Scheme Actuarial Valuation as at 30 June 2024

ReturnToWorkSA

At ReturnToWorkSA's request we have consented to the release of this report to the public, subject to the reliances and limitations noted in the report.

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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.

30 August 2024

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

Dear Mr McCarthy

Scheme Actuarial Valuation as at 30 June 2024

Enclosed is our report on the 30 June 2024 scheme actuarial valuation.

We would like to acknowledge the contribution of members of ReturnToWorkSA's management and staff to our valuation work; their openness and effort to provide information for our use and understanding is commendable.

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

Yours sincerely

Andrew McInerney - FIAA   Tim Jeffrey - FIAA   Claire White - FIAA

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 10.3 for additional information.
APR	Average Premium Rate – the premium charged by ReturnToWorkSA to registered employers, on average, as a percentage of leviable wages.
AWE	Average weekly earnings
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 leviable wages.
CHE	Claims handling expense
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).
EnABLE	The internal claims management team at ReturnToWorkSA that manage Severe Traumatic Injury claims.
ER	Incentives for early reporting of claims, introduced in 2008.
General Claims	Claims lodged for all injuries other than Hearing Loss claims.
Hearing Loss claims	Claims lodged for noise induced hearing loss that has arisen from 'noisy work'.
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.
LOEC	Loss of Earning Capacity
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.
Super imposed inflation	An increase in costs above underlying inflation
WRCA ('old Act')	Workers Rehabilitation and Compensation Act 1986, the previous Act which governed the scheme.
WCI/WPI	Wage cost (price) index – changes in the price of labour, unaffected by compositional shifts in the labour force, hours worked or employee characteristics
WPI	Whole Person Impairment.

1 Executive summary

1.1 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 30 June 2024.

Our previous actuarial review was as at 31 December 2023, and was documented in a report dated 8 March 2024.

1.2 Scope of the review

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

The primary purpose of the June 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. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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 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, Hearing Loss claims and General Short Term claims, reflecting the different benefits available to each group 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.

We emphasise that our work makes **no allowance** for any potential changes that could emerge as a result of the Review of Impairment Assessment Guidelines[1] that is currently underway. Given the Scheme's legislative design relies heavily on WPI assessments, and the Impairment Assessment Guidelines prescribe how WPI assessments are to be undertaken, they therefore fundamentally impact the costs of running the scheme. If information emerges that suggests WPI scores are likely to change as a result of the Review, this will need to be incorporated into future valuation work.

1.4 Scheme environment

Recent developments which affect the scheme's operating environment and/or the liability estimate include:

- **Growth in insured wages:** after two successive years of very high exposure growth (with insured remuneration increasing by +24% across FY22 and FY23), the expected remuneration growth for FY24 is more normal at around 6%.

[1] The Minister for Industrial Relations and Public Sector established a Stakeholder Representative Consultation Group to co-design a draft version of the Third Edition Impairment Assessment Guidelines for broader stakeholder consultation; this consultation is now underway.

- **Growing new claim volumes:** further to the above point, claim frequencies were higher in FY24, as they moved back to be more in line with the longer term trend. Our interpretation is that the FY24 result is essentially a 'normalising' of claim volumes relative to the (now) larger insured workforce, after large cumulative changes over the last three years. Said another way, FY22 and FY23 have had better than normal experience because the very strong wages growth that (unexpectedly) emerged was not matched by immediate claim number growth.
- **Information on claims combining injuries:** combining injuries has been operational for over two years and, while it is still 'early days' in the context of the scheme's claim portfolio, the key learnings are:
  > There was a clear stepwise increase in WPI scores once combining injuries became operational; since then, WPI scores have been more or less stable at this new higher level

  > There continue to be many claimants seeking to add one or more additional injuries to their claim, and this generally occurs well after the original injury.

  Noting the further legal appeal outcomes in late 2023, and that there is only just two years of actual experience, it is not yet clear where this will stabilise; however, it is positive that average WPI scores (excluding Hearing Loss claims) have not continued to increase beyond the initial stepwise change when combining injuries became operational.
- **Claims management model**: the claims management model continues to evolve in response to the scheme's emerging needs, including changes to WPI assessments, dealing with additional injuries, focusing on eligibility decisions and strategic management of the dispute resolution process. Pleasingly, this is continuing to produce very positive RTW rates as well as reducing dispute resolution costs (albeit off a very high baseline).

  We note that our work makes no allowance for any changes to the claims experience as a result of the digital transformation program ReturnToWorkSA has recently commenced; changes such as these have the potential to be (very) disruptive to the claims management process, and experience elsewhere has shown that if 'things go wrong' then meaningful cost increases can result. If any disruption to claims management occurs that impacts on claim outcomes/costs then this would be an increase above our projections.
- **Late to emerge WPI assessments:** we continue to see very late requests for WPI assessment, which is adding costs to the scheme (much of which is to a range of providers, rather than to claimants); there is no legal time limit on claimants seeking new assessments, and this can often result in associated dispute activity as well.
- **Growth in Hearing Loss claim numbers:** there has been very rapid growth in the numbers of Hearing Loss claims in recent years, which appears to be the result of targeted provider activity. This is being compounded by changes in the way devices are being updated, as well as pressure on WPI scores due to assessors increasingly making "judgmental allowances". The rapid growth in both numbers and costs associated with Hearing Loss claims is putting pressure on both the claims liabilities and the BEP, and if current trends continue our projections are likely to continue increasing over time.

1.5 Recent claim experience

The key features of the claims experience in the six months to 30 June 2024 were:

- For claims managed entirely under the RTW Act:
  > Psychological injury claims have been increasing, and Hearing Loss claims remain near historically high levels. Otherwise, new claim numbers were slightly lower than expected.

  > RTW rates have been maintained at very high levels, particularly for more recent injury periods where claims have been managed entirely under the latest management approach.

> WPI scores are higher than was seen prior to combining injuries being a feature of the scheme. The pipeline of new WPI assessments also continues to be high, noting that most of this activity is from claims who are well beyond their Income Support benefit periods.

> The numbers of new disputes continue to reduce, averaging 220 per month compared to 255 per month in 2022. Disputes remain high by historical standards (where a normal level was more like 175 per month, or 2,000 disputes per annum).

- Activity continues for transitional ('Old Act') claims, particularly for late to emerge WPI assessments and related activity such as medico-legal assessment and disputes.
- For Serious Injury claims:

> New Serious Injury claims continue to emerge many years post-injury, and there is still material uncertainty around the ultimate number of Serious Injury claims for pre-2018 accident years given this ongoing tail of activity.

> To date, Serious Injury numbers for the 2021 and 2022 accident years – those fully benefiting from strongly improved RTW outcomes – are emerging at a lower level than the 2018 to 2020 years. However, given the long tail over which Serious Injury claims are emerging, it is not yet possible to know how much these early favourable observations will translate into a lower ultimate level of Serious Injury claims.

> Around half of new Serious Injury determinations over the last six months were made under the 30% WPI threshold, highlighting how slow it has been for the post-reform experience to meaningfully emerge.

> The take-up rate for s56A future economic loss payments and redemptions has been comparable to projected levels.

- Hearing Loss claim reports are the highest in the scheme's history for FY2024, and Hearing Loss payments are growing quickly as a result.

Total net claim payments of $284m were $18.8m (6%) lower than projected at the previous valuation; lump sums (-$13.9m) was the main driver, although much of this relates to the timing of payments and not a change in the ultimate costs.

1.6 Liability valuation results

1.6.1 Summary of results

Our central estimate of the scheme's outstanding claims liability for registered employers as at 30 June 2024 is $3,731m. This is a discounted (present value) estimate, net of recoveries and including allowance for future expenses. Adding a risk margin of 14.5% (15.5% previously) to produce a provision with a 75% probability of sufficiency, consistent with ReturnToWorkSA's policy, gives an outstanding claims provision of $4,272m, as shown in Table 1.1. The provision includes an allowance for future claims handling expenses equivalent to 10.3% of gross claim costs (up from 9.99%).

Table 1.1 – Recommended balance sheet provision

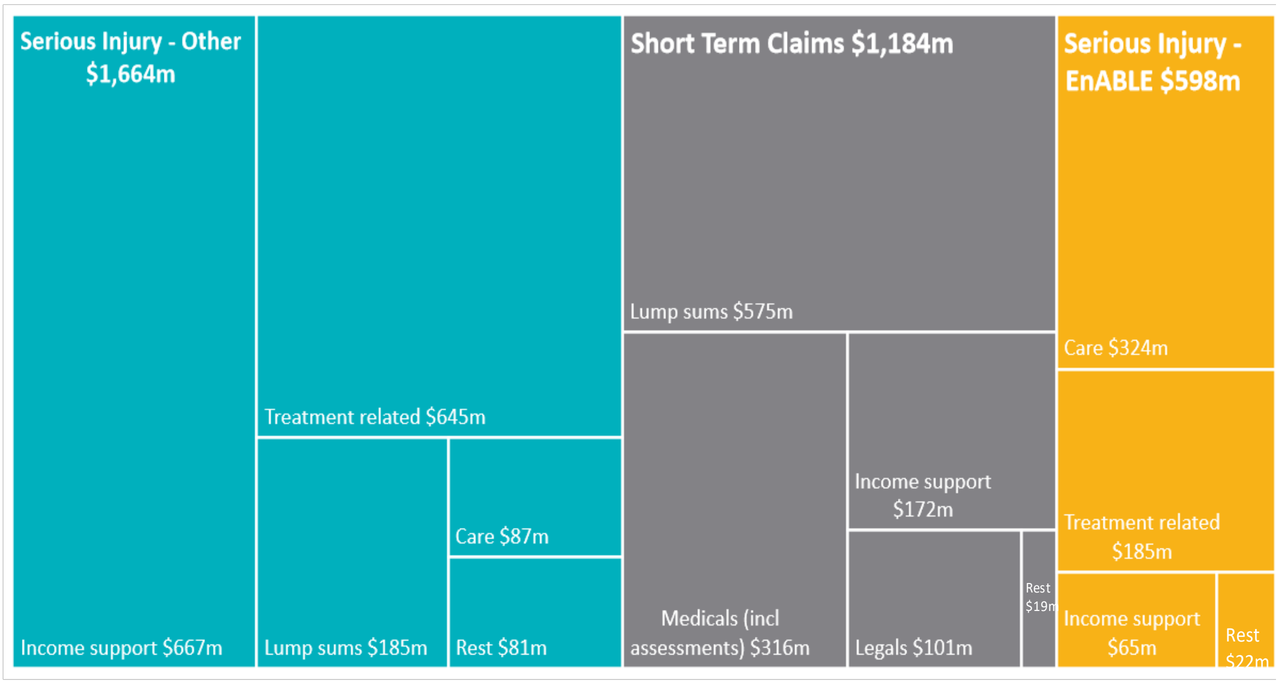
	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	2,262		
Gross Claims Cost - General Short Term Claims	957		
Gross Claims Cost - Hearing Loss Claims	227		
Claims Handling Expenses	354		
Gross Outstanding Claims Liability	3,799	551	4,350
Recoveries	-68	-10	-78
Net Outstanding Claims Liability	3,731	541	4,272

The risk margin loading is still higher than normal for a scheme of this size, as it incorporates additional loadings related to the uncertainties about combining injuries and the 2022 reforms, on top of the underlying variability in our projection of future claim costs. If the reforms continue to achieve their stated aims, i.e. without there being any material behavioural responses or adverse legal decisions that undermine their intent, we would expect the risk margin loading to reduce further over the next 12-18 months.

Figure 1.1 shows a breakdown of the gross claims liability, which demonstrates that the majority of the outstanding claims liability relates to Serious Injuries; the Serious Injury liability has been split between EnABLE claims ($598m) and other Serious Injuries ($1,664m).

When Serious Injury and Lump Sum ($575m) costs are considered together – comprising 82% of the gross liability – it is easy to see why the sustainability, or not, of WPI assessments is key to determining the long-term financial outcomes for the scheme. Any changes to the Impairment Assessment Guidelines are important in this context.

Figure 1.1 – Gross central estimate (excl. expenses and risk margin) as at 30 June 2024



1.6.2 Movement in liability

Our net central estimate is $73m lower than projected at the previous valuation. We have broken this change into two 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 performance relative to the previous valuation; see Table 1.2.

Table 1.2 – June 2024 central estimate and determination of actuarial release/(strengthening)

	Central Estimate		
	Liability Estimate[1]	AvE payments in 6 mths to Jun-24	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m
Liability at Dec-23 Valuation	3,675		
Projected Liability at Jun-24 (from Dec-23 valuation)	3,804		
Claims Movement - General Short Term Claims	18	-12	-6
Claims Movement - Hearing Loss Claims	34	0	-34
Claims Movement - Serious Injury	-30	-7	37
Impact of Change in economic assumptions	-95		
Recommended Liability at Jun-24	3,731		
Total Actuarial Release/(Strengthening)			-3

[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 (cost increase) of $3m for the period. Changes to the economic assumptions decreased the central estimate by $95m. The components of the actuarial release are discussed briefly below.

1.6.3 Components of the actuarial release/(strengthening)

Table 1.3 shows the $3m actuarial strengthening by entitlement group, split between General Short Term Claims, Hearing Loss Claims, and Serious Injuries.

Table 1.3 – Actuarial release/(strengthening) by entitlement group

Entitlement Group	General Short Term Claims[3]	Hearing Loss Claims[3]	Serious Injury Claims[3]	Total Actuarial Release [3]	Release (Strengthening) as %
	$m	$m	$m	$m	
Income & Related	-2	-	13	11	1%
Lump Sums	-10	-2	10	-1	-0%
Legals	11	1	1	13	8%
Treatment Related [1]	-1	-28	17	-13	-1%
Rehabilitation	-1	-	-1	-2	-7%
Other Costs [2]	-0	-0	0	-1	-6%
Recoveries	4	-	-4	0	0%
Total Claim Costs	1	-29	35	7	0%
Expenses	-7	-6	2	-10	-3%
Net Central Estimate	-6	-34	37	-3	-0%

[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 movements at the current valuation are:

- For **General Short Term Claims** there is an actuarial strengthening (cost increase) of $6m, due to:
  - > A $2m increase for Income Support costs, reflecting offsetting impacts of improved RTW outcomes, and higher allowances for backpays from dispute settlements.
  - > A $10m increase for Lump Sum costs, which reflects higher numbers of future settlements.

    - A $11m decrease on Legals, as the faster settlement of disputes means fewer open disputes and a lower average cost of settlements. New dispute volumes have also been lower.
    - A $4m decrease (i.e. saving) on recoveries, reflecting higher than expected recoveries in the last six months.
    - A $7m increase in the claims handling expense allowance, mostly due to an increase in the CHE % for Short Term Claims to 16.5% (previously 16.0%).
- For **Hearing Loss Claims** there is an actuarial strengthening (cost increase) of $34m of which $29m is following the ongoing high costs for hearing aids and related fitting fees on long duration claims. There is also a $6m increase as a result of the higher CHE%.
- For **Serious Injury claims** there was an overall actuarial release of $37m due to (note: numbers below do not match to the table, as impacts are combined across multiple benefits where relevant):
    - A $53m net reduction as a result of claim number changes
    - A $14m reduction due to the death of a Severe Traumatic Injury claimant who had very significant hospital costs
    - A $30m increase due to other changes:
        - An increase in expected claim size for medical and treatment costs for Other Serious Injury claims
        - An $8m increase in Severe Traumatic Injuries, largely due to circumstance changes leading to increased Care estimates for a small number of claimants.

Other changes had more minor impacts on the scheme liability.

1.6.4 Impacts of economic assumption changes

Changes to inflation and discount rate assumptions reduced the net central estimate by $95m.

Overall, compared to what was adopted at the December 2023 valuation, the current economic assumptions imply a higher gap across all durations to 2050, after which the long term assumptions are unchanged.

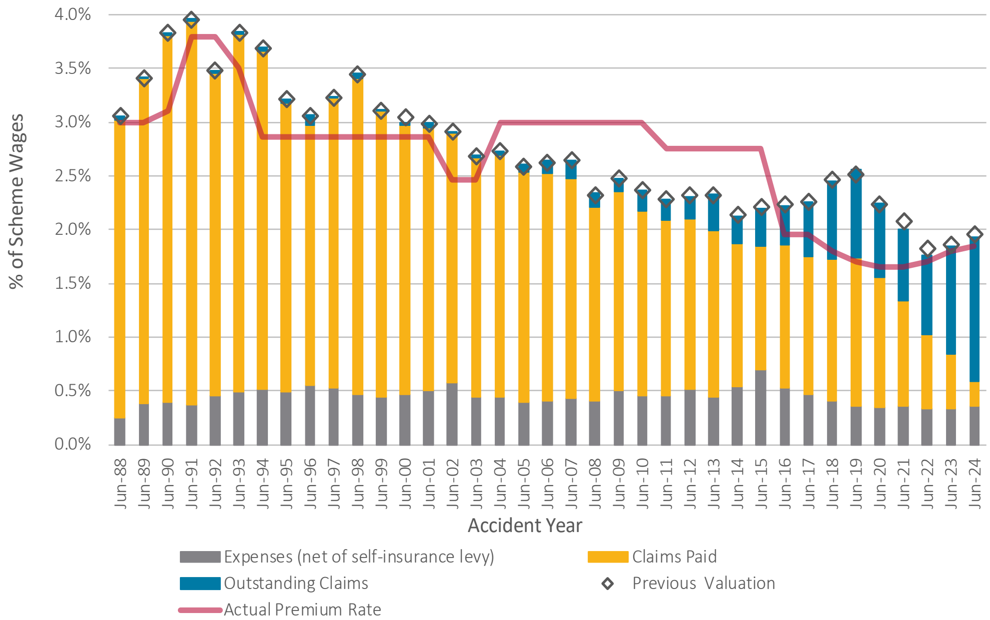
We observe that there has recently been high variability in government bond yields (which we are required to use under accounting standards when setting the economic assumptions), and that at various times post 30 June 2024 this large saving would not have occurred.

1.7 Historical scheme costs

We have estimated the ‘historical premium rate’, or 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 1.2 shows the estimated BEP for each year, including a comparison with the estimates at our previous valuation and the scheme’s actual average premium rate charged.

Figure 1.2 – 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 under 2.5% of wages. For accident years between 2011 and 2015 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- Costs are higher for 2016 to 2019, due to the introduction of the Economic Loss Lump Sum as part of the 2015 reforms. The 2018 and 2019 years continue to develop as high cost years, due to a combination of poor early RTW outcomes, higher levels of Lump Sums, and higher than normal Serious Injury costs.
- The BEP estimates for 2020 and 2021 are lower than 2019, due to improved RTW rates and fewer projected Lump Sums and Serious Injury claims.
- A further reduction is projected for 2022 and 2023 claims, where further RTW improvements were achieved – the BEP rates for these two years also benefit from the higher than usual growth in exposure, as this was not immediately matched by growth in claim numbers or costs.
- 2024 is emerging at a higher cost than 2022 and 2023, following increases in the number of reported claims. Our interpretation is that the high growth in exposure in 2022 and 2023 eventually (i.e. with a lag of 1-2 years) led to higher volumes of claims as the claim frequency 'normalised' to the current scheme size.
- Compared to our previous valuation, the estimated BEP has seen a noticeable reduction for 2021 to 2024 years as a result of the favourable change in economic assumptions; this is not an underlying improvement, as the 'like with like' results are essentially stable.

