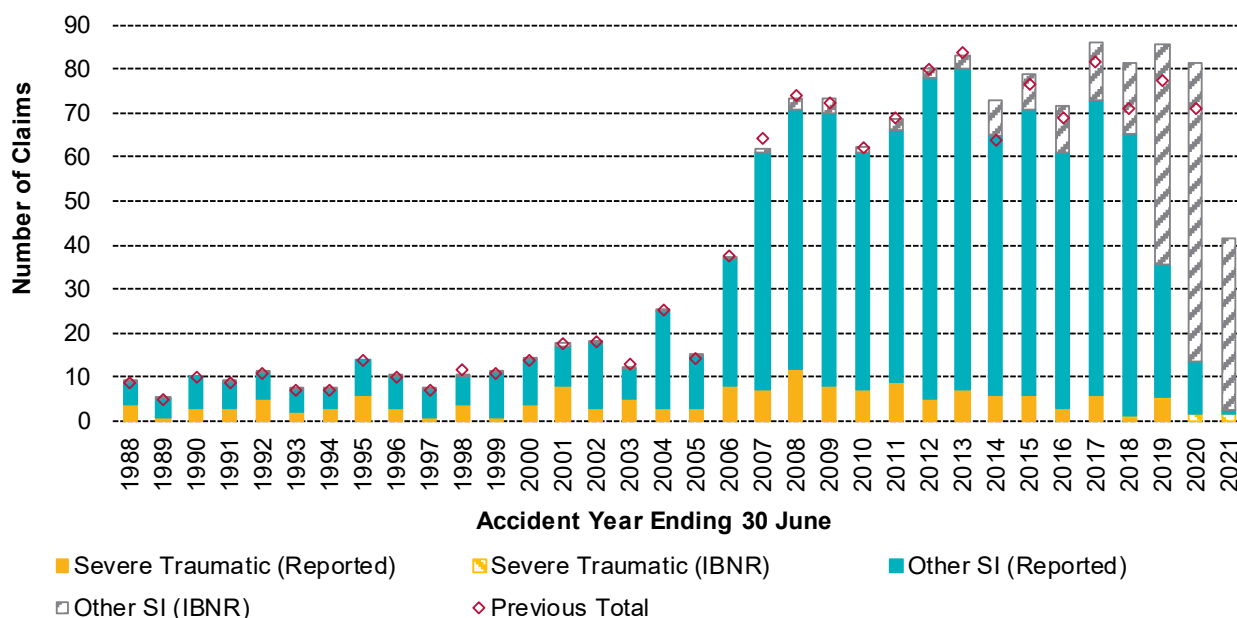
1. For 2017 and prior accident years the IBNR is an explicit allowance, based on the number of claims with either a Serious Injury dispute, Serious Injury application or WPI activity initiated plus a loading for claims to be identified from outside these sources (which we then add to the identified Serious Injury claims to give the ultimate). The approach for these periods is unchanged from the previous valuation, although we have reviewed both our conversion assumptions for identified IBNR sources, along with the additional IBNR loading on top of this.
2. For 2018 and later accident periods, we have increased the ultimate number of claims to be equal to the 2017 accident year. This is a change from the previous valuation where 2018 and later accident periods were set equal to the average of the 2016 and 2017 accident periods excluding claims identified as not meeting the new interpretation of the Serious Injury threshold. This change was largely driven by the high number of claims already identified for the 2018 accident year, and considering the increased Income Support claim numbers and wages growth since 2018.

Importantly, this approach implicitly assumes that the recent deterioration in RTW durations for short-term claims will not translate into more or higher WPI assessments.

Figure 4.8 shows our resulting estimated numbers of Serious Injury claims by accident year, noting 2021 only covers accidents for the six months to December 2020.

⁴ All claims that were identified as not meeting the Serious Injury threshold under this new interpretation have been flagged to assist in setting future claim numbers, even though there is no change to the Serious Injury status for those specific claims. That is, while they will still be valued as part of the liability, we will manually remove these claims when considering the underlying future level of new Serious Injury claims.

Figure 4.8 – Serious Injury Claim Numbers by Accident Year



The key features we note from this are:

- The number of identified Serious Injury claims prior to 2007 is low, which is a result of past redemption activity removing such claims from the scheme.
- For Severe Traumatic Injuries, which tend to be identified quickly, the estimates for each accident year generally give credibility to experience to date. The 2018 and 2020 years look like being very low years for Severe Traumatic Injuries, whereas the 2017 and 2019 years look higher (although they are still lower than the 2007 to 2013 years).
- For 2013 and prior accident years there has been little change to the ultimate number of claims.
- For the 2014 and later accident years the estimate of ultimate Serious Injury claims has increased. This reflects the continued emergence of Serious Injury claims well beyond the two year Income Support boundary, as well as the high levels of claims already identified for more recent accident years, most notably for 2018.

Overall we have allowed for 235 IBNR claims in our projections, which equates to 2.8 injury years' worth of claims.

Underpinning our IBNR allowance is the assumption that the speed up in the identification of Serious Injury claims in recent years reduces the tail of claims identified well beyond the two year Income Support cap. If this does not hold, or the late identification of Serious Injury claims for older years does not start to run off soon, there will be material increases for both the outstanding claims liability and the breakeven premium rate for future years.

To put our allowances for Serious Injury claim numbers into context, we compare the remaining IBNR allowance for each accident year with the number of claims sitting in each 'IBNR pool' and other remaining open claims in Table 4.2 below.

Table 4.2 – Serious Injury IBNR vs Remaining Open Claims (pre-2017 accident years)

Accident Period	SI Application ¹	WPI Activity ²	Other Open	Total Open Claims	Serious Injury IBNR	IBNR
Prior	4	117	239	360	3	0.9%
2007	1	18	30	49	1	2.2%
2008	4	15	35	54	2	4.3%
2009	9	12	44	65	3	4.9%
2010	3	17	45	65	1	1.9%
2011	4	26	54	84	3	3.0%
2012	3	20	46	69	2	3.2%
2013	7	41	54	102	3	3.2%
2014	13	80	53	146	8	5.3%
2015	16	87	62	165	8	4.7%
2016	17	181	149	347	11	3.1%
2017	13	248	178	439	13	3.0%
Total	94	862	989	1,945	58	3.0%

¹Either in SI application dispute, or recent application without decision

²WPI assessment not completed, or WPI/s7 dispute

The table indicates that the allowances for remaining open claims to reach the Serious Injury threshold are low proportions of the open claims pool; it would take only small deviations from this to have large consequences for the outstanding claims liability – particularly for the 2016 and 2017 accident years where around 800 claims remain open, and similarly so for 2018 and later years. The trends in Figure 4.6 suggest that as the Serious Injury status and profiling for these periods becomes more certain, it is less likely that there will be offsetting ‘out’ movements to offset any IBNR claims in excess of our allowances. There is therefore more risk that our IBNR is too low than too high.

In summary, there remain a number of risks to our current estimates of Serious Injury numbers:

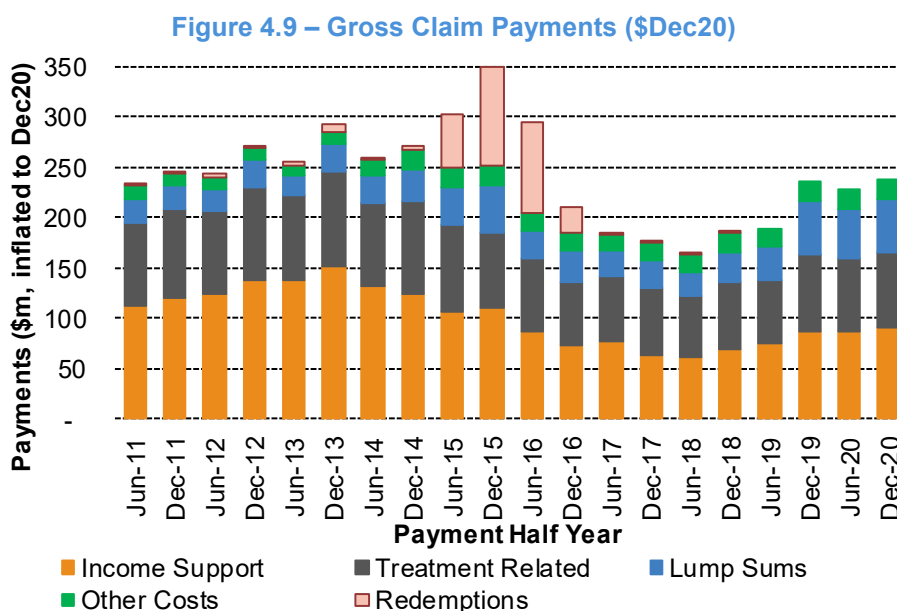
- Due to high levels of redemptions and differences in recording of WPI it is difficult to use 2013 and prior experience in estimating ultimate numbers for more recent accident years.
- No years from 2014 onwards have demonstrated a clear run off pattern for new Serious Injury claims, meaning we don’t as yet have a clear indication of how much longer to anticipate new Serious Injury claims will continue to be identified. In the absence of this we have set the IBNR allowance from 2014 to 2017 based on the number of claims that have started either the Serious Injury or WPI application process; however, this pool of claims is also yet to reach maturity, as new claims have continued to commence activity over time despite the relatively old claim age, and small deviations between the assumed and actual conversion proportion could materially impact numbers.
- The process for identifying potential Serious Injury claims has been refined over recent years, which has coincided with higher numbers of claims being identified at earlier durations. We have currently interpreted that as a speed up in identification rather than a deterioration. If this does not ultimately prove to be the case, it would increase Serious Injury numbers.
- Our approach does not attempt to account for any differences in the profile or management of claims from different periods and so there is an implicit underlying assumption that the recent deterioration in short-term claims performance only affects the duration of those claims (subject to benefit caps) and won’t result in higher WPI scores.
- Any adverse legal decisions that lead to more claims getting higher WPI scores would be likely to materially increase Serious Injury claim numbers. As explained in Section 3.2, new avenues of

challenge to the assessment of WPI continue to emerge, and our basis continues to reflect the current operational implementation of these provisions, which is different to some recent SAET decisions. The *Summerfield* case is the latest appeal to the Full Court, and if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the Scheme.

Given the high value of Serious Injury benefits, higher than expected Serious Injury claim numbers would materially increase the liability.

4.3 Overall Payment Experience

Figure 4.9 shows gross claim payments (before recoveries) in half-yearly periods over the last ten years, inflated to current values.



Gross payments of \$239 million in the last six months were up 4% from the previous period due to all payment types:

- Income Support payments increased slightly (by 3%) over the past six months, after a recent period of high growth in the three half years prior to June 2020. There were increases of 15%, 9% and 12%, following a series of steady reductions between 2013 and 2018.
- Treatment related costs increased by 4%, following a 6% reduction in the previous period, noting that the June 2020 half year was impacted by COVID-19 restrictions.
- Lump sum payments also increased, by around 6%, following steep increases in payment levels over the June 2018 to December 2019 period as activity in the Transition project continues to result in more payments. The growth in hearing loss claims is also leading to increased lump sum payments.
- Redemption activity has now ceased under the RTW Act.

After allowing for recoveries of \$5.5 million in the last six months, net claim payments of \$231 million were \$2.4 million (1%) higher than projected at the previous valuation. Table 4.3 shows the breakdown.

Table 4.3 – Payments: Actual vs Expected

Entitlement Group	Six Months to Dec-20				Split by Category	
	Actual	Expected	Act - Exp	% A - E	Short Term	Serious Inj
	\$m	\$m	\$m		\$m	\$m
Income support	86.5	85.2	1.3	2%	-1.5	2.8
Redemptions	0.0	0.0	0.0	n/a	0.0	0.0
Lump sums	56.9	57.0	-0.1	0%	-0.6	0.5
Worker legal	8.4	7.0	1.4	20%	1.2	0.2
Corporation legal	10.3	10.8	-0.5	-5%	-0.3	-0.2
Medical	38.1	38.5	-0.4	-1%	-0.2	-0.1
Hospital	10.5	9.9	0.7	7%	0.4	0.3
Travel	3.0	3.3	-0.3	-8%	-0.2	0.0
Rehabilitation	7.4	7.5	0.0	-1%	0.0	0.0
Physical therapy	6.2	5.3	0.8	16%	0.8	0.0
Investigation	1.2	1.1	0.1	13%	0.1	0.0
Other	7.9	7.6	0.4	5%	-0.2	0.6
Common law	0.0	0.2	-0.2	-101%	-0.2	0.0
LOEC	0.1	0.1	0.0	-25%	0.0	0.0
Commutation	0.2	0.2	0.0	-7%	0.0	0.0
Gross Payments	236.7	233.6	3.2	1%	-0.8	3.9
Recoveries	-5.5	-4.8	-0.7	15%	-1.9	1.2
Net Payments	231.2	228.7	2.4	1%	-2.7	5.2

The key features of the last six months' payment experience are:

- Income support payments were mostly in line with expected; payments were above expectations for Serious Injury claims and slightly below expectations for Short Term claims.
- Lump sum payments were in line with expected.
- Treatment costs were overall slightly above expected, due to higher Hospital and Physical therapy spending.
- Worker legal costs were higher than expected for both Serious Injury and Short Term claims.

Our valuation basis for Short Term claims is discussed in the following sections: Income Support and related expenditure in Section 5; Lump sums in Section 6; treatment related expenditure in Section 7 and all other entitlements in Section 8. Section 9 discusses our valuation of Serious Injury claims.

5 Income Support – Short Term Claims

This section describes our valuation of Income Support (IS) payments for Short Term Claims (STC) only.

5.1 Summary of Results

Table 5.1 summarises the movements in our liability estimates for IS payments since the June 2020 valuation.

Table 5.1 – Valuation Results: Income Support

Valuation Results: STC Income Support			
Jun-20 Valuation	\$m	\$m	\$m
Estimated Liab at Jun-20	182.2		
Projected Liab at Dec-20	180.9		
Dec-20 Valuation			AvE pmts Actl Release
Impact of experience/OSC - valuation release	(15.4)	(1.5)	16.9
Estimated Liab at Dec-20 (Jun-20 eco assumptions)	165.5		
Impact of change in eco assumptions	(0.1)		
Estimated Liab at Dec-20 (Dec-20 eco assumptions)	165.4		

At December 2020 there is an actuarial release of \$16.9 million, reflecting the claims experience since June 2020, our valuation response relating to this claims experience, and includes the removal of additional COVID-19 allowances from the previous valuation. The actuarial release comprises a decrease of \$15.4 million in the liability estimate combined with \$1.5 million lower payments than expected over the past six months.

The impact of economic assumptions is fairly minor for the Short Term claim IS payments; economic assumptions are discussed in Section 11.3.2.

5.2 Experience vs Expectations

5.2.1 Payments

Table 5.2 compares the IS payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 5.2 – Actual vs Expected Payments: IS

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	Difference
	\$m	\$m	\$m	
To 30 Jun 05	0.3	0.2	0.1	29%
2005/06 - 2014/15	0.9	1.0	(0.1)	-11%
2015/16 - 2017/18	4.6	3.5	1.1	32%
2018/19 - 2019/20	60.5	62.5	(2.1)	-3%
2020/21 ¹	7.2	7.8	(0.6)	-7%
Total	73.5	75.1	(1.5)	-2%

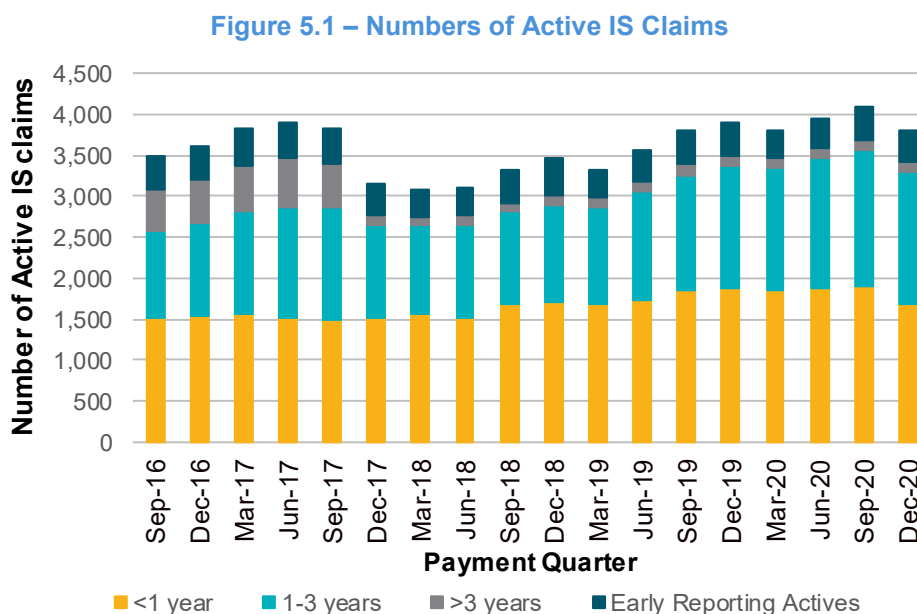
¹ Accidents to Dec20

IS payments were 2% (\$1.5 million) lower than expected overall in the six months to December 2020. This was due to \$2.6 million of lower payments for the last three accident years offset by \$1.1 million of higher payments for 2017/18 and prior years. As a reminder, the June 2020 projections incorporated an additional allowance for return to work rates to deteriorate due to COVID-19 – in short this deterioration did not occur, and despite the negative pressures that COVID-19 introduced the actual experience was

more favourable than expected even after removing the additional allowance. The unfavourable experience for accident years 2015/16 to 2017/18 relates predominantly to some large dependent benefit payments.

5.2.2 Active Claims and Exits

Figure 5.1 shows the numbers of (quarterly) active IS claims, by duration, since the RTW Act came into effect.



During calendar year 2016, medium-duration actives (1-3 years) were low, as many transitional claims had exited via redemption in the lead-up to the RTW Act. With IS redemptions no longer being used, the numbers of 1-3 year actives increased up to June 2017; active claim numbers then declined notably in December 2017 (and similarly for >3 years claims) as a result of claims exiting due to the 104 week boundary on IS payments.

Since June 2018, active claim numbers then steadily increased, from just over 3,000 claims per quarter to over 4,000 in September 2020. This increase was due to a combination of higher exposure, deteriorating claim frequency and longer claim durations. The fastest growth was in 1-3 year actives, which grew by more than 40% since September 2018. The December 2020 quarter then saw a significant improvement in the number of active claims, dropping from above 4,000 in September to around 3,800 active claims in December due to fewer <1 year duration claims.

The underlying claims experience shows a number of encouraging signs, and if these patterns continue then the favourable experience will have a positive flow-on impact to longer duration claims over the next six to 12 months.

In Table 5.3 we compare the numbers of active IS claims at December 2020 with our June 2020 valuation projection. This has been done only for periods where we projected future active claims at the June 2020 valuation (accident quarter March 2018 and later).

Table 5.3 – AvE Active Claims

Accident Quarter	Proj from Jun-20 Val	Actual Actives	Act less Proj	Diff as % Proj
Mar-18	23	19	-4	-18%
Jun-18	37	32	-5	-14%
Sep-18	89	67	-22	-25%
Dec-18	239	230	-9	-4%
Mar-19	272	258	-14	-5%
Jun-19	314	291	-23	-7%
Sep-19	379	356	-23	-6%
Dec-19	396	367	-29	-7%
Mar-20	459	423	-36	-8%
Jun-20	529	508	-21	-4%
Sep-20	628	601	-27	-4%
Dec-20	199	155	-44	-22%
Total	3,564	3,307	-257	-7%

Overall, active claim numbers at December 2020 for these periods were 7% below expectations. The experience is consistently better across all durations. While our previous basis included an additional allowance for COVID-19 impacts to add around 89 active claims, even after excluding this allowance the actual experience is still 5% below 'underlying expectations'.

5.3 Modelling of STC IS Payments

Our modelling approach for IS payments involves:

- **For all IS payments in the first three years after injury (development years 1 to 3) – a PPAC model** which models all IS entitlements at these durations; this includes IS payments to dependants, late IS payments (back-pay), claims with 'late starting incapacity' and IS payments made following surgery where the claimant would not otherwise have been entitled to IS.
 - ▶ We model IS entitlements separately for five main injury groups: Injury, Musculoskeletal, Psychological, Hearing Loss and Other. The split allows us to better reflect the specific continuance and average size profiles of each claim segment, and allow for the changing mix of injuries over time.
 - ▶ Our modelling approach at the June 2020 valuation included a specific allowance for return to work deterioration to occur as a result of the impact of COVID-19 on the economic climate. At this valuation, we have removed this additional allowance in light of both the better than expected economic climate in South Australia and the underlying claims performance improvements more than offsetting this impact to date.
- **For all IS payments more than three years after injury (development years 4 and later) – a PPCI model**, which splits out IS payments to dependants from other IS payments (mostly back-pay and IS payments following surgery). This PPCI model uses total claim numbers (not just IS claims) as the base.

Detailed valuation assumptions for Hearing Loss claims are not provided in Section 5.4, on materiality grounds, and these can be found in Appendix F. In the last five years there have been around two Hearing Loss claims per accident year that receive income support payments, and the separation of Hearing Loss is of less relevance for IS payments than it is for other payment types.

5.4 Valuation Basis

5.4.1 IS Payments in Years 1-3: PPAC Model

In this section we show the December 2020 continuance rate and PPAC selections for each individual injury group and compare them to the June 2020 selections. Later, we show the overall assumptions compared to the June 2020 valuation, to demonstrate the overall movement in the basis.

As explained above there are two main components to the modelling:

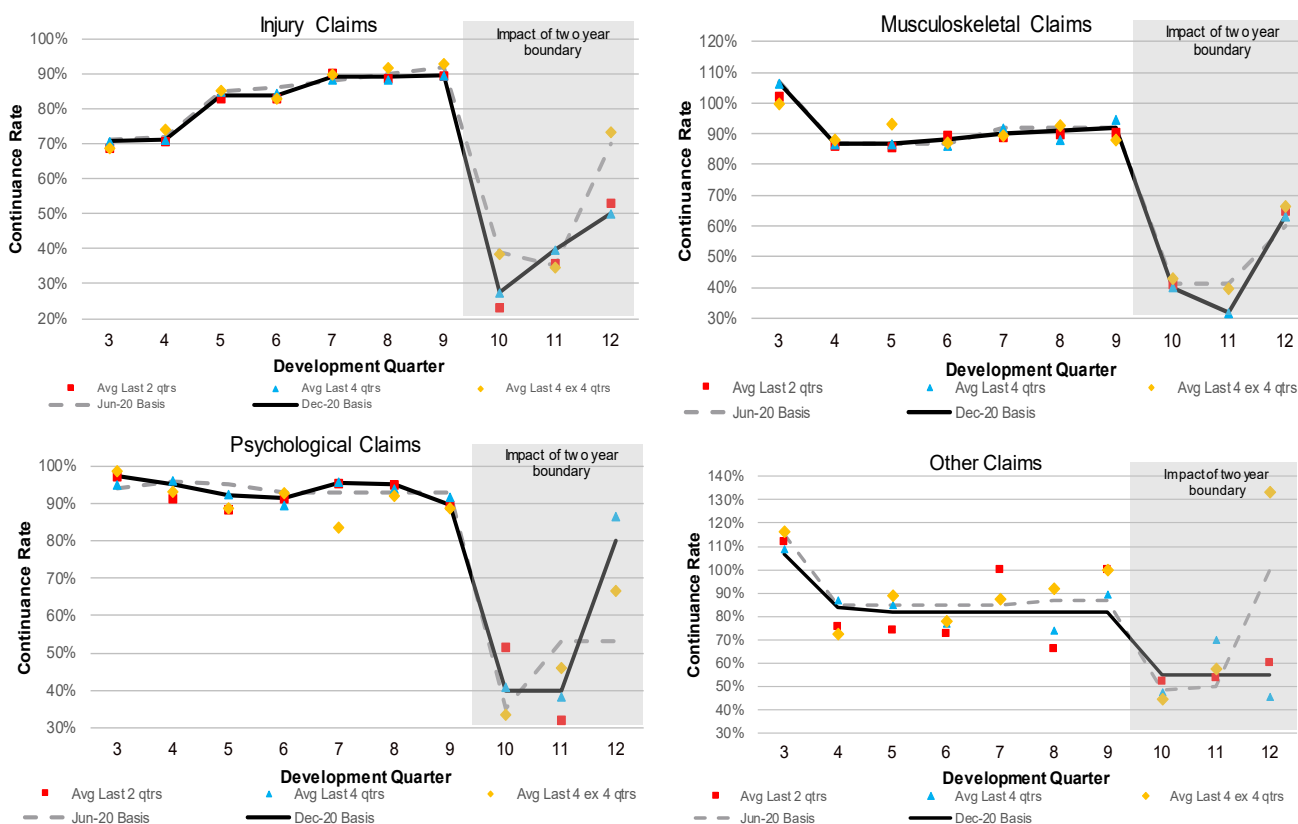
- Projected active claims: based on historical claims performance, as well as expectations of how this performance will emerge in future.
- Projected average payment size (PPAC): based on historical claims performance.

These two components of the income cost projection are described in more detail below.

Projection of Active Claims

Figure 5.2 below shows the recent continuance rate experience and our adopted bases at the June 2020 valuation and the current valuation for each injury segment.

Figure 5.2 – Continuance Rates – by Injury Group

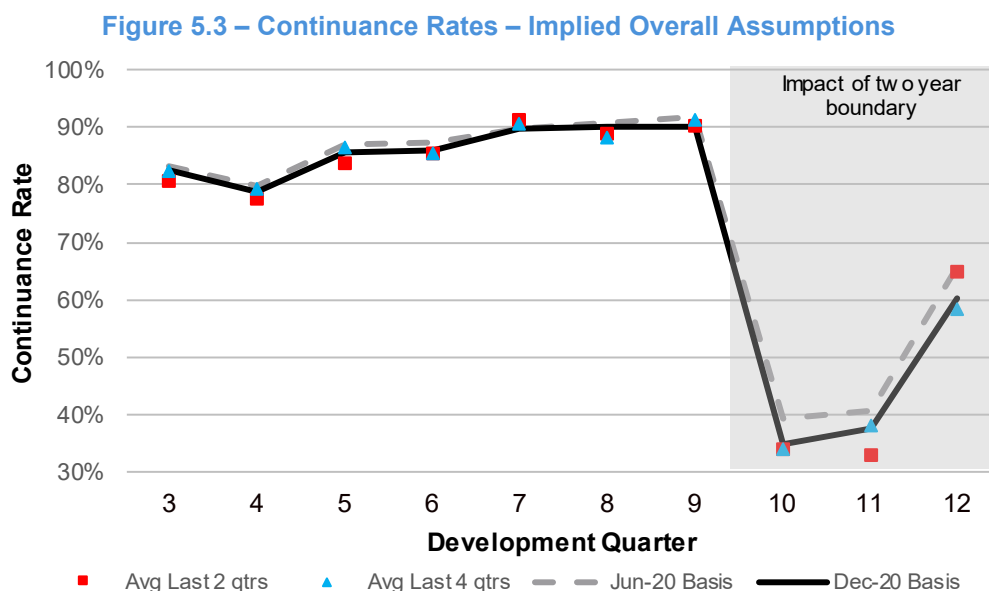


The valuation basis has been set close to the latest experience represented by the averages of the last 2 and 4 quarters. The ‘average 4 excluding 4’ metric shows the experience for the 2019 calendar year, for comparison with the experience of the 2020 calendar year (‘average last 4’). The key take-outs from Figure 5.2 include:

- There was an improvement in the continuance rates for Psychological claims over the last six months at earlier durations. This coincides with an increase in the rejection rate for Psychological claims resulting in fewer claims starting on income support benefits and other claims management initiatives that have been implemented over the last year. The selected basis has been reshaped from the previous valuation and is overall slightly lower at durations up to development quarter six. The new basis does not fully reflect the best of the recent experience, as we have allowed for a small increase in rejected claims to be paid income support benefits in the future, in response to the higher rejection rate recently. At longer durations, the adopted basis is consistent with the experience over the last four quarters.
- The continuance rate for Physical Injury and Other claims has improved in the last six months across most durations and the revised basis reflects this favourable experience.
- The experience for Musculoskeletal claims has been broadly consistent across the last two years and the selected basis is largely unchanged from previously.

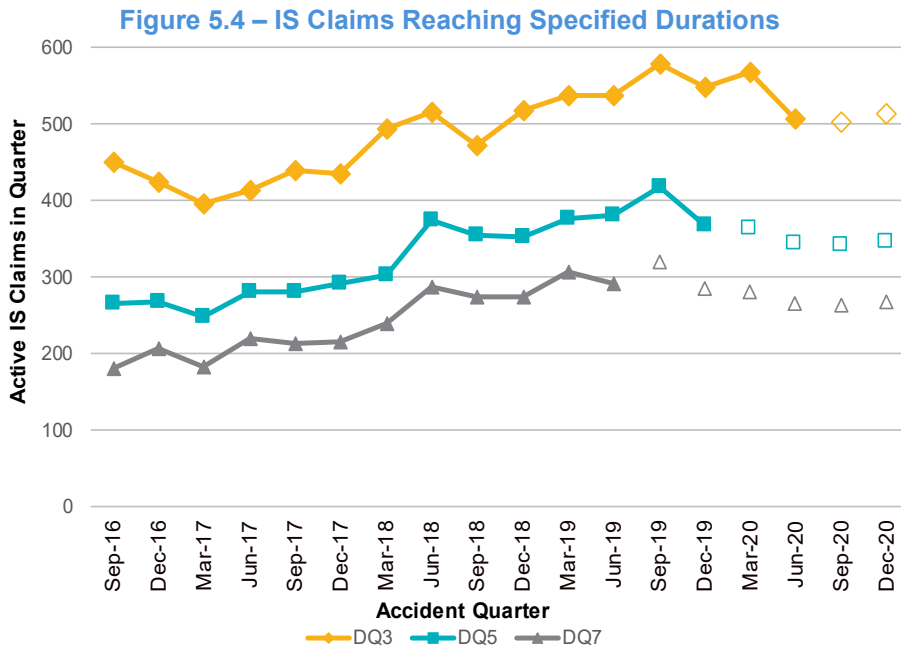
As noted earlier, at this valuation we have removed the allowance for additional deterioration in continuance rates due to COVID-19, in light of the better than expected economic conditions in South Australia and underlying claims performance improvements more than offsetting any COVID-19 impacts to date.

Figure 5.3 shows the combined continuance rates compared to those selected at June 2020.



The overall average continuance rates are lower at this valuation, reflecting the improvement in continuance rate experience over the last six months as indicated by the two quarter average in Figure 5.3. The main area of improvement has been at early durations, with continuance rates decreased out to development quarter seven. As discussed above, the lower continuance rates can be observed across all injury groups other than Musculoskeletal claims.

Figure 5.4 below shows the outworking of our projection of active claims at development quarters 3, 5 and 7. The solid lines show the actual number of active claims and the dots show our projection.

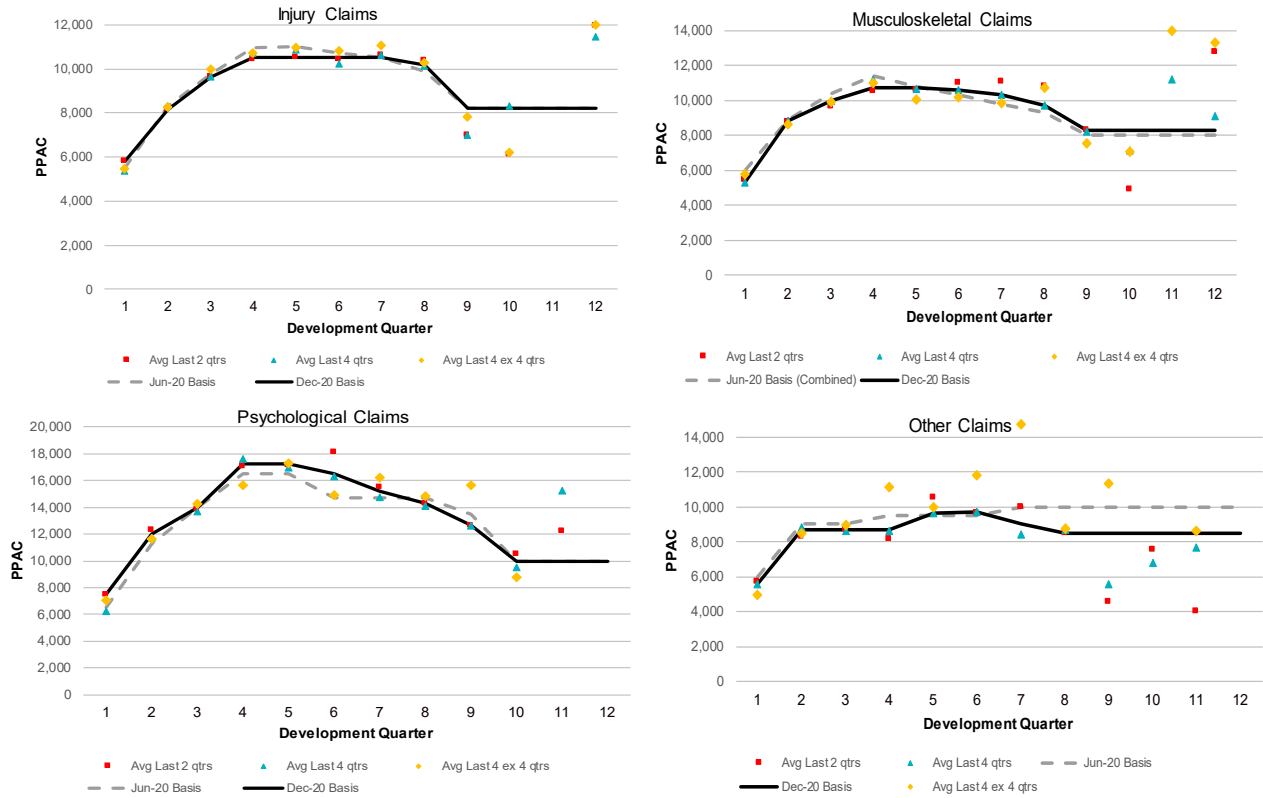


As Figure 5.4 shows, active IS claim numbers had been increasing steadily since the March 2017 quarter. Our projections suggest that active claim numbers have now peaked, with the projections at development quarters 3 and 5 moving lower than their recent peaks, and this improvement forecast to flow through to development quarter seven over the next six months.

Payments per Active Claim

Figure 5.5 below shows the recent PPAC experience and our adopted bases at the June 2020 valuation and current valuation for each injury segment. There are clear differences in payment levels for the different injury type segments.

Figure 5.5 – Payments per Active Claim (\$Dec-20): Injury Groups

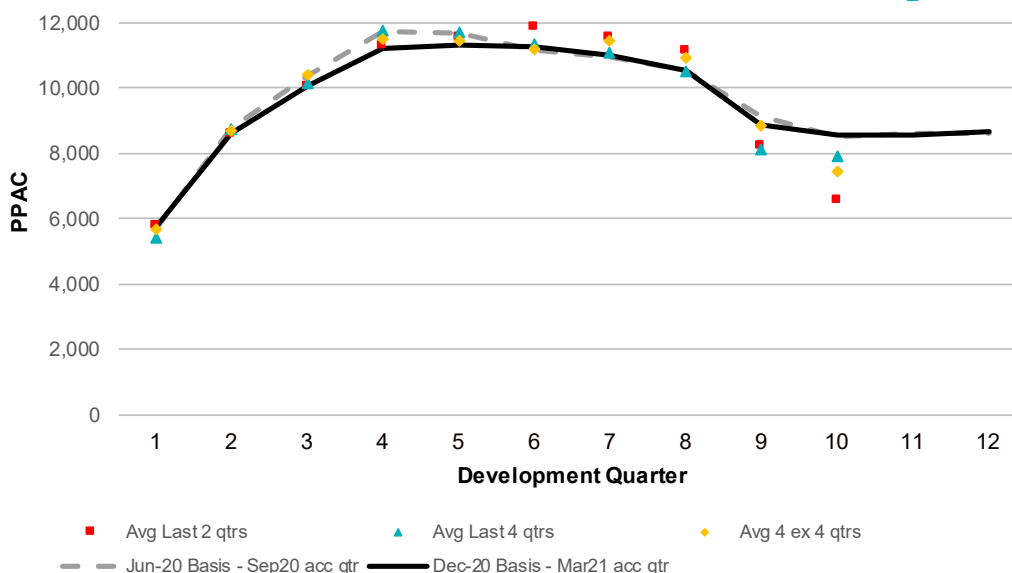


The key take-outs from Figure 5.5 include:

- The selected basis for Injury and Other claims is lower than previous and is consistent with the average over the last two and four quarters. The lower PPAC reflects a higher proportion of partial return to work payments and more workers ceasing IS payments partway through the payment quarter.
- The PPAC for Psychological claims has generally been higher in the last six months, and this is reflected in the selected basis.
- The basis for Musculoskeletal claims has been reshaped at this valuation, with lower sizes at earlier durations offset by higher sizes at longer durations. This is consistent with the experience emerging over the last 4 quarters.

Figure 5.6 shows the combined payment per active claim compared to that selected for June 2020.

Figure 5.6 – Payments per Active Claim (\$Dec-20): Implied Overall Assumption



The recent overall PPAC experience is emerging lower than our June 2020 basis up to development quarter five, and similar for development quarters six and later. We have responded with a minor overall reduction in our adopted PPACs as shown. Changes in the claims mix over time also impact on how the implied average PPAC compares to recent experience – for example, the recent improvement in Psychological claims means that fewer Psychological claims are expected to get to longer durations in the future ‘March 2021’ accident quarter than are currently reaching those longer durations (which are claims that occurred around two years ago).

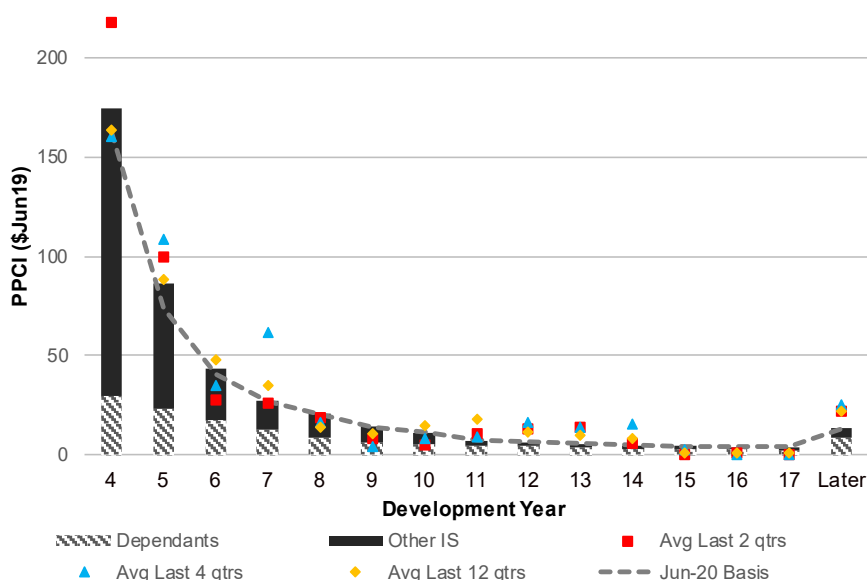
5.4.2 IS Payments after Year 3: PPCI Model

The overall adopted average PPCI size of about \$428 per reported claim is made up of two components:

- The allowance for ongoing dependant claim benefits of \$135 per reported claim, this is 6% higher than our previous allowance which reflects higher recent experience.
- An allowance for post-surgery IS payments, claims with ‘late starting incapacity’ and claims with back-pay (usually after a dispute is resolved), of about \$293 per reported claim, up 7% from our previous allowance. This increase reflects the higher emerging experience for RTW Act accidents which we are now giving greater weight to.

Figure 5.7 shows the adopted PPCI basis and its components. As this shows, the selected basis has been increased and is consistent with the long-term average over the last 3 years; given the claim numbers are relatively small we are generally less responsive to short term variability in this segment of the modelling.

Figure 5.7 – Adopted IS PPCI Basis (Average IS Cost per Reported Claim)



5.5 Valuation Results and Actuarial Release

Table 5.4 sets out the components of the actuarial release for IS payments.

Table 5.4 – Components of Actuarial Release: Income Support

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		1.5
Difference from projected liability		
Remove COVID allowance	5.3	
IS actives experience	6.8	
Continuance rates	4.6	
PPACs	0.3	
PPCI model	(1.6)	
		15.4
Total		16.9

The actuarial release of \$16.9 million is made up of payments in the six months being \$1.5 million lower than expected, and an \$15.4 million decrease in the projected liability from June 2020, composed of the following changes:

- A \$12.2 million decrease due to actual active claim numbers at December 2020 being lower than projected: this has been broken down into \$5.3 million due to removal of the extra allowance for delayed RTW due to COVID-19 that was added at June 2020 as outcomes have been better than projected, and a \$6.8 million improvement due to 'IS Actives Experience' being better than the underlying basis.
- A \$4.6 million decrease as a result of improvements in the continuance rates used to project future IS claim numbers ('Continuance rates').
- A \$1.4 million increase due to changes in payment assumptions: an increase in tail costs (PPCI model) partly offset by a small reduction in lower front end average payment expectations (PPAC model).

Table 5.5 summarises these movements by accident period.

Table 5.5 – Actuarial Release for Income Support

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation	Dec 20 Estimate on Jun 20 Eco Assumps	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	1.5	1.5	0.0	0.1	(0.1)	-5%
2005/06 - 2014/15	9.3	9.4	0.0	(0.1)	0.1	1%
2015/16 - 2017/18	11.0	11.6	0.6	1.1	(1.7)	-16%
2018/19 - 2019/20	93.2	84.1	(9.1)	(2.1)	11.2	12%
2020/21 ¹	65.8	58.9	(6.9)	(0.6)	7.5	11%
Total	180.9	165.5	(15.4)	(1.5)	16.9	9%

¹ Accidents to Dec20

6 Lump Sums – Short Term Claims

This section describes our valuation of lump sum payments for Short Term claims, including payments for claims which were not identified as a Serious Injury claim prior to the payment of the lump sum. A lump sum is payable to a worker who suffers a compensable disability that results in at least 5% whole person impairment (WPI). Separate Lump Sums compensate claimants for non-economic loss and future economic loss, although compensation for future economic loss is only available to claims with injuries from 1 July 2015.

Introduction

We value lump sums in five segments:

- “Death” and funeral claims
- “Hearing Loss” claims
- “First Paid” lump sums – where a claimant receives their first lump sum payment for the relevant claim (excluding Death and Hearing Loss claims); this is for non-economic loss only
- “Economic Loss” lump sums – Short Term claims may receive an additional payment for loss of future earning capacity. This is a new benefit under the RTW Act and is available to new injuries from 1 July 2015
- “Top Up” lump sums – where a claimant receives an additional payment in a half-year after they received their first lump sum payment (excluding Death and Hearing Loss claims). These are now only allowable for claimants with injury dates prior to 1 July 2015 who lodged an application prior to 30 June 2016. The number of these claims remaining continues to reduce, and we are likely to remove it as a separate modelling segment at some point.

Appendix A specifies the complete definitions for the lump sum valuation.

6.1 Summary of Results

Table 6.1 summarises the movements in our liability estimates for lump sum payments since the June 2020 valuation.

Table 6.1 – Valuation Results: Lump Sums

Jun20 Valuation	\$m	\$m	\$m
Estimated Liab at Jun-20	297.5		
Projected Liab at Dec-20	300.4		
Dec-20 Valuation		AvE pmts	Release
Impact of experience/OSC - Movement in liab	11.9	(0.6)	(11.3)
Estimated Liab at Dec-20 (Jun-20 eco assumptions)	312.2		
Impact of change in eco assumptions	1.1		
Estimated Liab at Dec-20 (Dec-20 eco assumptions)	313.4		

The December 2020 liability shows an actuarial increase of \$11.3 million since June 2020, reflecting an increase of \$11.9 million in the liability partly offset by \$0.6 million of lower claims payments. The remainder of this section deals with this impact while the impact of the change in economic assumptions is discussed in Section 11.3.2.

6.2 Payment Experience

Table 6.2 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 6.2 – Actual vs Expected Payments: Lump Sums

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Difference
	\$m	\$m	\$m	
To 30 Jun 05	0.6	0.4	0.2	35%
2005/06 - 2014/15	4.2	3.3	0.9	27%
2015/16 - 2017/18	23.2	23.0	0.2	1%
2018/19 - 2019/20	14.3	15.5	(1.2)	-8%
2020/21 ¹	0.2	0.8	(0.6)	-76%
Total	42.5	43.0	(0.6)	-1%

¹ Accidents to Dec20

Payments were 1% lower than expected in the six months to 31 December 2020, with higher than expected payments for injuries prior to 2017/18 partly offsetting lower payments in recent accident periods. The higher payment experience for older claims reflects a continuing stream of new WPI assessments coming through from projects related to transitional claims, which more than offset the impact of a slowdown in the WPI assessment process due to COVID-19.

6.3 Valuation Basis

Valuation Basis for First Paid Lump Sums

Our valuation basis adopts a combination of the chain ladder approach for more mature accident periods and a frequency based approach for more recent accident periods where there is less experience and there have been changes in the pattern of payments. Table 6.3 below compares the actual and expected number of First Paid lump sums paid in the six months to December 2020.

Table 6.3 – Actual vs Expected Payments: First Paid Lump Sums

Accident Period	Number of Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Difference
To 30 Jun 05	20	2	18	754%
2005/06 - 2014/15	110	74	36	48%
2015/16 - 2017/18	289	308	-19	-6%
2018/19 - 2019/20	208	183	25	14%
2020/21 ¹	0	0	0	n/a
Total	627	567	60	11%

¹ Accidents to Dec20

The number of First Paid lump sums in the last six months was 11% higher than expected. This was mostly due to higher than expected payments for transitional claims as a result of the claims projects currently underway. Experience for RTW Act periods was varied, with lower than expected payments for 2015/16 to 2017/18 offset by higher than expected payments for the more recent accident periods.

As was shown in Figure 3.1 the number of transitional claims starting the WPI assessment process has continued to be high. The transition claims project has been extended beyond its initially expected end date as it is still not clear when the number of WPI applications will reduce; this has been contrary to our expectations given the finite number of claims in the transitional cohort and relatively long (and increasing) time period since the injuries occurred. Due to the lag from claims starting assessments up

to finalisation of payments, this suggests there is still a significant number of transitional claims who are yet to be paid a lump sum.

As a test the reasonableness of our valuation basis for older accident years, Figure 6.1 below summarises a breakdown of open claims by their current status in the WPI assessment process (left-side bar) which is compared with the IBNR allowance for First Paid lump sums (right-side bar) for each accident year up to 2016.

Figure 6.1 – Comparison of Identified Potential Future Lump Sum Claims and Model IBNR Allowance (for accident periods up to June 2016)

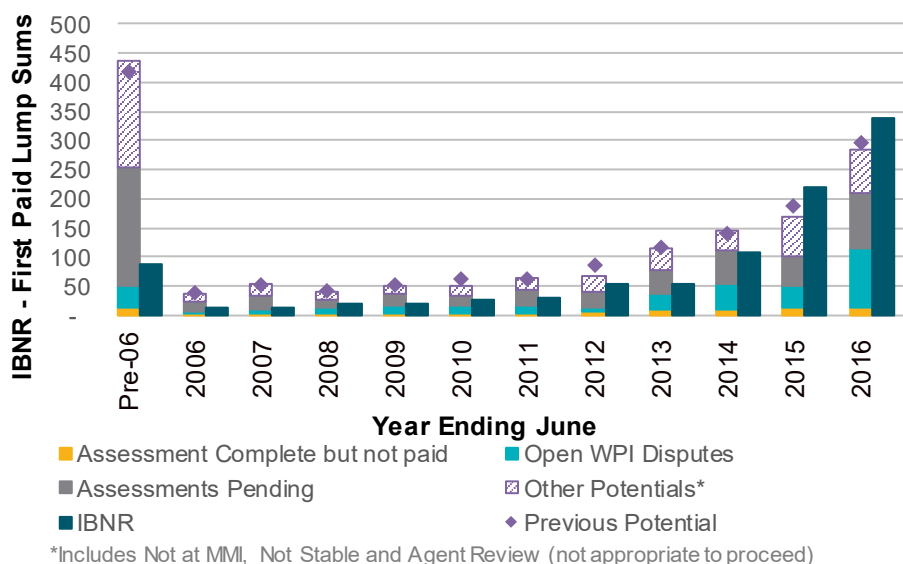


Figure 6.1 shows that:

- The number of identified potential future lump sum claims has not reduced much from six months ago despite the higher number of settlements in that time. This is due to lump sum settlements being largely offset by the inflow of new WPI applications as explained above.
- Pre-2006 accident periods have a high number of WPI assessments in progress. We understand this is linked to activity by ReturnToWorkSA to undertake WPI assessments for all 'prior claims' on workers currently having a WPI assessment. Most of these assessments are expected to end up with a WPI lower than 5% and therefore not be entitled to a lump sum payment. Our adopted IBNR allowance has increased by around 1.5 claims per year consistent with the higher number of in-progress assessments and allows for around 35% of open disputes and 13% of pending assessments to be successful.
- For accident years 2006 to 2014 which are initially based on the chain ladder approach, there are a large number of claims with pending WPI assessments, open disputes or potential future assessments. Our previous valuation included an additional IBNR allowance in addition to the chain ladder projections to reflect the number of pending assessments and open disputes, and we have increased the allowance at this valuation by around 10 claims per accident year to reflect the continuing high number of claims with WPI activity in the pipeline, even though claims in these cohorts have been receiving payments (that is, the overall pipeline has not reduced, even though some claims were finalised). Our basis allows for around 35% of open disputes and 27% of pending assessments (including an allowance for 120 future applications to commence) to receive a lump sum.

- For the 2015 to 2016 accident years, we have reduced our IBNR allowance by around 20 claims per year reflecting the lower than expected level of claims starting a WPI assessment for these injury years even though their experience to date has been lower than earlier periods.
- For the most recent accident years there is minor re-balancing to realign to other metrics: the 2017 and 2018 years have slightly lower IBNR allowances, while for 2019 and later years we have increased our projection of ultimates by 10 claims per year to achieve a similar proportion of Income Support claims receiving a lump sum payment as prior to 2019 periods.

Figure 6.2 shows the projected ultimate numbers of First Paid lump sums, split into paid and IBNR claims. The 2015 and 2016 years show the impact of the noticeable slowdown in lump sum payments, with the number paid up to the end of the fourth development year (the height of the red part of the bar) being much lower than occurred historically.

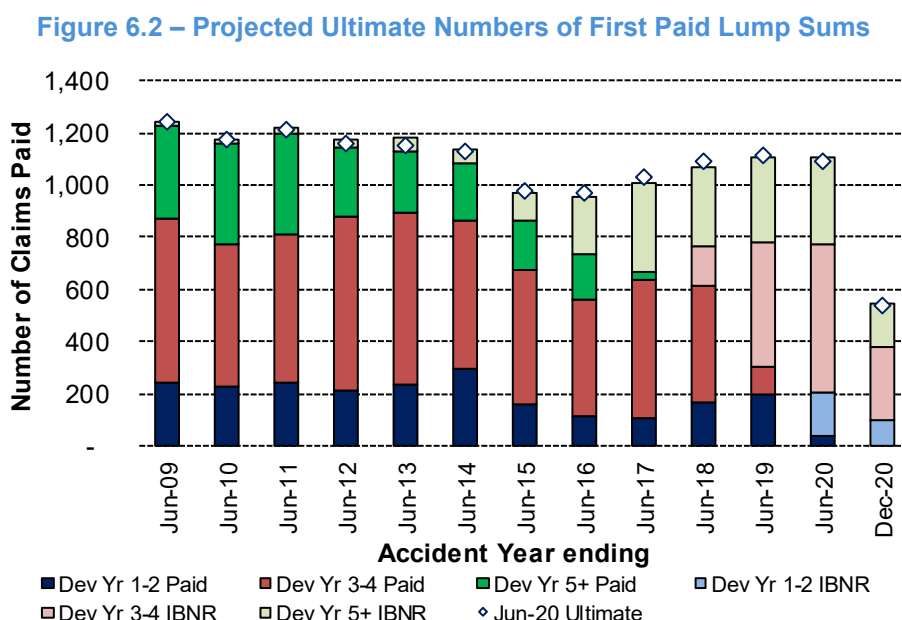
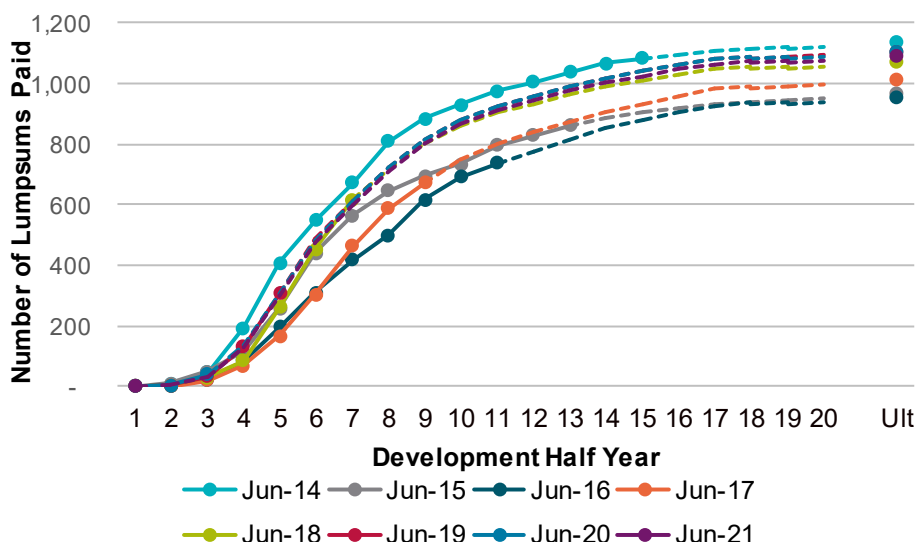


Figure 6.3 shows the cumulative number of First Paid lump sums by development year for accident years 2014 to 2021. The dotted line represents the projected development based on our selected payment pattern.

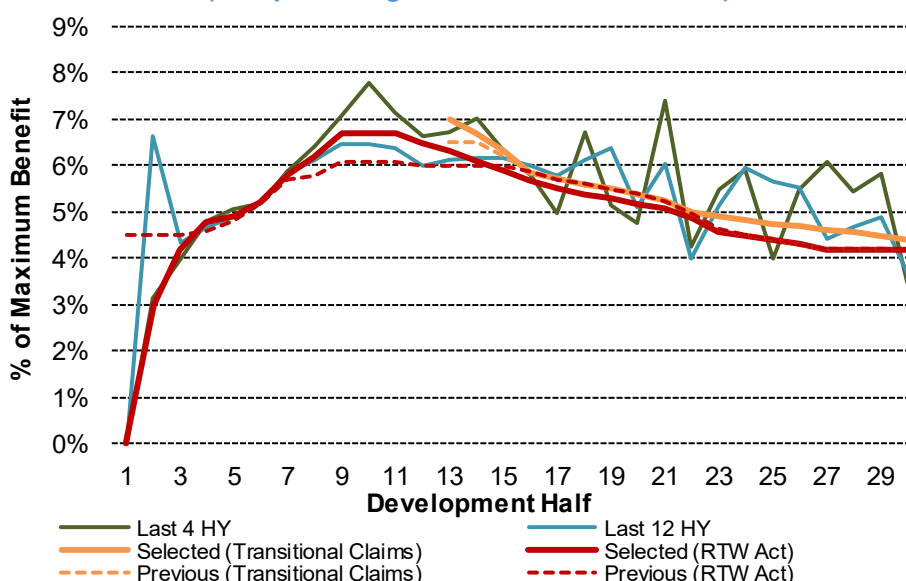
Figure 6.3 – First Paid Lump Sums Development



As Figure 6.3 shows, lump sum payments for all RTW Act accident years are currently sitting below the pre-reform experience (as demonstrated by the Jun-14 line). For 2018 and later years, the emerging experience suggests a faster payment pattern is occurring compared to 2016 and 2017. Our selected payment pattern up to development half-year 10 reflects this faster payment experience. For 2015 and prior years, we have selected a payment pattern that anticipates around 80% of remaining claims being paid over the next three years due to the increased activity associated with the transitional claims project.

Figure 6.4 shows the average size of First Paid claims as a percentage of the maximum benefit available, by duration from injury.

Figure 6.4 – First Paid Lump Sums by Development Half-Year (as a percentage of the maximum benefit)



We have reshaped our adopted size selections for both RTW Act and Transitional Claims at this valuation in response to the emerging experience – the most noticeable feature being higher lump sums between durations 7 to 15 half-years recently. At an overall level, the average First Paid lump sum is expected to be 5.5% of the prescribed maximum benefit, or around \$27,200.

For completeness we note that at June 2019 ReturnToWorkSA implemented new assessor guidelines with the goal of ensuring consistency across WPI assessments. We have not observed any material change in the size of WPI assessments since the introduction of these guidelines and therefore have not built in any allowance for sizes to change in response to this in our basis.

Valuation Basis for Top Up Lump Sums

Top Up lump sum payments were initially removed under the RTW Act changes, but following a Regulation change in December 2015, they were added back in a restricted form, with a requirement that any applications for a Top Up lump sum had to be made by 30 June 2016 (although the assessments can still take place at a later date).

The number of Top Up lump sum payments in the six months to 31 December 2020 was 34% lower than expectations. Average payments sizes were around 54% higher than expected, albeit on a low number of payments. We have increased the selected Top Up lump sum sizes at this valuation consistent with the emerging experience and our basis allows for 58 future payments. While there is uncertainty around the success rate of the current top up applications and related disputes, the value is not large.

Details are included in Appendix G.

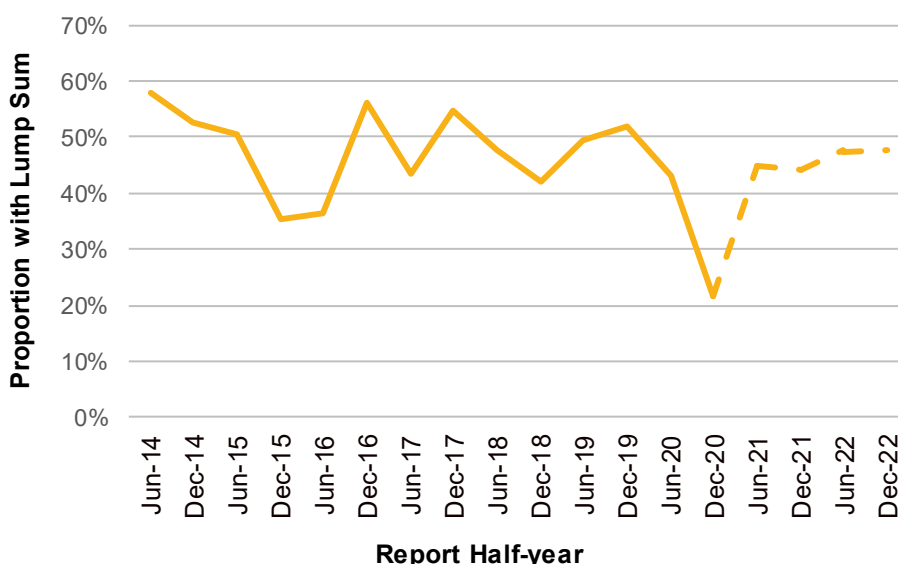
Valuation Basis for Hearing Loss Lump Sums

When estimating the number of future Hearing Loss lump sums, there is no differentiation between First Paid and Top Ups. In undertaking the Hearing Loss lump sum projection, we have been conscious of the recent increase in the number of reported hearing loss claims.

Hearing Loss lump sum payments over the last six months were around 18% lower than expected. We have interpreted the lower than expected payments as a temporary slowdown in hearing loss assessments, resulting mainly from the reduction in assessments early in 2020 due to COVID-19 restrictions. Lump sum payments typically lag assessments by around six months.

Figure 6.5 below shows the number of Hearing Loss lump sum payments as a proportion of overall hearing loss claim reports, as a test of whether the rapid growth in new claims has led to any apparent change in the utilisation of lump sums. Note the lump sum payments have been lagged by half a year to account for the delay between claim report and payment.

Figure 6.5 – Proportion of Hearing Loss Claims Getting a Lump Sum (with a six month lag to allow for payment delays)



As this shows, the proportion of Hearing Loss claims receiving a lump sum was relatively stable at around 50% up to December 2019. The December 2020 half-year is then impacted by the disruptions in assessments due to COVID-19, and when combined with the rapid increase in Hearing Loss claims since 2019 the proportion of lump sum payments is lagging behind Hearing Loss claim reports which has resulted in the proportion falling below 50%. On an accident year basis, we have selected an ultimate lump sum number of around 55% of ultimate hearing loss claims for injury years 2018 and onwards.

Figure 6.6 shows the projected numbers of Hearing Loss lump sums by accident year. The tail of Hearing Loss IBNR claims is considerably longer than for First Paid lump sums, with claims still occurring many years after the injury (as is common for Hearing Loss claims). As an indicator of how quickly the hearing loss claims experience has deteriorated recently, the Jun-19 year has already had more lump sums paid at the end of two years (the height of the blue column) than all preceding years had paid up to the end of four years development.

Figure 6.6 – Projected Ultimate Numbers of Hearing Loss Lump Sums

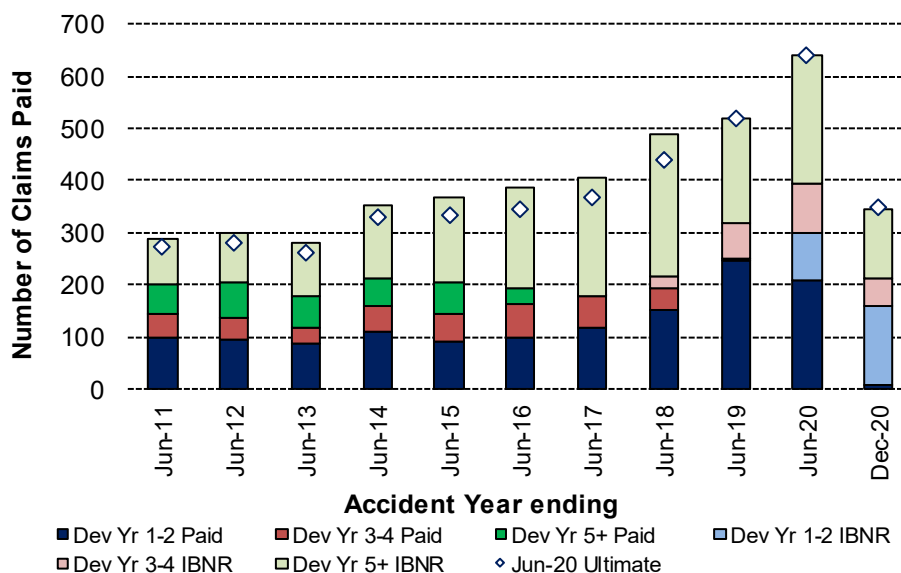
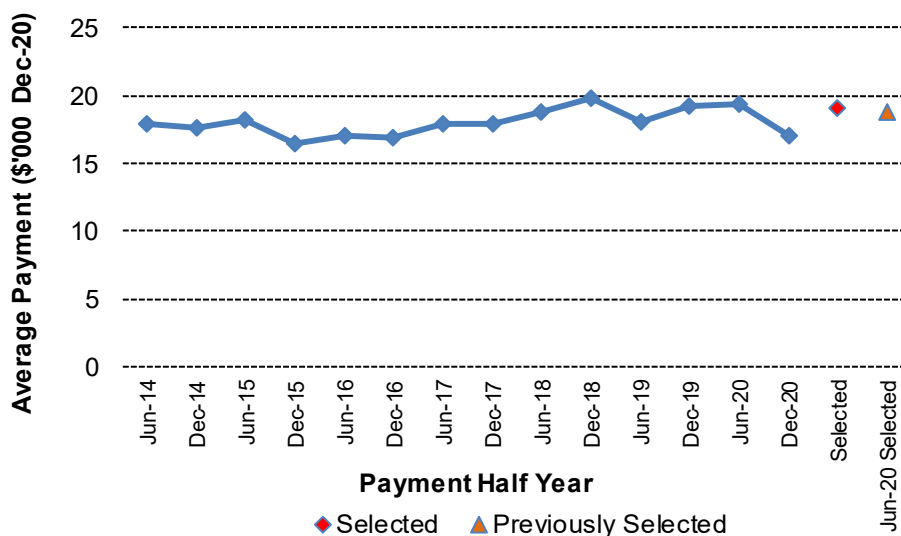


Figure 6.7 shows the overall average benefit paid for a Hearing Loss lump sum claim. The selected average Hearing Loss benefit at this valuation is around \$19,000 per claim which is unchanged from our previous valuation. The selected average size is consistent with the experience over the last two years, although we observe that the last half year has been lower than this; due to the disruptions explained above we have not placed too much weight on this observation as yet.

Figure 6.7 – Average Lump Sum Hearing Loss Payment (\$Dec-20)



Valuation Basis for Death Lump Sums

Experience for Death (and funeral) lump sums were favourable over the last six months with the number and amount of payments being 27% and 29% lower than expected respectively, although we note that Death lump sums experience tends to be volatile. At this valuation we allowed the favourable numbers experience to flow through to the basis, and we have also aligned our expectation of future Death claim numbers with the recent experience resulting in a reduction of two claims per accident year.

Figure 6.8 shows the projected numbers of Death lump sums by accident year.