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.

Compounding the uncertainty is the impact of the 2022 reforms, which is still subject to a higher than normal degree of uncertainty.

1.8 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 and in the WPI scores used for lump sums. Section 11 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:

- **Reform impacts** – rather than removing the ability to combine injuries, the 2022 reforms introduced other changes that attempt to manage the financial consequences of claimants getting higher WPI scores. As a result, the uncertainty relating to the impact of combining injuries is now compounded by the uncertainty around the success of the reforms in removing costs from other areas. Noting that to date since 2022 most new Serious Injuries were still determined under the old rules, this means a significant portion of the valuation is still largely based on assumed outcomes, rather than on a reliable history which is the usual approach for producing actuarial estimates. While we believe our assumptions and projections are reasonable given the information available, the uncertainty is elevated compared to normal.
- **Behavioural risk** – related to the above, the ultimate outcomes that emerge directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past, now that the ability to combine injuries is a codified feature of the scheme; further, after the 2022 reforms, the incentives have changed such that claimants are now likely to simply seek the highest WPI. Given the high level of legal involvement in the scheme, the risk of adverse behavioural change is high. As an example of this, claimants have changed their behaviour to try to add more injuries to their claim than was seen in the past. On the flip side, improved RTW rates in recent years could perhaps lead to fewer lump sum and/or Serious Injury claims emerging over time.
- **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. Anecdotally, this seems to happen more frequently and/or with more financial significance in SA than elsewhere.
- **Legal provider behaviour –** after ReturnToWorkSA implemented its dispute resolution strategy we are seeing faster resolution, lower costs and currently reducing new lodgement volumes. These are positive features that, if maintained, could lead to consequential improvements in other areas. On the flip side, if these changes cannot be maintained then cost increases would likely result.
- **WPI assessments** – under the RTW Act, small changes in the WPI score can equate to many tens of thousands of dollars in some cases, and WPI assessments also govern access to the significant compensation available under the Serious Injury benefit package. The scheme will face significant financial consequences if this leads to any form of 'WPI creep'.

  Given there is no current legislative tool that addresses the 'tail risks' that have emerged from behaviour changes since the RTW Act commenced, there is a chance that outcomes will be different to expected. Indeed, the inclusion of higher lump sum amounts in conjunction with the ability to combine injuries over time arguably creates an environment which encourages claimants to delay their WPI assessments in pursuit of higher WPI scores.

  As explained in Section 1.3, our work makes no allowance for potential changes to WPI scores as a result of the current Review of the Impairment Assessment Guidelines; if any changes to WPI scores result from this Review they will need to be factored into future valuation work.

- **Serious Injury claim costs** – these claimants are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, meaning deviations from our assumptions could therefore compound across multiple years. There are key uncertainties in relation to each of ultimate numbers of claims, life expectancy and long term cost escalation.
- **Hearing Loss claim numbers** – there has been unprecedented growth in Hearing Loss claim numbers in the last few years, which is now producing strong cost growth. If this volume growth continues then further cost increases will eventuate. On top of this, there is also significant uncertainty about the number of hearing aids that claimants will require over their lifetime – currently devices appear to be being updated more quickly, and the projections are not fully aligned to this as being a permanent feature. Supplier changes, technology advancements and other unknown factors will also impact the number and cost of hearing aids into the future.
- **Economic environment and inflation risk** – there is considerable uncertainty in financial markets and inflation risks also remain; if changes occur the scheme's liabilities would be impacted.

As context to our remarks above, it is important to remember that on current claim patterns it looks like taking around 10 years until most (but not all) Serious Injury claims are determined. As a result, in assessing the potential uncertainties that impact on current liability assessments, it is necessary to consider not just current behaviours but also what is likely to occur over (say) the next decade.

As demonstrated by legal outcomes in the 2-3 years, despite the fact that the RTW Act commenced in 2015 there are still key areas of its provisions that are being tested in the courts, and hence there is uncertainty as to their 'real world' boundaries. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the actual experience as it develops, and it is possible that the experience will differ materially from our current expectations.

To place these uncertainties and risks in context, Figure 1.3 shows some of the key risks and uncertainties in the central estimate (orange), as summarised in Section 11 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 1.3 – Comparison of reserving risk margin to key risks and uncertainties

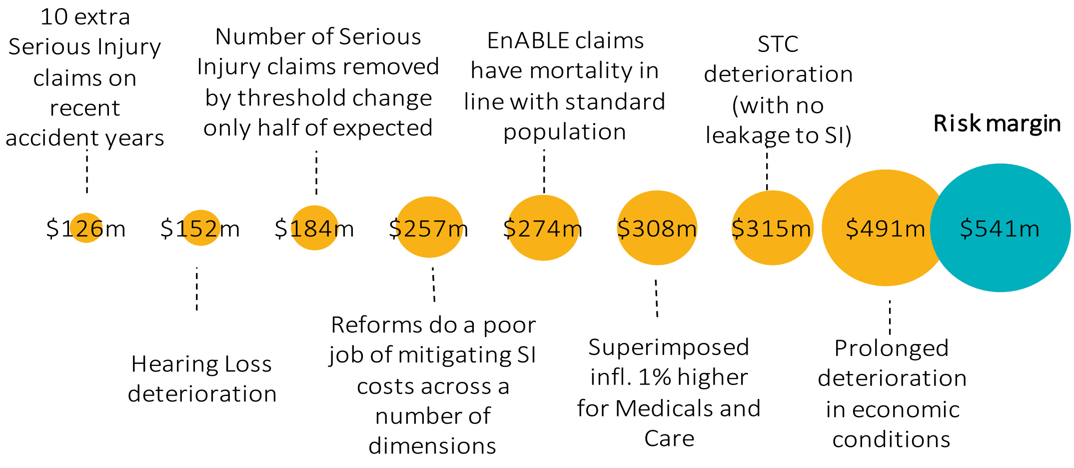


Figure 1.3 indicates that there are a range of plausible scenarios that could see the liability move by several hundreds of millions of dollars. While the most significant scenarios relate to long term economic conditions (which will continue to be the case now for the Fund, given its very long mean term of

liabilities), most of the other key scenarios relate to Serious Injury claim numbers and/or costs and Lump Sums.

We observe that while most of the larger risks would emerge over the long term, a significant increase in the liability reserves could occur more quickly. In particular, any change that led to more claims meeting the criteria for Serious Injury benefits would have immediate consequences for the liability, as was demonstrated by the *Summerfield* case.

1.9 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 12 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.

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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.

2 Introduction and scope

2.1 Introduction

Finity Consulting Pty Limited ("Finity") has been requested by ReturnToWorkSA to undertake an actuarial review of the Return to Work scheme as at 30 June 2024.

Our previous actuarial review was as at 31 December 2023, and was documented in a report dated 8 March 2024.

2.2 Scope of the review

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

The primary purpose of the June 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. ReturnToWorkSA uses this estimate in determining the provision for outstanding claims in its annual financial accounts.

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.

2.3 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).

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.

The new insurance accounting standard, AASB 17, will apply to public sector entities such as ReturnToWorkSA for the 2026/27 financial period. Until that time AASB 1023 will continue to apply.

2.4 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.

2.5 Structure of this Report

Section 3	Describes the approach we have taken to the valuation, and provides a brief overview of the information provided to us.
Section 4	Summarises the current operational landscape impacting on the scheme.
Section 5	Summarises high level recent claims experience and our projection of ultimate claim numbers.
Sections 6 to 8	Detail our analysis of scheme experience and the valuation assumptions for different segments of the portfolio.
Section 9	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 10	Shows detailed tabulations of the outstanding claims valuation results.
Section 11	Provides sensitivity analysis of the valuation to key assumptions and highlights some of the key uncertainties in our projections.
Section 12	Sets out important reliances and limitations.
Section 13	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.

3 Approach and information used

3.1 Approach

Under the Return to Work Act 2014 (“RTW Act”), Serious Injury claims have very different entitlements from other claims and as such we have modelled these claims separately. The remaining claims are described as ‘Short Term claims’ and are modelled in two segments: ‘General Claims’ and ‘Hearing Loss 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 3.1 summarises where the entitlement and claim cohorts are documented in this report. Additional technical detail is provided in the appendices.

Table 3.1 – Report Structure by Claim Cohort

	General Short Term Claims	Hearing Loss Short Term Claims	Serious Injury Claims	Other Assumptions	Overall Results
Valuation Basis and Results	Section 6	Section 7	Section 8	Section 9	Section 10
Economic Impacts	Section 9 (basis) and Section 10 (results)				

There have been no changes to the RTW Act since our previous review.

3.1.1 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. In a technical sense, the central estimate is ‘intended to be an unbiased estimate of the mean (statistical expectation) of the outstanding claims liability’, having considered the relevant experience of the entity and any special features in the claims experience.

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. Given the information on combining injuries is still relatively immature, along with the additional uncertainty introduced by the 2022 reforms, the risk margin remains higher than normal for a scheme of this size.

We observe that despite a number of apparently ‘key legal cases’ resolving over recent years, provisions of the RTW Act have continued to be challenged over time, in particular in relation to the operation of WPI assessments. The introduction of further reforms in 2022 is likely to see this continue.

3.2 Information

3.2.1 Standard data extracts

Claims data was provided in the form of a transaction file with complete scheme history to 30 June 2024. 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.

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.

3.2.2 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 in early June 2024 and operational information that was provided separately.

The additional information is outlined in Appendix B.

4 Scheme environment

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

4.1 Employment and Progressive Injuries Amendment Bill 2024

A proposed Amendment Bill is before Parliament[2], the key features of which are:

- Changing 'maximum medical improvement' to 'stabilisation' of a work injury for the purposes of permanent impairment assessment.
- Allowing workers with a prescribed dust disease injury to elect to have their average weekly earnings based on their employment at time of injury, or time of diagnosis.
- Changes to employers' obligations in respect to providing return to work opportunities for injured workers.

As these changes have not yet been passed by the Parliament they have not been considered in our 30 June 2024 assessment of the outstanding claims liability.

4.2 Legal precedent under the RTW Act

There have been no new key legal precedent cases in the last six months.

That said, the RTW Act continues to be tested through the scheme's dispute resolution processes, and until there is a settled legal basis that clarifies how the scheme's boundaries should operate in practice there will be uncertainty as to the financial costs which will 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 include:

- The extent to which combining injuries is allowed for in WPI assessments – the *Summerfield* decision described the interpretation as needing to be 'an evaluative test that is to be applied adopting a common sense approach', and how these rules should operate in practice is yet to be fully determined.
- Technical details related to WPI assessments, such as how deductions should be made for prior impairments, precise quantification of what constitutes a specific body part (e.g. the spine, a knee joint, etc).
- How and when employment is considered to be the 'significant cause' of secondary injuries or injuries away from the workplace.

Given the operation of the RTW Act boundaries in practice is still evolving, and acknowledging that new areas of challenge will most likely keep emerging following the 2022 reforms, it will still be a number of years before there is confidence about how the RTW Act legislative provisions apply in practice.

4.3 Review of Impairment Assessment Guidelines

The Impairment Assessment Guidelines prescribe how WPI assessments are to be undertaken, and therefore fundamentally impact the cost of running the scheme.

[2]https://www.legislation.sa.gov.au/__legislation/lz/b/current/return%20to%20work%20(employment%20and%20progressive%20injuries)%20amendment%20bill%202024/b_as%20introduced%20in%20lc/return%20injuries%20amendment%20bill%202024.un.pdf

The Minister for Industrial Relations and Public Sector established the Stakeholder Representative Consultation Group to co-design a draft version of the Third Edition Impairment Assessment Guidelines for broader stakeholder consultation. At the time of our work initial drafting has been completed and stakeholder consultation has commenced.

As the Impairment Assessment Guidelines are still in draft form, no allowance has been made for changes in our estimates, noting the Minister's directive that any changes be cost neutral in aggregate. Given the importance of the Impairment Assessment Guidelines and the broader legal environment, we expect that any changes will be subject to different interpretations and challenge by different parties, and so even once the new Impairment Assessment Guidelines are operational it may take some time before their real-world impact is known.

4.4 Other operational and environmental changes

This section describes recent trends in the scheme environment. Section 13 provides an overview of earlier operational and legislative changes which are useful in understanding the scheme's historical experience.

4.4.1 Combining injuries

Combining injuries has now been operational for over two years, meaning a growing group of claims have outcomes from WPI assessments that were conducted wholly under the new combining rules. However, there is still significant uncertainty about the impacts that will ultimately result from the ability to 'combine injuries' due to a combination of factors:

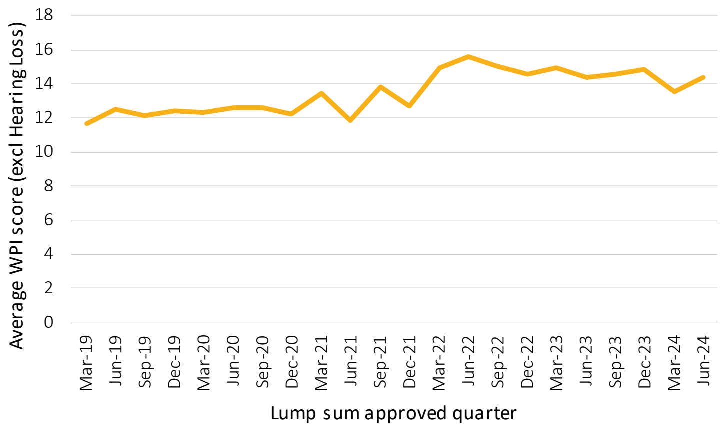
- The unknown extent to which behavioural responses will impact implementation of the decision
- The absence of clear guidance on how these rules should operate in practice as 'an evaluative test that is to be applied adopting a common sense approach'[3]. The cases of *English* and *Williams*[4], delivered by the Court of Appeal in November 2023, were the most recent to add to the body of knowledge re how this should be applied in practice.

Related to the above points, there continue to be a large number of claims – many more claims than in the past – seeking to add 'additional injuries'; generally speaking these additional injuries come well after the original claim notification, so we continue to view this as a lead indicator of behavioural changes. The increased payment level that results from being able to combine injuries, along with the higher number of additional injuries now being sought, means this is an area that requires ongoing attention.

Figure 4.1 shows the average WPI score (excluding Hearing Loss claims), which clearly shows the stepwise increase in WPI scores after combining injuries became operational. The average WPI score has slightly reduced in the last six months (albeit though still being at a higher level than prior to combining injuries); this is likely due to a backlog of injury combining disputes being resolved post the *Summerfield* decision, resulting in a temporary increase in the proportion of combining claims as these disputes were resolved.

[3] Paraphrased from the Summerfield decision: Return To Work Corporation of South Australia v Summerfield, [2021] SASCFC 17
[4] Return To Work Corporation (SA) v English; Williams v Return To Work Corporation (SA) [2023] SASCA 125

Figure 4.1 – Average WPI score (excluding Hearing Loss)



Given there is only just over two years of actual experience, and noting the generally slow rate of dispute resolution in the scheme, it is not yet clear where the level of high WPI claims will stabilise; it is positive that, to date, WPI scores (for claims excluding Hearing Loss) have not continued to increase.

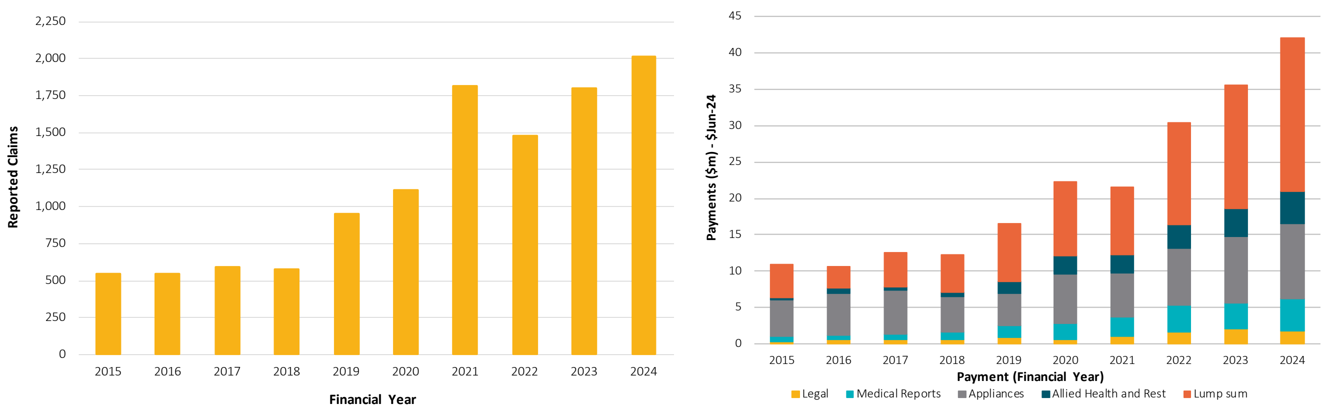
4.4.2 Growth in Hearing Loss claims (and costs)

There has been very rapid growth in the numbers of Hearing Loss claims in recent years, which appears to be the result of targeted provider activity. This is resulting in rapidly growing costs for Hearing Loss claims, as shown in Figure 4.2.

Figure 4.2 – Hearing Loss new claim volumes and total costs

Hearing Loss claims reported

Total payments on Hearing Loss claims ($Jun24)



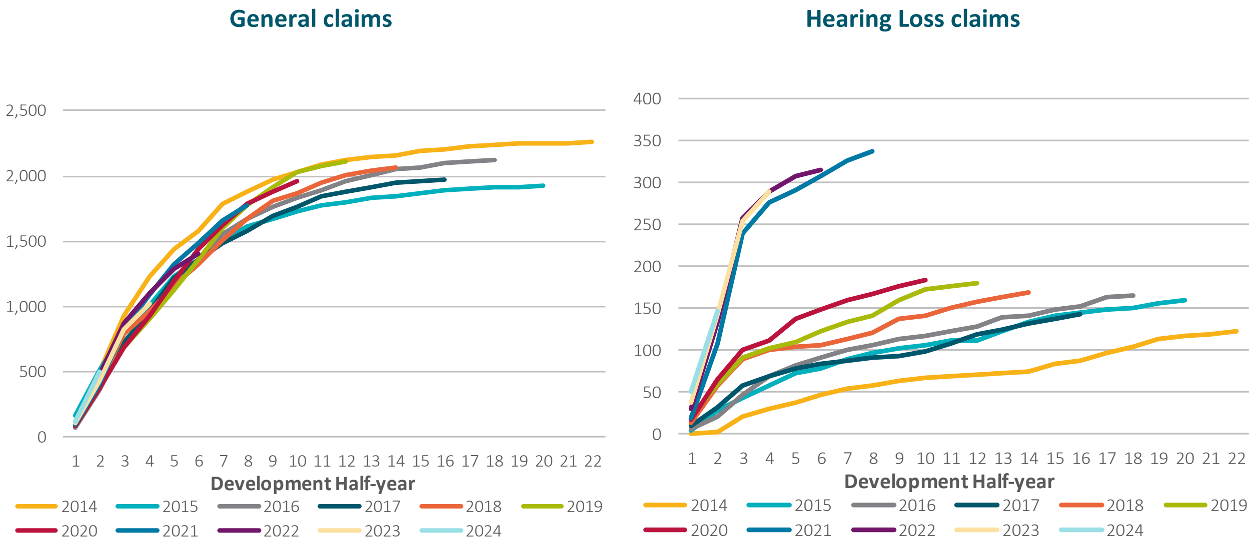
The rapid growth in both numbers and costs is putting pressure on both the claims liabilities and the BEP, as evidenced by the payment growth in the last six months above the previous projection. If current trends continue our projections are likely to continue increasing over time.