Figure 6.8 – Projected Ultimate Numbers of Death Lump Sums

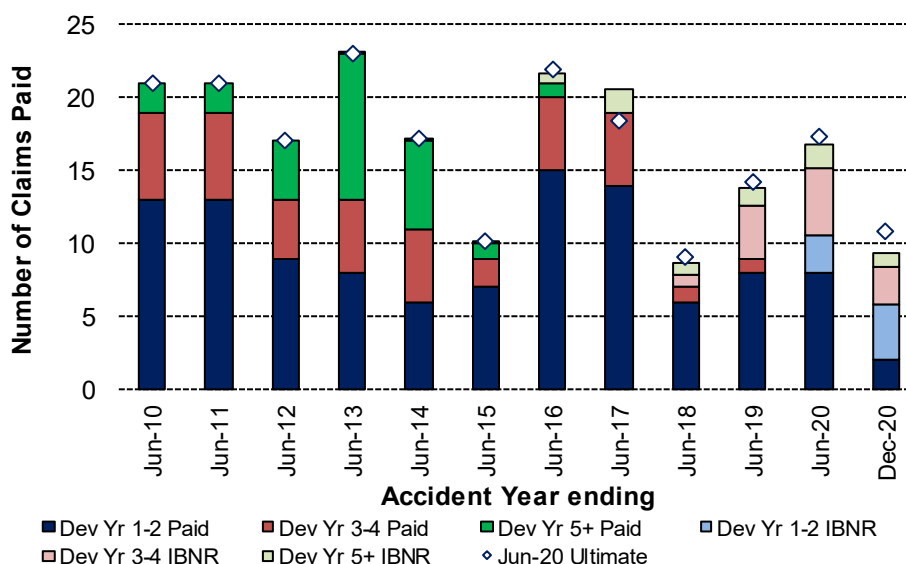
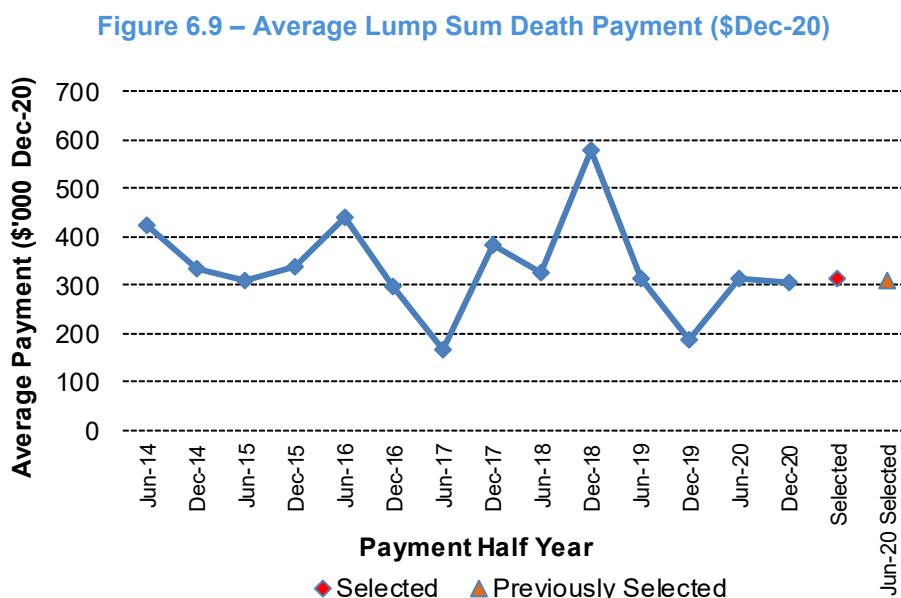


Figure 6.9 shows the average benefit paid to a Death lump sum claim, by payment half year.



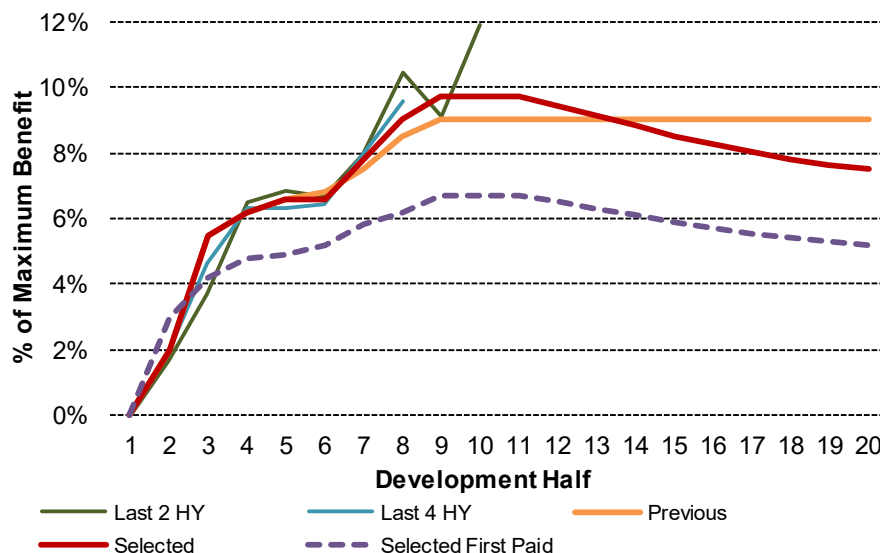
Our adopted size is unchanged at this valuation after adjusting for (CPI) inflation and is consistent with the long-term experience.

Valuation Basis for Economic Loss Lump Sums

Economic Loss lump sums are paid to a worker for loss of future earning capacity. This benefit is only available under the RTW Act and is available to injuries from 1 July 2015. As expected, payments have emerged in line with First Paid lump sums, and we have continued to align the ultimate number of Economic Loss lump sum payments with First Paid lump sums.

Figure 6.10 shows the average size of Economic Loss lump sum payments as a percentage of the maximum benefit available – as more RTW Act claims experience emerges we are increasingly able to set these assumptions based on actual claims experience rather than assumed experience. As a result the size selections up to development half 12 have been increased in light of the emerging experience. Beyond development half 12, we have reshaped the size selection to be consistent with the First Paid lump sum basis. The selected average sizes for Economic Loss lump sums are higher than for First Pairs due to a significantly higher payment scale for Economic Loss lump sums with 9% WPI and above. The overall impact is a slight strengthening of the basis.

**Figure 6.10 – Economic Loss Lump Sum Size by Development Half-Year
(as a percentage of maximum benefit)**



6.4 Valuation Results and Actuarial Release

Table 6.4 sets out the actuarial release resulting from our valuation of lump sum payments. The first column represents our projection from the June 2020 valuation.

Table 6.4 – Actuarial Release for Lump Sums

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	3.8	4.1	0.3	0.2	(0.5)	-12%
2005/06 - 2014/15	18.6	22.6	4.0	0.9	(4.9)	-27%
2015/16 - 2017/18	89.7	93.5	3.8	0.2	(4.0)	-4%
2018/19 - 2019/20	143.5	146.8	3.3	(1.2)	(2.1)	-1%
2020/21 ¹	44.8	45.3	0.4	(0.6)	0.2	0%
Total	300.4	312.2	11.9	(0.6)	(11.3)	-4%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$11.9 million increase in projected liability is partly offset by payments being \$0.6 million less than expected in the six months, and results in an actuarial strengthening of \$11.3 million.

Table 6.5 breaks down the actuarial strengthening by source.

Table 6.5 – Components of Actuarial Release: Lump Sums

Release (strengthening) due to		
	\$m	\$m
AVE payments in six months		0.6
Changes to Valuation Basis		
First paid and eco loss numbers	(0.7)	
First paid size and payment pattern	(4.4)	
Death numbers	0.1	
Hearing loss numbers	(4.8)	
Top Up size	(0.2)	
Eco loss size	(1.9)	
Subtotal		(11.9)
Total		(11.3)

The key drivers of the actuarial strengthening are hearing loss claims (\$4.8 million of the increase) and higher claim sizes on both First Paid and Economic Loss lump sums (\$4.4 million and \$1.9 million of the increase respectively).

7 Treatment and Related Costs – Short Term Claims

Workers who suffer a compensable injury are entitled to compensation for a range of medical and other treatment related costs. For the valuation we split these entitlements into the following groups: Medical (including medico-legal assessment), Physical Therapy, Hospital, Rehabilitation (Vocational Rehabilitation), Travel and 'Other'. Medical payments are the most significant of these entitlements.

7.1 Summary of Results

Table 7.1 summarises the movements in our liability estimates for treatment and related cost payments since the June 2020 valuation.

Table 7.1 – Valuation Results: Treatment Costs

	Medical	Hospital	Travel	Rehab	Physical Therapy	Other	Total Treatment
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Jun20 Valuation							
Estimated Liab at Jun-20	142.9	17.7	5.7	15.1	8.5	8.3	198.2
Projected Liab at Dec-20	142.8	17.9	5.7	15.1	8.5	8.3	198.4
Dec-20 Valuation							
Impact of experience/OSC - Movement in liab	(2.2)	(0.7)	(0.3)	(3.8)	1.3	(0.8)	(6.4)
Estimated Liab at Dec-20 (Jun-20 eco assumptions)	140.6	17.3	5.4	11.3	9.8	7.5	192.0
Impact of change in eco assumptions	(0.6)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.8)
Estimated Liab at Dec-20 (Dec-20 eco assumptions)	140.0	17.2	5.4	11.3	9.8	7.5	191.2
AvE Payments - six months to Dec-20	(0.2)	0.4	(0.2)	(0.0)	0.8	(0.2)	0.5
Actuarial Release at Dec-20	2.4	0.3	0.5	3.8	(2.1)	1.0	5.9

The main movements from our June 2020 projection of the December 2020 liability are:

- A decrease of \$6.4 million in the liability, with an increase in projected Physical Therapy payments offset by reductions across all other payment types, most notably a 25% reduction in projected Rehabilitation payments.
- Payments in the period were \$0.5 million above expected, slightly moderating the movement in liability for an overall actuarial release of \$5.9 million.
- Movements in economic assumptions reduce the treatment related liabilities by \$0.8 million.

The remainder of this section deals with the payment experience and valuation basis. The impact of the change in economic assumptions is discussed in Section 11.3.2.

7.2 Valuation Approach

Under the RTW Act most treatment and related costs cease 12 months after Income Support ends. The exceptions to this are payments for medical aids and appliances, payments related to approved surgeries, and medico-legal costs (for example related to medical assessments for WPI). Our modelling approach captures these features using:

- Active claim model (PPAC) – this is used for the valuation of Medical liabilities (excluding Aids and Appliances) for claims that are also receiving Income Support (IS) payments; for up to three years from the date of injury.
- Long term model (PPCI) – this is a quarterly model used for the valuation of all other treatment related liabilities, namely:
 - ▶ For Medical payments (excluding Aids and Appliances): to claims that are not receiving IS payments.

- ▶ For claimants receiving Medical payments (excluding Aids and Appliances) alongside IS payments more than three years from the date of injury (generally due to long delay to first IS incapacity).
- ▶ For other treatment related costs: this is used to value the total future cost of that entitlement, without differentiating between claims receiving Income Support.
- In most cases, we have shown two sets of valuation assumptions, namely:
 - ▶ “RTW Act claims” – claims occurring after the RTW Act provisions commenced on 1 July 2015, that is where the new rules apply from day one of the claim: for these claims, it will typically take around four to five years before payments reduce to near zero, due to a combination of (1) claimants who do not commence their incapacity until sometime after their injury, and (2) payment delays.
 - ▶ “Transitional claims” – those that occurred prior to 30 June 2015: for these claims, the duration boundaries commenced on 1 July 2015 and so direct treatment payments will generally have ceased soon after 30 June 2018. The “Transitional claims” selections generally only apply for a small number of projection quarters before reverting to the “RTW Act claims” selections; the exception is certain benefit types where there is still a high level of payments related to dispute activity, in which cases we have extended the period where transitional selections are applied.

Detailed descriptions of the projection models and details of all projection assumptions are included in Appendices A and H.

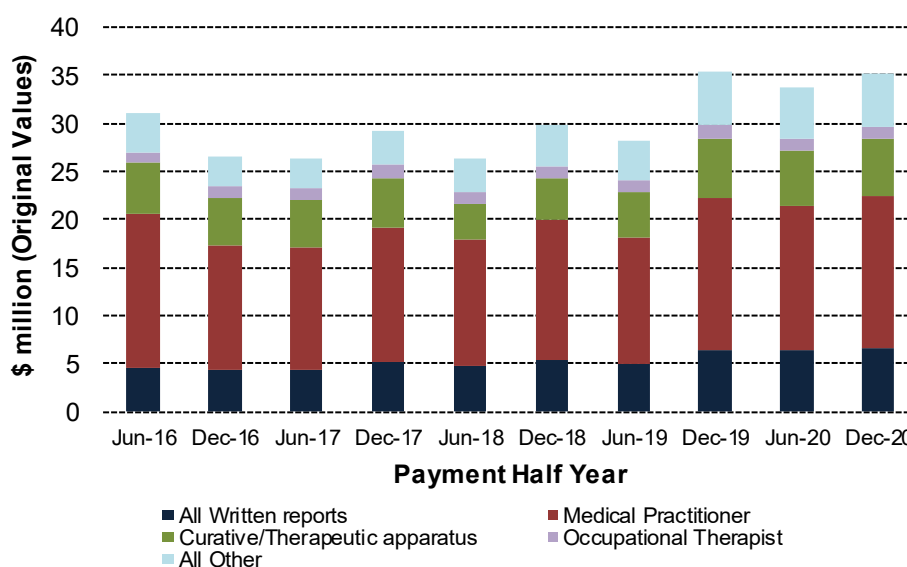
7.3 Medical

Medical payments include payments for treating doctors, written medical reports, therapeutic devices, pharmaceuticals, psychologists, dentists and other allied health (except for physiotherapy costs which are separately modelled in Section 7.7), including medico-legal costs.

Payments vs Expectations

Figure 7.1 below shows medical payments by six-month period, split by the type of service.

Figure 7.1 – Medical Half-Yearly Payments



After a period of relative stability up to June 2019, Medical payments then increased and have remained high in the December 2020 half-year following a similar level of payments in the June 2020 half-year. The higher payments were evident across all main types of services.

Table 7.2 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 7.2 – Actual vs Expected Payments: Medical

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	1.2	1.2	0.1	6%
2005/06 - 2014/15	2.6	2.5	0.1	5%
2015/16 - 2017/18	4.4	4.3	0.1	2%
2018/19 - 2019/20	21.3	22.1	(0.8)	-3%
2020/21 ¹	5.7	5.4	0.3	5%
Total	35.2	35.5	(0.2)	-1%

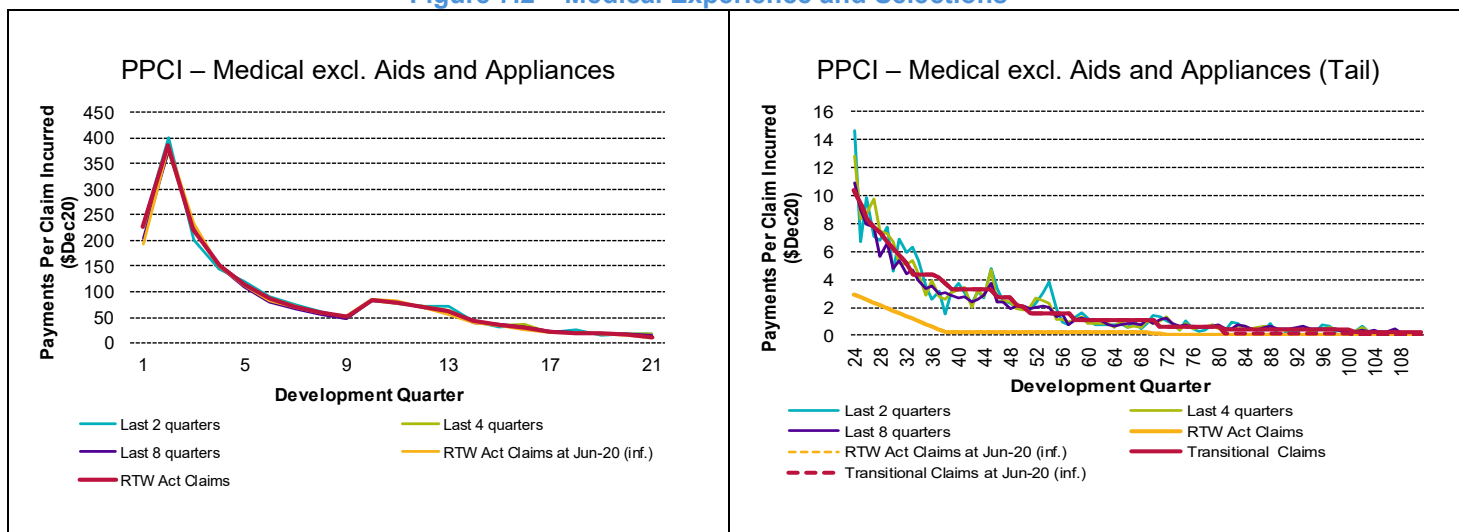
¹ Accidents to Dec20

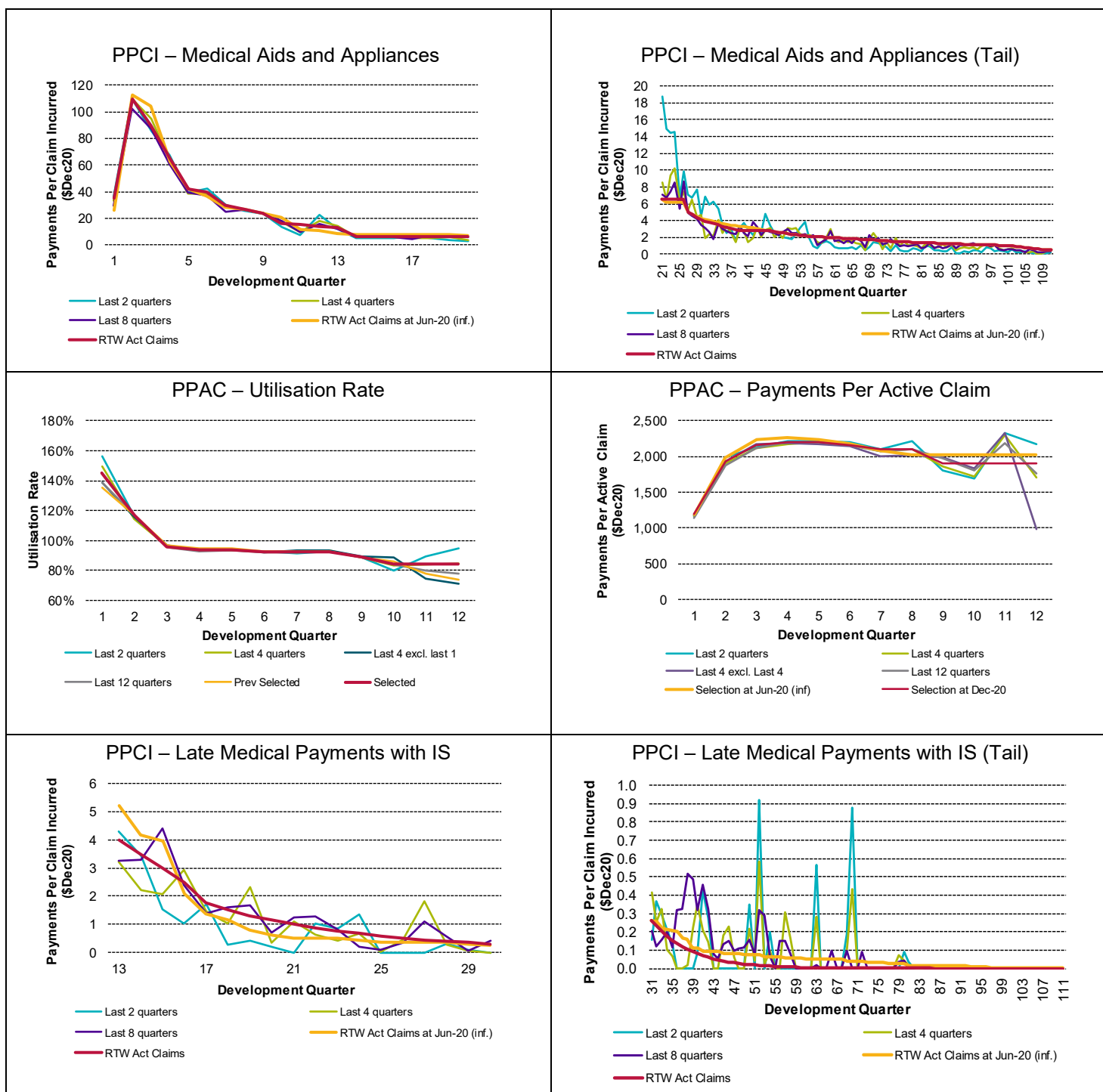
Overall, payments were 1% lower than expected in the six months to December 2020. This was due to a combination of 5% lower than expected payments for the 2020 injury year (which is combined with the 2019 year in the table above), offset by higher than expected payments across other years.

Valuation Basis

Figure 7.2 below shows the recent experience and selected basis for medical payments.

Figure 7.2 – Medical Experience and Selections





Our comments on the experience and selected assumptions are:

- PPCI (Medical, excluding aids and appliances):
 - ▶ We have increased our basis for RTW Act accidents for the first four development years in response to recent experience, bringing our selections in line with the payment levels observed over the past 2 to 4 quarters.
 - ▶ Our 'tail' allowance has been increased in response to continued Transition Project activity, and associated written/medico-legal reports, over the next two years. The previous valuation basis included a similar allowance, but only for the six months to December 2020, so we are now adding two further years of higher claims cost for transitional claims

compared to the previous basis (essentially covering those claims who recently started the WPI assessment process, and allowing for a small tail of additional new assessments).

- PPCI (Medical aids and appliances)
 - ▶ We adopt the same PPCI pattern for transitional claims and RTW Act claims.
 - ▶ Payments have remained high for the first two to three development years, which seems due to increased hearing aid costs following the increased numbers of hearing loss claims.
 - ▶ Overall, our valuation basis is very close to the previous selections (plus inflation), the payment pattern has only been subtly reshaped to align more closely to recent experience.
 - ▶ We have not allowed for any escalation of costs in the tail as yet, but will closely monitor experience, as it is possible that the recent cohort of higher hearing loss claim numbers will potentially require more repair and/or replacement of their hearing aids over time.
- PPAC:
 - ▶ Medical payments have been further below expected, with utilisation levels decreasing over the last six months for claims that are receiving an IS payment. In response, we have decreased or held steady our selected basis for development quarters 2 to 10, where the bulk of claims are active. We have also increased our selected utilisation rates for development quarters 1, 11 and 12, in line with recent averages, though there are few claims receiving benefits at these development periods so the impact is small.
 - ▶ PPACs decreased across most durations over the last six months. We have responded to this experience and reduced our PPACs for development quarters 2 to 12, excluding 7 to 8 which have minor increases to smooth the volatility in PPACs at duration 8+, which is due to low active claim numbers after Income Support entitlements cease.
- PPCI (late medical payments for claimants also receiving IS):
 - ▶ The dollar value of these medical payments is small; our PPCI selections have been decreased at this valuation, consistent with recent experience and in order to ensure that the projected tail of payments (which are affected by the Income Support boundary) remains lower than historical payments (which relate to claims that could receive benefits indefinitely).

Valuation Results and Actuarial Release

Table 7.3 sets out the actuarial release resulting from our valuation of medical payments. The first column represents our projection from the June 2020 valuation.

Table 7.3 – Actuarial Release for Medical

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	13.0	13.6	0.6	0.1	(0.7)	-5%
2005/06 - 2014/15	28.0	29.3	1.3	0.1	(1.5)	-5%
2015/16 - 2017/18	20.0	19.8	(0.2)	0.1	0.1	1%
2018/19 - 2019/20	52.0	49.7	(2.3)	(0.8)	3.0	6%
2020/21 ¹	29.8	28.0	(1.7)	0.3	1.4	5%
Total	142.8	140.6	(2.2)	(0.2)	2.4	2%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$2.2 million decrease in the projected liability combined with actual payments being \$0.2 million lower than expected results in an actuarial release of \$2.4 million.

Table 7.4 breaks down the actuarial release by source.

Table 7.4 – Components of Actuarial Release: Medical

Release (strengthening) due to	\$m	\$m
AvE payments in six months		0.2
Changes to Valuation Basis		
Claim numbers	0.5	
IS active projection changes	3.0	
PPACs and utilisation	0.5	
PPCIs	(1.9)	
Subtotal		2.2
Total		2.4

The main drivers of change are:

- Lower ultimate claim numbers result in an actuarial release of \$0.5 million.
- Lower Income Support actives, detailed in Section 5, reduce the liability by \$3.0 million.
- Changes to PPAC and utilisation decrease the liability by \$0.5 million.
- Increases to PPCI assumptions (i.e. higher costs per claim) for other medical payments, primarily the transitional claim allowance in the Medical excl. Aids and Appliances model, have resulted in a \$1.9 million increase in the liability.

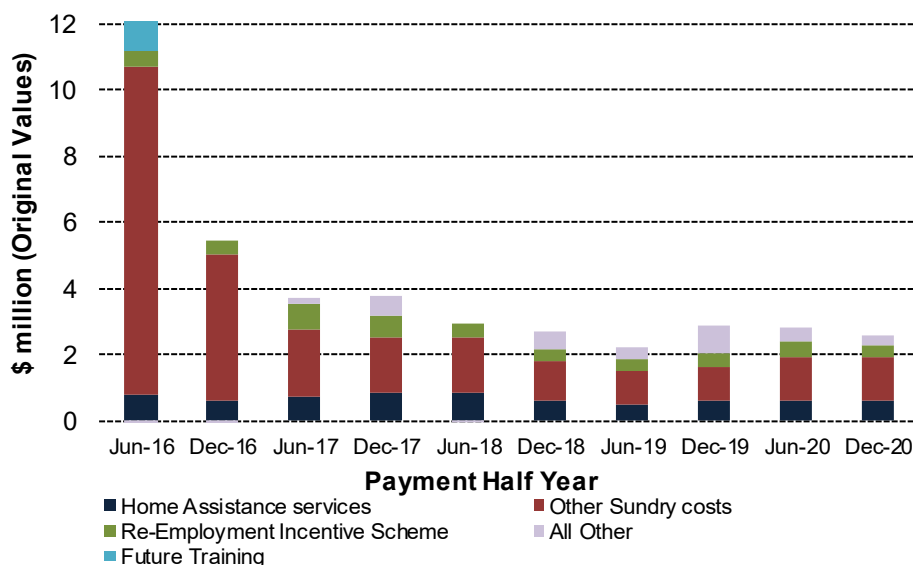
7.4 Other

The Other payment type includes payments on home assistance and modifications, Re-Employment Incentive Scheme (RISE), future retraining costs and other sundry costs.

Payments vs Expectations

Figure 7.3 below shows 'other' payments by six-month period.

Figure 7.3 – Other Half-Yearly Payments



After a period of high payments peaking with the June 2015 half-year, Other payments have been lower in the last four years following reductions in Other Sundry Costs and re-employment incentives; 'future training and education' benefits are no longer paid directly to workers. Over the last six months, payments decreased from the higher level seen during FY20, due to an easing-off of 'Other Sundry Costs'.

Table 7.5 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 7.5 – Actual vs Expected Payments: Other

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-17%
2015/16 - 2017/18	0.3	0.3	(0.0)	0%
2018/19 - 2019/20	2.1	2.4	(0.3)	-11%
2020/21 ¹	0.2	0.1	0.0	27%
Total	2.6	2.8	(0.2)	-8%

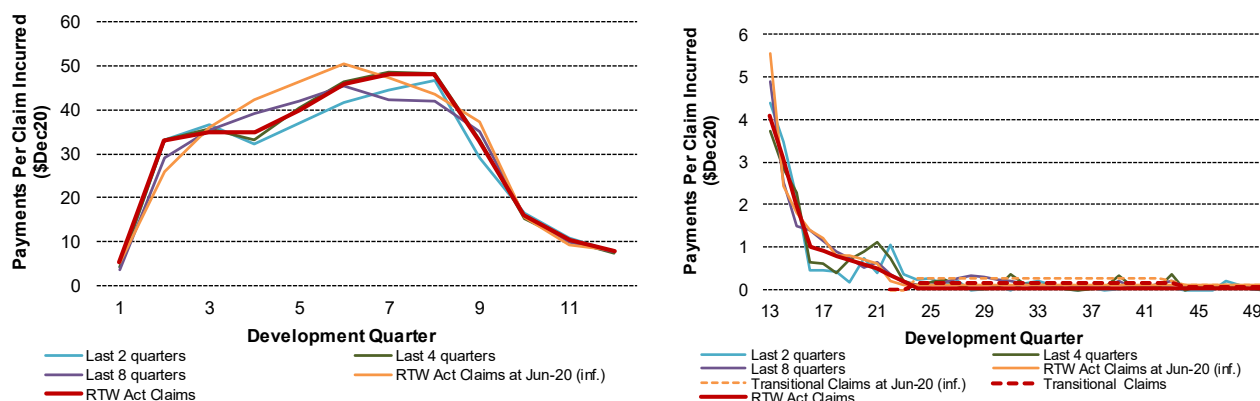
¹ Accidents to Dec20

Overall payments were below expectations, mostly caused by lower than expected costs for the Jun-19 and Jun-20 accident years; as indicated by the table, the majority of Other payments occur in claims that are up to two years old.

Valuation Basis

Figure 7.4 below shows the recent experience and selected basis for 'other' payments.

Figure 7.4 – PPCI Experience and Selections: Other



We have generally reduced our PPCI selections for development quarters 2 to 11, with some reshaping of the payment pattern to fit recent trends more closely, in response to the lower level of payments observed in the last six months. Past three years duration, we have reduced the PPCI pattern consistent with the experience over the last four to eight quarters. Our basis for transitional claims has reduced, however now includes additional payments over the next two years (compared to six months at the June 2020 valuation) for surgery and dispute related costs arising from the Transition Project.

Valuation Results and Actuarial Release

Table 7.6 sets out the actuarial release resulting from our valuation of 'other' payments. The first column represents our projection from the June 2020 valuation.

Table 7.6 – Actuarial Release for Other

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	
2005/06 - 2014/15	0.3	0.1	(0.2)	(0.0)	0.2	75%
2015/16 - 2017/18	0.4	0.3	(0.1)	(0.0)	0.1	30%
2018/19 - 2019/20	4.9	4.6	(0.3)	(0.3)	0.5	11%
2020/21 ¹	2.7	2.5	(0.2)	0.0	0.1	5%
Total	8.3	7.5	(0.8)	(0.2)	1.0	12%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$0.8 million decrease in the projected liability, combined with actual payments being \$0.2 million lower than expected, results in an actuarial release of \$1.0 million (12%).

Table 7.7 breaks down the actuarial release by source.

Table 7.7 – Components of Actuarial Release: Other

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		0.2
Changes to Valuation Basis		
Ultimate claims	0.1	
PPCIs	0.7	
Subtotal		0.8
Total		1.0

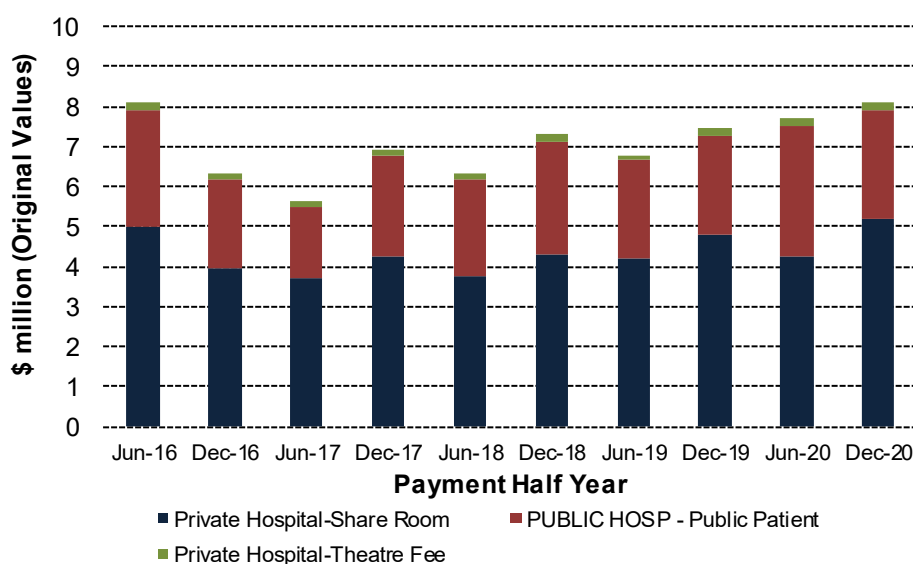
As this shows, the lower PPCI basis is the largest component of the actuarial release.

7.5 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs Expectations

Figure 7.5 below shows hospital payments in each six-month period.

Figure 7.5 – Hospital Half-Yearly Payments

While there appears to be some seasonality, Hospital payments have trended upwards since the end of 2016, with the latest six month period now above \$8 million per half-year. This trend is due to both higher private and public hospital costs.

Table 7.8 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 7.8 - Actual vs Expected Payments: Hospital

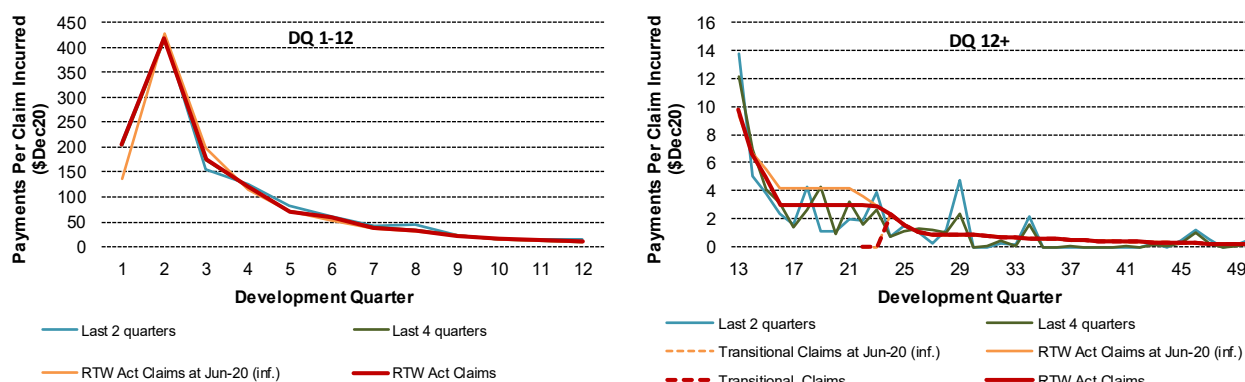
Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	(0.0)	-46%
2005/06 - 2014/15	0.2	0.2	(0.0)	-5%
2015/16 - 2017/18	0.5	0.6	(0.1)	-10%
2018/19 - 2019/20	5.5	5.3	0.2	3%
2020/21 ¹	2.8	2.5	0.3	12%
Total	9.0	8.6	0.4	5%

¹ Accidents to Dec20

The bulk of hospital payments are made in the first year or two after injuries occur. At the previous valuation, the COVID-19 impacted Jun-20 accident year surprised by being in line with expectations, despite lower claim numbers, and it was again higher than expected in the six months to December 2020. The latest six months of accidents was also much higher than expected.

Valuation Basis

Figure 7.6 below shows the recent experience and selected basis for hospital payments.

Figure 7.6 – Hospital Experience and Selections

For the RTW Act PPCI, at this valuation we have put through a substantial increase at development quarter 1, in response to the recent high payments to new accident years early on. On the other hand, PPCIs at quarters 2 to 22 have slightly reduced overall and have been reshaped in line with the emerging experience over the last four quarters.

Tail selections are unchanged from the previous valuation for both RTW Act claims and transitional claims, which share the same selection.

Valuation Results and Actuarial Release

Table 7.9 sets out the actuarial release resulting from our valuation of hospital payments. The first column represents our projection from the June 2020 valuation.

Table 7.9 – Actuarial Release for Hospital

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.5	0.5	0.0	(0.0)	0.0	4%
2005/06 - 2014/15	1.8	1.8	0.0	(0.0)	0.0	0%
2015/16 - 2017/18	2.4	2.2	(0.2)	(0.1)	0.3	11%
2018/19 - 2019/20	6.9	6.7	(0.2)	0.2	0.0	0%
2020/21 ¹	6.4	6.1	(0.3)	0.3	(0.0)	-1%
Total	17.9	17.3	(0.7)	0.4	0.3	2%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$0.7 million decrease in the projected liability combined with actual payments being \$0.4 million higher than expected results in an actuarial release of \$0.3 million.

Table 7.10 breaks down the actuarial release by source.

Table 7.10 – Components of Actuarial Release: Hospital

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		(0.4)
Changes to Valuation Basis		
Ultimate claims	0.2	
PPCIs	0.5	
Subtotal		0.7
Total		0.3

Even though we have increased PPCI selections overall, since the increase mostly comes in development quarter 1 (and selections for development quarter 2+ have reduced overall), the impact of PPCI changes is actually an actuarial release. This is because all outstanding claims have already passed through development quarter 1 as at 31 December 2020, however the increase to the development quarter 1 PPCI does still affect expectations for future cashflows and BEP calculations.

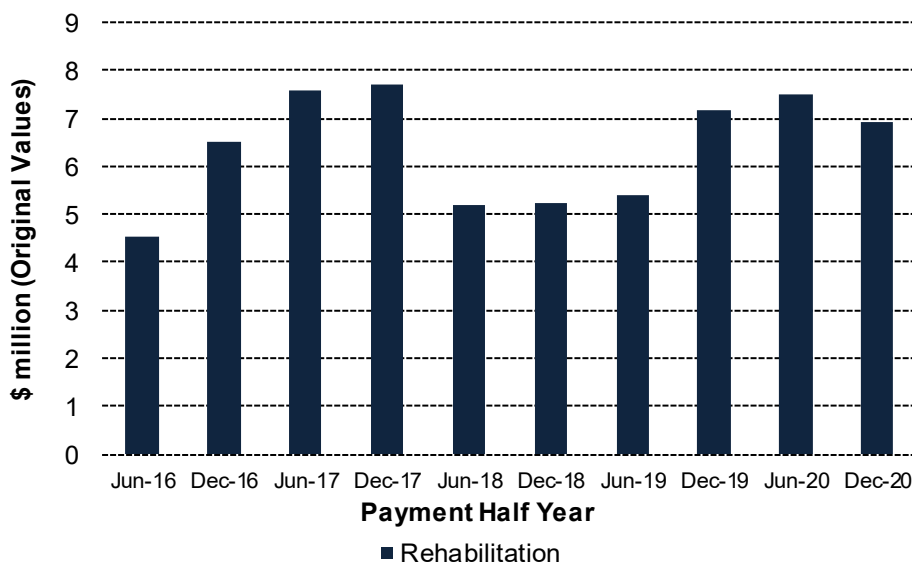
7.6 Rehabilitation

The rehabilitation payment type includes payments made to approved vocational rehabilitation providers and job search agencies.

Payments vs Expectations

Figure 7.7 below shows rehabilitation payments by six-month period.

Figure 7.7 – Rehabilitation Half-Yearly Payments



Rehabilitation payments saw a sharp increase during FY20, after a period of lower payments between June 2018 and June 2019. Increased management oversight has led to a decrease in the number of new rehabilitation referrals in recent months, which is just beginning to flow through to lower claim payments, as seen in the December 2020 payments falling back below \$7 million per half year; the payment reduction is expected to reduce further as the full impact of the increased management of referrals emerges.

Table 7.11 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 7.11 – Actual vs Expected Payments: Rehabilitation

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-10%
2015/16 - 2017/18	0.5	0.4	0.1	29%
2018/19 - 2019/20	5.8	5.7	0.1	2%
2020/21 ¹	0.5	0.8	(0.3)	-35%
Total	6.9	6.9	(0.0)	0%

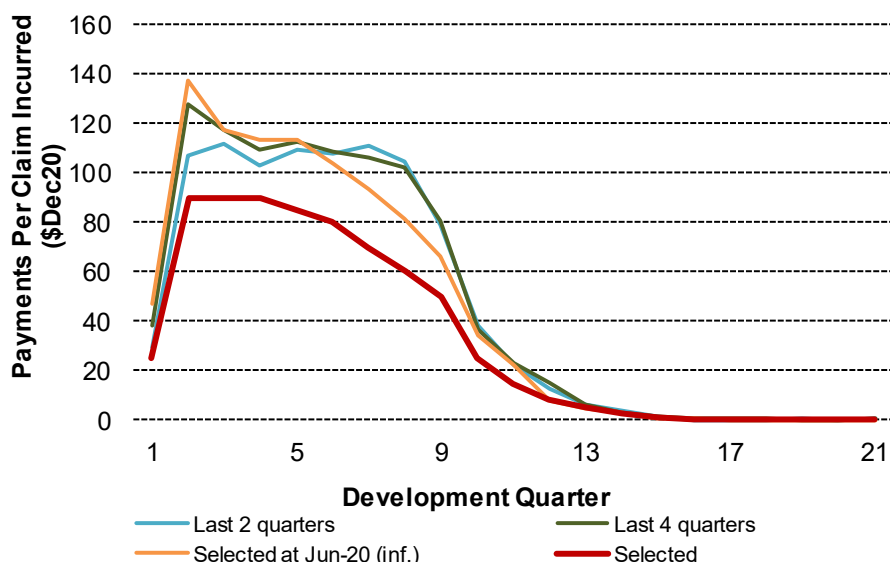
¹ Accidents to Dec20

Overall, payments were in line with expected, with substantially lower than expected payments for the new accident half year (based on lower new referrals) offset by higher payments in older accident periods (as a result of past referrals).

Valuation Basis

Figure 7.8 below shows the recent experience and selected basis for rehabilitation payments.

Figure 7.8 – Rehabilitation Experience and Selections



We have reduced our PPCI selections at this valuation, to reflect anticipated savings from stricter operational control of rehabilitation referrals going forward. These controls have already proven effective on early duration claims, as seen in the reduction in payments over the past six months, and so we have also allowed for the improvement to flow through to longer duration PPCIs at this valuation, essentially returning our expectations for future payments to the lower level seen in the June 2018 to June 2019 period. There is essentially no rehabilitation cost after the fourth development year.

Valuation Results and Actuarial Release

Table 7.12 sets out the actuarial release resulting from our valuation of rehabilitation payments. The first column represents our projection from the June 2020 valuation.

Table 7.12 – Actuarial Release for Rehabilitation

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	0.0	
2005/06 - 2014/15	0.0	0.0	(0.0)	(0.0)	0.0	10%
2015/16 - 2017/18	0.2	0.2	(0.0)	0.1	(0.1)	-68%
2018/19 - 2019/20	8.8	6.6	(2.2)	0.1	2.1	24%
2020/21 ¹	6.1	4.5	(1.6)	(0.3)	1.8	30%
Total	15.1	11.3	(3.8)	(0.0)	3.8	25%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$3.8 million decrease in the projected liability, combined with actual payments being in line with expectations results in an actuarial release of \$3.8 million.

Table 7.13 breaks down the actuarial release by source.

Table 7.13 – Components of Actuarial Release: Rehabilitation

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		0.0
Changes to Valuation Basis		
Ultimate claims	0.2	
PPCIs	3.6	
Subtotal		3.8
Total		3.8

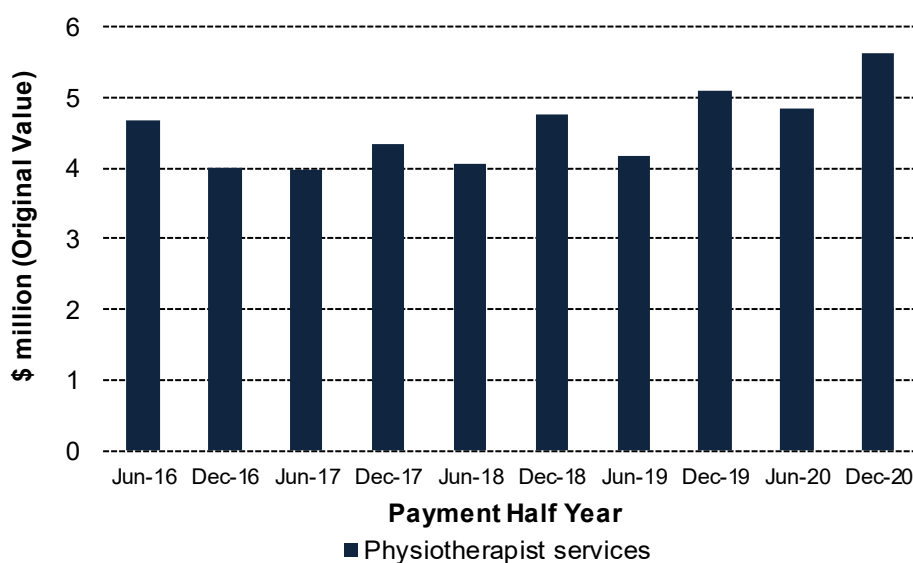
7.7 Physical Therapy

Physical therapy payments are payments made to physiotherapists.

Payments vs Expectations

Figure 7.9 below shows physical therapy payments by six-month period over the last five years.

Figure 7.9 – Physical Therapy Half-Yearly Payments



Payments in the last six months jumped up to over \$5.5 million. This follows a period of relatively stable payments up to the end of June 2019. A fee increase of 13.6% above the standard inflation level in FY20 for 'subsequent consultations' was a primary factor in the steep increase in payments.

Table 7.14 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection. Overall, payments were higher than expected, due to the large increases in the fee schedule.

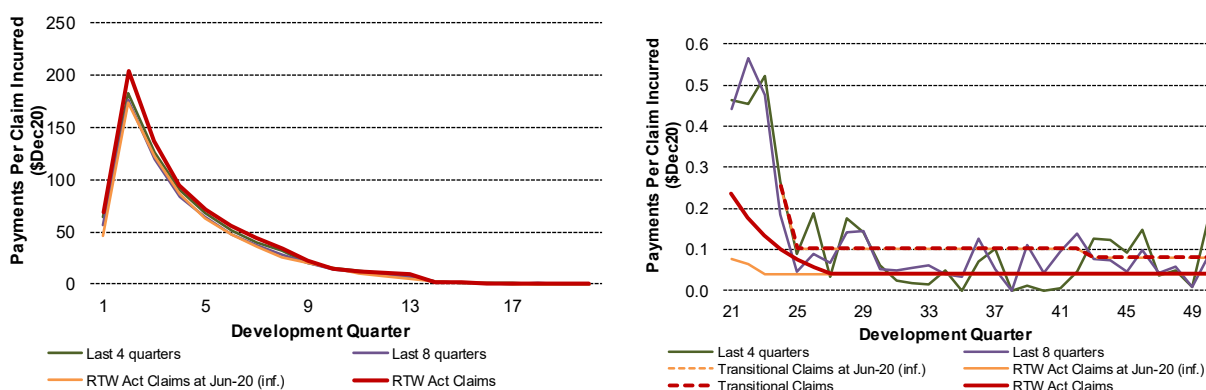
Table 7.14 – Actual vs Expected Payments: Physical Therapy

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	(0.0)	-62%
2005/06 - 2014/15	0.0	0.0	(0.0)	-6%
2015/16 - 2017/18	0.3	0.3	0.1	25%
2018/19 - 2019/20	4.1	3.6	0.5	14%
2020/21 ¹	1.2	0.9	0.3	27%
Total	5.6	4.8	0.8	17%

¹ Accidents to Dec20

Valuation Basis

Figure 7.10 below shows the recent experience and selected basis for physical therapy payments.

Figure 7.10 – Physical Therapy Experience and Selections

We have increased our PPCI Selections for RTW Act claims at almost all durations out to 6.5 years (26 development quarters) to align with the high experience over the past six months, which is driven by increases in the fee schedule for physical therapy payments.

Our bases for transitional claims and the tail for RTW Act claims remain unchanged from the previous valuation.

Valuation Results and Actuarial Release

Table 7.15 sets out the actuarial strengthening resulting from our valuation of physical therapy payments. The first column represents our projection from the June 2020 valuation.

Table 7.15 – Actuarial Release for Physical Therapy

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	(0.0)	(0.0)	0.0	44%
2005/06 - 2014/15	0.3	0.3	(0.0)	(0.0)	0.0	1%
2015/16 - 2017/18	0.3	0.3	0.1	0.1	(0.2)	-57%
2018/19 - 2019/20	4.0	4.8	0.7	0.5	(1.2)	-30%
2020/21 ¹	3.9	4.4	0.5	0.3	(0.8)	-20%
Total	8.5	9.8	1.3	0.8	(2.1)	-25%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The increase of \$1.3 million in the projected liability combines with payments that were \$0.8 million above expected to result in an actuarial strengthening of \$2.1 million, or 25%.

Table 7.16 breaks down the actuarial strengthening by source.

Table 7.16 - Components of Actuarial Release: Physical Therapy

Release (strengthening) due to	\$m	\$m
AvE payments in six months		(0.8)
Changes to Valuation Basis		
Ultimate claims	0.1	
PPCIs	(1.4)	
Subtotal		(1.3)
Total		(2.1)

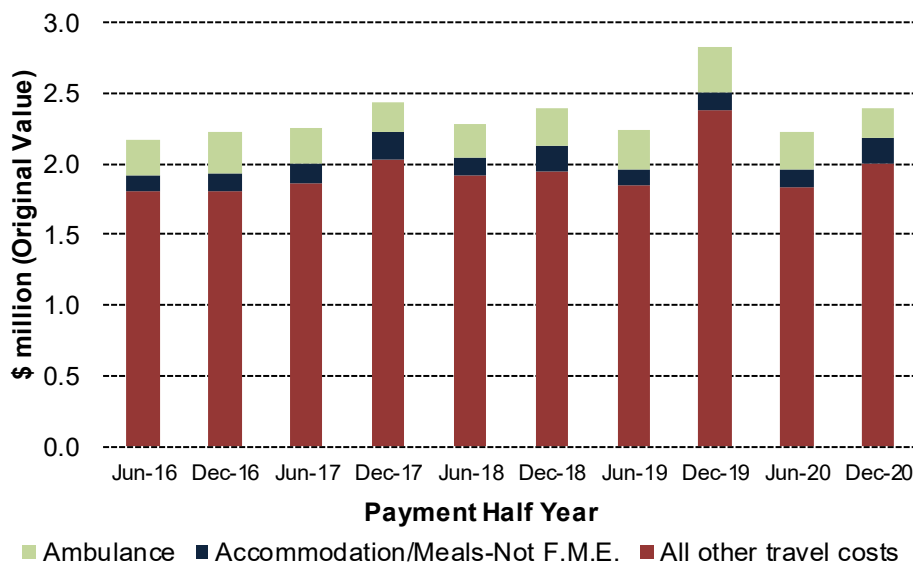
7.8 Travel

Travel payments include payments made for claimant related travel and accommodation.

Payments vs Expectations

Figure 7.11 below shows travel payments by six-month period over the last five years.

Figure 7.11 – Travel Half-Yearly Payments



Following a spike in payments for the December 2019 half-year, payments in the last year appear to have reduced to prior levels. However, there may still be an element of COVID-19 impact in the payments in the December 2020 half year, with various state border restrictions in place for parts of the six months to December.

Table 7.17 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 7.17 – Actual vs Expected Payments: Travel

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	0.0	70%
2015/16 - 2017/18	0.2	0.3	(0.0)	-16%
2018/19 - 2019/20	1.8	1.9	(0.1)	-6%
2020/21 ¹	0.4	0.4	(0.1)	-20%
Total	2.4	2.6	(0.2)	-8%

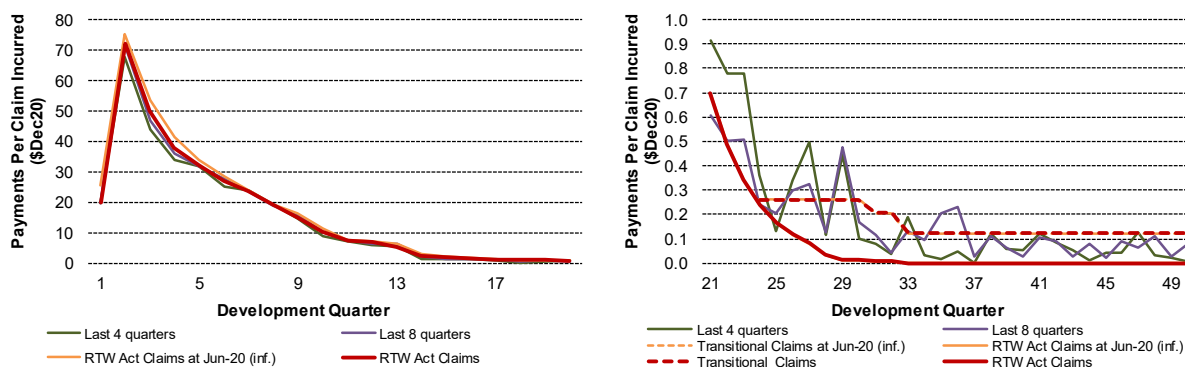
¹ Accidents to Dec20

Overall, payments in the last six months were \$0.2 million lower than expected, noting the potential for COVID-19 related border closures to still be temporarily depressing travel costs.

Valuation Basis

Figure 7.12 below shows the recent experience and selected basis for travel payments.

Figure 7.12 – Travel Experience and Selections



We have slightly reduced our selected RTW Act PPCIs for development quarters 1 to 15 reflecting the lower than expected payments; this sets our assumptions closer to a two-year average of payment experience, which doesn't overreact to either the high payments in the December 2019 half year or the low payments during COVID-19.

PPCI assumptions out past development quarter 15 are unchanged for both RTW Act and transitional claims, however we are allowing for additional costs for transitional claims for the next two years relating to the ongoing Transition Project (similar to other payment types already discussed).

Valuation Results and Actuarial Release

Table 7.18 sets out the actuarial release resulting from our valuation of travel payments. The first column represents our projection from the June 2020 valuation.

Table 7.18 – Actuarial Release for Travel

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	
2005/06 - 2014/15	0.0	0.1	0.1	0.0	(0.1)	-1419%
2015/16 - 2017/18	0.4	0.3	(0.0)	(0.0)	0.1	17%
2018/19 - 2019/20	3.1	2.9	(0.2)	(0.1)	0.3	10%
2020/21 ¹	2.2	2.1	(0.2)	(0.1)	0.2	11%
Total	5.7	5.4	(0.3)	(0.2)	0.5	9%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The \$0.3 million decrease in the projected liability combined with actual payments being \$0.2 million less than expected results in an actuarial release of \$0.5 million at December 2020.

Table 7.19 breaks down the actuarial release by source.

Table 7.19 - Components of Actuarial Release: Travel

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		0.2
Changes to Valuation Basis		
Ultimate claims	0.1	
PPCIs	0.2	
Subtotal		0.3
Total		0.5

8 Other Entitlements – Short Term Claims

This section presents results for the remaining entitlements. These include legal and investigation costs, recoveries, common law, LOEC, and commutations.

8.1 Summary of Results

Table 8.1 summarises the movements in our liability estimates for the remaining entitlement groups since the June 2020 valuation.

Table 8.1 – Valuation Results: Other Payment Types

	Worker Legal	Corporation Legal	Invest- igation	Common Law	LOEC	Commu- tation	Recoveries	Total
Jun20 Valuation	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Estimated Liab at Jun-20	47.4	36.9	2.0	2.8	0.7	2.2	(32.6)	59.6
Projected Liab at Dec-20	46.6	36.1	2.0	2.8	0.6	2.2	(33.4)	57.0
Dec-20 Valuation								
Impact of experience/OSC - Movement in liab	2.5	1.0	0.4	(1.4)	0.0	(0.0)	(0.2)	2.3
Estimated Liab at Dec-20 (Jun-20 eco assumptions)	49.1	37.1	2.4	1.4	0.7	2.2	(33.6)	59.3
Impact of change in eco assumptions	(0.2)	(0.0)	0.0	(0.0)	(0.0)	0.0	0.1	(0.1)
Estimated Liab at Dec-20 (Dec-20 eco assumptions)	49.0	37.1	2.4	1.4	0.7	2.2	(33.5)	59.2
AvE Payments - six months to Dec-20	1.2	(0.3)	0.1	(0.2)	(0.0)	(0.0)	(1.9)	(1.1)
Actuarial Release at Dec-20	(3.7)	(0.7)	(0.5)	1.6	0.0	0.0	2.1	(1.1)

The movements from our June 2020 projection of the December 2020 liability are:

- An increase of \$2.3 million in the liability, reflecting the claims experience since June 2020 and our valuation response. Partly offsetting this are payments being \$1.1 million lower than expected, producing an overall actuarial strengthening of \$1.1 million.
- The change in economic assumptions at the current valuation is a minor decrease of \$0.1 million on Other Entitlements.

8.2 Worker Legal

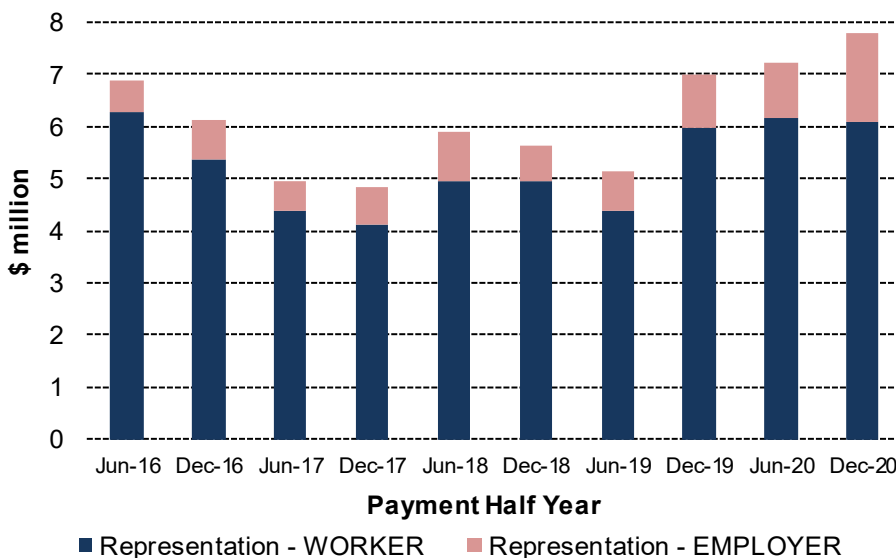
Our valuation of legal costs separately models legal fees paid to ReturnToWorkSA's contracted legal advisers (Minter Ellison and Sparke Helmore), which we call 'corporation legal', and legal fees paid to workers' representatives and employers, which we call 'worker legal'. This section describes the Worker Legal results, with Section 8.3 discussing ReturnToWorkSA's legal results.

Disputes are the main driver of expenditure for both worker and corporation legal fees, and were discussed in Section 3.4.3. Worker legal accounts are generally only submitted upon completion of the dispute and therefore any changes in dispute numbers will usually involve a delay before they are translated into changes in worker legal costs. Corporation legal fees on the other hand are paid at commencement of the dispute and will usually reflect changes in underlying dispute numbers without delay.

8.2.1 Experience

Figure 8.1 below shows worker legal payments in each six month period over the last five years.

Figure 8.1 – Worker Legal Half Yearly Payments



Worker legal payments reduced up to the June 2017 half-year following the reduction in dispute numbers during the 2015/16 year. This demonstrates the often long delay between lodgement of disputes and payment of worker legal fees. Payments have then been higher since 2017, and increased significantly in the last 18 months. As shown in Section 3.4.3, there remain a large number of open disputes in the scheme.

Disputes being lodged for RTW Act claims have increased to around 180 per month over the last six months, in part due to higher lump sum disputes from increased WPI assessments. While this is still below the longer-term average level of around 200 disputes per month for pre-RTW Act periods, it remains to be seen if the current level of disputes can be maintained going forward once more WPI assessments are completed for RTW Act claims. As also noted in Section 3.4.3, recently finalised disputes are also progressing to higher stages of the dispute resolution process than they previously did, which translates to higher legal costs as the fees charged by lawyers increase significantly as you move through the dispute process.

Table 8.2 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 8.2 – Actual vs Expected Payments: Worker Legal

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.2	0.1	0.1	125%
2005/06 - 2014/15	1.6	1.7	(0.1)	-4%
2015/16 - 2017/18	3.6	3.0	0.6	20%
2018/19 - 2019/20	2.4	1.8	0.5	30%
2020/21 ¹	0.0	0.0	0.0	220%
Total	7.8	6.6	1.2	18%

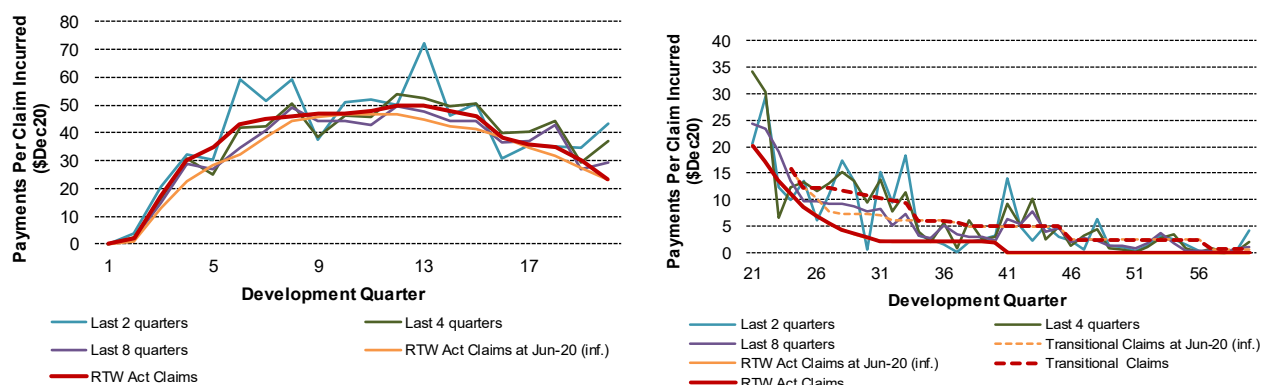
¹ Accidents to Dec20

Overall, payments in the six months to December 2020 were higher than expected by 18% largely due to RTW Act claims.

8.2.2 Valuation Basis

A PPCI model is used to value Worker Legal fees. Figure 8.2 below shows the recent experience and selected basis for worker legal payments.

Figure 8.2 – Worker Legal Experience and Selections



We have increased our valuation basis for RTW Act claims between development quarters 2 to 19 in light of the continuing higher payments in the emerging experience. This represents the higher number of disputes being lodged as well as disputes progressing further through the dispute resolution process.

For transitional claims, we have increased our valuation basis by \$0.7 million. This is the net impact of expected higher payments in the tail to reflect the number of currently open disputes and their continued progression through to the later stages of the dispute resolution process, partly offset by the settlement activity in the last six months. Our revised valuation basis of around \$12.1 million (discounted) for transitional worker legal costs allows for some further progression of currently open disputes, along with around 300 further new disputes to be lodged (at a lower cost) before the transitional cohort is fully runoff. As shown in Figure 3.1, there have continued to be around 30 new transitional claim disputes per month over the last half-year, so our allowance for future new disputes equates to only 10 months' worth at the current monthly run rate.

8.2.3 Valuation Results and Actuarial Release

Table 8.3 sets out the actuarial release resulting from our valuation of worker legal payments. The first column represents our projection from the June 2020 valuation.

Table 8.3 – Actuarial Release for Worker Legal

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.6	0.6	0.0	0.1	(0.1)	-18%
2005/06 - 2014/15	10.8	11.5	0.7	(0.1)	(0.7)	-6%
2015/16 - 2017/18	10.1	10.5	0.4	0.6	(1.0)	-10%
2018/19 - 2019/20	19.4	20.3	1.0	0.5	(1.5)	-8%
2020/21 ¹	5.7	6.2	0.4	0.0	(0.4)	-8%
Total	46.6	49.1	2.5	1.2	(3.7)	-8%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The actuarial strengthening of \$3.7 million is due to liability increases of \$2.5 million combined with actual payments being \$1.2 million higher than expected.

Table 8.4 breaks down the actuarial strengthening by source.

Release (strengthening) due to		
	\$m	\$m
AvE payments in six months		(1.2)
Changes to Valuation Basis		
Ultimate claims	0.2	
PPCIs	(2.7)	
Subtotal		(2.5)
Total		(3.7)

8.3 Corporation Legal

Corporation Legal refers to the legal fees paid to ReturnToWorkSA's contracted legal advisers. Since 1 January 2013 there have been two legal service providers, Minter Ellison and Sparke Helmore, who were originally paid fees based on the number of matters handled and the complexity of these matters.

Beginning in 2016, an annual contract was agreed upon whereby the contracted legal advisers would be paid a pre-determined fixed fee each month throughout the contract period. Fees for advice and representation pertaining to complex cases are paid at the same rate outlined in the previous contract in addition to the fixed fee each month. This contract has been extended each year since with revised fixed fees.

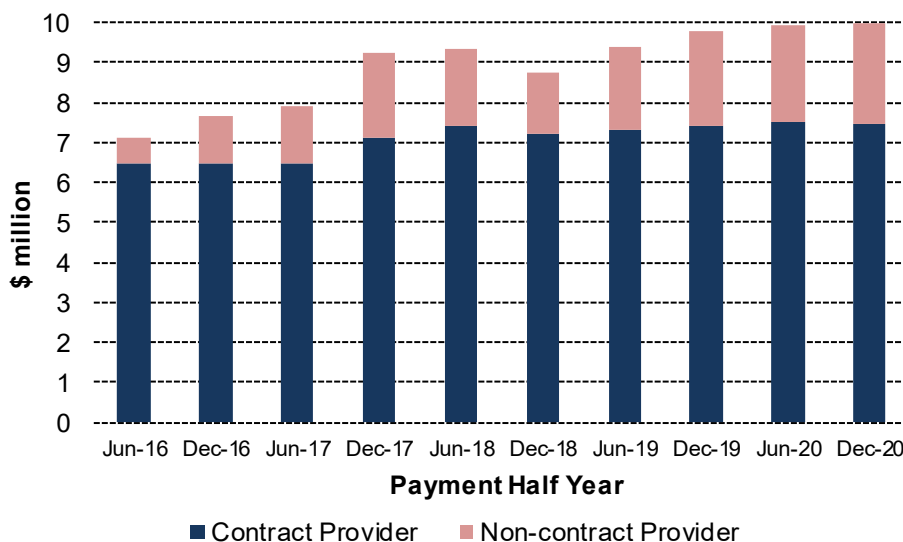
A performance fee is also payable at the end of each contract half-year based on the achievement of certain performance outcomes. This fee is unchanged for the FY21 contract.

In addition to the two main legal service providers, ReturnToWorkSA also pay additional providers legal fees related to third party recoveries, staff claims and extra-ordinary matters. These providers are referred to as "non-contract" providers in the remainder of this section.

8.3.1 Experience

Figure 8.3 below shows Corporation Legal payments in each six month period over the last five years.