4.4.3 Dispute numbers and dispute resolution

After the RTW Act commenced in 2015, there were generally between 150 and 200 new disputes per month, consistent with a 'normal' level of disputes in the scheme of around 175 per month or 2,000 per annum; just prior to the 2015 reforms though disputes were running at much higher levels than this at around 350 disputes per month. Dispute volumes then increased from early 2021, with the higher dispute volumes relating primarily to 'compensability' and 'lump sum' disputes, much of which was linked to the growing volume of claimants seeking to add additional injuries to their claim. Growing volumes of Hearing Loss claims have also been a key driver of increased dispute activity.

Figure 4.3 shows the cumulative number of disputes for each accident year since 2014, separately for Hearing Loss and general claims.

Figure 4.3 – Number of disputes commenced by (financial) accident year



The key features to note are:

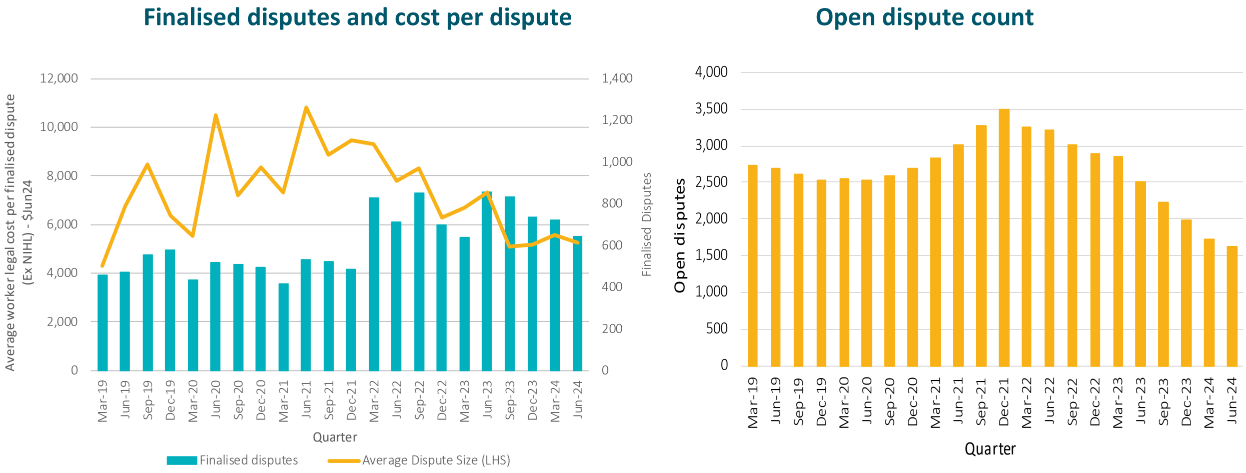
- Hearing Loss claim disputes have been increasing year-on-year, with the last few years (2021+) being particularly high on the back of very high growth in new claim numbers.
- For non-hearing loss claims:
  - > The number of disputes initially reduced under the RTW Act, with 2015 developing lower than 2014.
  - > Accident years 2016 to 2020 all started lower than 2015 (each is lower than the 2015 line out to development half-year 6). This gave weight to the view that dispute numbers were likely to be lower under the RTW Act.
  - > However, each of the years 2016 to 2020 has developed to be at a higher level than 2015 at the same development stage. On current trajectories, dispute numbers for these years appear likely to end up closer to the 2014 (pre-reform) level than to 2015.

Importantly, we observe that many disputes are occurring after claims have ceased Income Support benefits, which typically occurs at around development half-year 5. This supports the observation that significant disputation seems related to WPI assessments.

In response to these pressures ReturnToWorkSA has been adapting its dispute resolution approach with the intention of more quickly resolving disputes where possible. As shown in Figure 4.4 below, the volume of finalised disputes (shown as columns in the first chart) has been clearly higher since early 2022, leading to a significant reduction in the number of open disputes (second chart), and at the same time the average cost per finalised dispute (yellow line in the first chart) has reduced.

We also note that new dispute volumes have been lower in the last six months, as indicated by the lines ‘flattening off’ somewhat in Figure 4.3.

Figure 4.4 – Open disputes, finalised dispute volumes and cost per dispute



If these features can be maintained then they have positive implications for future Worker Legal payments. Given the significant legal involvement in the Scheme (as discussed in Section 4.2), it is not clear at this stage if the reduction in open disputes will be sustained in the long-term.

These changes have also led to consequential changes in other areas of claims cost, and we have therefore needed to be conscious of the impacts of changes to dispute resolution when setting our valuation assumptions (i.e. to differentiate the 'underlying level' from the 'additional activity' level in selecting our basis). For example, the proportion of Income Support costs being paid as backpay increased in 2023 due to the high volume of disputes resolved, and impacts on Lump Sum costs have been noted as well.

4.4.4 ReturnToWorkSA's digital transformation program

ReturnToWorkSA has commenced its digital transformation program that will, over time, lead to substantial changes in the processes and systems used to manage claims. Changes such as these have the potential to be (very) disruptive to the claims management process, and experience elsewhere has shown that if 'things go wrong' then meaningful cost increases can result.

Our current work makes no allowance for any changes to the claims experience as a result of the digital transformation program, and so if any disruption to claims management occurs that impacts on claim outcomes/costs then this would be an increase above our projections.

5 Recent claims experience

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

5.1 Claim incidence

We separately model claim numbers by type of injury in order to better understand the trends and their impacts on the claim cost projections. Sections 5.1.1 to 5.1.3 show the results of our aggregate projections across all injury types, with Section 5.1.4 showing the claim number projections by injury type.

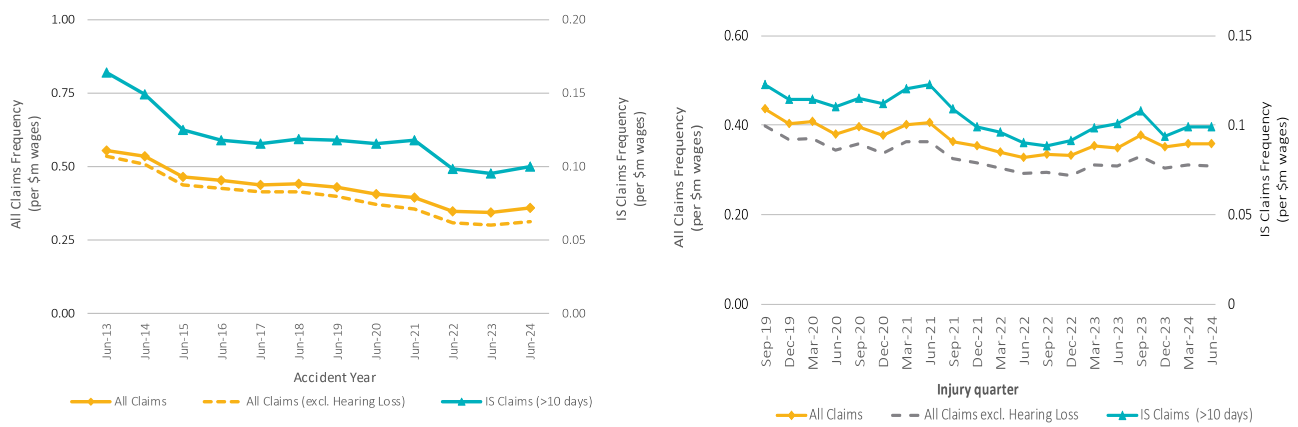
5.1.1 Claim frequency trends

Figure 5.1 compares the trends in (1) total claim frequency, (2) total claim frequency excluding Hearing Loss claims, and (3) Income Support (IS) claim frequency, on both an annual and quarterly basis. The frequencies are expressed relative to covered scheme wages (in current values). The series are shown on different scales so the trends can be directly compared.

Figure 5.1 – Claim frequency (claims per $m wages)

by Injury Year

by Injury Quarter (recent quarters)



For a long time, the 'all claims' frequency has been on a downward trend, with quite strong decreases in 2022 and 2023. The IS claim frequency diverged from the all claims frequency between 2016 and 2021, remaining more or less flat, before reducing noticeably in 2022 and 2023. For 2024, the IS frequency is projected to increase marginally more than the increase in all claims frequency.

Our interpretation of the recent experience is that the very strong wages growth that (unexpectedly) emerged in 2022 and 2023 was not matched by immediate claim number growth, and hence this resulted in the very favourable claim frequencies seen for 2022 and 2023. It appears that the 2024 financial year is moving back to a level that is more in line with the longer term trend (this change commenced from early in calendar year 2023, with the adverse trend tempering over the last six to 12 months as seen in the graph on the right).

The trends in claim frequency for recent injury years are summarised in Table 5.1.

Table 5.1 – Projected ultimate claim frequency: comparison to previous

Accident Year	All claims (excl. hearing loss)				Income Support Claims			
	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Proj	Change from Prev	Claim Freq (per $m of wages)	Year on Year % Change	Prev. Proj	Change from Prev
Jun-21	0.356	-4.0%	0.356	0.0%	0.118	1.9%	0.118	-0.1%
Jun-22	0.310	-12.7%	0.310	0.0%	0.098	-16.2%	0.098	0.4%
Jun-23	0.301	-3.1%	0.300	0.2%	0.095	-3.6%	0.094	1.4%
Jun-24	0.314	4.4%	0.317	-1.0%	0.100	5.3%	0.101	-1.4%

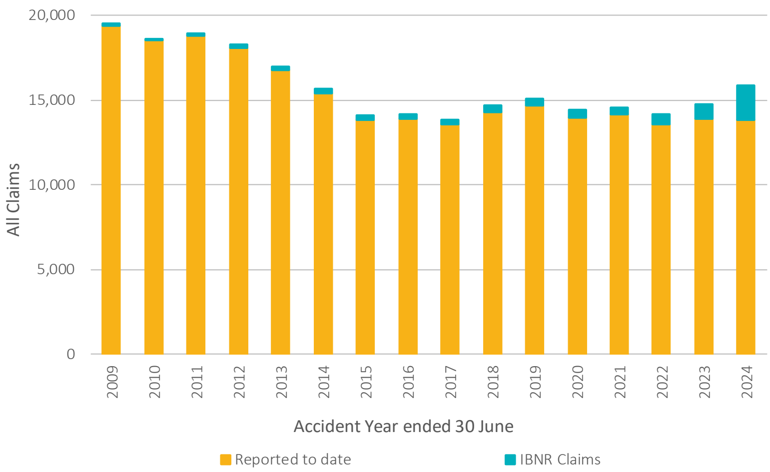
As this shows:

- The all claims (excluding Hearing Loss) frequency has been increased for 2024, presenting as a 4.4% increase above 2023 (this is revised down from a projected 5.7% increase at the December 2023 valuation). We note that this 2024 frequency is a 12% cumulative improvement from 2021, which is an average of 4% per annum improvement – a level that is similar to longer term historical trends.
- The Income Support frequency has been increased for 2024, presenting as an 5.3% increase above 2023. We note that this 2024 frequency is a 15% cumulative improvement from 2021, which is an average of 5% per annum in improvement.

5.1.2 Projected ultimate claims

Figure 5.2 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).

Figure 5.2 – Ultimate number of claims (all claims)



After a long period of trending downwards, claim numbers flattened out between 2015 and 2017. Numbers increased again during 2018 and 2019 but remained lower between 2020 (partly impacted by COVID-19) and 2022. The 2023 year has increased now to similar levels as 2018, while the 2024 year is projected to increase noticeably to be the highest year since 2013. A key driver of the increase in overall numbers is Hearing Loss claims, which have experienced significant growth since 2018. It is also important to note that the growth in insured remuneration has been well above normal levels in recent years (this is discussed further in Section 9.6).

The increase in claim numbers reflects the following observations:

- Hearing Loss claim reports were stable in the last 6 months, however the longer history of claim reports remains an important trend of note, with the 2023 and 2024 accident years being the highest in scheme history. Our basis does not allow for further increases in reports beyond what has been observed over the last few year. Hearing Loss claims now represent 13% of all claims expected to be received for a new injury year, compared to 6% in 2018.
- For physical trauma claims the emerging experience is marginally lower than expected, and the projected claim numbers for 2024 have been decreased by 2%.
- Mental injuries continue to increase, as they have been over the last 18 months, and projected claim numbers for 2024 have been increased by 7%.
- Musculoskeletal claims have been similar to expected for 2024.
- 'Other' claims are relatively small in number (and with backdating of injury coding, it takes a little longer to confirm numbers and trends for 'other'), and below expectation; the projected claim numbers for 2023 and 2024 have been decreased by 3% and 2% respectively.

5.1.3 Projected ultimate Income Support claims

Income Support (IS) claims in the valuation work are those who receive more than 10 business days of lost time benefits. This means they are already a 'more serious claim' given they have been off work for at least two weeks.

Figure 5.3 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 5.3 - Ultimate IS claim numbers

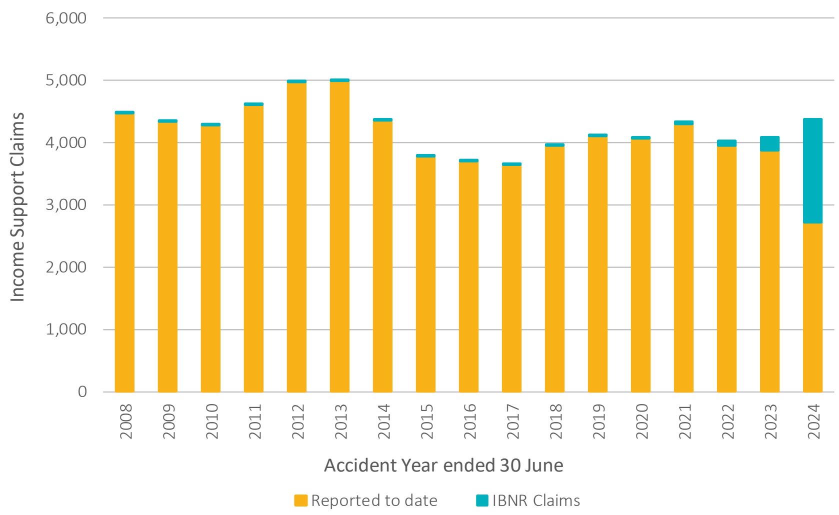


Figure 5.3 shows:

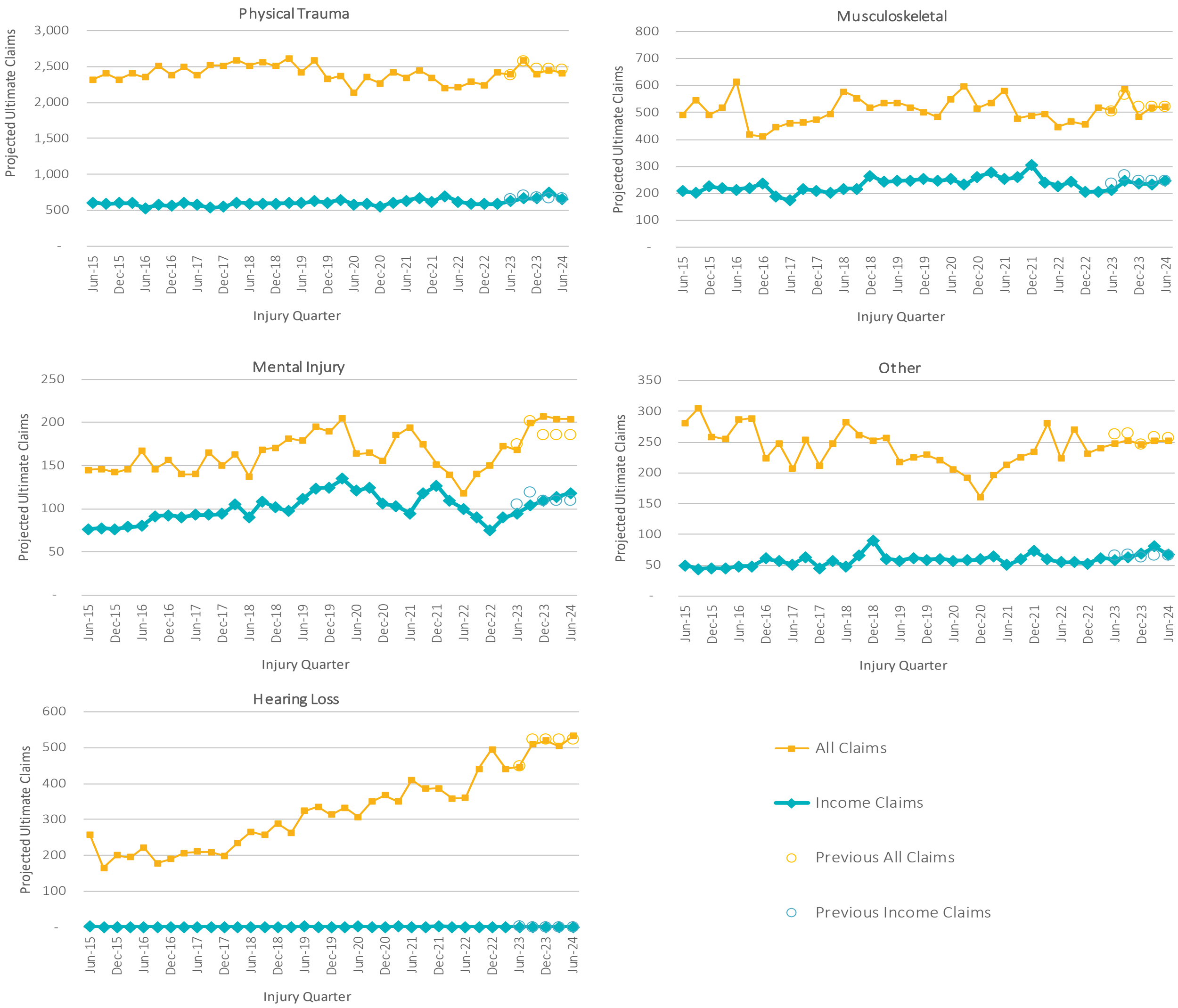
- Between 2017 and 2021, IS claim numbers rose as the proportion of report claims receiving more than 10 business days of lost time benefits increased.
- With the majority of income claim numbers now known for the 2022 and 2023 years, we can now see that the trend has been reversed and there is an 8% reduction on 2021 levels. This is due to a lower proportion of physical trauma, musculoskeletal and other injury claims receiving 10 days lost time; the operational focus on RTW appears to be getting more claimants back to work in the first two weeks after injury than was previously the case.
- 2024 is on track to emerge higher, due to the growth in claim reports; noting that the projection still has a high proportion of IBNR claims, there is more uncertainty around the ultimate

outcomes for this year. We are currently forecasting 2024 to be 7.5% higher than 2023 (a reduction from 11% assumed at the December 2023 valuation).