Figure 8.3 – Corporation Legal Half Yearly Payments



Corporation Legal expenditure in the six months to December 2020 was marginally higher than the June 2020 half-year and remains higher than recent periods due to higher “non-contract” fees. The high amount of “non-contract” fees reflects the higher number of legal matters in the Supreme Court as mentioned in Section 3.4.3.

Table 8.5 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 8.5 – Actual vs Expected Payments: Corporation Legal

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
Total	10.0	10.2	(0.3)	-3%

¹ Accidents to Dec20

Overall, actual payments were \$0.3 million (3%) lower than expected. A breakdown by accident period is not possible as Corporation Legal payments are not allocated to individual claims.

8.3.2 Valuation Basis

Under the current contract, a fixed amount is paid to both legal providers each month regardless of the number of non-complex matters referred. Table 8.6 below summarises the payments applicable under the current contract.

Table 8.6 – Corporation Legal Contract Components

Matter Type	Contract Terms
	Current
Advice only	Fixed Fee per month
Dispute representation	
Complex matters	Paid per matter
Performance Fee	Paid at the end of year

To project the future costs of Corporation Legal we have:

- Adopted the fixed monthly fees payable to each provider under the contract
 - ▶ The fixed fee per month is unchanged for the June 2021 half. Beyond the current contract, the fees are estimated to remain at a similar level reflecting the relative stability in the number of new disputes in the scheme.
- Estimated the number of complex matters that will be referred each year for the duration of the contract and multiplied this by the relevant fees as specified in the contract terms.
 - ▶ We have made an allowance for payments of \$143,000 per half-year due to the high number of complex matters currently open for transitional claims.
- Allowed for payment of additional performance fees as specified in the terms of the contract as well as outstanding performance fees payable under the previous contract.
- Allocated the cash flows in each payment year across accident periods.
- Estimated a separate allowance for matters handled by “non-contract” providers.
 - ▶ Our base allowance of \$1.2 million per half year is unchanged from our previous valuation and reflects the high volume of complex cases under the RTW Act.
 - ▶ We have extended our temporary allowance of \$1.5 million per half-year until March 2022 (an additional six months) for Supreme Court matters reflecting the current delay in resolving these matters.

Beyond the current contract, payments for Corporation Legal are projected to increase in line with inflation.

The allocation of cash flows across accident periods is based on the observed experience in Worker Legal costs, with an adjustment to reflect the quicker payment pattern of Corporation Legal costs. As transition claims run-off, dispute lodgements are expected to occur earlier due to the shorter duration of claims under the RTW Act.

8.3.3 Valuation Results and Actuarial Release

Table 8.7 sets out the actuarial release resulting from our valuation of Corporation legal payments. The first column represents our projection from the June 2020 valuation.

Table 8.7 - Actuarial Release for Corporation Legal

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
Total	36.1	37.1	1.0	(0.3)	(0.7)	-2%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

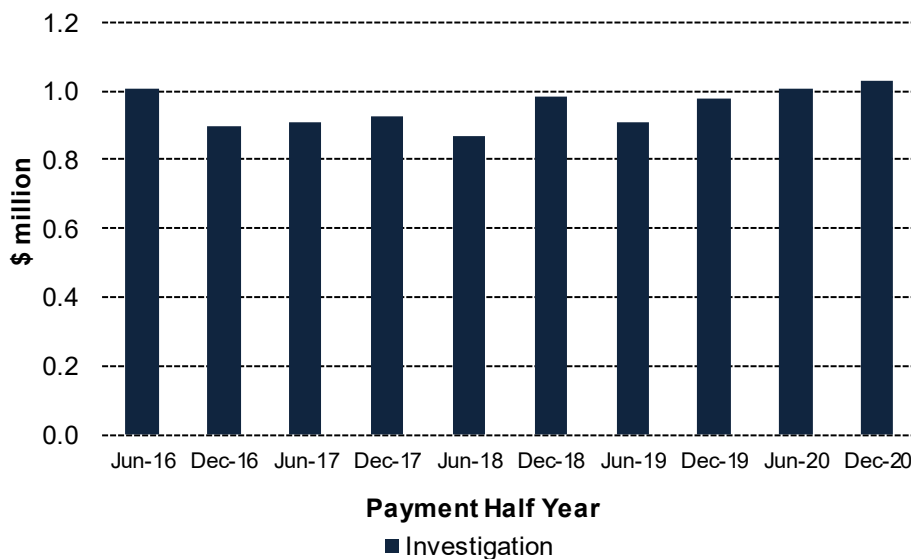
The \$1.0 million increase in the projected liability combined with actual payments being \$0.3 million lower than expected results in an actuarial strengthening of \$0.7 million.

8.4 Investigation

8.4.1 Experience

Figure 8.4 below shows investigation payments in each six-month period over the last five years.

Figure 8.4 – Investigation Half Yearly Payments



Investigation spending in the six months to December 2020 was just over \$1 million, which is similar to the previous half year and continues a slight upward trend in payments.

Table 8.8 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 8.8 – Actual vs Expected Payments: Investigation

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	n/a
2005/06 - 2014/15	0.0	0.0	(0.0)	-39%
2015/16 - 2017/18	0.1	0.1	0.0	34%
2018/19 - 2019/20	0.7	0.6	0.1	17%
2020/21 ¹	0.2	0.2	0.0	11%
Total	1.0	0.9	0.1	15%

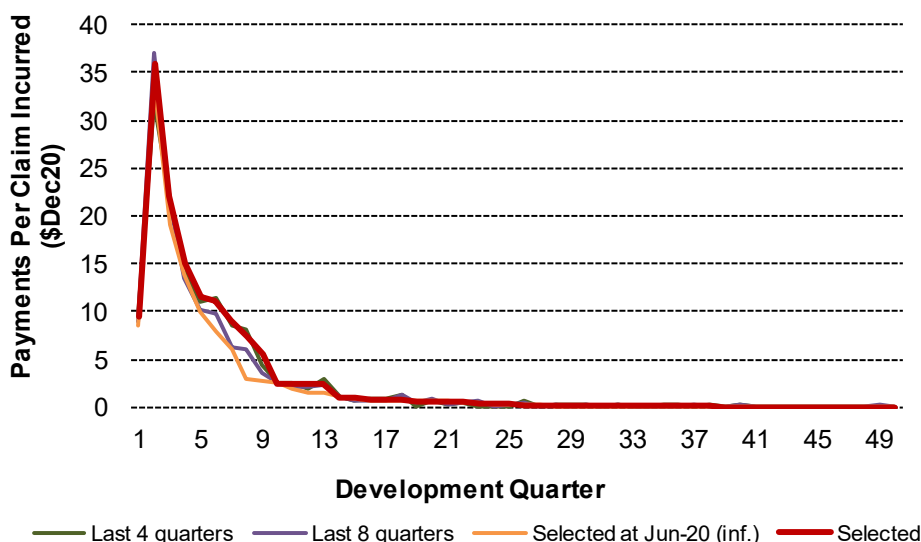
¹ Accidents to Dec20

Overall, actual payments were higher than expectations.

8.4.2 Valuation Basis

A PPCI model is used to value investigation payments. Figure 8.5 below shows the recent experience and selected basis.

Figure 8.5 – PPCI Experience and Selections: Investigation



We have increased the adopted PPCIs out to development quarter 13 at this valuation, based on the high payment experience over the past 18 months. We have not allowed for a different PPCI pattern for transitional claims up to 30 June 2015 on materiality grounds.

8.4.3 Valuation Results and Actuarial Release

Table 8.9 sets out the actuarial strengthening resulting from our valuation of investigation payments. The first column represents our projection from the June 2020 valuation.

Table 8.9 - Actuarial Release for Investigation

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	0.0	(0.0)	
2005/06 - 2014/15	0.2	0.1	(0.1)	(0.0)	0.1	61%
2015/16 - 2017/18	0.3	0.3	0.0	0.0	(0.0)	-15%
2018/19 - 2019/20	0.9	1.2	0.3	0.1	(0.4)	-44%
2020/21 ¹	0.7	0.8	0.1	0.0	(0.2)	-24%
Total	2.0	2.4	0.4	0.1	(0.5)	-24%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

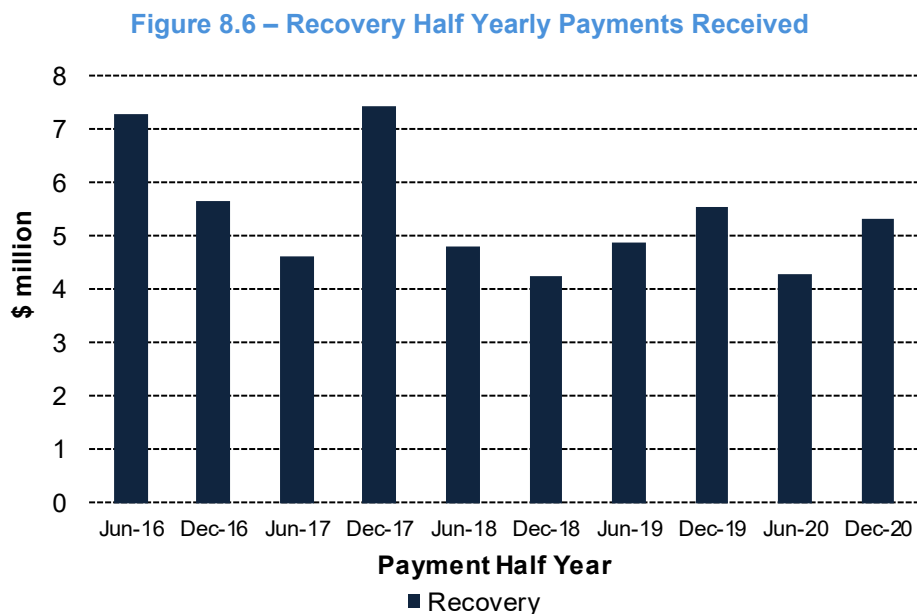
The \$0.4 million increase in the projected liability results in an actuarial strengthening of \$0.5 million, after accounting for payments in the past six months.

8.5 Recoveries

Recoveries can be made by ReturnToWorkSA from overpayments to workers, from the Motor Accident Commission (MAC) and private insurers for CTP claims, or from third parties for recoveries relating to negligence claims. Third parties for negligence claims will often be companies engaged in labour hire and owners or head contractors on construction sites, as ReturnToWorkSA cannot recover money from an employer for negligence.

8.5.1 Experience

Figure 8.6 below shows recovery receipts (i.e. payments received by ReturnToWorkSA) in each six-month period over the last five years.



Recovery payments in the six months to December 2020 were at the high end of payment experience over the last two years.

Table 8.10 compares the payments in the six months to 31 December 2020 with the expected payments from our June 2020 valuation projection.

Table 8.10 – Actual vs Expected Payments: Recoveries

Accident Period	Payments in Six Months to Dec 20			
	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	(0.0)	0.0	(0.0)	n/a
2005/06 - 2014/15	(1.8)	(0.7)	(1.0)	141%
2015/16 - 2017/18	(2.9)	(1.9)	(1.0)	53%
2018/19 - 2019/20	(0.6)	(0.7)	0.1	-17%
2020/21 ¹	(0.0)	(0.0)	(0.0)	30%
Total	(5.3)	(3.4)	(1.9)	58%

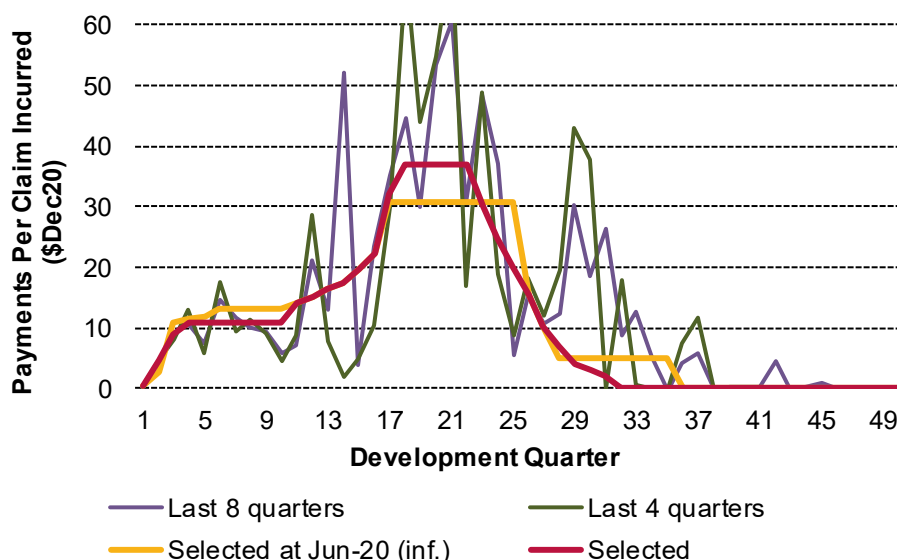
¹ Accidents to Dec20

Actual recovery payments were \$1.9 million higher than expected, due to some large amounts recovered from transitional claims as well as some large public liability recoveries from the 2015/16 accident year.

8.5.2 Valuation Basis

A PPCI model is used for recovery payments. Figure 8.7 below shows the recent experience and selected basis.

Figure 8.7 – PPCI Experience and Selections: Recoveries



Our selected recovery PPCI assumptions have been reshaped at this valuation, to increase the expected recoveries for accidents around 4-6 years old and reducing recoveries for earlier and later development periods. As recovery payments tend to be volatile, we have taken a longer-term view when selecting our basis. In addition, our expectation is for lower recoverability of costs under the RTW Act (where gross payments are lower), and following CTP reforms in 2014. Therefore, our selection does not fully reflect the recent experience, where larger than expected recoveries have mostly come from older, transitional claim accident periods.

8.5.3 Valuation Results and Actuarial Release

Table 8.11 sets out the actuarial release resulting from our valuation of recovery payments. The first column represents our projection from the June 2020 valuation.

Table 8.11 – Actuarial Release for Recoveries

Accident Period	Projected Liab at Dec 20 from Jun 20 Valuation ¹	Dec 20 Estimate on Jun 20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 mths to Dec 20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	0.0	0.0	0.0	(0.0)	0.0	
2005/06 - 2014/15	(0.6)	(2.4)	(1.8)	(1.0)	2.8	-457%
2015/16 - 2017/18	(13.4)	(12.7)	0.7	(1.0)	0.3	-2%
2018/19 - 2019/20	(15.2)	(14.6)	0.6	0.1	(0.8)	5%
2020/21 ¹	(4.2)	(4.0)	0.2	(0.0)	(0.2)	5%
Total	(33.4)	(33.6)	(0.2)	(1.9)	2.1	-6%

¹ Accidents to Dec20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The overall actuarial release of \$2.1 million is a combination of actual recoveries being \$1.9 million above expectations combined with an increase of \$0.2 million in expected future recoveries due to PPCI selection changes.

8.6 LOEC, Commutations, and Common Law

LOEC, Commutations, and Common Law are minor entitlements with little outstanding claims liability.

8.6.1 LOEC

Loss of Earning Capacity (LOEC) claims are a legacy feature of the portfolio, and are valued together with Short Term claims. At 31 December 2020, there are only four remaining claims. Our valuation basis is unchanged at this valuation.

8.6.2 Commutations

Commutation payments relate to claims receiving dependant benefits. Payments in the last six months were broadly in line with expectations and we have maintained our basis at this valuation.

8.6.3 Common Law

There were no common law payments in the last six months, with the last payment made in June 2009 to a claim from the 2005 accident year. The common law entitlement for short term claims relates to a small number of infrequent but relatively large claims related to other jurisdictions, and needs to be considered over long time horizons. However, considering the lack of payments for the past decade we have halved our expectations for future payments to around \$100,000 per half year.

Potential common law entitlements for Serious Injury claims are considered in Section 9.

9 Serious Injury Claims

9.1 Overall Results

Table 9.1 shows the central estimate of Serious Injury claims costs at 31 December 2020 and movement in our liability estimates since the June 2020 valuation.

Table 9.1 – Serious Injury claims Valuation Results (excluding CHE)

	Income Support	Medical	Other (Care)	Hospital	Travel	Rehabilitation	Physical Therapy	Investigation	Legal - Non-Contract	Legal Contract	Lump sums	Recoveries	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Jun-20 Valuation													
Estimated Liab at Jun-20	505	666	417	128	62	21	43	1	14	14	103	-33	1,941
Projected Liab at Dec-20	517	692	426	134	65	22	45	1	14	14	103	-32	2,001
Dec20 Valuation													
Impact of experience/basis change	46	2	-1	3	-6	-1	1	0	1	1	11	-4	53
Estimated Liab at Dec20 (Jun20 ecos)	563	694	426	137	59	20	46	1	15	15	115	-36	2,055
Impact of change in ecos	-4	-4	-3	-1	0	0	0	0	0	0	0	0	-12
Estimated Liab at Dec20 (Dec20 ecos)	559	690	423	136	58	20	45	1	15	15	115	-36	2,043
AvE Payments - six months to Dec-20	3	0	1	0	0	0	0	0	0	0	0	1	5
Actuarial Release at Dec-20	-48	-2	0	-3	6	1	-1	0	-2	-1	-12	3	-58

The outstanding claims cost for Serious Injury claims (excluding CHE) is \$2,043 million at 31 December 2020. The main movements from our June 2020 projection of the December 2020 liability are:

- Claims experience and basis changes increased the liability by \$53 million, as a result of:
 - ▶ Net changes to claim numbers (including IBNR claims assumptions) increasing the liability by \$41 million, which was a combination of an \$81 million increase for Other Serious Injury claims and a \$40 million decrease for Severe Traumatic Injury claims.
 - ▶ Rule changes about when to reflect a serious injury claim as being 'ongoing' in the Other Serious Injury cohort, increasing the liability by \$25 million.
 - ▶ Other changes reduced the liability by \$13 million in aggregate.
- The change in economic assumptions at the current valuation resulted in a decrease of \$12 million.

The remainder of this section deals with the claims experience and basis changes.

9.2 Background

"Serious Injury" claims are those with WPI of 30% or more, who are eligible to receive Income Support to retirement and other benefits for life under the RTW Act.

As Serious Injury claims were not identified before the RTW Act commenced, there is uncertainty as to the precise number and characteristics of the now Serious Injury cohort. Our Serious Injury cohort includes:

- Known Serious Injury claims, comprising:
 - ▶ Claims managed internally by ReturnToWorkSA in the EnABLE group, which generally are more like Severe Traumatic Injuries (i.e. they require significant levels of care and support, or else have other special needs).

- ▶ Other Serious Injuries with a confirmed WPI assessment of 30% or more, but not internally managed by ReturnToWorkSA.
- Other 'potential' Serious Injury claims – these are claims who have not yet been formally assessed as Serious Injury, but who are considered likely to do so at some point in future.
 - ▶ ReturnToWorkSA proactively identify 'potential' Serious Injury claims prior to an official assessment, with claims identified through this process included in our valuation. ReturnToWorkSA's approach for identifying these claims is still evolving, meaning it is difficult to compare accident years at the same point of development; nevertheless we view proactive identification as a positive from both a claims management and valuation point of view.
 - ▶ For older accident years, there is a pool of claims that have features that indicate they would have likely been a Serious Injury claim, but have ceased interaction with the Scheme before a formal assessment took place (for reasons such as redemptions). As there is no future liability associated with these claims, there is no need for ReturnToWorkSA to make a clear determination on their Serious Injury status, and as such these remain 'potential' Serious Injury claims. We continue to count this group as a Serious Injury claims for our valuation work, in order to understand potential numbers and trends in high severity claims over time.
- IBNR claims – Serious Injury claims that will be identified in future.

Section 4.1 describes our projection of serious injury claim numbers.

9.3 Valuation Approach

As Serious Injury claims are essentially entitled to lifetime benefits, it is important to consider the characteristics of individual claims when projecting future costs. Our valuation approach therefore projects future claim costs individually for each claim by payment type.

Due to significant differences in the level of incapacity and associated treatment and care costs, we have separately modelled 'Severe Traumatic Injury' claims and 'Other Serious Injury' claims, and our assumptions have been set as described in Appendix A and summarised in the following table.

Table 9.2 – Approach to Setting Valuation Assumptions for Serious Injury claims¹

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 1.5% p.a. Mortality loadings for claims with high care needs (reducing life expectancy by 19 years) and for moderate care needs (reducing life expectancy by 7 years).	Mortality improvement of 1.5% p.a.
Income Support	To retirement age on all IS ongoing claims. Based on historical experience and estimates provided by ReturnToWorkSA.	To retirement age on all IS ongoing claims. Based on historical experience.
Treatment Related Costs and Other ²	Paid for life. Based on historical experience and estimates provided by ReturnToWorkSA, with the exception of Hospital costs, which are based on selected payment per active claim curves for this cohort.	Paid for life. Early duration claims (in the treatment and recovery phase) based on payment per active claim curves selected from this cohort.

	Severe Traumatic Injuries	Other Serious Injury
	Allowance for IBNER on Other and Medical costs above identified costs.	Mid-to-long duration claims (in the maintenance phase) based on historical experience.
Lump sums ³	Paid to claimants who have not already had a lump sum, based on assessed WPI, or an assumed average WPI if no assessment has been undertaken as yet.	
Legal and Investigation	Legal costs are modelled as a percentage of IS costs, net of payments to date. An average ultimate investigation cost is made per claim, net of payments to date.	Modelled as payment per claim incurred.
Recoveries	Projected on claims identified by ReturnToWorkSA as having recovery potential.	Applied a recovery as a proportion of gross payments for future periods.
Common Law	Not available to pre-1 July 2015 claims, and included in the cost of statutory entitlements for post-1 July 2015 claims.	
Future cost escalation	WCI: Income Support AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment, 1.5% on Other Needs Utilisation: 75% loading applied at age 65 on Treatment and Other, capped at 30 hours of care per day	WCI: Income Support AWE: Recoveries, Treatment and Other, Legal and Investigation Superimposed: 2% p.a. on Treatment, 1.5% on Other
IBNR Assumptions	IBNR claims in the latest four accident years only. Claim size based on historical experience of current claims.	IBNR claims on all accident years, reflecting outstanding Serious Injury applications and WPI disputes (for older accident periods) and the delay from injury to WPI assessment (for newer accidents). Claim size based on historical experience of current known and potential claims.

¹ Projected costs are those paid after the claim has been identified as Serious Injury.

² Treatment related costs relate to Medical (including Aids and Appliances), Hospital, Rehab, Physio and Travel. Other costs have been split into "Care" and "Other" for the purposes of the valuation. Care relates to services such as attendant, respite and/or nursing care. The remaining payments in 'Other' mainly relate to home and vehicle modifications and domestic services.

³ Impairment lump sum only. Serious Injury claims are not entitled to the Future Economic Loss lump sum.

The Severe Traumatic Injury valuation is reliant on estimates provided by ReturnToWorkSA. The process for providing these estimates was revised three years ago and as ReturnToWorkSA has become more familiar with this process we are seeing less large movements from valuation to valuation, with estimates reflecting changes in claimant circumstances rather than short-term volatility in benefit utilisation.

The approach to modelling Other Serious Injuries smooths out volatility seen early in the life of many Serious Injury claims, to reflect the general reduction in medical and related costs as claims move from the initial 'recovery' phase in the first few years to a longer term 'maintenance' level. The key features are:

- Aggregate models were built for all payment types, with the exception of Lump Sums
- The models selected for each payment type are as follows:

- ▶ Income Support, Treatment and Other – Payments per Active Claim. The only decrement for Treatment and Other payments is mortality, while Income Support payments have an additional decrement for retirement
- ▶ Legal and Investigation – Payments per Claim Incurred
- ▶ Recoveries – Proportion of Gross Payments
- These models were adopted for the following:
 - ▶ All IBNR claims and future accident years
 - ▶ All Legal, Investigation and Recovery payments
 - ▶ All Treatment and Other payments for claims less than five years old. The utilisation of these benefits tends to be heightened at early durations, making it difficult to select future payment levels based on a claimant’s actual historical experience. When aggregated across all claims the shape to this utilisation can be captured and applied up to a point (that has been selected as five years) where the Treatment and Other needs have stabilised.

One of the key determinants of very long term costs will be how much, if any, of the costs associated with ageing are compensated out of the compensation scheme. Based on the experience to date, albeit on a relatively small number of claims who have been through this process, the costs for age related care and support are being handled consistently with the current understanding of the approach to aged care related costs being funded. If this changes then the cost implications would likely be significant.

9.4 Review of “Ongoing” Criteria

Not all claims identified as Serious Injury are in receipt of benefits. In order to determine whether a claim is likely to receive future benefits a series of rules based on individual claimant circumstances are used, as developed in conjunction with ReturnToWorkSA. These are referred to as “IS Ongoing” for Income Support benefits and “Medical Ongoing” for Medical and Treatment benefits.

While the rules for identifying Serious Injury claims have been refined over time, the rules for determining whether a claim is ongoing have been largely left untouched since they were first developed in 2015. After observing an increasing number of claims re-commencing payments with large backpays, and given the length of time since these rules had been reviewed, we undertook a joint project with ReturnToWorkSA over the six months to December 2020 to review and, if necessary, refine these rules.

The high level outcomes of this project are as follows:

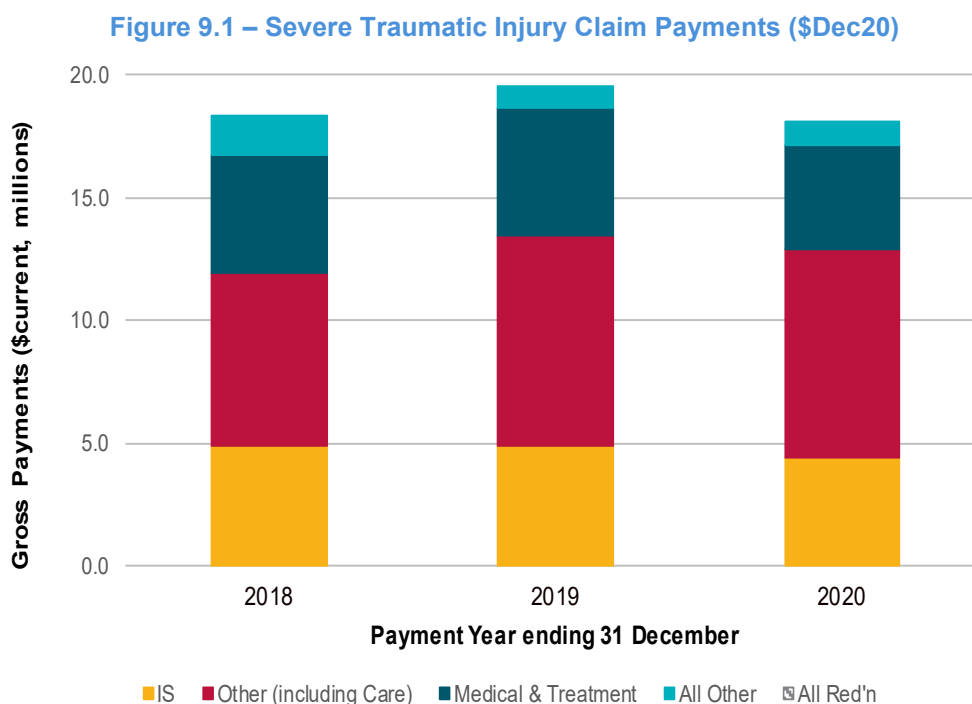
- The “IS Ongoing” flag definition has been changed to remove the reliance on a claims field (the ‘operationally active flag’), which is no longer used within ReturnToWorkSA. This has had the result of increasing the number of “IS Ongoing” claims.
- The process for determining whether a claim’s Income Support payment history has been disrupted (e.g. due to a dispute) was revised, leading to some changes in future liability even for claims that did not have a change in their “IS Ongoing” flag.
- A number of other changes were made to both the “IS Ongoing” and “Medical Ongoing” flags; however these did not have material implications for the valuation.

Overall, the changes to the ongoing flags increased the liability by \$25 million, largely related to the removal of the ‘operationally active flag’ in the “IS Ongoing” rules.

9.5 Valuation of Severe Traumatic Injury claims

9.5.1 Payments by Type

Figure 9.1 shows claim payments over the past three years for Severe Traumatic Injury claims.

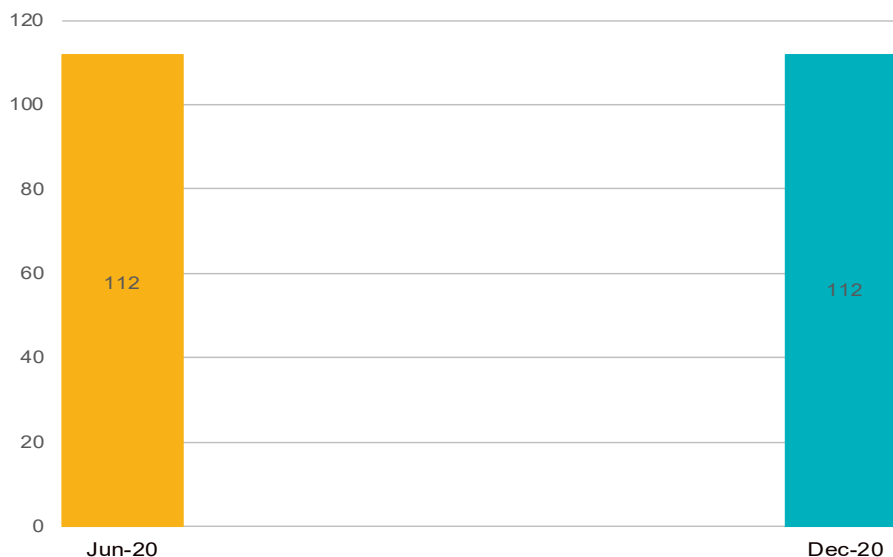


\$56 million has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of \$2 million over this same period, this equates to an average of around \$18 million per annum in net claim payments (inflated to 31 December 2020 values), comprising around:

- \$8 million per annum in care and other costs
- \$5 million per annum in medical, treatment and related benefits
- \$5 million per annum in Income Support
- \$1 million per annum in lump sums
- Small amounts of legal and investigation payments (\$0.2 million per annum)
- \$1 million per annum in recoveries.

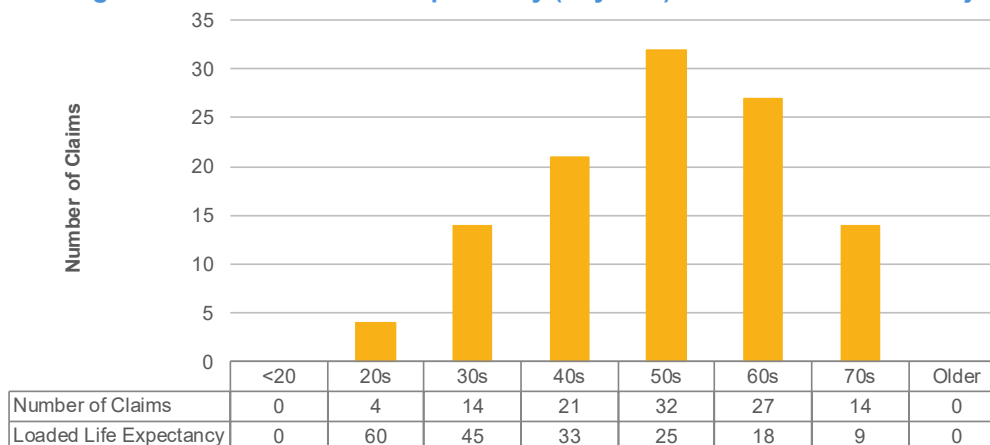
9.5.2 Claimant Profile

Figure 9.2 shows the number of active Severe Traumatic Injury claims (i.e. those being valued) at the current and previous valuations, along with the reasons for movement in the number of claims being valued.

Figure 9.2 – Movement in Severe Traumatic Injury Claim Numbers

There are 112 active (i.e. with expected ongoing benefits) Severe Traumatic Injury claims at December 2020, which is the same as the previous valuation. There was no movement in the last 6 months – that is, there were no new claims, and nor were there any deaths or other exits.

Figure 9.3 shows the age and life expectancy of the current Severe Traumatic Injuries.

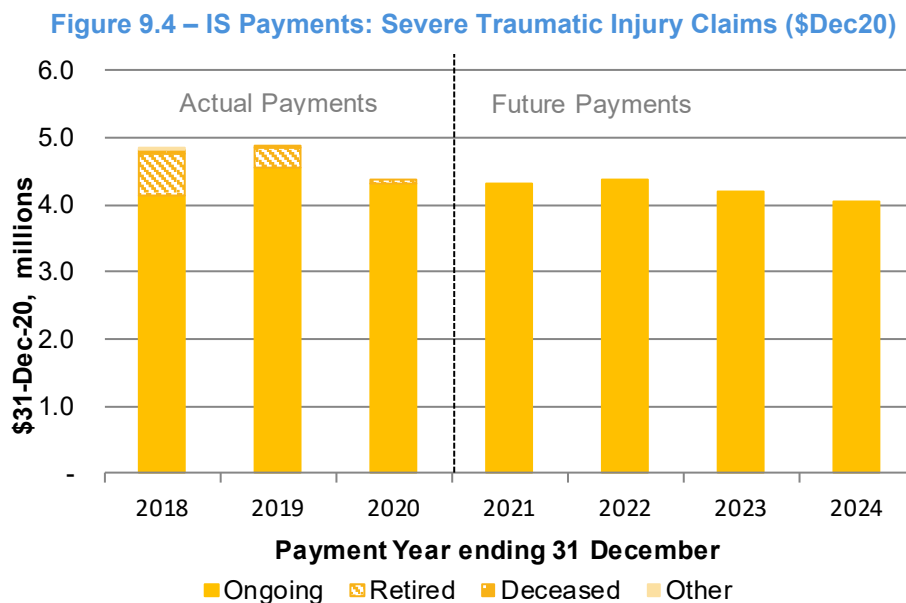
Figure 9.3 – Age Distribution and Life Expectancy (in years) of Severe Traumatic Injuries

Severe Traumatic Injury claimants are currently around 56 years old on average, with an expected future life expectancy of around 29 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 40 years.

Nearly 60% of the current Severe Traumatic Injuries have a WPI assessment, with an average WPI of around 55%; the relatively low completion rate is partly explained by older claims being paid their lump sum prior to the introduction of WPI assessments in 2009. At this valuation, there are 12 claims with recorded WPI assessments less than 30%; ignoring these claims, the average assessed WPI is close to 61%.

9.5.3 Income Support

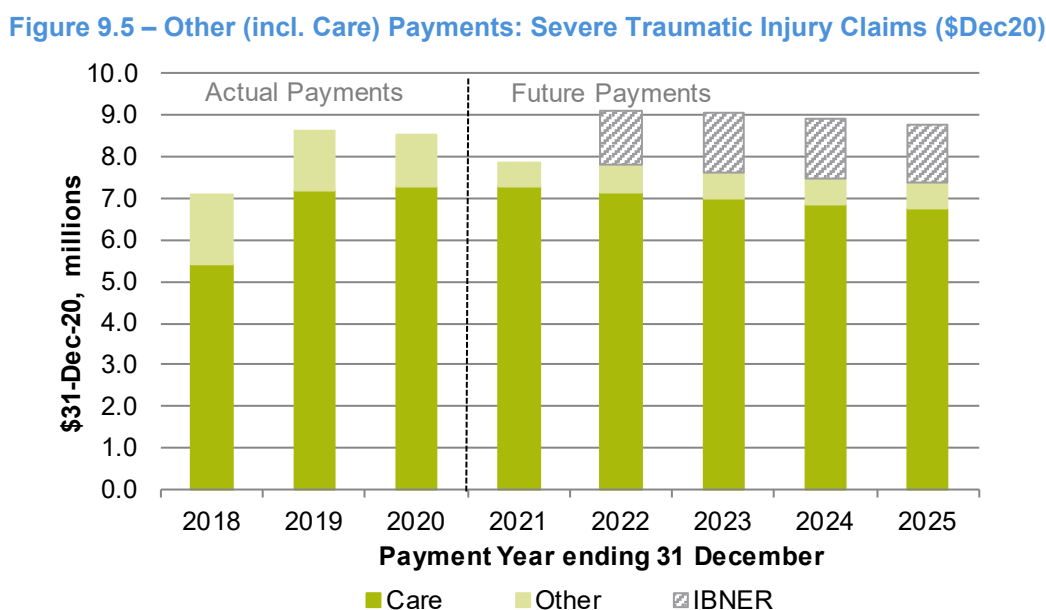
Figure 9.4 shows historic and projected Income Support payments for Severe Traumatic Injury claims (including IBNR claims, but only on existing accident years).



We estimate around \$4.3 million will be paid in Income Support to Severe Traumatic Injury claims in 2021. Future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement, with the outstanding claim projection equivalent to 15 years of the 2021 payments (for known claims). The projected 2021 payments are very similar to the 2020 actual payments.

9.5.4 Care and Other Costs

Figure 9.5 shows historic and projected care and other payments for Severe Traumatic Injury claims (including IBNR claims).



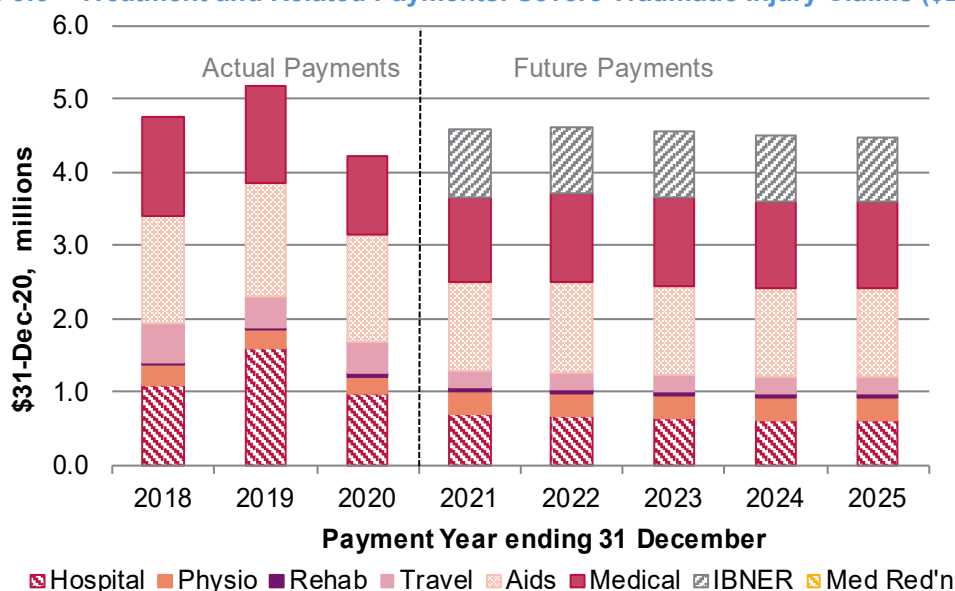
We expect \$7.9 million of other and care payments in 2021. This is lower than actual payments in 2020, largely due to a lower projected level of other payments, noting that this payment category includes

things like home modifications or training for which spend is not as recurrent as other payment types. Payments then increase in 2022 due to allowance for new Severe Traumatic (IBNR) claims and our IBNER allowance which is intended to capture an annualised contribution for other benefits (primarily modifications and transfers from initial hospital care into home care). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 28 years of the 2021 payments, including the IBNER allowances.

9.5.5 Treatment and Related Costs

Figure 9.6 shows historic and projected treatment and related costs for Severe Traumatic Injury claims (including IBNR claims).

Figure 9.6 – Treatment and Related Payments: Severe Traumatic Injury Claims (\$Dec20)

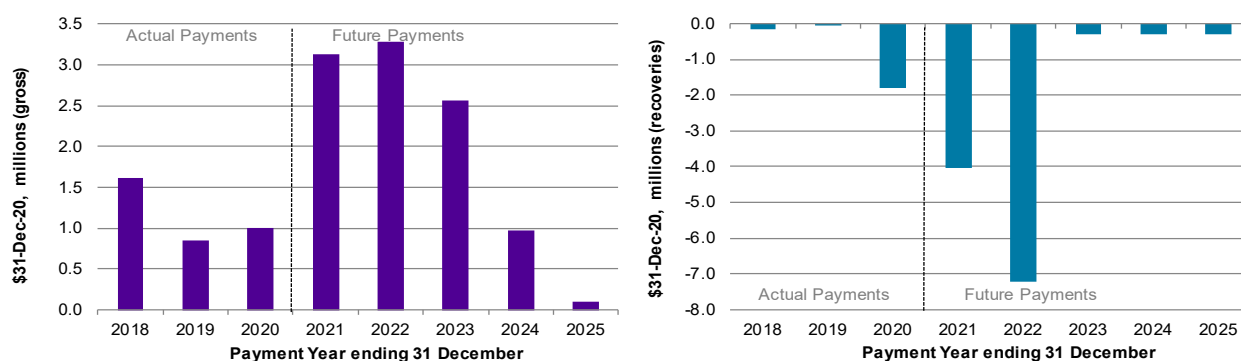


We expect future treatment and related payments of \$4.6 million in 2021, similar to the average over the last three years. The outstanding claims projection is equivalent to 33 years of the 2021 payments.

9.5.6 All Other Payments

The following graph shows historic and projected other benefits for Severe Traumatic Injury claims – this includes one-off payments such as permanent impairment lump sums and recoveries, and smaller payments such as legal and investigation costs.

Figure 9.7 – All Other Payments: Severe Traumatic Injury claims (\$Dec20)
Gross Costs Recoveries



In the three years to 31 December 2020, a net amount of \$1.4 million of other benefits was paid for Severe Traumatic Injury claims. Our future projections for claims occurring prior to 31 December 2020 include (in current dollars):

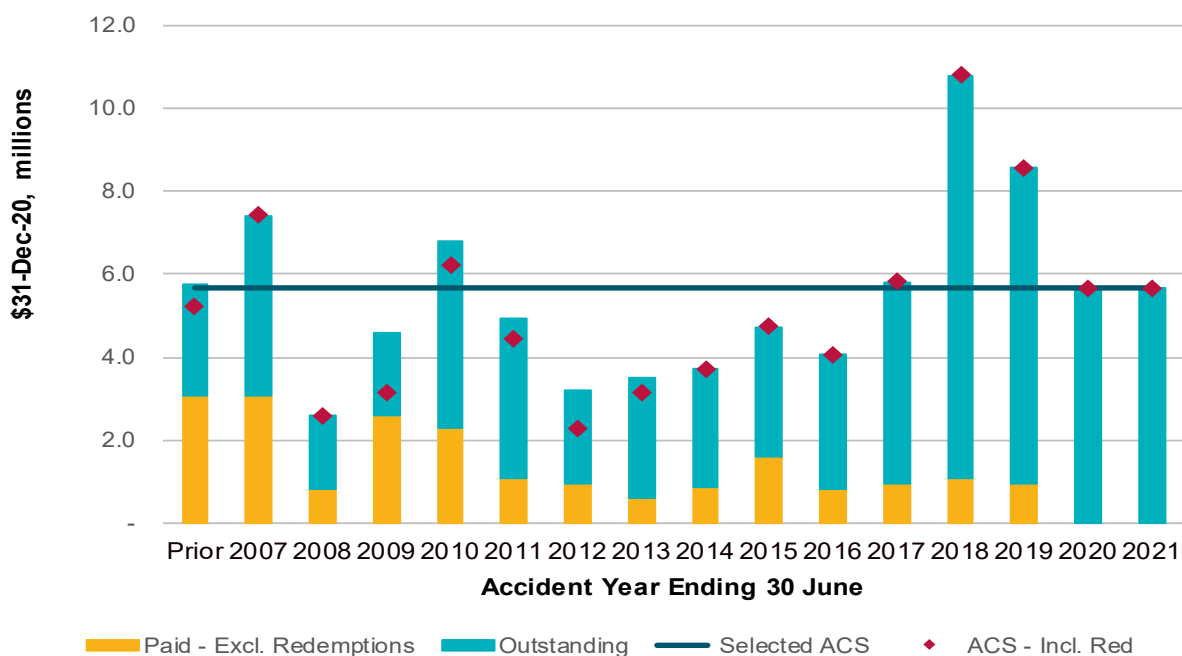
- Lump sum benefits of \$9.1 million paid to claims who have not yet had a lump sum paid
- Legal and investigation costs of \$1.5 million
- Recoveries of \$12.2 million, for those claims where ReturnToWorkSA has identified recovery potential. These recovery allowances have been discussed with the relevant ReturnToWorkSA staff and we are comfortable with the way they have been estimated and their expected achievability.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of 2021 expenditure.

9.5.7 Overall Results and Implications

Figure 9.8 shows the net ultimate average claim size across current Severe Traumatic Injury claims. There is still a large share of the cost that is due to projected future payments, so there is greater uncertainty about ultimate costs than in other areas of the valuation.

Figure 9.8 – Average Claim Size: Reported Severe Traumatic Injury Claims (\$Dec20)

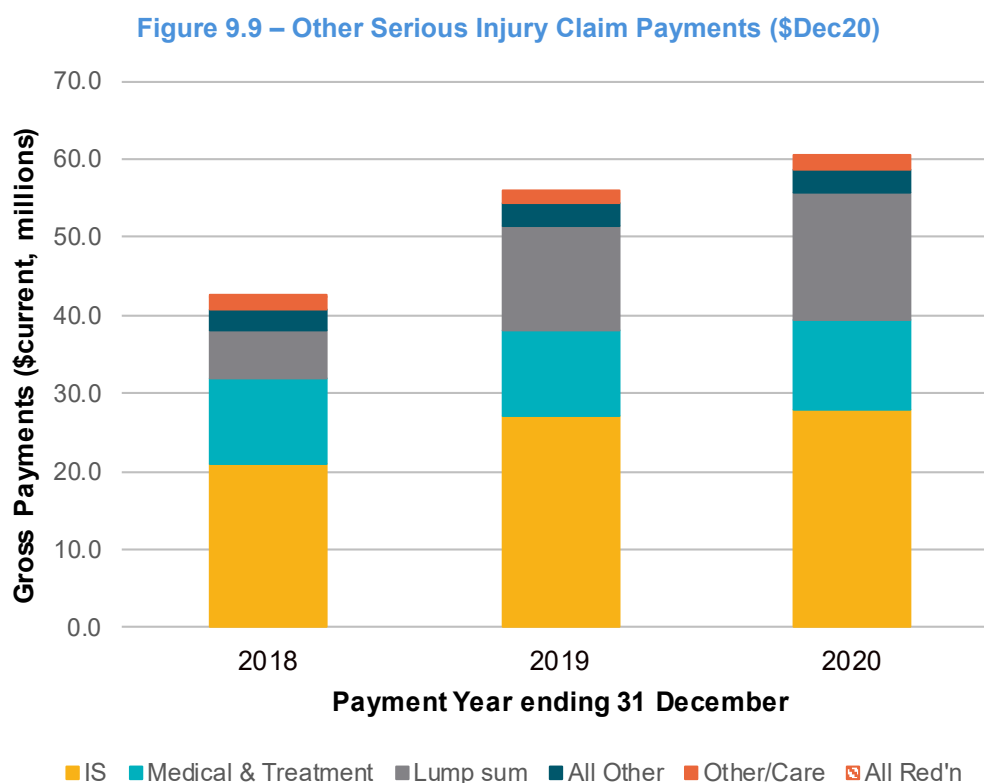


The average claim size across current Severe Traumatic Injury claims is around \$5.0 million in current dollar values; however, this includes claims that have been redeemed at less than the full lifetime value. Excluding redeemed claims the average claim size is \$5.4 million, which is similar to the projected average size (\$5.7 million) for recent accident years where injuries are yet to stabilise. We project that the average size for the 2018 and 2019 accident years will end up higher than this in response to two (very) high needs claims.

9.6 Valuation of Other Serious Injury claims

9.6.1 Payments by Type

Figure 9.9 shows claim payments over the past three years for the Other Serious Injury claims (i.e. excluding the Severe Traumatic Injuries).



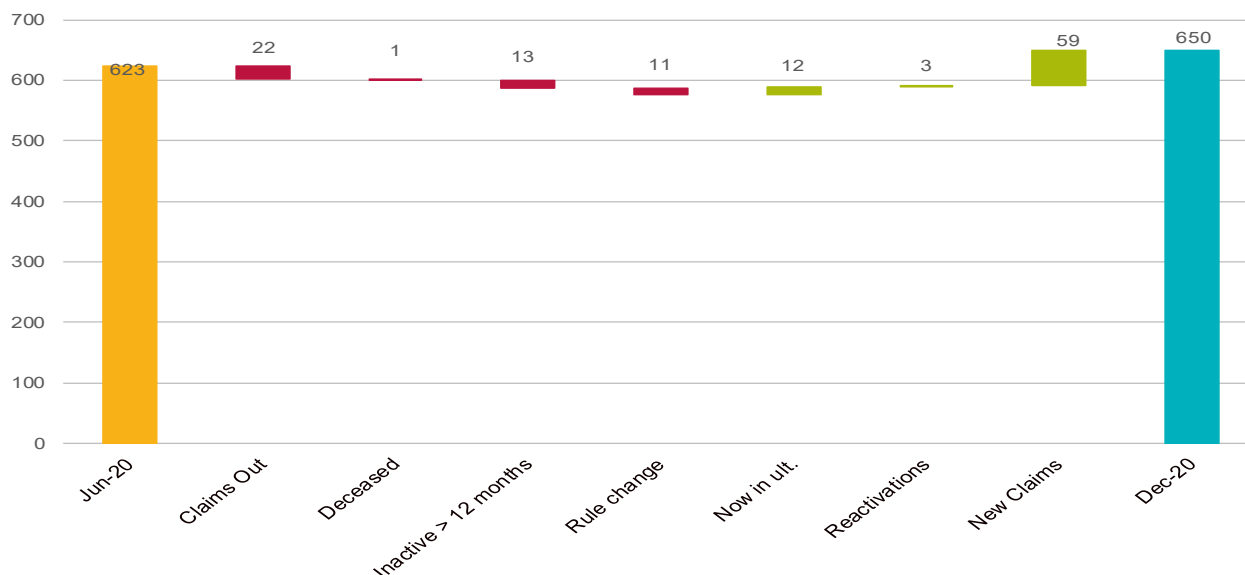
Around \$159 million has been paid to Other Serious Injury claims in the last three years, with year on year growth as claim numbers increase. After allowing for recoveries of around \$7 million over this same period, this equates to an average of around \$51 million per annum in net claim payments (inflated to 31 December 2020 values), comprising:

- \$25 million per annum in Income Support
- \$13 million per annum in medical, treatment and related benefits
- \$12 million per annum in lump sums
- Small amounts of other benefits (\$3 million)
- \$2 million per annum in recoveries.

9.6.2 Claimant Profile

Figure 9.10 shows the number of active Other Serious Injury claims (those being valued) at the current and previous valuation.

Figure 9.10 – Movement in Other Serious Injury Claim Numbers



There are 650 active (i.e. with expected ongoing benefits) Other Serious Injury claims at December 2020, compared to 623 at the previous valuation. The major reasons for this change are:

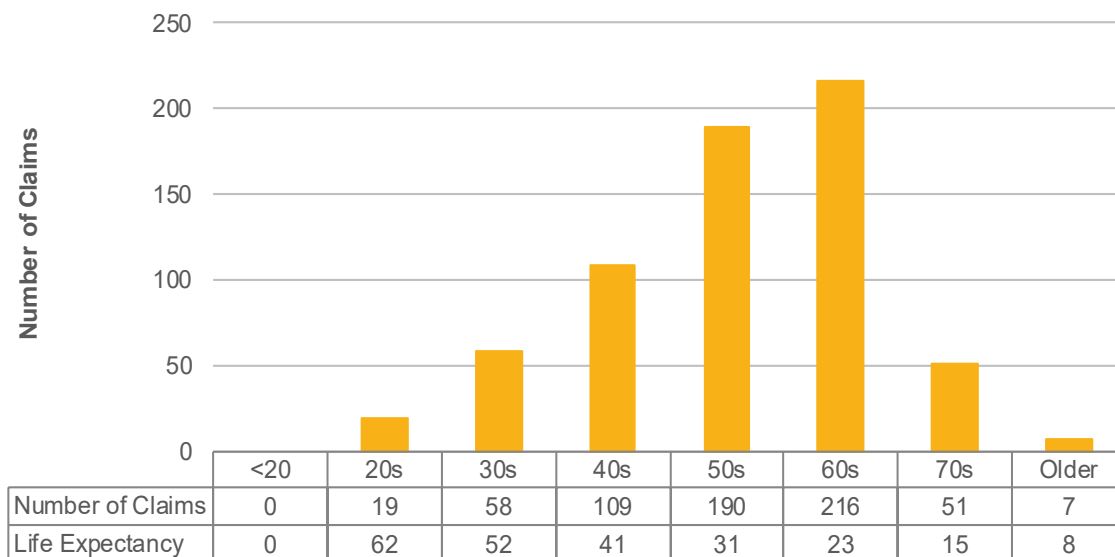
- Claims Out – reduction of 22 claims. This largely refers to claims from the ‘potential’ cohort which were either confirmed not to meet the eligibility criteria for a Serious Injury claim, or where additional information has meant that their likelihood of becoming a Serious Injury claim has been revised.
- Deceased – reduction of one claim.
- Inactive for greater than 12 months – reduction of 13 claims as no longer meet our definition of ‘ongoing’.
- Ongoing criteria review – reduction of 11 claims. As discussed earlier, the rules around valuing ongoing claims were reviewed prior to this valuation, which resulted in a reduction of 11 claims (all of which were low value).
- Revised ultimate status – increase of 12 claims. This increase is due to claims that had previously been identified as a potential Serious Injury, but who were not considered as likely to meet the threshold at their most recent review. Most of these claims are now included due to formal determinations.
- Reactivations – increase of 3 claims. These claims were previously included in the ultimate, but were not treated as ‘ongoing’, most likely due to being inactive greater than 12 months. It is not unexpected that there will be some churn in the active status for claims in this cohort.
- New Claims – increase of 59 claims beyond the other claims noted above.

We note that the numbers in Figure 9.10 refer to claims that are Medical ongoing (which is the broadest group of ongoing claims). As IS ongoing claims are a subset of Medical ongoing claims, the impact of the ongoing criteria review discussed in Section 9.4 on IS ongoing numbers is not identifiable from the above; to be clear on the impact, as a result of the criteria review the IS ongoing claims increased by 29 (from 443 to 472).

With the portfolio still maturing we would generally expect the number of Other Serious Injury claims to increase, broadly in line with the number of new claims each year, as discussed in Section 4.1.

Figure 9.11 shows the current age and life expectancy of the known and potential Other Serious Injury claims.

Figure 9.11 – Age Distribution and Life Expectancy (in years) for Other Serious Injury Claims



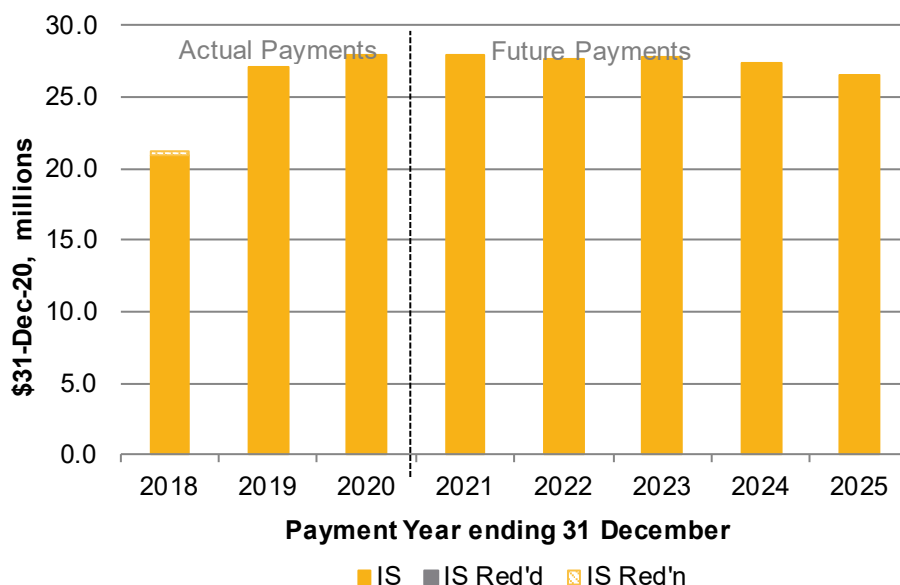
The Other Serious Injury claims are currently around 57 years old on average, with an expected future life expectancy of 31 years (after allowing for mortality, including mortality improvements). The average age at injury was 46 years.

Around 70% of the current Other Serious Injuries have had a WPI assessment, averaging around 36% WPI. At this valuation, there were 74 claims with recorded WPIs below 30%. The average impairment level excluding these low assessments is around 39%.

9.6.3 Income Support

Figure 9.12 shows historic and projected Income Support payments for Other Serious Injury claims (including IBNR claims).

Figure 9.12 – IS Payments: Other Serious Injury Claims (\$Dec20)

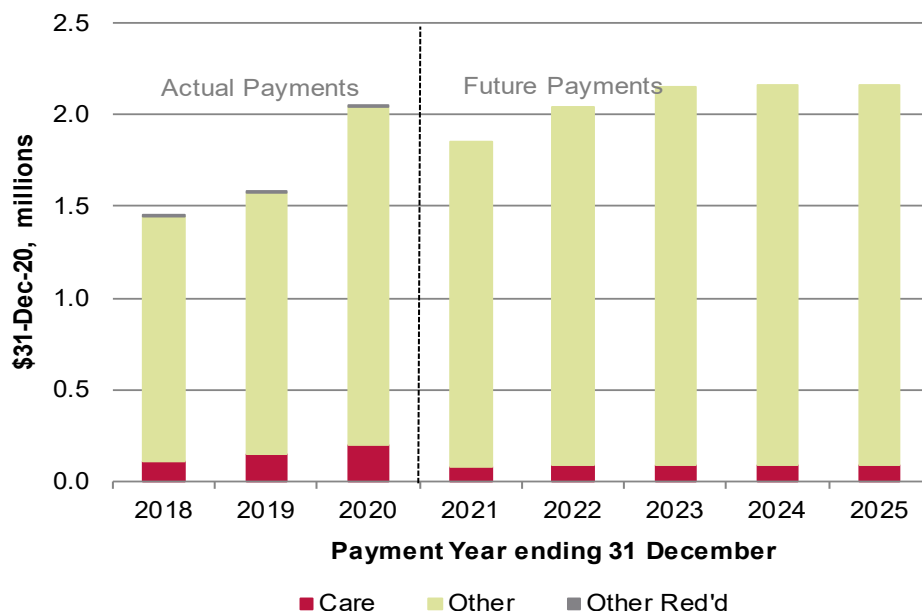


We estimate around \$28 million will be paid in Income Support to Other Serious Injury claims in 2021. Future payments will generally reduce over time in line with expected mortality and retirement, although the emergence of IBNR claims means payments remain fairly stable for the next four years.

9.6.4 Care and Other Costs

Figure 9.13 shows historic and projected care and other payments for Other Serious Injury claims (including IBNR claims). The grey bars indicate Care and Other payments for claims who have since been redeemed.

Figure 9.13 – Other (incl. Care) Payments: Other Serious Injury Claims (\$Dec20)

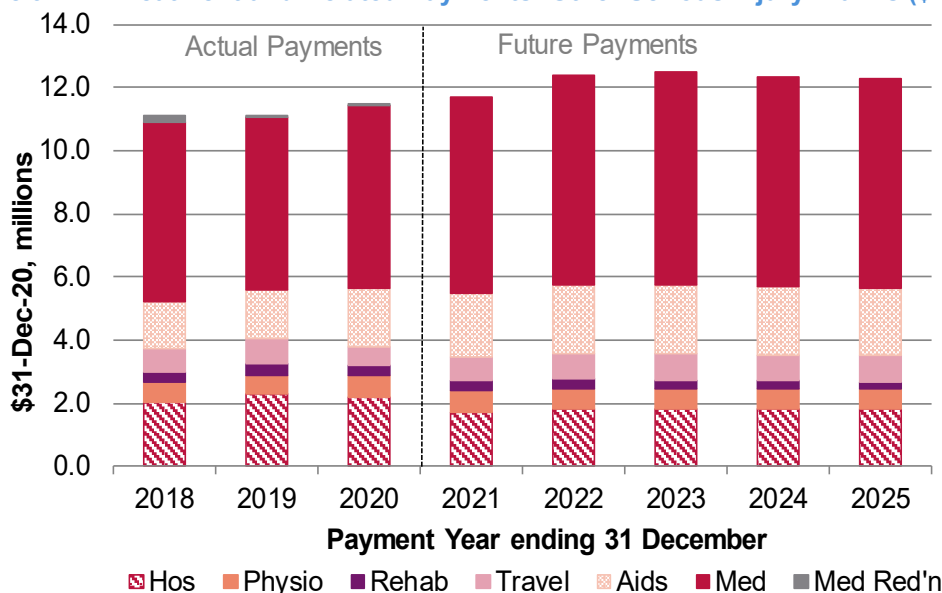


Other Serious Injury claims receive very little in care costs. We expect around \$1.9 million in other payments in 2021.

9.6.5 Treatment and Related Costs

Figure 9.14 shows historic and projected treatment and related costs for Other Serious Injury claims (including IBNR claims). The grey bars indicate Medical and Treatment payments for claims who have since been redeemed.

Figure 9.14 – Treatment and Related Payments: Other Serious Injury Claims (\$Dec20)

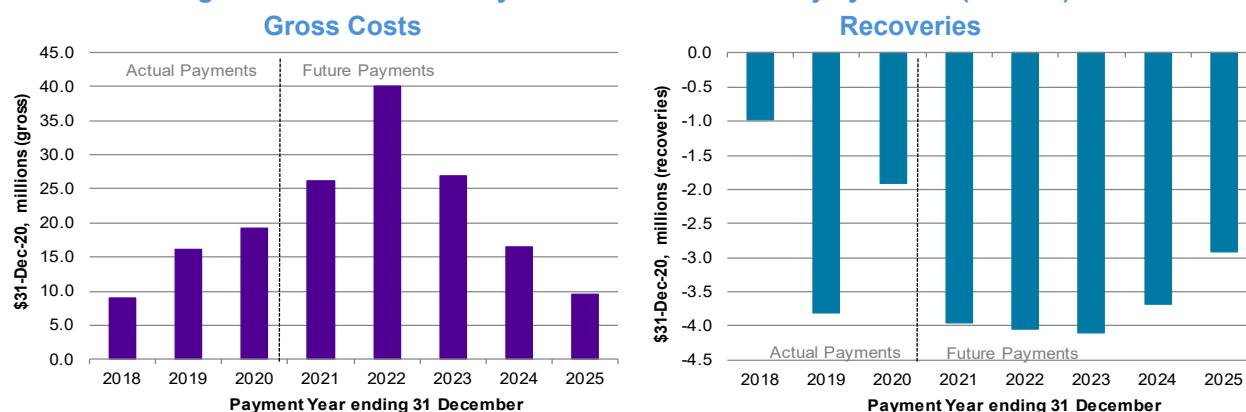


We expect treatment and related payments of \$12 million in 2021 for ongoing claims. Payments increase in 2022 due to IBNR claims, offset by reductions over time in line with mortality.

9.6.6 All Other Payments

Figure 9.15 shows historic and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 9.15 – All Other Payments: Other Serious Injury claims (\$Dec20)



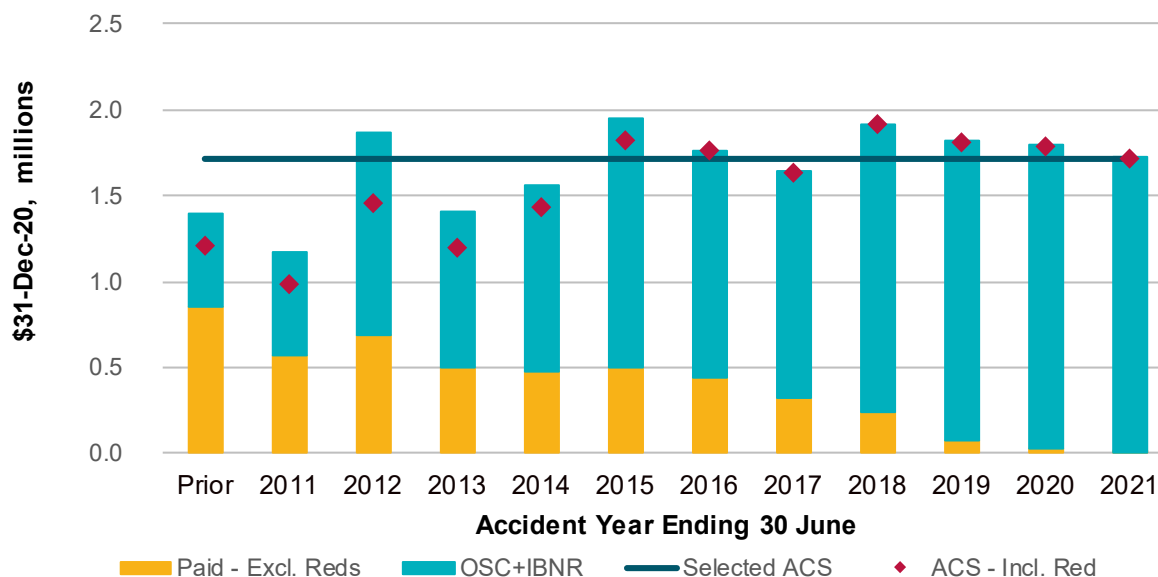
Our future projections include (in current dollars):

- Lump sum benefits of \$104 million paid to Other Serious Injury claims who have not yet had a lump sum paid
- Legal and investigation costs of \$16 million
- Recoveries of \$19 million.

9.6.7 Overall Results and Implications

Figure 9.16 shows the net ultimate average claim size (inflated to 31 December 2020 values) across all Other Serious Injury claims.

Figure 9.16 – Average Size by Payment Type: Other Serious Injury Claims



The total selected average size is around \$1.7 million. Pre-2015 accident years have a lower size due to redemptions on claims for less than lifetime cost and a higher level of claims no longer being valued for ongoing benefits (which is likely because some claims from these periods are only being flagged as 'potential' Serious Injury claims due to past WPI information despite no longer being engaged with the Scheme).