5.1.4 Projected ultimate claims by injury type

Figure 5.4 shows, by injury type, our projections of the total numbers of claims as well as IS claim numbers.

Figure 5.4 – All claims and IS claims by type of injury



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

5.2 Serious Injury claims

5.2.1 Background and approach

The *Sustainability Act 2022* raised the Serious Injury threshold from 30% to 35% WPI for physical injuries for claims who had not had their final examination for at least one body part by 31 December 2022; there are some nuances to these rules for current interim determinations, which were detailed in our June 2022 report.

Due to the delay between WPI assessment and Serious Injury determination, around half of the new Serious Injury claims over the last six months were still determined under the 30% WPI threshold. As a result, there is limited experience that can be used to test the threshold change allowances made at the previous valuation. Therefore, our approach has been to:

- Review our pre-reform estimated Serious Injury numbers
- Maintain our previous assumptions for the proportion of claims removed by the reform threshold change, and apply this to our latest estimates of pre-reform numbers.

We separately project the number of Serious Injury claims for those that reach the threshold based on their primary injury or based on a combination of injuries.

5.2.2 Identification of Serious Injury claims

Table 5.2 lists the sources used to identify Serious Injury claims for the valuation, along with commentary about the status of claims in each of those sources. This is unchanged from the previous valuation.

Table 5.2 – Serious Injury sources

Source	Commentary
Serious Injury determinations	These claims have a formal Serious Injury determination. This decision cannot be reversed.
Serious Injury interim determinations	Serious Injury interim determinations provide access to Serious Injury benefits for claims who ReturnToWorkSA deems as likely to reach the Serious Injury threshold, but who cannot have a WPI assessment at this point (due to reasons such as not being at maximum medical improvement). It is possible that some claims in this cohort ultimately won't reach the Serious Injury threshold when their WPI is completed; however, given ReturnToWorkSA only make interim determinations where there is strong evidence to support a WPI that will meet the Serious Injury threshold, we expect most claims will ultimately be determined as a Serious Injury.
Other sources	Most claims identified through other sources have some Lump Sum information that indicates they would have reached the Serious Injury threshold; however, the majority of these claims relate to older accident periods (2013 and prior) and had disengaged from the Scheme prior to the commencement of the RTW Act and so will never have a formal Serious Injury determination.

5.2.3 Recent experience

Table 5.3 compares actual new Serious Injury claims with our expectations over the last six months and In aggregate new Serious Injury claims were significantly lower than expected, driven by the 2019 to 2022 accident periods.

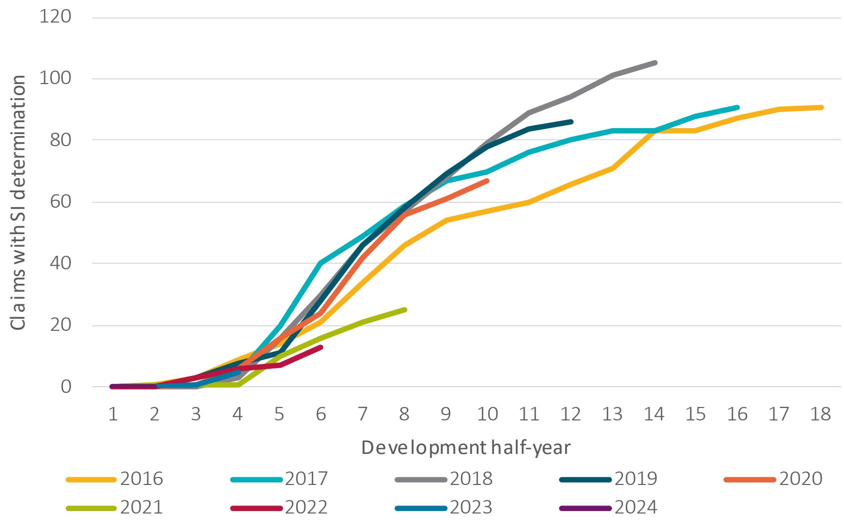
Figure 5.5 shows the emergence of Serious Injury claims for RTW Act periods.

Table 5.3 – Actual vs expected Serious Injury claims

Accident year	Total claims Actual	Expected	A-E
Prior	4	4	0
2016	1	2	-1
2017	3	2	1
2018	4	4	0
2019	2	6	-4
2020	6	10	-4
2021	4	16	-12
2022	6	11	-5
2023	3	3	0
2024	0	0	0
Total	33	57	-24

In aggregate new Serious Injury claims were significantly lower than expected, driven by the 2019 to 2022 accident periods.

Figure 5.5 – Serious Injury claim emergence



As can be seen in Figure 5.5, the emergence of Serious Injury claims is significantly lower for the 2021 and 2022 accident years relative to earlier accident years at comparable durations (explaining the difference between actual and expected numbers for this period). While this reduction can be partially explained by the change in threshold, there is an underlying reduction in Serious Injury numbers to date for these periods. We note that return to work rates improved significantly for these cohorts, which may be contributing to the underlying reduction, although the lower claim numbers to date could also reflect a change (i.e. slowdown) in the emergence pattern.

For older accident periods (2018 and prior), new Serious Injury claims continue to emerge despite these claims being well beyond the Short Term Claim benefit caps. As a result, it is difficult to estimate ultimate claim numbers with a high level of confidence as there are no Return To Work Act periods where Serious Injury numbers are fully developed or 'stable', and it is not clear how long accident years will continue to have new Serious Injury claims emerge.

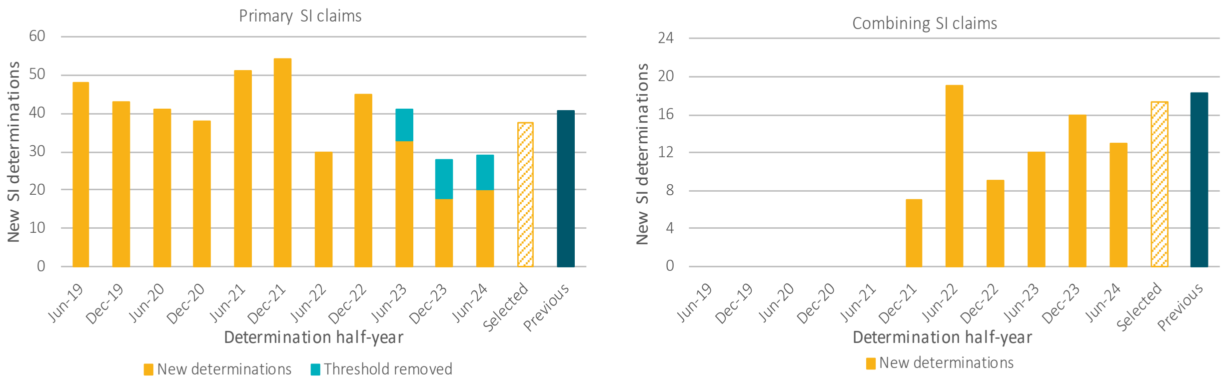
5.2.4 Claim number assumptions

As discussed in Section 5.2.1, around half the Serious Injury determinations were made under the 30% threshold over the last six months, and so there is still a need to consider the impact of the 2022 threshold change. As such, for now we still first select the number of Serious Injury claims under the 30% threshold, then apply an allowance for the expected threshold change impact.

Pre-reform assumptions

Figure 5.6 shows the number of new Serious Injury determinations by half-year, along with our selected pre-reform number of Serious Injury numbers per half-year. To make recent experience comparable with the history, we also show the number of claims removed by the threshold change.

Figure 5.6 – Serious Injury claim numbers (excluding Severe Traumatic injuries) by determination half-year



Our comments are as follows:

- Primary claims: we have slightly reduced the number of primary Serious Injury claims, based on the lower level of determinations over the last two and a half years. However, we have not fully reflected the most recent experience, noting that there appears to be some change in the emergence pattern for more recent accident periods (as shown in Figure 5.5)
- In aggregate new Serious Injury claims were significantly lower than expected, driven by the 2019 to 2022 accident periods.
- Figure 5.5
- Combining claims: we have also slightly reduced the number of combining Serious Injury claims, reflecting recent experience (noting the spike in the June 2022 half-year is a result of the resolution of a backlog of combining disputes post the *Summerfield* decision).

We also assume there will be 2.25 Severe Traumatic Serious Injury claims per half-year, unchanged from the previous valuation.

Reform assumptions

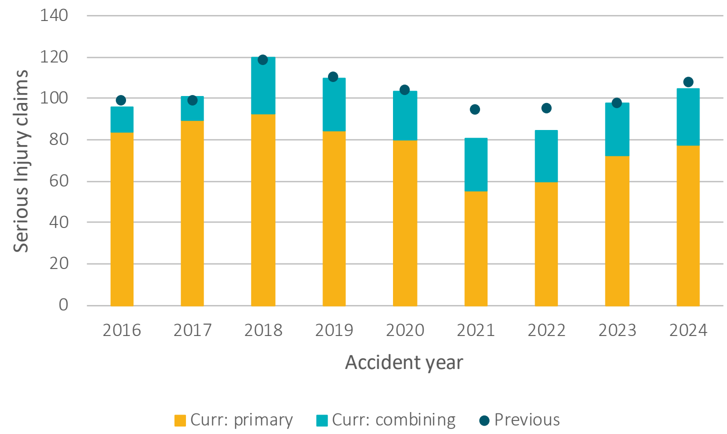
As we do not have enough experience to revise the expected reform impact of increasing the Serious Injury WPI threshold for physical injuries, we continue to assume:

- The threshold change will reduce claim numbers by slightly above 30% once all claims are determined under the new threshold.
- The reduction in the number of new Serious Injury determinations will be less than this amount over the next 12 months as some claims will continue to be determined under the old threshold (as has been the case over the last 24 months).

5.2.5 Projected Serious Injury claims

Figure 5.7 shows our projected post-reform ultimate Serious Injury claim numbers, which combines our revised pre-reform estimates with the assumed reduction due to the threshold change.

Figure 5.7 – Projected post-reform ultimate claim numbers

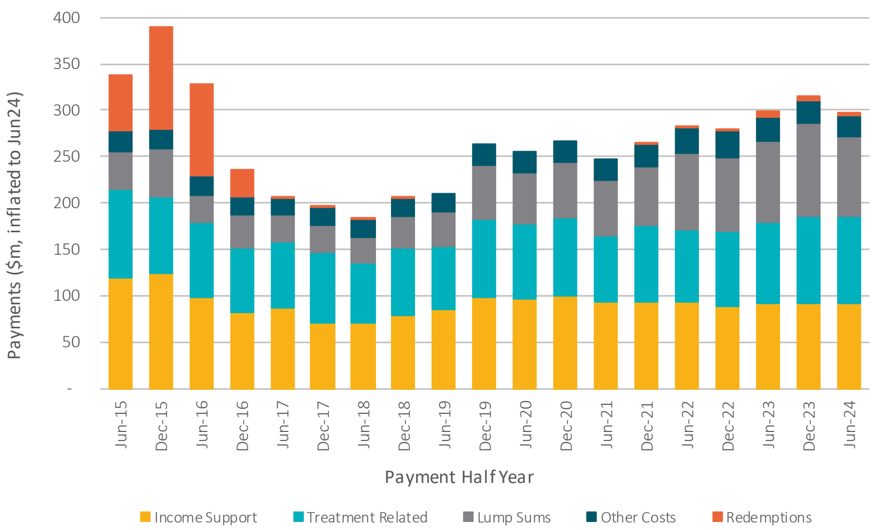


For the majority of accident years, our projected post reform numbers are largely unchanged. The exceptions are the 2021 and 2022 accident years, where we have partially reflected the significantly lower than expected claims to date.

5.3 Overall payment experience

Figure 5.8 shows gross claim payments (before recoveries) in half-yearly periods over the last ten years, inflated to current values.

Figure 5.8 – Gross Claim Payments ($Jun24)



Gross payments of $295m in the last six months were 5.7% lower than the previous period. The movements at payment type level were:

- Income Support payments were 1% higher over the past six months. Higher claims volumes and average income payments per claim were partially offset by improvements in RTW rates.
- Treatment related costs decreased by 2%, following increases of 9% and 8% in the previous two half-year periods. There has been increased spending across most treatment related costs, driven by higher volumes of claims and higher utilisation of some services, with the latest experience showing a tempering of the upward trends.
- Lump sum payments decreased by 15%, with a range of factors contributing to this: lower numbers of non-Hearing Loss lump sum payments, a previous spike in the number of death

benefit payments, and steadying volume of Hearing Loss claims being the main three contributors.

After allowing for recoveries of $10.5m in the last six months, net claim payments of $284.3m were $18.8m (6%) lower than projected at the previous valuation. Table 5.4 shows the breakdown.

Table 5.4 – Payments: actual vs expected

Entitlement	Six Months to Jun-24				Split by Category	
Group	Actual	Expected	Act - Exp	% A - E	Short Term	Serious Inj
	$m	$m	$m		$m	$m
Income support	91.5	93.3	-1.8	-2%	0.9	-2.7
Redemptions	3.7	2.3	1.4	61%	-0.2	1.6
Lump sums	85.1	99.0	-13.9	-14%	-6.7	-7.2
Legal - Non-contract	9.9	10.6	-0.8	-7%	-0.7	-0.1
Contract Legal	10.8	11.5	-0.7	-6%	-0.2	-0.5
Medical	38.4	38.6	-0.2	-1%	-0.2	0.0
Allied Health	18.8	18.6	0.1	1%	-0.3	0.4
Hospital	13.3	15.3	-2.1	-14%	-0.4	-1.7
Travel	3.7	3.7	0.0	0%	0.0	0.0
Rehabilitation	7.0	6.6	0.5	7%	0.4	0.1
Investigation	1.4	1.2	0.2	20%	0.2	0.0
Other	2.2	2.0	0.2	9%	-0.2	0.3
Care	9.0	8.9	0.1	1%	-0.1	0.2
Common law	0.0	0.1	-0.1	-100%	-0.1	0.0
LOEC	0.1	0.1	0.0	0%	0.0	0.0
Commutation	0.0	0.4	-0.4	-99%	-0.4	0.0
All Payments	294.8	312.3	-17.5	-6%	-7.8	-9.6
Recoveries	-10.5	-9.2	-1.4	15%	-3.7	2.3
Net Payments	284.3	303.1	-18.8	-6%	-11.5	-7.3

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

- Income Support payments were marginally lower than expected, with improvements in RTW outcomes partially offset by higher claim volumes and increased backpays.
- Lump Sum payments were lower than expected, particularly for the 2018 to 2022 injury years.
- Treatment costs were broadly in line with expectation, hospital being the highest proportional difference from expectation.
- Legal costs continue to be lower than expected, which is a very positive result given the high volume of dispute finalisations in the six months (see section 4.4.3).

Our valuation basis for General Short Term Claims is discussed in Section 6, and Hearing Loss claims in Section 7. Section 8 discusses our valuation of Serious Injury claims.

6 'General' Short Term Claims

The following section summarises the Short Term Claims results for all claims other than Hearing Loss claims; we refer to these as "General Claims". Hearing Loss claims are separately identified in Section 7.

6.1 Valuation approach

6.1.1 Income Support

Income Support payments are modelled separately for physical trauma, mental injury, musculoskeletal and other injuries; this approach 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.

IS payments in the first three years after injury are valued using a PPAC model. For payments beyond three years after injury, a PPCI model is used. The Income Support liability includes payments to dependants, back-pay and Income Support payments for late surgeries.

6.1.2 Lump Sums

We value lump Sums in three segments: Non-Economic Loss, Economic Loss and Death benefits. The *Sustainability Act 2022* changed the Serious Injury threshold from 30% to 35% for physical injuries, which will result in additional lump sums being paid as 'General' Short Term Claims compared to historical periods.

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 where operational changes have impacted the pattern of payments in recent years.

An allowance has also been made for an increase in the average size of Lump Sums over time due to behavioural changes leading to higher WPI scores. We have incorporated this higher average size into the selections as well as an allowance for future superimposed inflation.

More information on these methods is provided in Appendix A.

6.1.3 Legal and Treatment Related Costs

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 and medico-legal costs (for example related to medical assessments for WPI). Our modelling approach captures these features using:

- Long term model (PPCI) – this is a quarterly model used for the valuation of all treatment and Worker Legal liabilities.
- In a small number of cases, we have shown two sets of valuation assumptions, namely:
  - "RTW Act claims" - claims occurring after the RTW Act commenced on 1 July 2015.
  - "Transitional claims" – those that occurred prior to 30 June 2015. These selections generally only apply for a small number of quarters before reverting to the "RTW Act claims" selections.

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

6.2 Short Term Claims – General Claims Results

This section summarises the results across the General Short Term Claims.