More detail on the selections underlying this average size can be found in Appendix A.6.4.

9.7 Valuation Results and Actuarial Release

Table 9.3 shows the actuarial release by accident period for Serious Injury claims.

Table 9.3 – Actuarial Release: Serious Injuries

Accident Period	Projected Liab at Dec-20 from Jun-20 Valuation	Dec-20 Estimate on Jun-20 Eco Assumptions	Difference from Projected Liability	Act v Exp Pmts in 6 months to Dec-20	Actuarial Release ²	Release as %
	\$m	\$m	\$m	\$m	\$m	
To 30 Jun 05	249.7	246.6	-3.1	0.0	3.1	1%
2005/06 - 2012/13	540.8	548.2	7.4	-5.7	-1.6	0%
2013/14 - 2014/15	265.1	265.7	0.5	1.6	-2.1	-1%
2015/16 - 2020/21 ¹	945.8	994.0	48.2	9.4	-57.6	-6%
Total	2,001.5	2,054.6	53.1	5.2	-58.2	-3%

¹ Accidents to Dec 20

² Includes change in OSC and Act vs Exp payments. Positive values represent accounting profit (valuation release), negative values represent accounting loss

The main reasons for the movements by accident period are as follows:

- Transition accident periods (pre-Jun15) experienced little movement overall, with small offsetting pluses and minuses by accident year.
- Return To Work Act periods experienced a strengthening of \$58 million due to increases to Other Serious Injury claim numbers and the changes to the rules which claims were valued as 'ongoing', partially offset by reductions to Severe Traumatic Injury claim numbers.

Table 9.4 shows the drivers of the actuarial release for Serious Injury claims.

Release (strengthening) due to:	Other Serious Injury \$m	Severe Traumatic Injury \$m	Total \$m
AvE payments in six months			(5.2)
Changes to Valuation Basis			
Claim numbers	(81.2)	39.9	(41.3)
Ongoing rule change	(24.7)	0.0	(24.7)
Other basis changes	7.9	5.0	12.9
Subtotal	(98.0)	44.9	(53.1)
Total			(58.2)

The main drivers of the movement were:

- Net changes to claim numbers (including IBNR claims assumptions) increasing the liability by \$41 million, which was a combination of an \$81 million increase for Other Serious Injury claims and a \$40 million decrease for Severe Traumatic Injury claims.
- Changes to the rules about when claims were valued for 'ongoing' benefits for the Other Serious Injury claims increased the liability by \$25 million, largely impacting the Income Support liability.
- Other changes, largely impacting various average size components, reduced the liability by \$13 million in aggregate.

10 Economic and Other Assumptions

10.1 Discount Rate

The discounted mean term (DMT) of the liabilities is 15 years, similar to the previous valuation. The high DMT is driven by the large proportion of the OSC made up of Serious Injury liabilities. As a result, even relatively small changes to economic assumptions can have a material impact on the liability.

10.1.1 Approach

Accounting standard AASB 1023 states that the discount rates used in measuring the present value of expected future claim payments shall be: “risk free discount rates that are based on current observable, objective rates that relate to the nature, structure and term of the future obligations”. It also says that:

“the discount rates are not intended to reflect risks inherent in the liability cash flows”, and

“typically, government bond rates may be appropriate discount rates for the purpose of this Standard, or they may be an appropriate starting point in determining such discount rates”.

We derive forward interest rates applying to each future duration by:

- Taking the quoted market yields on Australian Government coupon bonds for the durations they are available, as at the date of the valuation – this information is sourced from the Reserve Bank website. These market yields are used to determine the zero coupon yields.
- Using these zero coupon yields to determine forward rates.
- At longer durations we extrapolate the forward yield curve between current market rates and our expected long term forward rate. The assumed long term forward rate and extrapolation take account of:
 - ▶ The duration that government bonds are available to, and the volumes of longer term bonds traded
 - ▶ Long term risk free rates of return
 - ▶ General economic factors
 - ▶ Current monetary policy (e.g. CPI target range of 2% to 3%), combined with expectations of long term real yields.
- Beyond the end of our extrapolation, the yield is maintained at the long term forward rate.

The resulting forward rates are applied to the projected cash flows for each future period. When discounting using forward rates, the relevant rates must be ‘chained’ together, for example a payment at the end of year three is discounted using the product of the first, second and third year forward rates.

10.1.2 Current Assumptions

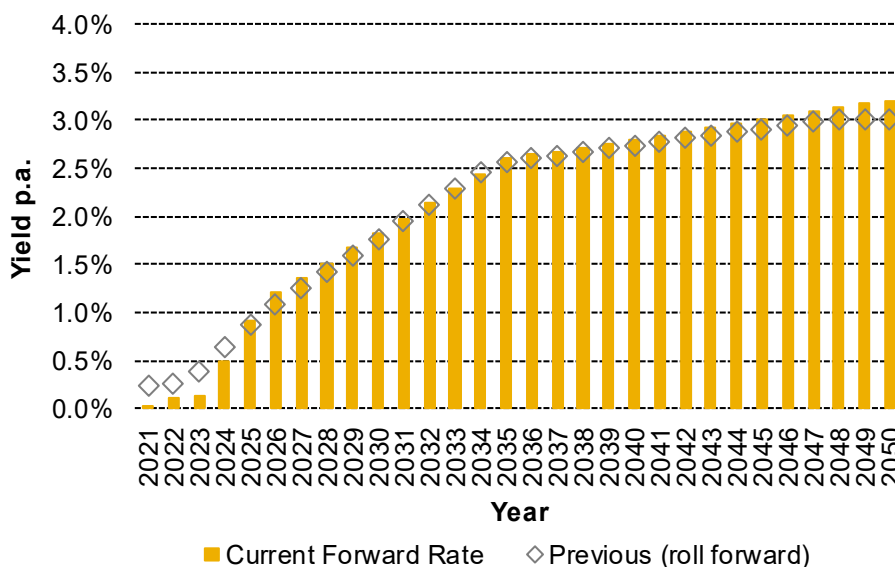
Discount rates at December 2020 have not moved far from their positions at June 2020. A comparison of the currently adopted yield curve to previous is shown in Figure 10.1.

Maturities of less than three years have been the most affected, with RBA monetary policy decisions pushing yields for maturities out to three years down to 0.10% p.a. (was 0.25% p.a. at June 2020). Meanwhile, yields at medium to long terms have gone up by up to 15 basis points (0.15% p.a.) and

continued to rise post-balance date in January. We have assumed a long-term discount rate of 3.25%, an increase of 0.25% from our previous valuation, based on the increase observed in long term yields since June.

The equivalent single discount rate has slightly increased from 1.9% p.a. at 30 June 2020 to 2.0% p.a. at 31 December 2020.

Figure 10.1 – Risk Free Forward Rate vs Previous Valuation



Details of the discount rates by year are included in Appendix C.

10.2 Inflation

In setting our inflation assumptions we consider:

- Forecasts of CPI and wage inflation
- RBA monetary policy
- Market-based information on inflation, with the aim of obtaining inflation expectations which are consistent with the discount rate expectations (as the discount rates are market based), for example using Treasury Indexed Bonds (TIBs). TIBs are essentially Government bonds where the original capital invested, and subsequent coupon payments, are indexed for CPI inflation. The difference between yields on TIBs and on nominal government bonds gives an implied breakeven rate of CPI inflation.

Given there is a prescribed inflation index for income support payments that is specific to South Australian conditions, our inflation assumptions consider inflation at a SA specific level for this portfolio.

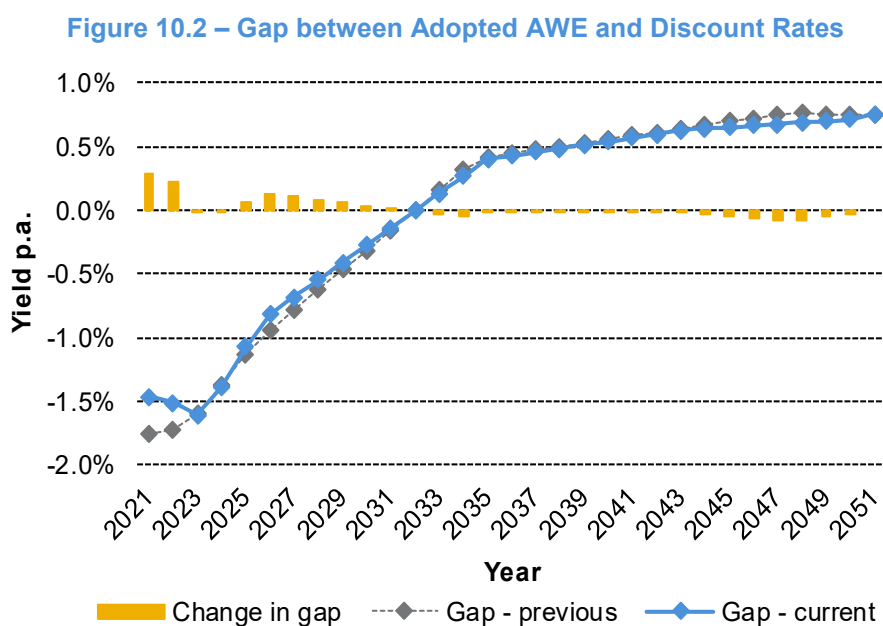
It is also important to note that the selected inflation assumptions are intended to reflect increases in claims cost over time, rather than being a pure forecast of the various inflation indices. This is important because there has been some short-term disruption to the levels of inflation in the economy as a result of the COVID-19 pandemic, an example of which is the 1.9% fall in CPI inflation for the June quarter and subsequent rebound due almost entirely to temporary childcare subsidies. We have only reflected these

short-term disruptions to inflation indices in our selections where we believe this impact will actually flow on to inflation in the cost of claims, which we are using the available inflation indices as a proxy for.

In summary, our assumptions at the current valuation are:

- Wage Price Index (WPI) inflation has been assumed to be 1.50% p.a. for the next year, increasing to 2.00% p.a. in five years' time. This is a reduction from our previous assumption of a flat 2.00% p.a. for the next five years, and reflects current forecasts for low wage inflation due to heightened unemployment and also actual low wage growth in recent quarters.
- WPI inflation assumptions then increase slowly over the following 25-year period, after which they remain steady at 2.50% p.a. This long-term assumption represents a 0.75% p.a. gap between WPI inflation and forward discount rates, unchanged from our June 2020 valuation.
- Average Weekly Earnings (AWE) inflation is set as equal to WPI inflation for the coming five-year period.
- The gap between AWE and WPI inflation is then assumed to widen over the following ten years, after which it reaches a steady-state gap of 0.10% p.a. above WPI (i.e. long-term AWE inflation of 2.60% p.a.). This is in line with our gap assumption at the previous valuation, and reflects the low AWE growth in SA in recent years.
- CPI inflation has been set at 1.50% p.a. for the next two years and increases steadily to 2.00% p.a. four years after that. The selection for the first five years reflects a reduction in market expectations and forecasts of short-term CPI. The long-term selection represents the lower bound of the Reserve Bank's targeted range of 2-3% p.a. and reflects the low CPI growth across both SA and Australia over recent periods.

The movements, compared to previous assumptions, in adopted inflation and discount rates have minimal impact on the 'gap' between inflation and discount rates. This is shown in Figure 10.2 below. As this shows, the current economic assumptions imply a negative gap out to nearly 12 years.



The net impact of these changes is a small reduction in the scheme liability, which is quantified in Section 11.3.2.

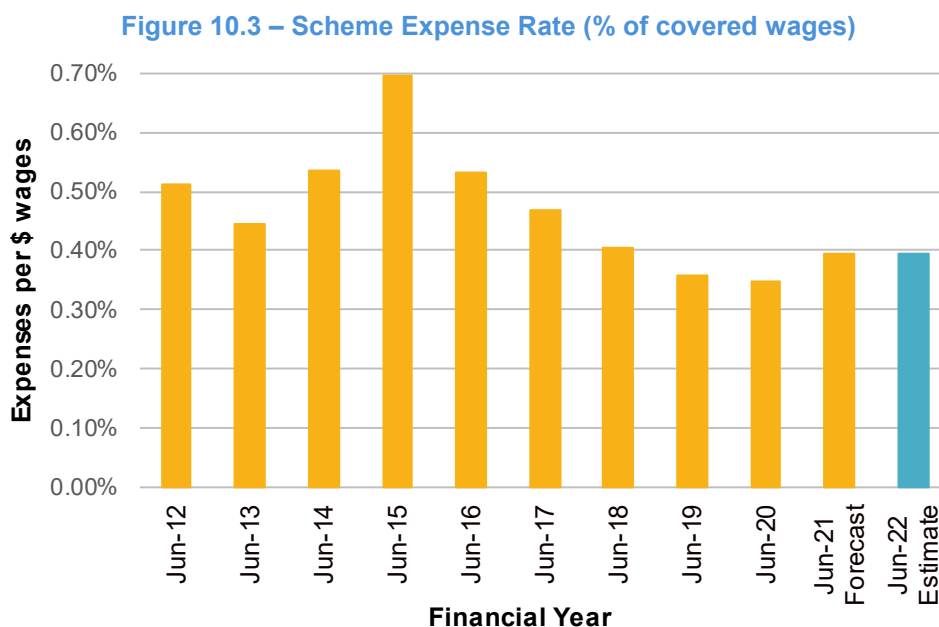
The rates of inflation are applied to entitlement types as follows:

- IS entitlements and related expenditure for Short Term claims have no inflation applied for the current cohort of claims, consistent with the RTW Act. AWE is initially applied for future injuries.
- IS entitlements and related expenditure for Serious Injury claims are inflated using the projected Wage Price Inflation rate until retirement.
- The maximum Lump Sum entitlement is indexed annually by the adopted CPI rate (the maximum entitlement applies to all accidents occurring in a year).
- All other entitlements are inflated at the adopted AWE rate, with allowance for superimposed inflation where warranted.

We have made assumptions about superimposed inflation for some payment types, and on the timing of the application of inflation. These assumptions are detailed in Appendix C.

10.3 Expenses

In setting provisions for outstanding claims, it is necessary under accounting and actuarial standards to include an allowance for the future costs of claim administration that are not allocated to individual claims. Figure 10.3 below shows expenses as a percentage of wages over the past 10 years along with the forecast figure for 2020/21 and the 2021/22 estimate.



The assumptions for our claims handling expense allowances for the outstanding claims valuation are as follows:

- For Serious Injury claims the allowance is 8.0% of outstanding claims, unchanged from the previous valuation.
- For Short Term claims the allowance is 14.0% of outstanding claims, unchanged from the previous valuation.

These expense loadings were last reviewed at our June 2020 valuation and included significant costs attributed to management of the transition cohort of claims (those with an accident year prior to 30 June

2015). If the scheme reaches a point where these claims are finalising faster, that is more in line with the legislated scheme boundaries on income support and medical costs, then we would expect these costs to reduce and a lower expense rate to be likely. As such, the expense loading should be reviewed if a new steady state is reached over time.

The overall expense rate equates to 9.6% of gross outstanding claims, unchanged from the previous valuation.

10.4 GST Recoveries

Entitlements are modelled net of GST (ITC) recoveries.

10.5 Risk Margins

Since June 2017 ReturnToWorkSA has established its outstanding claims provision with a 75% probability of sufficiency.

We have undertaken a high-level review of the risk margin scorecards for internal and external systemic risks at this valuation, given a more comprehensive review was done three valuations ago. Our approach is based on the key elements of the framework proposed by the Institute of Actuaries of Australia's Risk Margin Taskforce in their paper "Framework for Assessing Risk Margins" (the task force paper). Specifically, we have examined Coefficients of Variation (CVs) arising from internal systemic error and external systemic error. A summary of the framework is included in Appendix C.2.

We have split the various entitlements into six groups for the purposes of risk margins analysis. For each risk margins group, we derive assumptions about the independent error, internal systemic error and external systemic error, which are then combined to estimate the total CV for that risk margin group. We assume that there is some correlation between risk margins group within internal and external systemic error, while we assume that independent error is (by definition) uncorrelated. This leads to a 'diversification benefit' in the overall Scheme risk margin.

Our previous valuation included an explicit adjustment to the risk margins for the additional uncertainty in the valuation results due to COVID-19. At this valuation, we have removed this allowance as the level of uncertainty has reduced in light of the favourable health and economic conditions in South Australia.

Our current estimated CVs for each entitlement group, along with the total diversified and undiversified CV, are set out in Table 10.1 below.

Table 10.1 – Coefficient of Variation

Risk Margin Group	Total CV	
	Dec-20	Jun-20
Serious Injury	27.9%	27.9%
Short Term Claims		
Income Support	13.4%	15.7%
Lump Sums	24.7%	23.8%
Legal + Investigation	28.0%	28.0%
Medical and Other Treatment	14.8%	15.8%
Recoveries	20.0%	20.0%
Total (Undiversified)	25.9%	25.9%
Total (Diversified)	22.3%	22.0%
Diversification	13.9%	14.8%

Our selected CVs have increased slightly overall compared to the previous valuation due to:

- A reduction in the Income Support CV due to lower parameter selection error as recent exit rates have seen some stability re-emerge, following deterioration over 2019 and early 2020. In addition, the impact of COVID-19 on unemployment has been significantly less than expected, hence we have wound back some of the additional uncertainty added at the previous valuation.
- An increase in the Lump Sums CV due to higher parameter selection error as there are still a high number of WPI applications coming through for transitional claims, and it's uncertain when this will slow down.
- A reduction in the Medical and Other Treatment CV due to lower uncertainty in parameter selection error. This is largely due to more experience indicating the RTW Act claims post benefit boundary for most treatment types appear to be holding.
- A lower diversification benefit, as the liability is increasingly weighted to the Serious Injury claim segment.

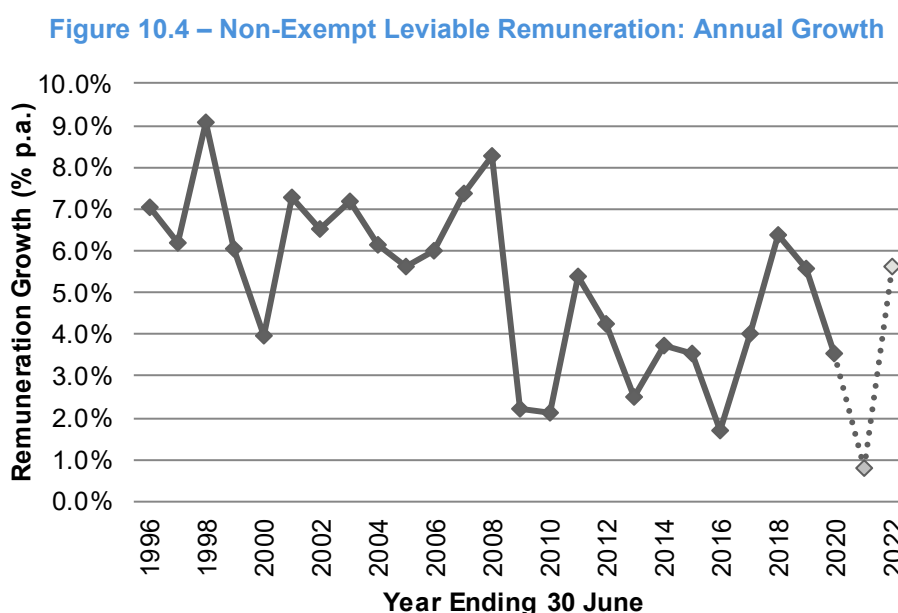
Based on a diversified coefficient of variation of 22.3% and our modelled distribution (which is a blend between a normal and lognormal distribution), we recommend a risk margin of 14.1% at a 75% probability of sufficiency. This compares with 14.3% adopted at the previous valuation which included an additional allowance of 0.3% for the COVID-19 uncertainty.

10.6 Non-Exempt Remuneration

When making our assessment of the cost of future claims, we consider the underlying remuneration pool as a measure of the exposure from which claims will arise.

The movement in the remuneration pool over time is the net result of a number of influences: (1) growth in average weekly earnings, (2) 'natural' growth in the number of employees, and (3) movements of firms out of/into the scheme due to becoming self-insured or exiting self-insurance.

The remuneration projection for current and future years is undertaken by ReturnToWorkSA. The implied annual growth in the total non-exempt remuneration by year is shown below in Figure 10.4.



We have adopted ReturnToWorkSA's remuneration projection of \$31.4 billion for 2020/21, noting that it is still subject to estimation. The key features we note in the remuneration experience are:

- The remuneration growth for 2009 and 2010 was the lowest seen since the early 1990's (the time of the last significant recession in Australia). There were two key contributors to this experience:
 - ▶ The global financial crisis (GFC) – during 2009 unemployment rates were higher than for the previous few years, and the level of under-employment (people working fewer hours than they would like) also rose. The level of wage inflation also reduced in the year.
 - ▶ A change in the definition of leviable remuneration from 1 July 2008, to exclude wages for trainees and apprentices (noting that while their wages are excluded, their claims costs are not). This change to the remuneration base reduced remuneration estimates for 2008/09 by about 2% relative to the previous definition.
- Despite remuneration growth briefly heading up to more 'normal' historical levels in 2011 and 2012, wage growth then reduced again towards levels seen during the GFC, and then stayed low until 2017.
- 2019 remuneration growth ended up at 5.6%, following on from 6.4% growth in 2018. Both of these years had higher growth than any other year all the way back to 2008.
- The remuneration growth for 2020 ended up at 3.5%, much higher than was projected at June 2020. This reflects a smaller than anticipated impact from COVID-19 on employment in South Australia, in part due to the JobKeeper support scheme provided by the Australian government.
- The current projections have low wage growth in 2021, with 0.8% growth, rising to 5.6% in 2022 and 3.5% after that. The low forecast of wages growth for 2021 includes the expected impact of phasing out of the JobKeeper program, as well as a gradual recovery from COVID-19 for the South Australian economy.

11 Valuation Results

This section of the report summarises the valuation results, namely:

- The central estimate of outstanding claims as at 31 December 2020
- Our recommended balance sheet provision under AASB1023
- Movement in the central estimate compared to what was projected at the previous valuation
- Estimated historical scheme costs
- Projected future cash flows for the current outstanding claims
- Projected outstanding claims as at 30 June 2021 and 31 December 2021
- Reconciliation of results with 30 June 2020 projections.

11.1 Outstanding Claims – Central Estimate

Our central estimate of the outstanding claims by entitlement type as at 31 December 2020 is set out in Table 11.1. This liability relates to all claims which occurred on or before 31 December 2020 and includes the impact of updated economic assumptions.

Table 11.1 – Outstanding Claims by Entitlement Type

Entitlement Group	Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	\$m	\$m	\$m	
Income	165	559	725	24%
Medical	140	690	830	27%
Other (incl. Care)	8	423	430	14%
Lump sums	313	115	428	14%
Hospital	17	136	153	5%
Travel & Accomodation	5	58	64	2%
Worker legal	49	15	64	2%
Corporation legal	37	15	52	2%
Physical Therapy	10	45	55	2%
Rehabilitation	11	20	31	1%
Investigation	2	1	3	0.11%
Common law	1	0	1	0.05%
Commutation	2	0	2	0.07%
LOEC	1	0	1	0.02%
Gross Liability	763	2,079	2,841	93%
Recoveries	-33	-36	-69	-2%
Expenses	107	166	273	9%
Net Central Estimate	836	2,209	3,045	100%

The outstanding claims liability before recoveries and expenses is estimated to be \$2,841 million. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is \$3,045 million.

Table 11.2 details the outstanding claims result by accident year.

Table 11.2 – Outstanding Claims by Accident Year

Accident Year	Short Term Claims	Serious Injuries	Total	% of Net Cent Est
	\$m	\$m	\$m	
Pre Jun-05 Years	21	245	266	9%
Jun-06	3	42	46	2%
Jun-07	4	66	70	2%
Jun-08	5	47	52	2%
Jun-09	5	38	44	1%
Jun-10	6	88	94	3%
Jun-11	7	78	85	3%
Jun-12	8	87	95	3%
Jun-13	10	100	110	4%
Jun-14	12	108	120	4%
Jun-15	15	167	182	6%
Jun-16	30	133	163	5%
Jun-17	47	174	220	7%
Jun-18	69	190	260	9%
Jun-19	123	229	352	12%
Jun-20	228	188	416	14%
Dec-20	168	99	267	9%
Gross Liability	763	2,079	2,841	93%
Recoveries	-33	-36	-69	-2%
Expenses	107	166	273	9%
Net Central Estimate	836	2,209	3,045	100%

Table 11.3 shows the overall liability split between Serious Injuries and Short Term claims, both before and after discounting. As this shows, there is a significant level of discounting in relation to the Serious Injury claims liability due to its long payment pattern.

Table 11.3 – Impact of Discounting

	Short Term Claims	Serious Injuries	Total
	\$m	\$m	\$m
Inflated	852	3,566	4,418
Inflated and Discounted	836	2,209	3,045
Ratio	98%	62%	69%

11.2 Provision for Outstanding Claims

Table 11.4 sets out the components of our recommended provision at 75% probability of sufficiency, \$3,475 million. As explained in Section 10.5, the recommended risk margin has been reduced from 14.3% to 14.1% of the central estimate liability.

Table 11.4 – Recommended Balance Sheet Provision

	Central Estimate	Risk Margin	Recommended Provision
	\$m	\$m	\$m
Gross Claims Cost - Serious Injuries	2,079		
Gross Claims Cost - Short Term Claims	763		
Claims Handling Expenses	273		
Gross Outstanding Claims Liability	3,114	439	3,554
Recoveries	-69	-10	-79
Net Outstanding Claims Liability	3,045	429	3,475

11.3 Movement in Liability

Our net central estimate including CHE is \$36 million higher than projected at the previous valuation, as shown in Table 11.5.

Table 11.5 – Movement from Previous Valuation

	Gross	Recoveries	CHE	Net
	\$m	\$m	\$m	\$m
Liability as at Jun-20	2,744	-66	266	2,944
Plus liability for claims incurred in the period	292	-7	35	320
Less Expected Payments to Dec-20	235	-7	31	259
Plus Interest (unwinding of discount)	4	0	0	4
Liability Projected from Previous Valuation	2,804	-66	271	3,009
Current Valuation	2,841	-69	273	3,045
Difference	38	-4	3	36

We have attributed the change in central estimate into the following components:

- Movement in liability due to claims experience – this covers the components that are due to claim outcomes (such as changes in the number and mix of claims), as well as the impact of revisions to our valuation assumptions.
- Impact of changes in economic assumptions – the component which is mandated by accounting standards (and therefore outside ReturnToWorkSA's control).

This split also allows calculation of the actuarial release, where we add the difference between actual and expected payments to the movement in the liability due to claims experience, to give a measure of the 'profit' impact of claims management performance relative to the previous valuation basis.

Table 11.6 – Movement in Central Estimate and Determination of Actuarial Release

	Liability Estimate ¹	AvE Payments in 6 mths to Dec-20	Actuarial Release/ (Strengthening) ²
	\$m	\$m	\$m
Liability at Jun-20 Valuation	2,944		
Projected Liability at Dec-20 (from Jun-20 valuation)	3,009		
Claims Movement - Short Term Claims	-9	-3	11
Claims Movement - Serious Injury	58	5	-63
Impact of Change in economic assumptions	-12		
Recommended Liability at Dec-20	3,045		
Total Actuarial Strengthening			-51

¹ Net central estimate of outstanding claims liability, including CHE

² Includes change in OSC and Act vs Exp payments.

Each of these components is discussed in the following sections.

11.3.1 Actuarial Release at December 2020

The actuarial strengthening (negative release) over the period is \$51.3 million. Table 11.7 shows the actuarial strengthening by entitlement type.

Table 11.7 – Actuarial Release/(Strengthening) by Entitlement Type

Entitlement Group	Short Term Claims ¹	Serious Injury Claims ¹	Total Actuarial Release ¹	Release %
	\$m	\$m	\$m	
Income Support	16.9	-48.5	-31.6	-4.5%
Lump Sums	-11.3	-11.7	-23.0	-5.7%
Worker legal	-3.7	-1.5	-5.2	-8.7%
Corporation legal	-0.7	-1.1	-1.8	-3.7%
Investigation	-0.5	-0.1	-0.6	-18.9%
Medical	2.4	-2.1	0.3	0.0%
Other	1.0	0.3	1.3	0.3%
Hospital	0.3	-3.3	-3.0	-2.0%
Travel	0.5	6.4	6.9	9.8%
Physical therapy	-2.1	-0.6	-2.8	-5.1%
Rehabilitation	3.8	1.3	5.2	14.1%
Common Law	1.6	0.0	1.6	56.9%
LOEC	0.0	0.0	0.0	4.4%
Commutation	0.0	0.0	0.0	1.8%
Gross Liability	8.3	-60.8	-52.6	-1.9%
Recoveries	2.1	2.6	4.7	-7.2%
Expenses	1.1	-4.6	-3.5	-1.3%
Net Central Estimate	11.4	-62.8	-51.3	-1.7%

¹ Includes change in OSC and Act vs Exp payments, excludes economic impacts

The major factors contributing to the \$51 million actuarial strengthening at the current valuation are:

- For **Short Term claims** there is an actuarial release of \$11 million, which is the result of:
 - ▶ A release of \$17 million for Income Support costs due to favourable claims experience – active claim numbers were better than projected across all durations, and claim outcomes were better than the underlying valuation basis despite COVID-19 impacts (which were anticipated to make RTW harder).

- ▶ An increase of \$11 million for lump sum entitlements. This is due to a combination of higher sizes for both First Paid and Economic Loss lump sums, and higher numbers of hearing loss claims.
 - ▶ A release of \$4 million for Rehabilitation reflecting expected future payment reductions. This follows increased oversight which has reduced new referral numbers.
 - ▶ An increase of \$4 million for legal costs, as new dispute numbers have continued to grow and disputes increasingly move into the later (and more expensive) stages of the dispute resolution process.
 - ▶ A release of \$2 million for medical and other treatment benefits due to a number of offsetting factors: the flow-on to lower medical costs from the improvements in Income Support claims, higher medical device costs for hearing loss claims, and continuing high medico-legal costs related to transitional claim WPI assessment and dispute activity.
 - ▶ A decrease of \$2 million in Common Law entitlements reflecting the lack of payment activity over the past decade as the circumstances for receiving this benefit are very specific and restricted to claimants from other jurisdictions.
 - ▶ A decrease of \$1 million for the remaining entitlements, mostly reflecting the favourable experience over the last six months.
- For **Serious Injury claims** there was an actuarial strengthening of \$63 million. The commentary below groups up parts of the entitlement group movements (as shown in Table 11.7 above), to demonstrate the full financial impacts of key drivers of this result. The \$63 million actuarial strengthening is due to:

- ▶ Higher claim numbers (including IBNR assumptions) resulted in a strengthening of \$41 million. This increase is across all entitlement groups, with the biggest components being: Income Support (\$14 million), Lump Sums (\$10 million) and treatment related costs (\$16 million).

This strengthening is in response to the continued late emergence of Other Serious Injury claims for 2017 and prior accident periods and already high claims for the 2018 year, partially offset by lower Severe Traumatic Injury reports.

We caution that, even after including this strengthening, there is still only a very small allowance for remaining ongoing claims to ultimately reach the Serious Injury boundary. Compounding this risk, there continues to be a much larger than expected number of long duration claims still commencing WPI assessments, lodging new disputes and remaining active in the system. Further, we continue to interpret the higher numbers of Serious Injury claims being identified at early durations for recent accident years as a speed-up in the identification pattern, meaning we have not allowed for the late identifications that have been occurring on older accident years to continue for more recent accident cohorts. If either of these assumptions do not hold, there will be material implications for both the outstanding claims liability and average premium rate.

- ▶ The rules for determining whether a claim is likely to receive 'ongoing' future payments were reviewed, after an increasing number of claims were re-commencing income support benefits with large backpays, and resulted in a strengthening of \$25 million; the impact of this change is almost entirely due to increases in Income Support entitlements.
- ▶ Other changes resulted in a \$9 million release – valuation basis changes led to a \$13 million release (mainly due to an \$18 million release for treatment related costs, and a \$6 million

strengthening for Income Support costs), with a \$5 million increase in the expense loading partially offsetting this.

- ▶ Actual payments were \$5 million higher than expected.

Our projections for the remaining entitlement types were also reviewed and updated, although none of the movements are significant in relation to the overall scheme liability.

11.3.2 Impact of Economic Assumption Changes

Changes to inflation and discount rate assumptions decreased the net central estimate by \$12.4 million.

Overall, the gap between discount and inflation rates is similar to the what was adopted at the June 2020 valuation, hence there is only a minor impact from economic changes. The main contributor to the decrease in liability is the reduction in expected wage inflation for the next five years, which mostly impacts Serious Injury claims.

The current assumptions imply a negative real yield (i.e. projected wage inflation above the discount rate) out to around 12 years into the future.

11.4 Historical Scheme Costs

As part of our valuation we have estimated the 'historical cost' for each past accident year. This represents our estimate of total projected costs for the accident year, including expenses, and is discounted to the start of the accident year. Historical claims handling, operating expense and self-insurer levy figures are taken from ReturnToWorkSA's published annual accounts and the latest information from ReturnToWorkSA for 2021.

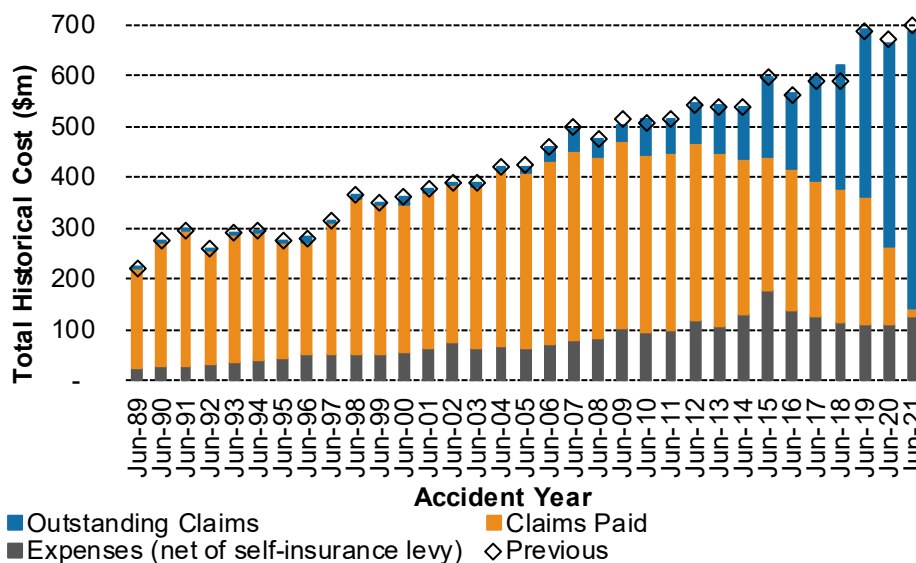
Figure 11.1 summarises the currently estimated historical costs for each year since the scheme began. As this shows, commencement of the RTW Act had initially acted to contain the cost for accident years up to 2016 at around \$550 million, breaking the strong upward trend seen in the lead up to 2009. Scheme expenses were particularly high in 2015 as a result of additional transition related costs. Since 2017 however costs have continued to escalate, with 2019 and later years reaching almost \$700 million per annum. In general, the hindsight cost estimates are similar to the previous valuation estimates, other than for increases on 2017 and 2018, and reductions on the latest two accident years.

For recent accident years the costs are projected to be higher than the pre-2016 level as a result of:

- Higher claim numbers, particularly for Income Support claims, although the most recent experience suggests this has stabilised and is now just starting to improve, as explained in Section 4.1.2. Compounding this was the impact of deterioration in RTW outcomes (as indicated by higher numbers of active income support claims at longer durations), as explained in Section 5.
- Growth in the number of Serious Injury claims that are expected to ultimately emerge, as explained in Section 4.2.
- Lower discount rates applying for the whole of the projection, as explained in Section 10.1.
- For 2019 there were also a number of very high cost claims in the Severe Traumatic Injury cohort. This dynamic makes the increase from 2018 to 2019 more pronounced than it would otherwise be and is not an indication of deterioration in experience; rather it is just a reflection of the volatile nature of severe traumatic claim numbers given the low volume. 2020 currently has no Severe Traumatic Injury claims, which is part of the reason its costs are lower than for 2019.

- The 2020 year also appears to have benefited from a particularly favourable June 2020 quarter, where COVID-19 related restrictions have meant fewer injuries were reported than under a business as usual scenario.

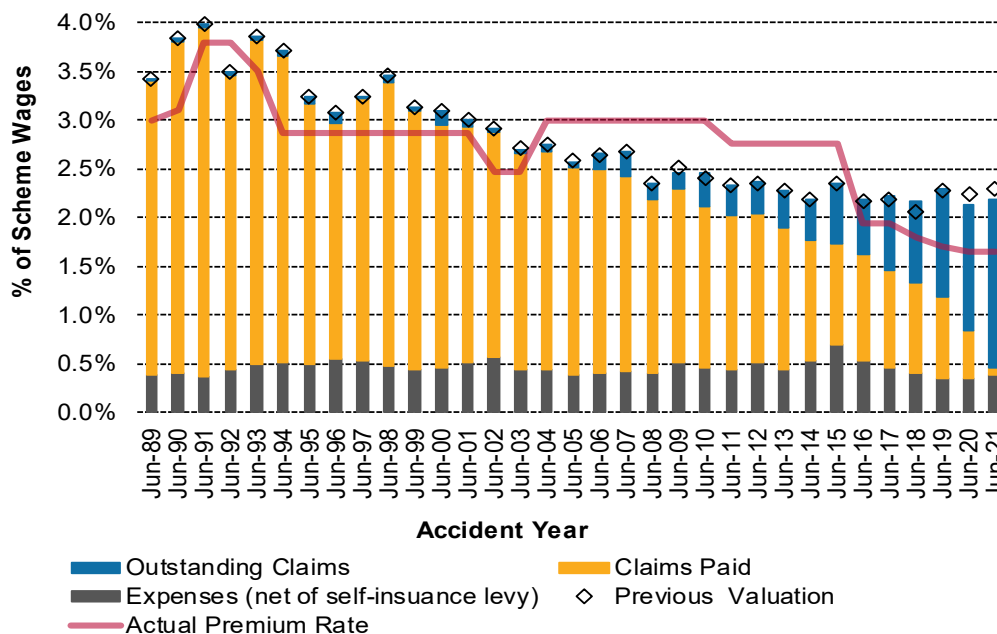
Figure 11.1 – Historical Cost Discounted to Accident Year



Using these costs we have estimated the 'historical premium rate', or the Break Even Premium (BEP) rate, for each past accident year; this is the amount that would have been sufficient to fully cover claim costs, including expenses and recoveries, assuming the scheme achieved risk free returns each year and the current actuarial valuation is an accurate forecast of future payments. The BEP is calculated by dividing the total projected costs for the accident year (from Figure 11.1) by the total scheme leviable remuneration in that year (discussed in Section 10.6). We present the costs on this basis, i.e. using risk free discount rates, so that a like with like comparison can be made over the history of the scheme, which allows current scheme performance to be assessed in a long term context.

Figure 11.2 summarises the estimated annual BEP since the scheme began, including a comparison with the estimates at our previous valuation and the scheme's actual average premium rate charged for each year.

Figure 11.2 – Break Even Premium Rate and Actual Premium Rate Charged



* The Break Even Premium Rate in this Figure is calculated using the risk free rate, so that a like with like comparison can be made over the history of the scheme. For clarity, this is not the same as the scheme's pricing basis as the scheme targets a higher than risk free rate of return when premiums are set.

The main points to note are:

- The introduction of the RTW Act reduced the BEP for accident years between 2008 and 2010 to just under 2.5% of wages.
- For accident years between 2011 and 2018 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- The 2019 year has developed as a high cost year, due to a combination of high Income Support claim numbers, deterioration in RTW outcomes and a higher than normal Serious Injury cost (due to a number of very expensive Severe Traumatic Injury claims).
- The BEP estimates for 2020 and 2021 are lower than the 2019 BEP, due to fewer Severe Traumatic Injury claims. The reduction from the previous valuation estimates for these two years reflects the recent claim number and RTW improvements for Short Term Claims.
- The current estimate of the BEP for the 2021 accident year is 2.19% of wages, down from 2.30% at the June 2020 valuation. Around half of this decrease can be attributed to the upward revision to the wages estimate (as the claim outcomes were projecting off actual claims, whereas the wages estimate has only been revised up by ReturnToWorkSA as employer declarations were completed and were more favourable than expected). In terms of the components:
 - ▶ Short Term claim costs are projected to be 0.11% of wages lower than at the previous valuation
 - ▶ Serious Injury costs increased by 0.02% of wages, and
 - ▶ Scheme expenses reduced slightly, by 0.01% of wages.

We note that these calculations assume past and future investment earnings at the risk free rate, and adopt the annual cost of expenses in the year. All else being equal, any earnings above the risk free rate or additional sources of income would act to reduce the required premium rate.

We emphasise that (as seen in the graph) the BEP estimates for recent accident years include a significant outstanding claims estimate and are therefore likely to change as experience emerges. We also note that the adopted wages figure for 2021 still involves a degree of estimation, and with JobKeeper impacts still to be finalised it is possible that this could move by more than normal.

11.5 Future Cash Flows

Table 11.8 presents projected cash flows for the coming four half-years, by entitlement type. These cash flows include allowance for future claims incurred as described in Section 11.6, but make no allowance for expenses.

Table 11.8 – Projected Cash Flows

Entitlement Group	Projected Cashflows for Period			
	Dec-20 to Jun-21	Jun-21 to Dec-21	Dec-21 to Jun-22	Jun-22 to Dec-22
	\$m	\$m	\$m	\$m
Income Support	86.2	85.0	85.3	86.7
Medical	40.0	40.8	40.8	42.2
Lump sums	56.0	60.6	67.6	67.3
Rehabilitation	5.2	5.2	5.2	5.3
Physical Therapy	6.1	6.2	6.2	6.3
Hospital	10.1	10.4	10.5	10.9
Legal - Non-Contract	8.1	8.0	8.0	7.9
Other	7.6	7.7	8.5	8.6
Legal Contract	11.0	11.2	10.4	9.8
Travel	2.9	3.0	3.0	3.1
Investigation	1.1	1.1	1.1	1.1
Commutation	0.2	0.2	0.2	0.2
LOEC	0.1	0.1	0.1	0.1
Common law	0.1	0.1	0.1	0.1
Recoveries	-6.5	-9.8	-7.8	-11.9
Net Claims Cost - Total	228.2	229.8	239.3	237.8
Serious Injuries (net)	39.9	40.7	50.4	46.6
Short Term Claims (net)	188.4	189.1	188.9	191.2

Cash flows for Short Term claims over the next two years are expected to remain fairly stable, while the shape to the Serious Injury cashflows is a result of assumptions around the timing of one-off lump sums and recoveries.

11.6 Projected Outstanding Claims

Table 11.9 shows the outstanding claims projected to 30 June 2021 and 31 December 2021. We note the payments shown here are based on those in Table 11.8, but also include an allowance for claims handling expenses for consistency with our liability estimate.

**Table 11.9 – Projected Outstanding Claims Provision
(30 June 2021 and 31 December 2021)**

	Half year ending	
	Jun-21	Dec-21
	\$m	\$m
Provision at Period Start	3,475	3,546
Less Risk Margin	429	438
Central Estimate at Period Start	3,045	3,108
Plus Additional Liability Incurred in Period	321	328
Less Expected Payments in Period	-259	-261
Plus Interest (unwind of discount)	1	1
Projected Central Estimate at Period End	3,108	3,176
Plus Risk Margin	438	448
Projected Provision at Period End	3,546	3,623

We project the central estimate for the net outstanding claims liability at 30 June 2021 to be \$3,108 million; this estimate includes allowance for claim payments and expenses, discount rate movements in line with forward rates and new claims incurred in the period 1 January 2021 to 30 June 2021. The corresponding provision at a 75% probability of sufficiency is \$3,546 million.

The projected increase to 30 June 2021 in the liabilities relates to the fact that the additional liability incurred on new Serious Injury claims is more than the expected payments on existing Serious Injury claims; for Short Term claims the half-yearly ins and outs are now broadly offsetting.

11.7 Reconciliation of Incurred Cost with Previous Projection

At the 30 June 2020 valuation we projected an additional claim cost liability of \$285 million would be incurred from claims arising in the half-year to 31 December 2020. Our current projection for the ultimate value of this liability is \$279 million, a reduction of 2.2% or \$6 million consisting of:

- A reduction of \$10.4 million from Short Term Claims primarily due to lower than expected claim numbers and reductions in Income Support entitlements.
- An increase of \$4.4 million from Serious Injury claims, primarily due to increases to the expected number of Other Serious Injury claims.
- Changes to economic assumptions take away \$0.3 million.

Table 11.10 – Comparison of June 2020 Projections to Current Valuation

For period 1 Jul 2020 to 31 Dec 2020		
Incurring Claims Liability (\$m, excl. expenses):		Difference
Projected in Jun-20 Valuation	285	
Incurred (current valuation)	279	-2.2%

12 Uncertainty and Sensitivity Analysis

12.1 Risk and Uncertainty

In this section we discuss the major areas of uncertainty involved in estimating the balance sheet outstanding claims provision (OSC, including allowance for expenses and risk margins, with provision at 75% probability of sufficiency). At the present time there are heightened uncertainties and risks, particularly on the unfavourable side, with the operation of the RTW Act still to stabilise.

To assist in understanding the uncertainty, we have designed a range of scenarios which illustrate potential scheme outcomes. For each scenario we have made an approximate estimate of its impact on the OSC provision.

We have considered the uncertainty in four broad categories:

- Economic – employment, inflation, investment markets
- Legal – disputes, tribunal decisions, appeal court decisions
- Short Term claims – outcomes relating to claims whose entitlements are subject to the hard boundaries
- Serious Injury claims – outcomes for claims who are entitled to long term payments from the scheme.

There is overlap and interaction between these categories. ReturnToWorkSA has essentially no control over economic influences, full control over scheme management and some influence (but not control) over legal and behavioural risks.

We note that sensitivity analysis is indicative only of a range of possible liability outcomes. The sensitivities shown below do not represent upper or lower bounds to the scheme's outstanding claims liabilities.

12.2 Economic Scenarios

In brief, the scenarios we have considered are a stronger economy and a weaker economy; as summarised below.

Table 12.1 – Economic Scenarios

	Stronger	Weaker
Unemployment	Down to 5%	Up to 9%
Wage inflation ¹	2.25% pa	2.0% pa
Investment earnings	3.25% pa	0.25% to 1.0% pa
Real Long-term 'Gap' ²	1%	-1%

¹ Wage Price Index (WPI) inflation

² Difference between WPI inflation and discount rate

In undertaking sensitivity analysis it is straightforward to model inflation and investment earnings. In relation to unemployment, there is no clear way to estimate the impact on the cost of claims, and we refer to the RTW scenarios in the 'short term claims' section. Broadly, the claims impact will be in the same direction as other economic impacts, but the magnitude of the impact is probably smaller than that of inflation and investment changes.

Table 12.2 – Economic Sensitivities

	OSC Impact	
	\$m	%
31 Dec 20 OSC estimate (Including risk margin at 75% POS)	3,475	
Stronger Economic Scenario (1% gap between inflation and discount rate)	-550	-16%
Weaker Economic Conditions (-1% gap)	+617	+18%
Updated Yield Curve (28 Feb 2021 Yield Curve)	-398	-11%

Economic conditions are still currently unfavourable for scheme performance relative to long term historical norms. If conditions do improve the implications for both funding and premiums are favourable; for example, there was a material increase in government bond yields after the balance date of 31 December 2020, and updating the yield curve to 28 February 2021 yields would reduce the liability by 11% (although to be clear, any implications of these higher yields on future inflation expectations would also need to be considered for reserving purposes).

The very high discounted mean term of the liabilities means economic impacts have a very leveraged impact on the liabilities.

12.3 Legal Risk Scenarios

As discussed in Section 3, there are currently high numbers of disputes in the scheme and the duration of open disputes is high. Further, a number of key provisions of the RTW Act are still subject to new areas of legal challenge. The table below indicates the sensitivity of the results to two scenarios regarding disputes around WPI assessments. It is likely that if the legal environment is either better or worse than we have implicitly assumed, then several experience changes could happen together.

Table 12.3 - Legal Sensitivities

	OSC Impact	
	\$m	%
31 Dec 20 OSC estimate (Including risk margin at 75% POS)	3,475	
WPI assessments increase by 2% as a result of the higher incentives under the RTW Act, resulting in extra Serious Injury claims and higher lump sum payments.	+335	+10%
Restrictions on multiple assessments ('top ups') do not work as expected.	+279	+8%

As indicated in the sensitivities above, if the WPI assessment provisions in the RTW Act do not work as intended it is possible, indeed likely, that the impacts could be measured in hundreds of millions of dollars.

12.4 Expenses Scenario

The adopted claims handling expenses at this valuation are unchanged from previously and allow for the current level of expenses to be maintained over the lifetime of the projection. If this is not the case, then the loading could be tens of million higher as shown below.

Table 12.4 – Expenses Sensitivities

	OSC Impact	
	\$m	%
31 Dec 20 OSC estimate (Including risk margin at 75% POS)	3,475	
Scheme expenses are higher than allowed (16% for STC and 8.5% for Serious Injuries)	+29	+1%

12.5 Short Term Claim Scenarios

The implementation of the RTW Act brought significant change to the scheme and areas of change in the scheme's culture. In the last one to two years there have been areas of claim outcomes where these improvements might not be being maintained (for example dispute numbers have grown over time), and it is possible that the early changes in the scheme's experience might not be sustained if patterns of behaviour revert towards those of past years. On the other hand, it is possible that the scheme experience could outperform current projections if more favourable changes in claims management and behaviour of scheme participants can be achieved.

Table 12.5 summarises a number of sensitivities that help demonstrate the potential for variability in the Short Term Claim cohort.

Table 12.5 – Short Term Claim Sensitivities

	OSC Impact	
	\$m	%
31 Dec 20 OSC estimate (Including risk margin at 75% POS)	3,475	
Claim Numbers		
Hearing Loss numbers continue to deteriorate at current levels for the foreseeable future	+15	+0%
Income Support		
Deterioration in Continuance rates by 5% points at each development quarter and associated percentage change in PPACs	+43	+1%
Front end IS continuance rates return to the best of recent experience in last 5 years	-13	-0%
Treatment Costs		
Late surgery costs emerge more than expected, approximately double the current allowance	+29	+1%
Medical costs emerge similar to recent experience due to higher medico legal costs for RTW Act injuries	+35	+1%
Legal Fees		
Reductions in dispute costs under the RTW Act are lower than allowed for	+24	+1%
Higher average cost of legal fees for all claims due to disputes progressing further in the disputation process	+40	+1%
Lump Sums		
First Paid and Economic Loss lump sum numbers reduce to 2015 levels for RTW Act claims	-42	-1%
Economic Loss lump sum sizes emerge 10% higher than expected	+19	+1%
Transitional lump sum disputes and assessments continue to run at a high volume for the next three years	+10	+0%

These scenarios illustrate some of the key areas of uncertainty for Short Term Claim costs including:

- If hearing loss claim numbers continue to deteriorate beyond current levels, then this could add around \$15 million to the provision. To be clear, this scenario only focuses on recent reporting periods, and so if the whole (very long) tail of the projection began to emerge at much higher levels then the financial impacts could be much larger.
- A reversal of recent improvements in RTW outcomes would increase Income Support and flow-on costs by tens of millions of dollars.
- An improvement in RTW rates to be in line with the best of the last 5 years exit rate experience, just on the first development year, would reduce the liability by around \$13 million. To be clear, this scenario assumes the number of claims reaching 10 days of lost time does not change, but in reality this can also be influenced by claim management actions; improvements in the proportion of claimants who commence income support benefits have the potential to lead to much more significant financial savings.
- Treatment costs:
 - ▶ Higher numbers of late surgeries – for example, if there was a behaviour change whereby claimants seek to have more surgeries covered by the workers compensation system, this could add \$29 million to the provision.
 - ▶ High levels of medico-legal costs continuing on for RTW Act claims due to longer and more complex disputes could add \$35 million to the provision. We had previously viewed this as a risk mostly related to transitional claims, but on current trends it appears that the slow rate of resolution is now also being experienced in RTW Act claims.
- Lump sums:
 - ▶ For a number of RTW Act periods the lump sum numbers are currently tracking lower than pre-reform levels, which we continue to interpret as mainly being a ‘slowdown’ rather than a ‘reduction’ in lump sums. If this is not the case, and there is in fact improvement in lump sum experience to the lowest recent level seen, this could result in a release of up to \$42 million in the provision.
 - ▶ On the other side, there are currently pressures on economic loss lump sum sizes and a 10% increase would add \$19 million to the provision.
 - ▶ If the transitional project continues to run at a similar level of newly commenced WPI assessments for the next three years, it would add around \$10 million to the provision for lump sums; there would also be additional legal, medico-legal and claims handling costs beyond this amount.

12.6 Serious Injury Scenarios

With significantly higher benefits available to Serious Injury claims, the numbers of claimants becoming eligible for these benefits will have significant financial consequences for the scheme. In addition, with an increasing proportion of future claims liabilities relating to Serious Injury claims, changes in life expectancy and escalation of costs for Serious Injury claims costs will also have significant financial impacts.

Table 12.6 – Serious Injury Sensitivities

31 Dec 20 OSC estimate (Including risk margin at 75% POS)	3,475	
20 additional Serious Injury IBNR claims emerge for 2016 and 2017 with higher numbers continue for all RTW Act periods	+268	+8%
Late emergence pattern for 2016 and 2017 is in line with older years, and continues for all RTW Act periods	+151	+4%
Return to work rates improve with RTWSA initiatives	-70	-2%
Unpaid care on EnABLE cohort ceases immediately and is replaced with paid care	+165	+5%
Uncertainty around mortality - impact of all EnABLE claims with mortality in line with standard population life expectancy	+434	+12%
Superimposed inflation is 1% p.a. higher than assumed for medical and care, whether due to higher utilisation of services such as care and treatment, or from increasingly expensive treatments, above average award wage increases for carers, increased pressure as current unpaid family carers age, etc.	+455	+13%
Superimposed inflation is 1% p.a. lower than assumed for medical and care.	-331	-10%
No increase in utilisation of Care benefits after age 65	-88	-3%
Twice the additional allowance for utilisation of Care benefits after age 65	+75	+2%

Because of the very long tail of Serious Injury claims and the consequent leverage in the scheme's financial results, the scenarios illustrate some very large potential changes in the outstanding claims liability.

We emphasise that there is significant uncertainty around ultimate claim numbers, as indicated by the following scenarios:

- If an additional 20 IBNR claims emerge for the 2016 and following accident years (i.e. the RTW Act years), there will be an increase of around \$268 million in the OSC provision. With a high number of claims remaining open beyond the two (income support) and three (treatment benefits) year benefit caps, continued emergence of new Serious Injury claims from transitional periods, and many areas of the RTW Act still being tested in the courts, it is possible that Serious Injury numbers end up materially higher than our current estimates.
- If the increase in Serious Injury claim numbers being identified at early durations for more recent accident years does not result in fewer claims being identified post development year three – that is, that there continues to be a tail of newly recognised claims, even though ReturnToWorkSA is identifying the claims it thinks are Serious Injuries up front – then the increase to the provision would be around \$151 million. The current interpretation that the increase in numbers at earlier durations is a speed up in the identification pattern is very important in the context of both outstanding claims liability and average premium rate.

Changes in the level of benefits payable for care, support and medical needs also have very significant implications for the OSC liability. Conversely, if recently commenced programs manage to help more participants return to work than in the past then this will help to reduce the OSC liability.

12.7 Key Uncertainties

There is considerable uncertainty in the projected future claim costs, in particular around how and when claims are determined to be Serious Injuries.

The main areas of uncertainty in our current estimates of the liabilities are:

- **Legal precedent risk** – risks here relate to the possibility of decisions which are unfavourable to the scheme or the culture and behaviour of its participants. In particular, there are still many claims in dispute seeking to access higher levels of benefits than ReturnToWorkSA has determined. Despite a number of apparently ‘key cases’ having resolved over recent years, there has not been any noticeable reduction in the number of such disputes, and indeed new avenues of challenge to the operation of WPI continue to emerge.

The case of *Summerfield* is the latest where an appeal to the Full Court has been heard, although a decision has not been delivered as yet; if this case does not resolve favourably for ReturnToWorkSA there are likely to be adverse financial consequences for the scheme (via higher WPI scores, including higher numbers of Serious Injury claims). Unless a clear and decisive legal position is established, then this risk is likely to remain for at least another two years, and perhaps longer based on current dispute numbers and timeframes to resolution.

- **WPI assessments** – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the lump sum for future economic loss payable to Short Term claims, means there is pressure on WPI assessments. The scheme will face significant financial consequences if this leads to either extra claims getting over the 30% WPI threshold or ‘WPI creep’. The robustness of the ‘once and for all’ WPI assessment rules under the RTW Act is an important area of risk.
- **Serious Injury claim costs** – these claims are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, and deviations from our assumptions could therefore compound across multiple years. For the current valuation the key uncertainties are:
 - ▶ **Ultimate numbers of claims** – there are several areas of uncertainty in relation to Serious Injury claim numbers. These include the impact of late emerging claimants (whether due to delayed WPI assessments, late surgeries, etc) as well as the number of outstanding Serious Injury application disputes and other WPI disputes that could see claims ultimately meet the 30% WPI threshold.
 - ▶ **Life expectancy** – the future life expectancy of Serious Injury claimants has a significant impact on future cost projections. There is some evidence emerging that life expectancy for this group could be shorter than is allowed, and we will continue to monitor this.
 - ▶ **Cost escalation** – the potential for future cost escalation in a number of medical, care and treatment related items poses a risk. One example is the extent to which care costs that are currently not compensated by the scheme may become compensable in future, as family-based carers age and claimants increasingly require paid attendant care and/or move into residential care facilities. Another example is the potential increase in costs for care related specialists and facilities, due to wage pressures and/or market demand pressures for these specialists as the National Disability Insurance Scheme continues to scale up.
- **Claim durations for Short Term Claims** – between 2018 and early 2020 there was deterioration in claim durations – both more claims reaching the two week threshold to be counted as an Income Support claim and longer durations on benefit thereafter due to slippage in RTW outcomes (relative to the much improved RTW rates seen over the preceding few years). While there are now signs that these adverse trends have generally been arrested, and in some cases are beginning to improve, it is not yet clear that these impacts will be sustained over time.

Further, we emphasise that no allowance has been made for the growth in longer duration Income Support claims to impact on WPI assessments – that is, we have not anticipated any slippage in

WPI scores, nor any increase in the numbers of Serious Injury claims, as a result of the increase in claim durations over recent years.

- **Outcomes for claims with current disputes** – risks here include the possibility of decisions which are unfavourable to the scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- **Economic environment** – there is considerable uncertainty in financial markets, and this has again meant that the discount rates used to determine the valuation results are low by historical standards. While employment related impacts have been less significant than originally feared over 2020, there is still a higher than normal risk that the economic environment could change in adverse ways.
- **COVID-19 impacts** – after a more positive finish to 2020 than was previously anticipated, and in the context of the commencement of the national vaccination rollout, our valuation work no longer makes explicit allowances for any COVID-19 impacts. If the health and/or economic situation change for any reason, for example if there is an unexpected spike in infections, then this could potentially lead to material disruption to claim outcomes.

Even though the RTW Act provisions commenced over five years ago, there are still key areas of the Act being tested in the courts, and there is as yet only limited information on the numbers of Serious Injury claims which will ultimately emerge. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the developing post-reform experience, and it is possible that the experience will differ materially from our current expectations.

13 Reliances and Limitations

Our results and advice are subject to a number of limitations, reliances and assumptions. The main ones are outlined below.

13.1 Reliance on Data and Other Information

We have relied on the accuracy and completeness of the data and other information (qualitative, quantitative, written and verbal) provided to us by ReturnToWorkSA for the purpose of this report. We have not independently verified or audited the data, but we have reviewed the information for general reasonableness and consistency. The reader of this report is relying on ReturnToWorkSA and not Finity for the accuracy and reliability of the data. If any of the data or other information provided is inaccurate or incomplete, our advice may need to be revised and the report amended accordingly.

13.2 Uncertainty

13.2.1 Emergence of Key Legal Precedent

Realising the expected long term financial savings from the RTW Act depends on the effectiveness of maintaining the boundaries in practice. Any legal precedent that causes 'slippage' in the application of the boundaries will have an unfavourable impact on scheme costs.

There continues to be an unusually high number of cases on appeal to the Supreme Court and until these cases are resolved (and resolved with clarity around the operational implementation of the relevant provisions) there will be uncertainty as to the financial costs which eventuate under the RTW Act benefit package.

13.2.2 Other Uncertainty

There is considerable uncertainty in the projected outcomes of future claims costs, particularly for long tail claims; it is not possible to value or project long tail claims with certainty. Our payment projections for Serious Injury claims, in particular, include payments which are expected to occur many decades into the future.

We have prepared our estimates on the basis that they represent our current assessment of the likely future experience of the scheme. Sources of uncertainty include difficulties caused by limitations of historical information, as well as the fact that outcomes remain dependent on future events, including legislative, social and economic forces, and behaviour by scheme stakeholders such as Corporation management, claimants and claims agents.

In our judgement, we have employed techniques and assumptions that are appropriate and the conclusions presented herein are reasonable given the information currently available, subject to our comments above. However, it should be recognised that future claim outcomes and costs will likely deviate, perhaps materially, from the estimates shown in this report.

The uncertainty at the current valuation is heightened by the need to allow for the impacts of the RTW Act. While its key features came into effect back in July 2015, legal testing of its implementation is still occurring and is likely to take a number of years to complete, as noted above.

Our valuation assumes a continuation of the current environment with allowance for known changes where we have been able to quantify or estimate the effects. It is possible that one or more changes to the environment could produce a financial outcome materially different from our estimates.

13.2.3 COVID-19 Impacts

The uncertainty at this valuation is heightened by the known and potential future impacts of COVID-19 and its associated shutdowns. Considerable uncertainty remains around the potential impacts over the next few years, and potentially even longer. The actual impacts of COVID-19 on claim outcomes may be materially different from what we have assumed.

13.3 Latent Claims

We have made no allowance for catastrophic aggregation of claims from latent sources (such as claims relating to asbestos) other than as reflected in the data and information we have received. Latent claim sources are those where the date of origin of a claim is many years before the claim is reported.

There has been a lot of focus on potential new sources of silicosis claims recently, but at this time it does not appear that ReturnToWorkSA is impacted anywhere near as much as some of the Eastern states. While there are negligible claims to date, information from the recent external screening program has identified a group of just over 20 workers with evidence of silicosis or other lung diseases. As such, it now seems more likely that silicosis claims could emerge over time, and we will continue to monitor developments regarding this area of risk.

13.4 Reinsurance

We understand that there is no reinsurance program in place in relation to any of the liabilities we have valued.

13.5 Limitations on Use

This report has been prepared for the sole use of ReturnToWorkSA's board and management for the purpose stated in Section 1. At ReturnToWorkSA's request, we consent to the release of this report to the public, subject to the reliances and limitations noted in the report.

Third parties, whether authorised or not to receive this report, should recognise that the furnishing of this report is not a substitute for their own due diligence and should place no reliance on this report or the data contained herein which would result in the creation of any duty or liability by Finity to the third party.

While due care has been taken in preparation of the report Finity accepts no responsibility for any action which may be taken based on its contents.

Finity has performed the work assigned and has prepared this report in conformity with its intended utilisation by a person technically competent in the areas addressed and for the stated purpose only. Judgements about the conclusions drawn in this report should be made only after considering the report in its entirety, as the conclusions reached by a review of a section or sections on an isolated basis may be incorrect.

This report, including all appendices, should be considered as a whole. Finity staff are available to answer any questions, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Any reference to Finity in reference to this analysis in any report, accounts or any other published document or any other verbal report is not authorised without our prior written consent.

14 Scheme History

This section summarises the key events and changes in the scheme since major reforms in 2007.

2007-08

Changes to the Workers Rehabilitation and Compensation Act passed by the South Australian Parliament. The key aim was to place greater focus on earlier rehabilitation and return to work outcomes.

2008-09

Key components of the 2008 legislative changes commenced: earlier step-downs for IS claims; Work Capacity Assessment; changes to non-economic loss payments; changes to the dispute resolution framework (including Medical Panels introduced); provisional liability.

2009-10

- 'Window' for continuation of redemptions under previous legislation closed 1 July 2010
- Replacement of IT system IDEAS with Curam
- Change to process for reimbursement of weekly payments to employers
- Initial projects commenced under the \$15 million Return to Work Fund.

2010-11

- Bonus/Penalty scheme for employer levies discontinued.

2011-12

Claims estimates introduced for all claims.

2012-13

- New employer payments scheme commenced 1 July 2012, with compulsory experience rating for medium and large employers, and optional 'retro paid loss' arrangement for large employers
- Second claims agent, Gallagher Bassett, commenced 1 January 2013 (Employers Mutual Limited had been the sole agent since 1 July 2006)
- Second legal service provider, Sparke Helmore, commenced 1 January 2013.

2014-15

The **Return To Work Act 2014** was passed in late 2014, with major changes to the scheme and claimant entitlements. Key provisions took effect 1 July 2015.

The main features of the reforms, for claims occurring from 1 July 2015, were:

- A tighter link between employment and injury before compensation is available
- For Seriously Injured workers: ongoing benefits, reduced emphasis on RTW, access to common law benefits for economic loss

- Introduction of boundaries on claim duration for 'non-serious injuries': 104 weeks for weekly benefits and 52 weeks thereafter for medical costs
- New lump sum payment for loss of future earning capacity for non-serious injuries with WPI of 5% or more.

A number of **Regulations** in June 2015 impacted on the operation of the RTW Act. The changes related to pre-1 July 2015 injuries and allow:

- 'Top-up' payments for non-economic loss in limited circumstances; approval to seek further compensation was required before 1 July 2016
- Coverage of future surgeries and up to 13 weeks of IS benefits for existing non-Serious Injuries, even if surgery falls outside the standard time boundaries.

2015-16

The premium system was changed so that nearly all employers were subject to experience rating, but under a new and much simpler system.