Table 6.1 – Short Term Claims: General Claims results

	Income Support	Lump sum	Worker Legal	Contract Legal	Medical	Allied Health	Hospital	Rehab	Travel	Other	Care	Rest[1]	Recoveries	Total General Claims
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Estimated liability at Dec-23	167.1	494.7	61.3	39.3	80.8	32.8	20.5	13.5	7.2	4.2	2.6	9.9	(44.8)	889.1
Projected liability at Jun-24	172.0	503.3	62.4	39.7	83.3	34.0	21.4	14.0	7.5	4.4	2.7	9.5	(45.9)	908.3
Jun-24 valuation														
Claims performance impacts	1.6	17.0	(8.6)	(1.5)	2.4	0.3	(0.3)	0.4	0.3	(0.3)	0.1	0.5	(0.8)	11.1
Estimated liability at Jun-24 (Dec-23 ecos)	**173.6**	**520.2**	**53.8**	**38.2**	**85.7**	**34.3**	**21.1**	**14.4**	**7.8**	**4.2**	**2.8**	**10.0**	**(46.7)**	**919.4**
Impact of change in economic assumptions	(1.2)	(6.3)	(0.6)	(0.1)	(0.6)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	0.4	(8.9)
Estimated liability at Jun-24 (Jun-24 ecos)	**172.4**	**513.9**	**53.2**	**38.1**	**85.1**	**34.2**	**20.9**	**14.4**	**7.8**	**4.1**	**2.7**	**9.9**	**(46.2)**	**910.5**
AvE payments - six months to Jun-24	0.9	(7.4)	(0.4)	(0.2)	(0.2)	(0.2)	(0.4)	0.4	0.0	(0.1)	(0.1)	(0.4)	(3.7)	(11.8)
Actuarial release (strengthening) at Jun-24	**(2.5)**	**(9.5)**	**9.0**	**1.7**	**(2.2)**	**(0.1)**	**0.7**	**(0.8)**	**(0.3)**	**0.4**	**0.1**	(0.1)	**4.4**	0.7

[1] Rest includes: Investigation, Commutation, Common Law and LOEC

At a total level, there is an actuarial release (cost decrease) of $0.7m for the General Short Term Claims valuation (this becomes an actuarial strengthening of $6.0m after including higher expenses, as shown in Section 10.3). This comprises an increase of $11.1m in the liability estimate and $11.8m of lower payments than expected over the past six months. The key movements in the liability estimate are:

- Income Support – an actuarial strengthening of $2.5m, reflecting offsetting impacts of improved RTW outcomes, and higher allowances for backpays from dispute settlements.
- Lump Sums – an actuarial strengthening of $9.5m which reflects higher numbers of lump sum payments, particularly at long durations post-injury.
- Worker Legal and Contract Legal – an actuarial release of $10.7m, as the faster settlement of disputes means fewer open disputes and a lower average cost of settlements.
- Treatment and Medical (Medical, Allied Health, Hospital, Travel, Other, Care) - an actuarial strengthening of $1.5m, this reflects increasing average treatment costs per claim due to increased use of some services.
- Rehabilitation – an actuarial strengthening of $0.8m related to the wider usage of programs to support return to work.
- Recoveries – an actuarial release of $4.4m primarily reflecting higher than expected recoveries in the last six months.
- The movements in the remaining benefit groups are small and add up to an actuarial strengthening of $0.1m.
- Movements due to economic assumptions result in a $8.9m decrease in the liability.

Table 6.2 below shows the actuarial release for Short Term Claims by accident period.

Table 6.2 – Short Term Claims: actuarial release by accident period

Accident Period	Income Support	Lump Sum	Worker Legal	Medical	Allied Health	Hospital	Rehab	Travel	Other	Care	Rest[1]	Redemptions	Recoveries	Total excl. Contract Legal	Contract Legal	Total incl. Contract Legal
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Pre Jun-15	0.0	0.5	1.3	-2.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.4	-0.8		
Jun-16	-0.6	-0.6	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	-1.2		
Jun-17	-0.2	-0.3	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	1.1	-0.1		
Jun-18	0.0	-0.7	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.8		
Jun-19	-0.3	-0.7	0.3	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.6	-0.3		
Jun-20	0.0	-3.3	0.5	-0.1	0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.5	-2.4		
Jun-21	0.2	-1.6	1.0	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	-0.2		
Jun-22	-0.9	-0.7	1.8	0.6	0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2	1.3		
Jun-23	-1.5	-2.5	2.2	0.3	0.0	0.4	-0.1	-0.1	0.1	0.0	-0.1	0.0	0.3	-1.0		
Jun-24	0.8	0.4	2.5	0.1	0.2	0.4	-0.7	0.0	0.3	0.0	-0.2	0.0	0.5	4.5		
Total	-2.5	-9.5	9.0	-2.2	-0.1	0.7	-0.8	-0.3	0.4	0.1	-0.3	0.2	4.4	-0.9	1.7	0.7

1 Rest includes: Investigation, Commutation, Common Law and LOEC

The impact of slightly lower than expected claim volumes for FY24 drives the majority of the saving, with Lump Sums seeing strengthening from the FY20 to FY23 injury periods in particular.

Additional detail is provided on the valuation basis for the main benefit types in the remainder of Section 6. For benefit types where there is less than $10m in liabilities we have included the detailed assumptions in Appendix A; this covers Travel, Other, Care, Investigation, Common law, LOEC and Commutations.

6.3 Income support

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

6.3.1 Summary of results

Table 6.3 summarises the movements in our liability estimates for IS payments since the previous valuation.

Table 6.3 – Valuation Results: Income Support

Dec-23 Valuation	$m	$m	$m
Estimated Liab at Dec-23	167.1		
Projected Liab at Jun-24	172.0		
			Actl
Jun-24 Valuation		AvE pmts	Strengthening
Movement in liability due to claims performance	1.6	0.9	(2.5)
Estimated Liab at Jun-24 (Dec-23 eco assumptions)	**173.6**		
Impact of change in eco assumptions	(1.2)		
Estimated Liab at Jun-24 (Jun-24 eco assumptions)	**172.4**		

At June 2024 there is an actuarial strengthening of $2.5m, reflecting the claims experience since December 2023 and our valuation response. The impact of economic assumptions is a $1.2m reduction.

6.3.2 Experience vs expectations

Payments

Table 6.4 compares the IS payments in the six months to 30 June 2024 with the expected payments from our December 2023 valuation projection.

Table 6.4 – Actual vs Expected Payments: IS

Accident	Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	Difference
	$m	$m	$m	
To 30 Jun 05	0.2	0.3	(0.1)	-33%
2005/06 - 2014/15	0.6	0.6	0.1	14%
2015/16 - 2020/21	3.6	3.5	0.1	3%
2021/22 - 2022/23	33.9	32.1	1.9	6%
2023/24	31.9	33.0	(1.1)	-3%
Total	70.3	69.4	0.9	1%

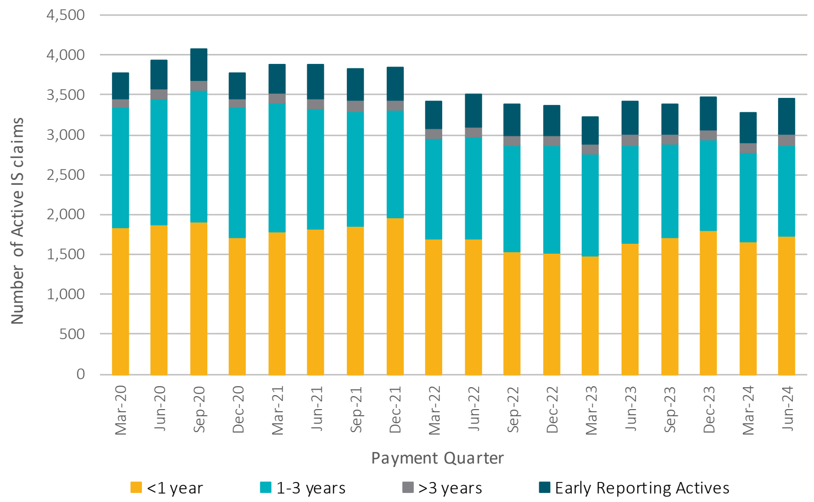
IS payments were $0.9m (1%) higher than expected overall in the six months to June 2024. This was due to:

- $1.1m (3%) lower payments for 2023/24, due to new claim volumes being lower than expected
- $1.9m (6%) higher payments across the 2021/22 and 2022/23 accident years, primarily related to higher backpay payments than expected
- $0.1m (2%) higher payments in 2020/21 and older accident years; payments in these periods largely relate to surgery, late incapacity and dependent benefits.

Active claims and exits

Table 6.1 shows the numbers of (quarterly) active IS claims, split by duration.

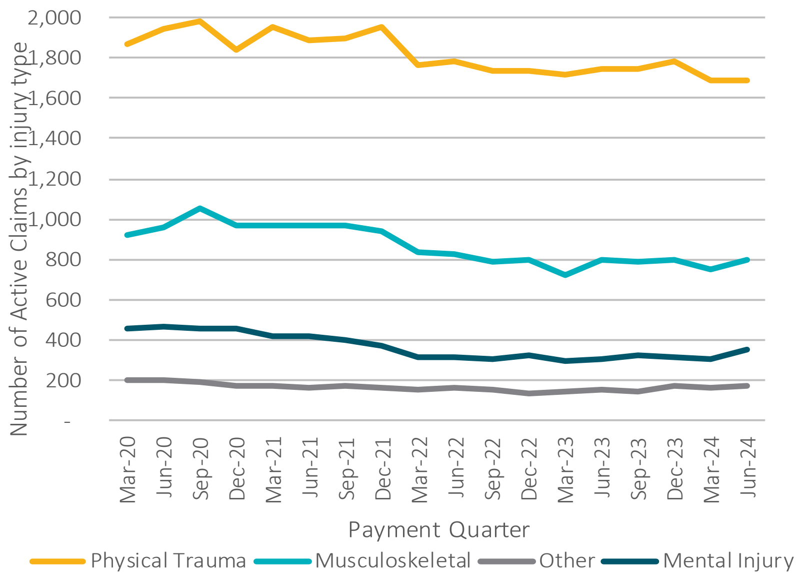
Figure 6.1 – Numbers of Active IS Claims



Since a step reduction in active claims in March-22, active claim volumes have remained below 3,500 as a result of improving return to work rates. Actives increased slightly over 2023, following higher new claim volumes, which is not unexpected after the very high growth in insured wages in the last two years.

Figure 6.2 shows the numbers of (quarterly) active IS claims, split by injury type.

Figure 6.2 – Number of Active IS Claims (excluding early reporting) by injury type



The step reduction in March-2022 was seen across physical trauma, musculoskeletal and mental injury types. In the June 2024 quarter Mental Injury active claims are higher, following increases in claim reports.

In Table 6.5 we compare the numbers of active IS claims at June 2024 with our December 2023 valuation projection alongside payments compared to expectation. This has been done only for periods where we projected future active claims (accident quarters March 2021 and later).

Table 6.5 – AvE Payments and Active Claims

Accident	Payments ($m)				Actives (#)			
FY	Actual	Expected	Difference	Difference %	Actual	Expected	Difference	Difference %
2022	7.8	6.9	0.8	12%	264	251	13	5%
2023	26.2	25.1	1.1	4%	885	903	-18	-2%
2024	31.9	33.0	-1.1	-3%	1,727	1,809	-82	-5%

Overall active claim numbers were below expectations for the FY2023 and FY2024 injury years. This contrasts FY2023 payments to date. The higher payments are attributed to increase average payment size, which seems to be primarily due to higher backpay as a result of the high level of finalised disputes.

6.3.3 Valuation basis: IS payments in years 1-3: PPAC model

Projection of active claims

Figure 6.3 shows the combined continuance rates compared to those selected at December 2023.

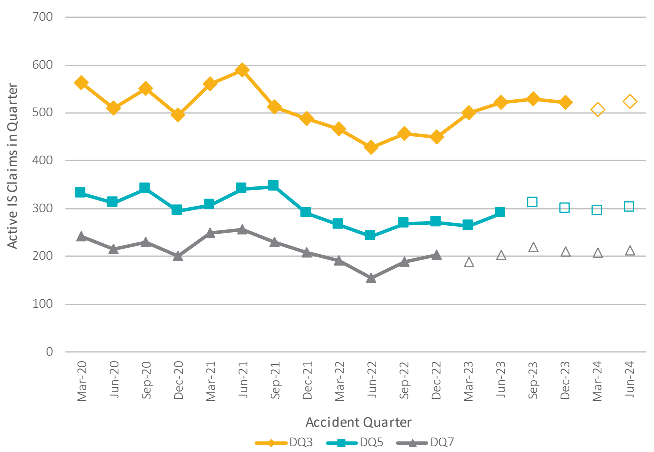
Figure 6.3 – Continuance rates – implied overall assumptions

The overall average continuance rates for development quarters 5 to 9 are lower at this valuation, following the improvement in RTW outcomes over the last two years. In our detailed work we have needed to differentiate the claims receiving payments due to the dispute resolution focus from those with ongoing benefits.

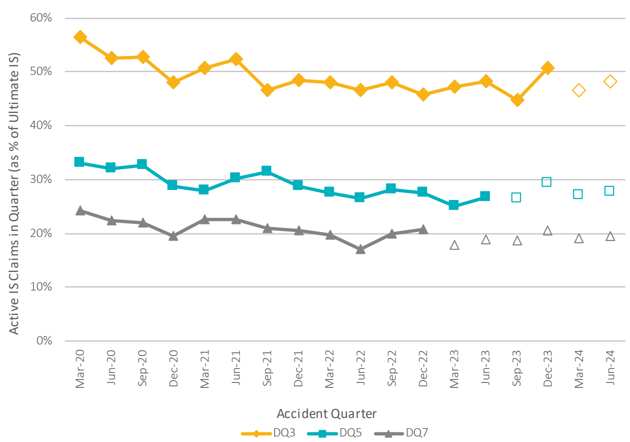
Figure 6.4 below shows the outworking of our projection of active claims at development quarters 3, 5 and 7. The solid lines show the actual number of active claims and the dots show our projection. We have also shown the actives as a percentage of ultimate IS claims for the accident quarter, to help demonstrate the impact of claim volume changes over time.

Figure 6.4 – Income Support claims reaching specified durations

Actual count of active IS claims



Active IS as % of ultimate IS claims

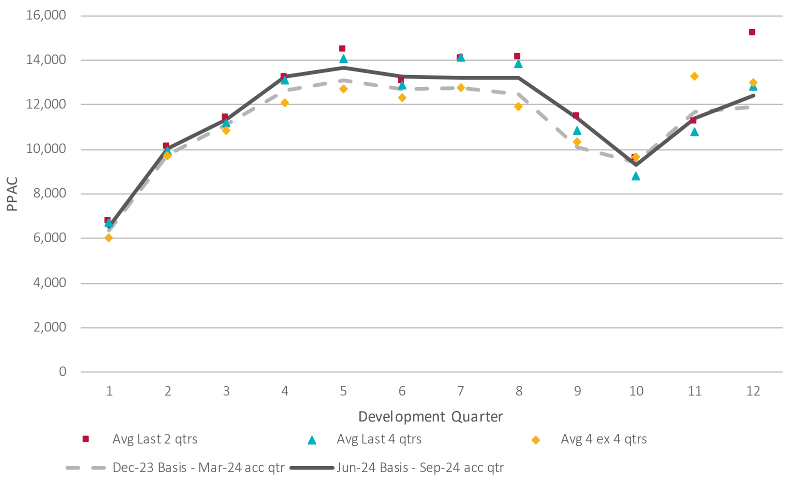


As Figure 6.4 shows, our projections are that active claim numbers at DQ7 have reached a new low relative to reported claim volumes (unless further improvements in RTW are achieved, that is). The impact of the higher volume of new claims can be seen when the active claims in recent accident periods (which are increasing) are expressed as a percentage of the projected ultimate IS claims where the trends are essentially flat, at the low end of what has been seen over time.

Payments per active claim

Figure 6.5 shows the implied average payment size across all injury types.

Figure 6.5 – Payments per active claim ($Jun-24): implied overall assumption



The recent overall PPAC experience is emerging higher than our December 2023 basis, and we have responded with increases in our adopted PPACs as shown. In early development quarters this seems attributable to increases in pre-injury earnings amounts, whereas at longer durations it is primarily due to increased backpay amounts under the new dispute settlement approach. Our basis is intended to be a 'normalised' view once the high rate of dispute finalisation returns to BAU levels.

6.3.4 Valuation Basis: IS payments after year 3: PPCI model

IS payments after 3 years are modelled using a PPCI model based on the ultimate number of claims (excluding Hearing Loss). The overall adopted average PPCI size of $582 per reported claim (unchanged but reshaped from the previous valuation) and made up of two components:

- The allowance for ongoing dependant benefits of $197 per reported claim
- 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 $385 per reported claim.

Details of the valuation basis can be found in Appendix A.

6.4 Lump sums

This section describes our valuation of Lump Sum payments for General Short Term claims. A Lump Sum is payable to a worker who suffers a compensable injury that results in at least 5% whole person impairment (WPI). Separate Lump Sums compensate claimants for non-economic loss and future economic loss, with compensation for future economic loss only available to claims with injuries from 1 July 2015.

We value these Lump Sums in three segments:

- "Death" and funeral claims
- "Non-Economic Loss" lump sums[5] – where a claimant receives their first lump sum payment for the relevant claim (excluding Death 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 (only available under the RTW Act to new injuries from 1 July 2015, and subject to deductions for previous Economic Loss lump sum payments).

[5] Payments for "Top Up" lump sums were previously separated out, but now that very few such claims remain this has been combined into the Non-Economic Loss model.

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

6.4.1 Summary of results

Table 6.6 summarises the movements in our liability estimates for Lump Sum payments since the December 2023 valuation.

Table 6.6 – Valuation results: Lump Sums

Dec-23 Valuation	$m	$m	$m
Estimated Liab at Dec-23	494.7		
Projected Liab at Jun-24	503.3		
Jun-24 Valuation		AvE pmts	Strengthening
Movement in liability due to claims performance	17.0	(7.4)	(9.5)
Estimated Liab at Jun-24 (Dec-23 eco assumptions)	**520.2**		
Impact of change in eco assumptions	(6.3)		
Estimated Liab at Jun-24 (Jun-24 eco assumptions)	**513.9**		

The June 2024 liability shows an actuarial strengthening of $9.5m since December 2023, reflecting an increase of $17.0m in the liability partly offset by $7.4m of lower claim payments. Changes to economic assumptions decrease the liability by $6.3m.

A breakdown of the key drivers of the actuarial strengthening are:

- A $4m increase due to slower than expected payments over the last six months; this is essentially retaining the lower than expected payments in our liability estimate.
- A $19m increase due to increased allowances for 'late' lump sums, given the tail of lump sums that continues to emerge.
- A $5m decrease from reductions in the selected size of future lump sums, as the post-combining experience appears to be settling slightly lower than previously assumed.

6.4.2 Payment experience

Table 6.7 compares the payments in the six months to June 2024 with the expected payments from our December 2023 valuation projection. The table includes lump sum payments related to Economic Loss, Non-Economic Loss, Death and funeral benefits for all Short Term Claims (i.e. it excludes Hearing Loss claims).

Table 6.7 – Actual vs expected payments: lump sums

Accident	Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Difference
	$m	$m	$m	
To 30 Jun 05	0.3	0.4	(0.1)	-29%
2005/06 - 2014/15	1.8	1.8	0.0	1%
2015/16 - 2019/20	25.0	30.9	(6.0)	-19%
2020/21 - 2022/23	28.4	29.2	(0.8)	-3%
2023/24	1.3	1.8	(0.5)	-28%
Total	56.7	64.1	(7.4)	-12%

Payments were overall 12% lower than expected in the six months to 30 June 2024, driven by the 2015/16 to 2019/20 accident periods. The lower payments were driven by a combination of slower 30-34% WPI payments (which is mainly interpreted as a timing issue), lower than expected sizes on Economic Loss lump sums and lower numbers of Death lump sums.

6.4.3 Non-Economic Loss 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 6.8 below compares the actual and expected number of Non-Economic Loss lump sums paid in the six months to June 2024.

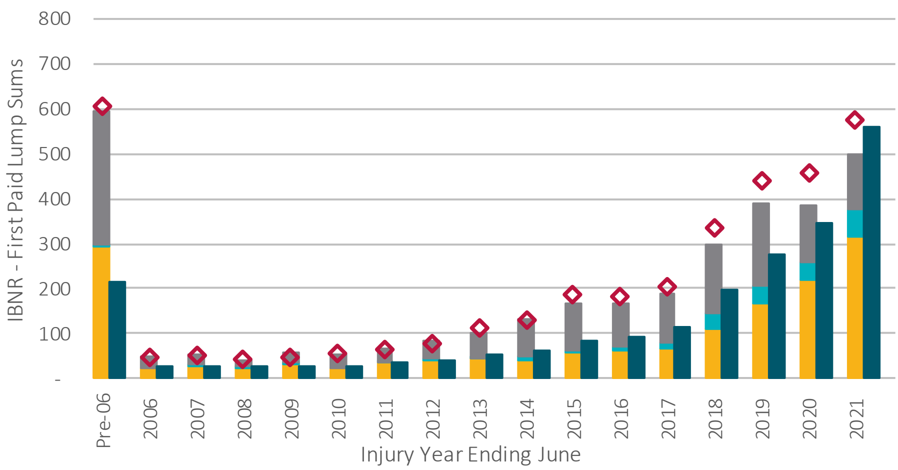
Table 6.8 – Actual vs expected numbers: Non-Economic Loss lump sums

Accident	Number of Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Difference
To 30 Jun 05	18	14	4	33%
2005/06 - 2014/15	44	42	2	5%
2015/16 - 2019/20	241	236	5	2%
2020/21 - 2022/23	354	370	-16	-4%
2023/24	3	2	1	57%
Total	660	663	-3	-1%

The number of Non-Economic Loss lump sums in the last six months was similar to expectations.

As a test of the reasonableness of our valuation basis for more mature accident years, Figure 6.6 below summarises a breakdown of open and 'potential' lump sum claims by their current status in the WPI assessment process (left-side bar) which is compared with the IBNR allowance for Non-Economic Loss lump sums (right-side bar) for each accident year up to 2021.

Figure 6.6 – Comparison of identified potential future lump sum claims and model IBNR allowance (for accident periods up to June 2021)



*Includes claimants who have previously started (and now commenced WPI process) with status Not at MMI, Not Stable, Agent Review (not appropriate to proceed) and worker does not wish to proceed

Figure 6.6 shows that:

- The number of identified potential future lump sum claims has reduced compared to six months ago. For the most part this reflects claims where actual payments were made in the period, partly offset by an ongoing inflow of new WPI applications.
- Pre-2016 accident periods still have a high number of WPI assessments in progress. Many of these assessments are expected to result in a WPI lower than 5% and therefore not be entitled to a lump sum payment – the selected basis allows for around 19% of currently pending and

expected future assessments to result in a lump sum payment, consistent with the recent outcomes on Transitional claims.

The selected basis allows for around 87% of open disputes to result in a lump sum payment. This is marginally lower than our previous allowance (90%) reflecting the recent settlement outcome experience.

5-29% lump sums

There continues to be a steady inflow of new WPI applications, particularly for older injury years where we have been expecting numbers to reduce more than current levels. We have also observed that many of these lump sum payments are from claims where the level of income support payments received was low, with around half of all lump sum payments with a duration of more than 10 years from injury coming from claims that did not receive any form of income support payment (on that claim). In response to the continued tail of assessment activity, we have again increased the projected ultimate lump sums at this valuation, adding 331 extra future lump sum payments compared to our previous basis. Half of the increase comes from Transition claims with the remainder focused around the 2018-2021 injury years.

While there has been an increase in the projected number of future lump sum payments, our selected basis still assumes that the higher numbers of lump sums for the 2018 and 2019 years (in particular) will not fully flow through to the latest injury years. This approach reflects a view that the different management approach that was in place for 2018 and 2019 claims (both for lump sum benefits and income support), as well as the relatively high volume of Income Support claims that reached longer durations on benefits for these years, are the main reasons for the higher lump sum volumes that have emerged for these injury years.

30-34% lump sums

We separately model the number of "30%-34% WPI" lump sum claims due to the threshold change, and our valuation allowance is unchanged as the emergence of these payments has been slow to date (consistent with the observations made on Serious Injury claim numbers, where many claims are still being determined under the 30% WPI threshold).

Overall projected lump sums

Figure 6.7 shows the projected ultimate numbers of Non-Economic Loss lump sums, split into paid and IBNR claims.

Figure 6.7 – Projected ultimate numbers of Non-Economic Loss lump sums

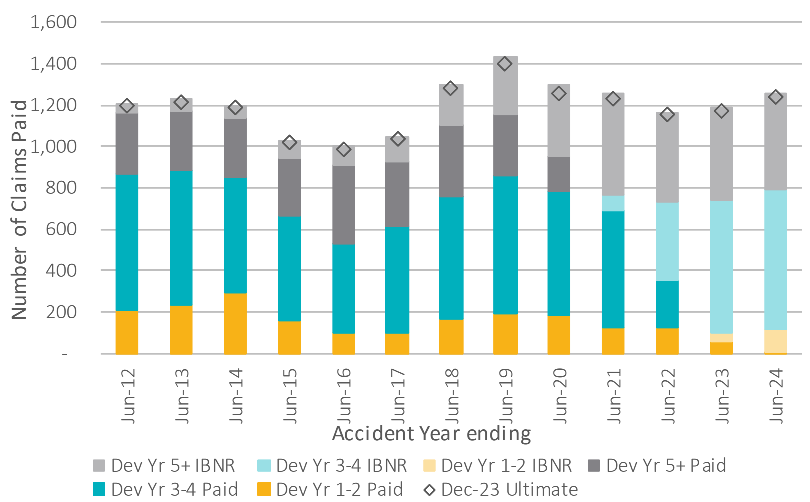


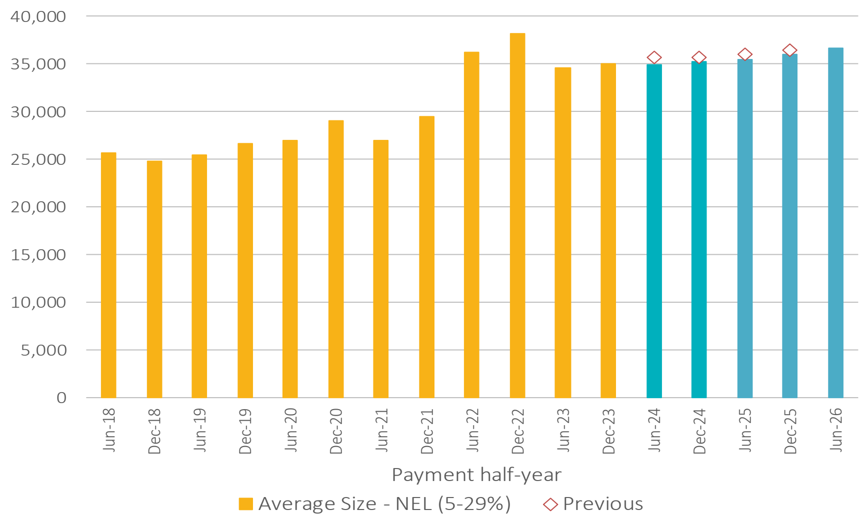
Figure 6.7 shows:

- The 2015 to 2017 years show the impact of the slowdown in lump sum payments, with the number paid up to the end of the fourth development year (the height of the aqua part of the bar) being much lower than occurred historically.
- The 2018 and 2019 accident years have noticeably higher ultimate claim numbers than other years.
- 2020 and later accident years are anticipated to have a lower volume of lump sums than 2018 and 2019, in line with the lower numbers of longer duration Income Support claims for these years.

Projected average payment sizes

Figure 6.8 below shows the actual and projected average payments for Non-Economic Loss. To aid comparability we have not included our allowances for claims with WPI in the 30-34% range, as this group will act to progressively push up average sizes as they begin to get paid as Short Term Claims.

Figure 6.8 – Average payments for Non-Economic Loss lump sums ($Jun24)



Average sizes emerged slightly better than expected over the last six months. This follows a significant increase in sizes during the 2022 calendar year after the introduction of “combining injuries”. At this valuation we have reshaped our average size pattern, resulting in a minor decrease from the previous valuation basis.

As combining injuries are a relatively new feature of the scheme, our valuation basis includes a behavioural allowance (applied as superimposed inflation) of 0.5% p.a. to account for anticipated changes over time brought on by greater incentives to combine injuries now. This allowance is unchanged from the previous valuation.

The assumed average size for NEL payments for WPI 30-34% is unchanged at this valuation and the handful of claims paid to date are consistent with our assumptions.

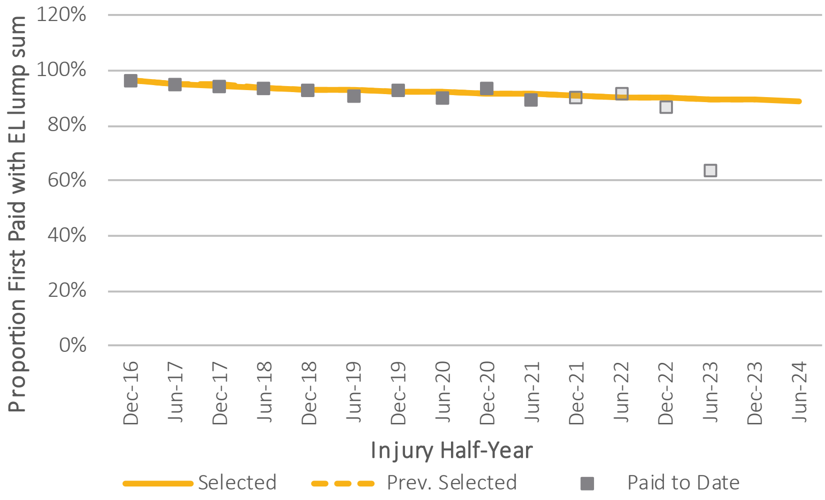
6.4.4 Economic Loss lump sums

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 therefore available to injuries from 1 July 2015.

The numbers of future Economic Loss lump sum payments are modelled as a percentage of Non-Economic Loss lump sums. Only a small group of such claims are not entitled to an Economic Loss lump sum, namely: where the hours worked formula ends up being nil, or where deductions for prior

Economic Loss lump sums paid to the worker reduce the payment to nil. Figure 6.9 below shows the number of Economic Loss lump sums paid to date as a proportion of Non-Economic Loss lump sums and our selections for each injury half-year.

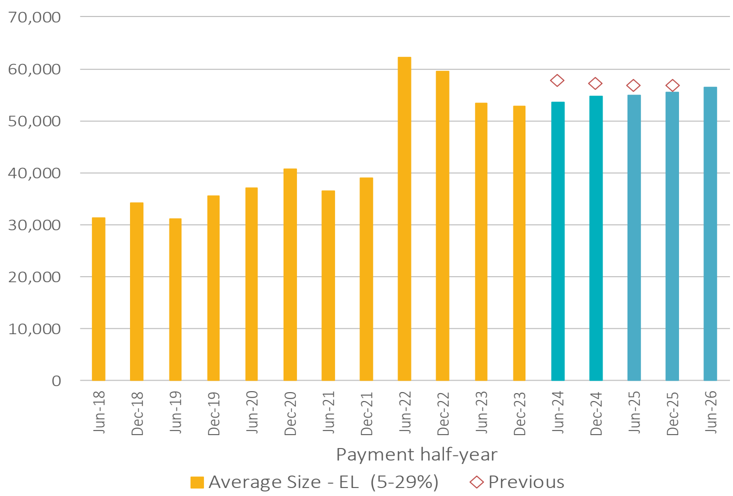
Figure 6.9 – Proportion of Non-Economic Loss lump sums receiving Economic Loss lump sum



We assume that 5.7% of claims from the 2018 accident year will not receive the Economic Loss lump sum, and our assumption increases linearly to 11% for the 2024 accident year. This assumption is unchanged from the previous valuation and is consistent with the emerging experience (noting that the latest few injury periods are based on limited actual claims data as yet).

Figure 6.10 below shows the actual and projected average payments for Economic Loss lump sums; again, we have excluded our allowances for claims with 30-34% WPI to aid comparability.

Figure 6.10 – Average payments for Economic Loss lump sums ($Jun24)



The average claim size in the last six months was lower than expected, and appears to have stabilised lower than seen in the 2022 calendar year. At this valuation we have reshaped our average size pattern consistent with the emerging experience, resulting in an overall reduction from the previous valuation basis.

In addition, we include a behavioural allowance (applied as super imposed inflation) of 1% p.a. to account for changes brought on by greater incentives to combine injuries now, which is unchanged from the previous valuation.

The assumed average size for Economic Loss payments for WPI 30-34% is unchanged at this valuation.

6.4.5 Death lump sums

Death (and funeral) lump sum payment numbers were lower than expected over the last six months, noting these numbers have high variability from period to period.

Figure 6.11 shows the projected numbers of Death lump sums by accident year. We have reduced the numbers of expected payments in line with the experience for those accident years with lower claim volumes.

Figure 6.11 – Projected ultimate numbers of Death lump sums

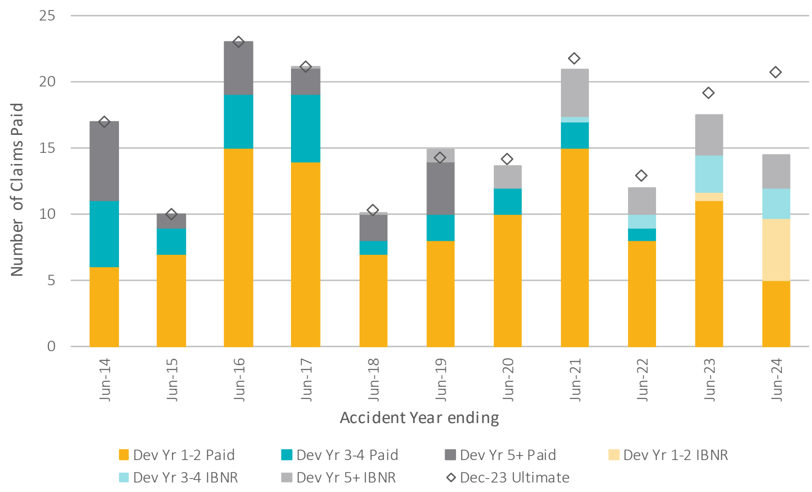
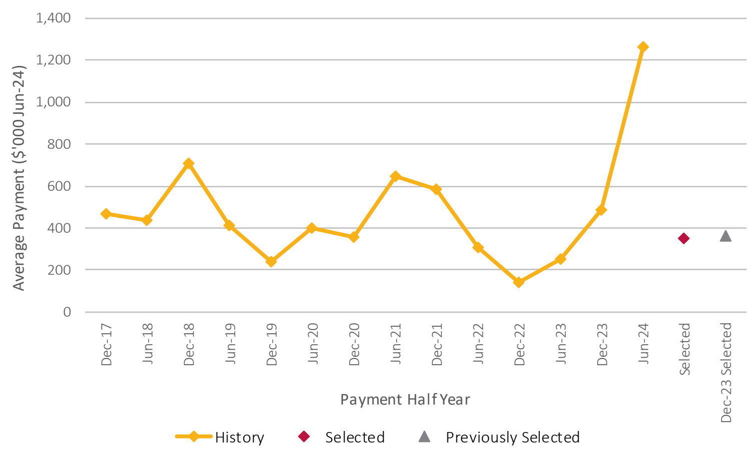


Figure 6.12 shows the average benefit paid to a Death lump sum claim, by payment half year. The very high observed size in the latest half-year results from a mismatch in payment timing, as a number of funeral payments appear to have been made in the Dec-22 and Jun-23 periods (thus triggering the 'first paid' definition in our model), but with the death benefits coming later.

Figure 6.12 – Average lump sum death payment ($Jun-24)



Our selected average size is unchanged and consistent with the longer term experience.

6.5 Treatment and related costs

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), Allied Health, Hospital, Rehabilitation (Vocational Rehabilitation). Medical payments are the most significant of these entitlements.

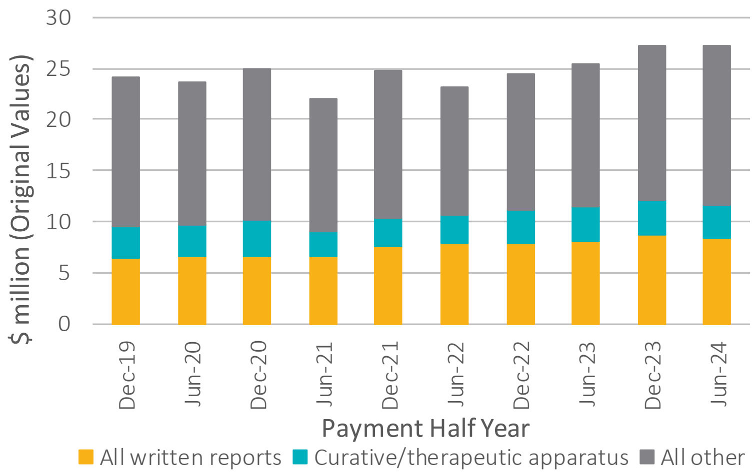
6.5.1 Medical

Medical payments include payments for treating doctors, written medical reports and therapeutic devices, including medico-legal costs.

Payments vs expectations

Figure 6.13 below shows medical payments by six-month period, split by the type of service.

Figure 6.13 – Medical half-yearly payments



Medical payments growth has slowed in the last six months, after increases from Jun-22.

Table 6.9 shows that there were $27.2m in payments in the last 6 months which was similar to expected.

Table 6.9 – Medical AvE Payments

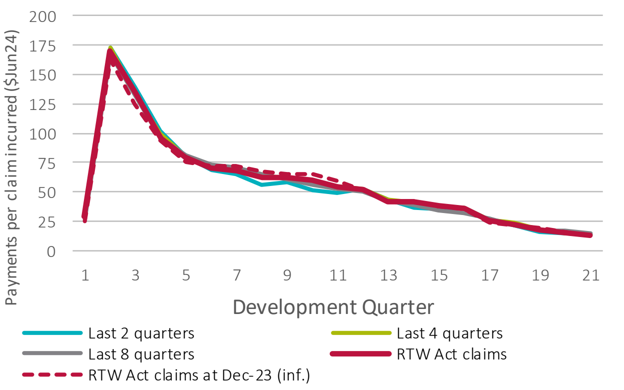
Accident	Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.0	0.1	254%
2005/06 - 2014/15	0.3	0.3	(0.0)	-13%
2015/16 - 2020/21	3.7	3.9	(0.2)	-6%
2021/22 - 2022/23	10.1	10.4	(0.2)	-2%
2023/24	13.0	12.8	0.2	2%
Total	27.2	27.3	(0.2)	-1%

Valuation basis

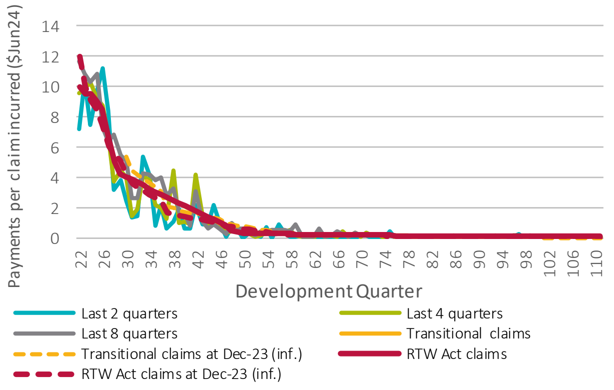
Figure 6.14 below shows the recent experience and selected basis for medical payments.

Figure 6.14 – Medical experience and selections

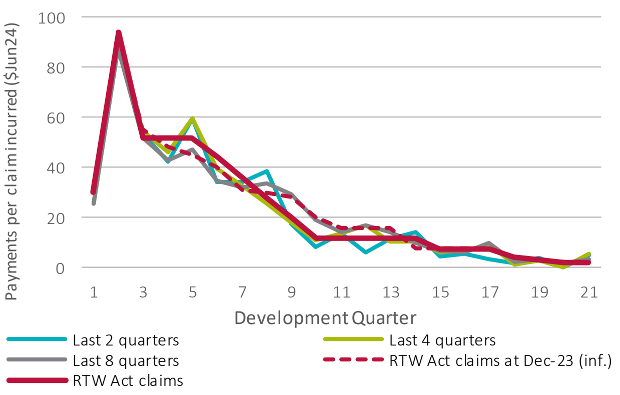
PPCI – Medical written reports



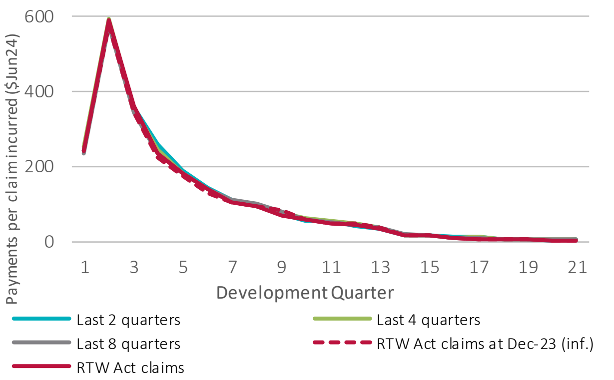
PPCI – Medical written reports (Tail)



PPCI – Medical aids and appliances



PPCI – Medical other



Our comments on the experience and selected assumptions are:

- PPCI (Medical written reports): the basis reflects the most recent experience (average four), where costs associated with written medical reports have remained high. The selections are reshaped, but overall broadly unchanged from the previous review.
- PPCI (Medical aids and appliances): the basis reflects the most recent experience (average four), where costs associated with aids and appliances has remained high. The selections are reshaped, but overall broadly unchanged from the previous review.
- PPCI (Medical other): the selected basis is aligned with the average of payments over the last 4 quarters; the selections are reshaped, but overall broadly unchanged from the previous review.

6.5.2 Allied Health

Allied Health relates to payments to Allied Health practitioners and includes physiotherapists, chiropractors, exercise physiologists, osteopathy, psychology, pharmaceuticals, dentist costs, remedial massage and speech pathology.

Payments vs expectations

Figure 6.15 compares actual and expected payments for Allied Health since the December 2023 valuation, which were similar to expectations.

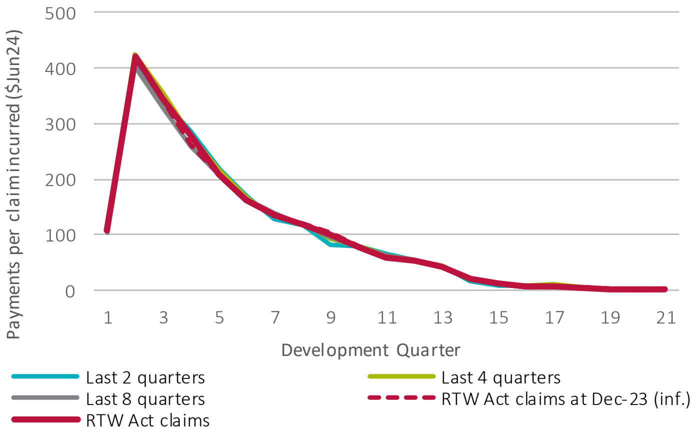
Figure 6.15 – Allied Health AvE payments

Accident Period	Payments in Six Months to Jun 24			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.0	0.0	0.0	595%
2005/06 - 2014/15	0.0	0.1	(0.0)	-52%
2015/16 - 2020/21	0.8	0.9	(0.1)	-10%
2021/22 - 2022/23	6.5	6.5	(0.0)	0%
2023/24	6.9	7.0	(0.1)	-1%
Total	14.2	14.4	(0.2)	-1%

Valuation basis

Figure 6.16 below shows the recent experience and selected basis for Allied Health payments.

Figure 6.16 – Allied Health experience and selections



Our adopted basis at this valuation has only minor changes from the previous valuation.

6.5.3 Hospital

Hospital payments include payments made to public and private hospitals.

Payments vs expectations

Table 6.10 below compares actual and expected payments for Hospital in the six months to June 2024, which are 4% below expectation.

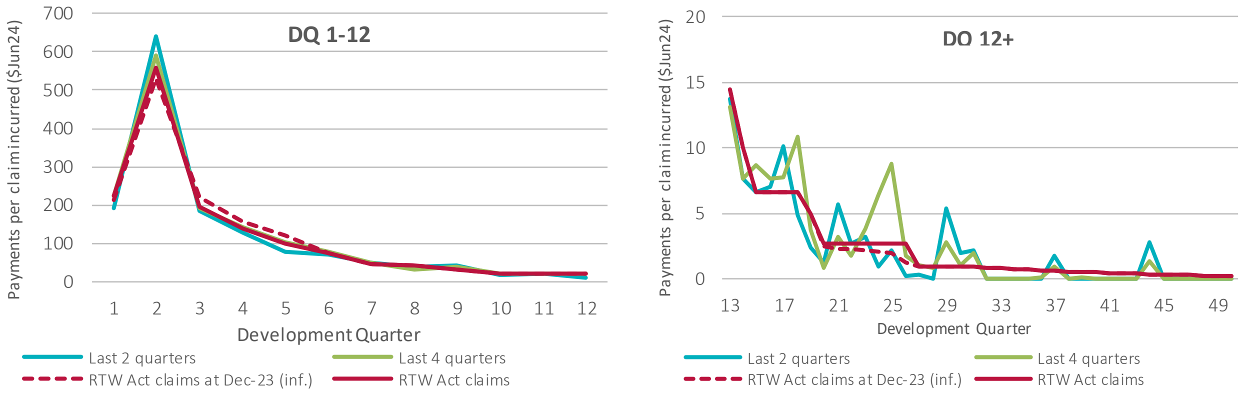
Table 6.10 – Hospital AvE payments

Accident Period	Payments in Six Months to Jun 24			
	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 05	0.1	0.0	0.0	116%
2005/06 - 2014/15	0.0	0.1	(0.0)	-49%
2015/16 - 2020/21	0.5	0.6	(0.0)	-8%
2021/22 - 2022/23	2.4	2.9	(0.5)	-19%
2023/24	7.4	7.2	0.2	3%
Total	10.4	10.8	(0.4)	-4%

Valuation basis

Figure 6.17 below shows the recent experience and selected basis for Hospital payments. Payments are often volatile in six-month periods and we generally take a longer-term view when selecting our assumptions for Hospital.

Figure 6.17 – Hospital experience and selections



The adopted basis is similar to the experience over the last four quarters.

6.5.4 Rehabilitation

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

Payments vs expectations

Table 6.11 compares actual and expected Rehabilitation payments in the six months to June 2024, which are 6% above expectation. We are aware of there being increased utilisation of some rehabilitation services as part of the current claims management model. This has translated to higher payments than expected, particularly in the more recent accident years.

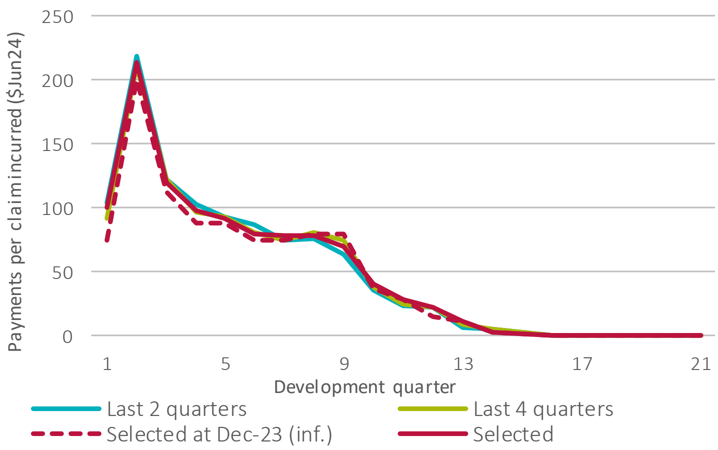
Table 6.11 – Rehabilitation AvE payments

Accident	Payments in Six Months to Jun 24			
Period	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	n/a
2015/16 - 2020/21	0.2	0.2	0.0	4%
2021/22 - 2022/23	3.2	3.3	(0.0)	0%
2023/24	3.4	3.0	0.4	14%
Total	6.8	6.4	0.4	6%

Valuation basis

Figure 6.18 below shows the recent experience and selected basis for Rehabilitation payments. We understand that RTWSA will continue their increased use of rehabilitation services, and as a result our adopted basis has been increased to reflect this, in line with the experience over the last four quarters.

Figure 6.18 – Rehabilitation experience and selections



The adopted basis is in line with the experience over the last four quarters.

6.6 Legal costs and Recoveries

This section presents results for legal costs and recoveries.

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'.

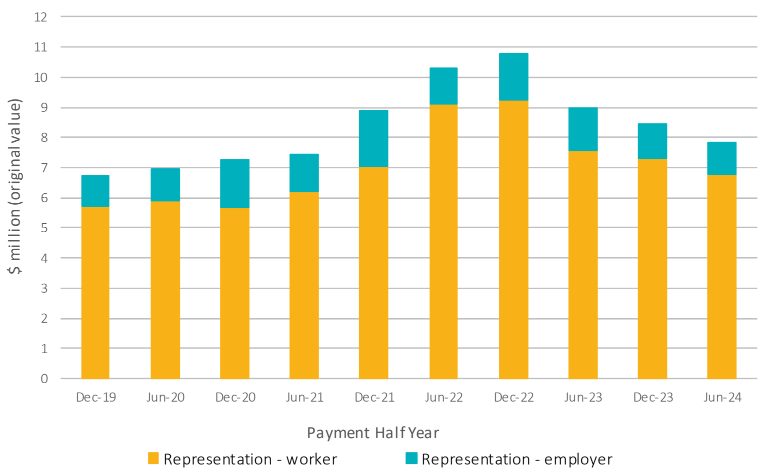
6.6.1 Worker Legal Costs

Disputes are the main driver of expenditure for both Worker and Corporation Legal fees, and were discussed in Section 4.4.3. 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.

Experience

Figure 6.19 below shows Worker Legal payments in each six-month period over the last five years.

Figure 6.19 – Worker Legal Half Yearly Payments (original values)



Worker Legal expenditure reduced again in the six months to June 2024. As the dispute resolution program 'matures' we are seeing more disputes finalised at shorter durations and earlier stages of dispute. This translates into lower average dispute settlement costs. As discussed in Section 4.4.3 the increased number of finalisations has meant the open disputes in the scheme are reducing, given the higher rate of recent closures more than offsets the number of new disputes received.

Table 6.12 below compares actual and expected Worker Legal payments in the six months to June 2024 which are 5% below expectation. Given the much higher than normal volume of finalisations this is a favourable result.

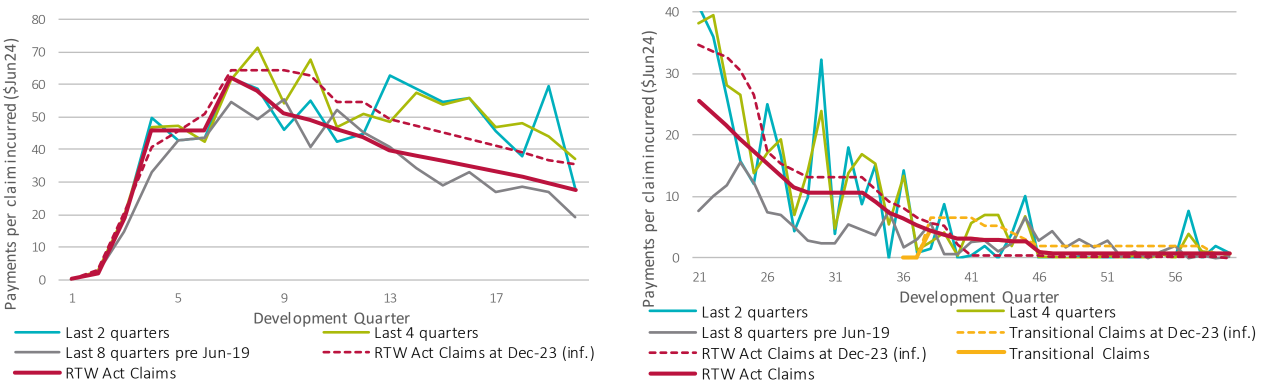
Table 6.12 – AvE Worker Legal Payments

Accident	Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Act - Exp
	\$m	\$m	\$m	
To 30 Jun 05	0.1	0.1	(0.0)	-38%
2005/06 - 2014/15	0.5	0.7	(0.2)	-29%
2015/16 - 2020/21	4.4	4.3	0.1	3%
2021/22 - 2022/23	2.6	2.9	(0.3)	-10%
2023/24	0.3	0.3	(0.0)	-5%
Total	7.8	8.2	(0.4)	-5%

Valuation basis

A PPCI model is used to value Worker Legal fees. Figure 6.20 below shows the recent experience and selected basis for Worker Legal payments.

Figure 6.20 – Worker Legal experience and selections



The selected RTW Act basis broadly follows the average experience across the last 2 quarters up to development quarter 12 and represents a reduction compared to our previous valuation basis. Beyond development quarter 12, we consider the emerging experience to be higher than the expected ongoing level due to the high level of dispute settlement activity, as explained in section 4.4.3, and therefore our selected basis sits below this experience and is more representative of an ongoing level of payments. The selected basis is still higher compared to the experience from pre-June 2019 (grey line) which is representative of legal payments prior to the increased disputation activity in recent years.

The transitional claims basis has now been aligned with the RTW Act basis and represents a reduction compared to the previous valuation. The selected basis translates into a valuation estimate of around \$4.1m (discounted) for Transitional Worker Legal costs and allows for:

- Some further progression of the currently 100 open disputes
- A further 550 new disputes to be lodged (at a lower cost) in relation to future WPI assessments. There are currently 1,300 pending WPI assessments and an assumed 1,500 future assessments beyond this. The allowance of 550 implies a disputation rate of 20%, consistent with the recent experience for Transitional claims.

6.6.2 Corporation Legal

Corporation Legal refers to legal fees paid to ReturnToWorkSA's contracted legal advisers, Minter Ellison and Sparke Helmore, and other provider legal fees related to third party recoveries, staff claims and extraordinary matters which we refer to as "non-contract" providers in the remainder of this section.

Actual v Expected Experience

Corporation legals were $10.4m paid in the 6 months to June 2024 which was $0.2m lower than expected (-2%).

Valuation basis

Under the current contract, a fixed amount is paid to each legal provider each month regardless of the number of non-complex matters referred. Table 6.13 below summarises the payments applicable under the current contract.

Table 6.13 – Corporation Legal contract components[6]

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

To project future Corporation Legal costs we have:

- Adopted the fixed monthly fees payable to each provider under the contract. The fixed fee is increased in accordance with the current contract, beyond which we have only allowed for fees to increase with CPI inflation, reflecting the relative stability in the contract costs to date despite increasing levels of disputes in the scheme, and noting that ReturnToWorkSA management are strongly of the view that these costs are not expected to increase at future contract renewals.
- 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.
- Allowed for payment of any performance fees as specified in the terms of the contract.
- Estimated a separate allowance for matters handled by "non-contract" providers. This allowance has been lowered by $1.5m from the previous valuation basis, to reflect reductions in the number of complex court matters.

Beyond the current contract, payments for Corporation Legal are projected to increase in line with inflation. Cash flows are allocated in each payment year across accident periods for reporting purposes[7].

6.6.3 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

[6] 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.

[7] 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. We also assume that as transition claims eventually run off, dispute lodgements will occur slightly earlier due to the shorter duration of claims under the RTW Act.

owners or head contractors on construction sites, as ReturnToWorkSA cannot recover money from an employer for negligence.

Experience

Table 6.14 below compares actual and expected Recovery payments in the six months to June 2024, which were 70% above expectation.

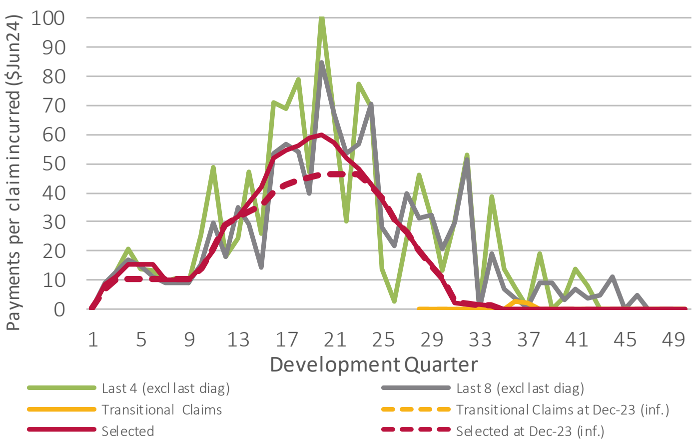
Table 6.14 – Recovery half yearly payments received

Accident Period	Actual	Expected	Act - Exp	% Act - Exp
	Payments in Six Months to Jun 24			
	$m	$m	$m	
To 30 Jun 05	(0.0)	(0.0)	(0.0)	58%
2005/06 - 2014/15	(0.6)	(0.0)	(0.6)	1558%
2015/16 - 2020/21	(6.7)	(4.4)	(2.3)	53%
2021/22 - 2022/23	(1.0)	(0.7)	(0.3)	45%
2023/24	(0.6)	(0.2)	(0.4)	270%
Total	(8.9)	(5.2)	(3.7)	70%

Valuation basis

A PPCI model is used for recovery payments. Figure 6.21 below shows the recent experience and selected basis. We note that for the Recoveries PPCI model, 'claims incurred' are defined as all reports excluding Hearing Loss claims.

Figure 6.21 – PPCI experience and selections: Recoveries



Recovery payments in recent years have been significantly above expectation, however we understand ReturnToWorkSA expects recoveries to be lower over the next few years. The reduction is expected particularly from claims occurring during the 'COVID' period (i.e. Sep-20 to Dec-21), where there was a reduction in motor-related claims during this time.

As a result, our basis is deliberately taking a longer-term view, with the selection being set in line with the last 8 excluding the latest diagonal. We have also scaled down total expected recoveries for claims from September 2020 onward by 10% in line with ReturnToWorkSA's expectation of lower recoveries. We have tested the appropriateness of these adjustments by looking at the total projected recoveries for an accident year relative to gross claims cost to ensure there is a good level of consistency.

We also note that there is 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 at longer durations, where larger than expected recoveries have mostly come from older, transitional claim accident periods.

7 Hearing Loss Claims

Workers who suffer a compensable hearing loss injury are entitled to hearing aids and other treatment costs, and (depending on the assessed WPI) a lump sum payment.

7.1 Valuation approach

Our valuation of Hearing Loss claims builds up from our claim number projection for Hearing Loss claims, which were described in Section 5.1. The key features are:

- 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. In each case the projected proportions of claims who are projected to receive a lump sum are used as a 'sense check' on the projections.
- Medical Reports: there is a strong relationship between written report costs and the number of newly reported Hearing Loss claims (with a one quarter delay), and we use this to project future costs.
- Worker Legals: legal payments are primarily related to rejected claims that are disputing eligibility; Worker Legals tend to be paid at the resolution of the dispute, so our model links Worker Legals to the reported claims, with a delay to allow time for the dispute to resolve (average payments per yearly average of incremental reports, with a two quarter delay).
- Medical Aids and Appliances: Hearing Loss claims may incur regular replacement and repair costs for hearing aids, running for decades after the injury is initially reported. We use an average payments per claim incurred approach for these costs.
- Allied Health: these are mainly professional 'fitting fees' for the provision of hearing aids, and have a steady cost relationship with the device costs; we model these costs as a loading on the Medical Aids and appliances costs.
- Payments for other benefit types are minimal. Costs are projected in aggregate and allocated to the broader payment groups by selecting a percentage allocation to separate projected cash flows.

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

7.2 Summary of results

Table 7.1 summarises the liability estimates for Hearing Loss claims.

Table 7.1 – Valuation results: Hearing Loss claims

	Lump Sums	Medical	Allied Health	Worker Legals	Other Benefits[1]	Total
Dec-23 Valuation	$m	$m	$m	$m	$m	$m
Estimated Liability at Dec-23	58.9	96.8	26.5	10.4	3.3	195.8
Estimated Liability at Jun-24	61.5	101.0	27.7	10.7	3.4	204.3
Jun-24 Valuation						
Movement in liability due to claims performance	0.9	21.1	6.5	(1.0)	0.8	28.3
Estimated liability at Jun-24 (Dec-23 ecos)	**62.4**	**122.1**	**34.2**	**9.7**	**4.2**	**232.6**
Impact of change in eco assumptions	(1.1)	(3.2)	(0.9)	(0.2)	(0.1)	(5.5)
Estimated liability at Jun-24 (Jun-24 ecos)	**61.3**	**118.9**	**33.2**	**9.5**	**4.1**	**227.1**
AvE Payments	0.8	(0.0)	(0.1)	(0.3)	(0.0)	0.3
Actuarial Release/(Strengthening)	(1.7)	(21.1)	(6.4)	1.3	(0.7)	(28.6)

1 Rest includes: Travel, Investigation, Other

There is an overall actuarial strengthening of $28.6m for Hearing Loss claims (this increases to $34.3m after including expenses, as shown in Section 10.3). This is comprised of an increase of $28.3m in the liability estimate and $0.3m of higher than expected payments over the past six months. The key components of the actuarial strengthening are:

- An actuarial strengthening of $21.1m relating to Medical costs and $6.4m relating to Allied Health services, reflecting the ongoing high costs for hearing aids and related Allied Health services.
- The movements in the remaining benefit groups are small and add up to an actuarial strengthening of $1.1m.
- Movements due to economic assumptions result in a $5.5m decrease in the liability.

Table 7.2 below shows the actuarial strengthening for Hearing Loss claims by accident period.

Table 7.2 – Hearing Loss claims: actuarial release (strengthening) by accident period

Accident Period	Lump Sums	Medical + Allied health	Worker Legals	Other Benefits[1]	Total
	$m	$m	$m	$m	$m
Pre Jun-15	-0.7	-11.0	0.1	-0.2	-11.8
Jun-16	-0.1	-0.9	0.0	0.0	-0.9
Jun-17	0.0	-1.0	0.0	0.0	-1.0
Jun-18	0.1	-1.4	0.1	0.0	-1.2
Jun-19	-0.2	-1.9	0.1	0.0	-2.1
Jun-20	-0.1	-2.1	0.2	-0.1	-2.0
Jun-21	0.0	-2.3	0.2	-0.1	-2.2
Jun-22	-0.2	-2.4	0.2	-0.1	-2.5
Jun-23	-0.1	-2.5	0.1	-0.1	-2.5
Jun-24	-0.4	-2.0	0.2	-0.1	-2.3
Total	-1.7	-27.5	1.3	-0.7	-28.6

Strengthening occurs across all accident years, with 40% related to accident years prior to Jun-15.

The remainder of this section deals with the payment experience and valuation basis.

7.3 Lump sums

Payment experience

Table 7.3 summarises the payments in the six months to 30 June 2024 with the expected payments from our December 2023 valuation projection. Payments were 7% higher than expected in the last six months driven by higher WPI outcomes.

Table 7.3 – Actual vs expected payments: Hearing Loss claims lump sums

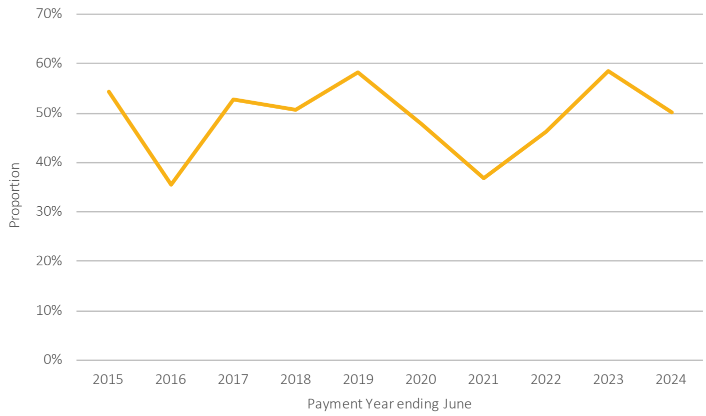
Accident Period	Payments in Six Months to Jun 24			
	Actual	Expected	Act - Exp	% Difference
	$m	$m	$m	
To 30 Jun 05	0.5	0.4	0.1	30%
2005/06 - 2014/15	1.1	1.1	0.0	0%
2015/16 - 2020/21	1.9	1.6	0.3	18%
2021/22 - 2022/23	3.8	4.0	(0.2)	-6%
2023/24	3.5	2.9	0.6	20%
Total	10.8	10.1	0.8	7%

Valuation basis

When estimating the number of future Hearing Loss lump sums, we explicitly track the proportion of claims that are reaching the 5% WPI threshold, given the major changes to claim volumes in recent years.

Figure 7.1 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. To allow for payment delays, the payments in a period are expressed relative to reports from the previous six months.

Figure 7.1 – Proportion of Hearing Loss claims getting a lump sum



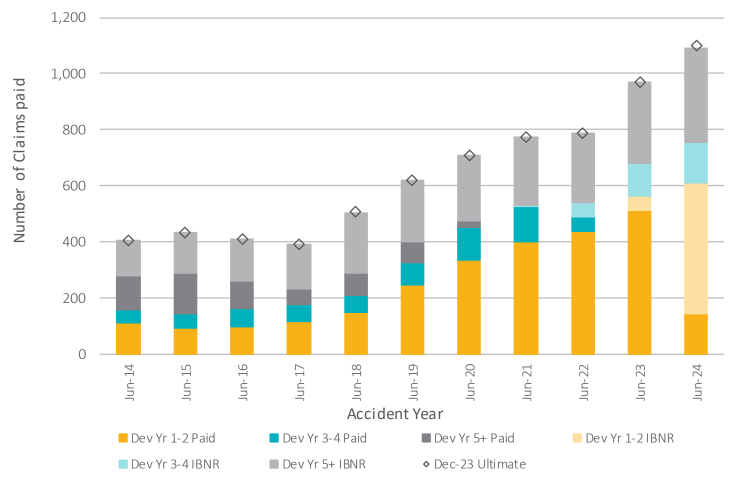
The key features we note are:

- The proportion of Hearing Loss claims receiving a lump sum was around 50% up to 2019.
- 2020 and 2021 dropped below 50%, with 2020 partially impacted by COVID-19 and 2021 heavily impacted by COVID-19 restrictions that limited the ability to get assessments. Operational changes by ReturnToWorkSA to strengthen claim acceptance processes will also have increased the time between lodgement and lump sum. Collectively, this resulted in the proportion falling below 40% in 2021.
- Experience after 2022 shows a rebound of lump sum payments, with 50%-60% of reports from the proceeding six month period receiving a lump sum payment in 2023 and 2024.

Our selected basis implies that the patterns will remain similar to recent levels, with ultimate lump sums at around 53% of ultimate Hearing Loss claims for recent injury years. This is unchanged from the previous valuation basis.

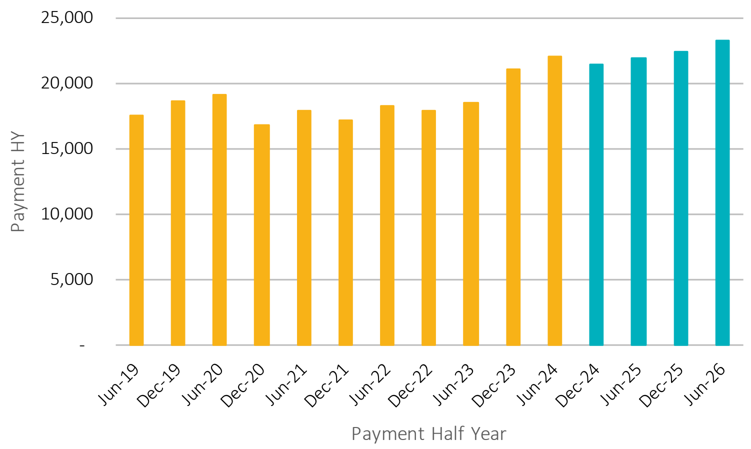
Figure 7.2 shows the projected numbers of Hearing Loss lump sums by accident year. The tail of Hearing Loss IBNR claims is long, with claims still emerging many years after the end of exposure. The expected number of lump sum payments for the 2023 and 2024 accident years have increased in line with higher claim reports.

Figure 7.2 – Projected ultimate numbers of Hearing Loss lump sums



The average benefit paid for a Hearing Loss lump sum claims is 4.1% of the maximum lump sum benefit scale, up from 4.0% at the previous valuation. This is in line with the recent experience, where a higher average size is being seen due to WPI assessment scores being on average 1% higher than earlier levels – in the last few months this appears to have moderated, with scores returning back nearer to historical levels. We understand that this is a direct result of recent management actions, and so at this point we have not increased the expected WPI score, with the expectation that the recent increase in scores is temporary and will reduce back down to previous levels.

Figure 7.3 – Hearing Loss lump sum average sizes



7.4 Legal costs

This section presents results relating to worker legal costs only. While some corporation legal costs will relate to the management of Hearing Loss claims, these expenses are not allocated between claim types and so are not separated for our work.

Payment Experience

Table 7.4 summarises the payments in the six months to 30 June 2024 with the expected payments from our December 2023 valuation projection; Payments were 26% lower than expected.

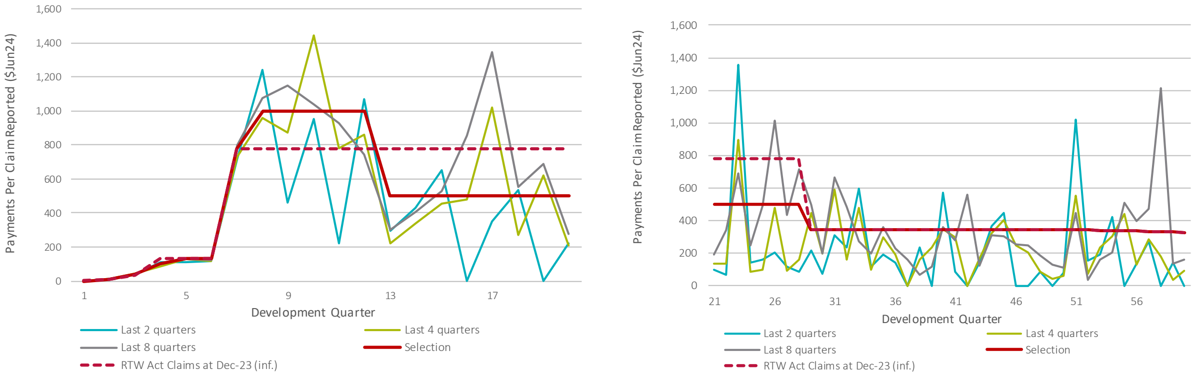
Table 7.4 – Actual vs expected payments: Hearing Loss claims legal payments

Accident	Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m	
To 30 Jun 06	0.1	0.1	0.0	22%
2006/07 - 2014/15	0.1	0.2	(0.1)	-53%
2015/16 - 2020/21	0.2	0.5	(0.3)	-63%
2021/22 - 2022/23	0.4	0.3	0.1	20%
2023/24	0.1	0.0	0.1	n/a
Total	0.8	1.1	(0.3)	-26%

Valuation basis

A PPCR model is used to value Worker Legal fees. Figure 7.4 below shows the recent experience and selected basis for Worker Legal payments.

Figure 7.4 – Worker Legal experience and selections: Hearing Loss claims



Our selected basis is reshaped from the previous valuation (higher in the first three years from injury and lower thereafter).

7.5 Medical and other entitlements

For the valuation we split the remaining entitlements into the following groups: Medical Reports (medico-legal assessment costs), Medical Aids and Appliances and Other costs combined (this includes Allied Health, Medical Services, Investigation, Travel, Other and minor payments for Hospital, Care, Rehabilitation).

Payments vs expectations

Table 7.5 summarises the payments in the six months to 30 June 2024 with the expected payments from our December 2023 valuation projection.

Table 7.5 – Actual vs expected payments: Hearing Loss claims Medical costs

	Medical Report				Medical Aid and Appliances				Other			
Accident	Payments in Six Months to Jun 24				Payments in Six Months to Jun 24				Payments in Six Months to Jun 24			
Period	Actual	Expected	Act - Exp	% Act - Exp	Actual	Expected	Act - Exp	% Act - Exp	Actual	Expected	Act - Exp	% Act - Exp
	$m	$m	$m		$m	$m	$m		$m	$m	$m	
To 30 Jun 06	0.1	0.2	(0.0)	-27%	1.1	0.8	0.3	37%	0.4	0.3	0.1	26%
2006/07 - 2014/15	0.3	0.2	0.0	4%	1.1	1.0	0.1	8%	0.4	0.4	0.0	4%
2015/16 - 2020/21	0.4	0.3	0.0	7%	1.1	1.0	0.1	10%	0.5	0.4	0.1	21%
2021/22 - 2022/23	0.5	0.6	(0.1)	-10%	0.7	0.9	(0.1)	-16%	0.3	0.4	(0.1)	-17%
2023/24	0.9	0.2	0.7	309%	0.9	1.3	(0.3)	-27%	0.4	0.7	(0.3)	-37%
Total	2.2	1.5	0.6	41%	4.9	4.9	(0.0)	0%	2.1	2.2	(0.1)	-6%

Overall, payments were higher than expectation, with:

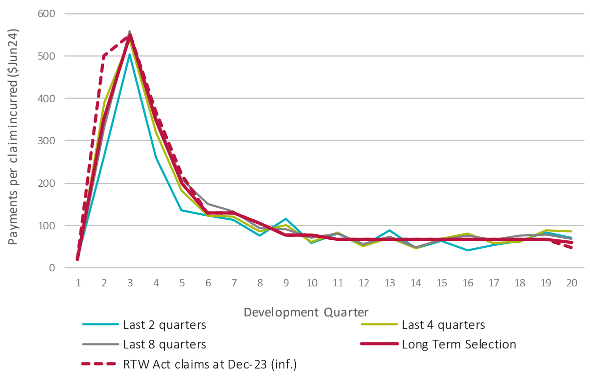
- Medical reports $0.6m (40%) higher than expected
- Medical Aids and Appliances payments and Other payments were in line with expectation, although lower for more recent accident periods and higher for older accident periods.

Valuation basis

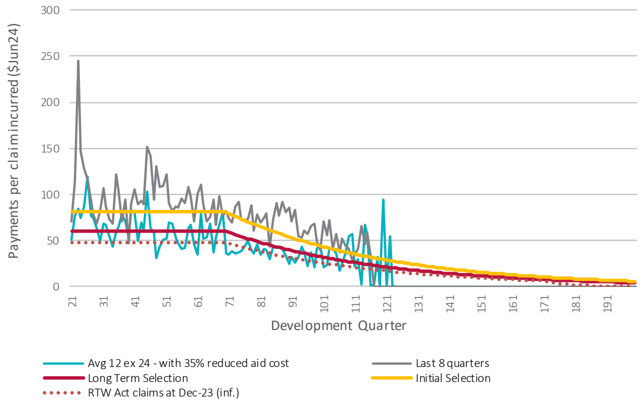
Figure 7.5 below shows the recent experience and selected basis for medical payments across the various components that are separately modelled.

Figure 7.5 – Medical experience and selections

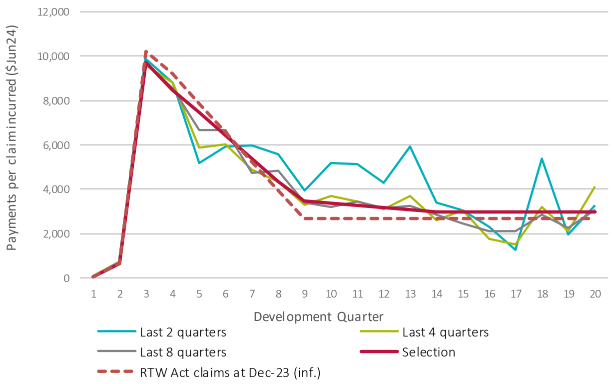
PPCI – Medical Aids and Appliances



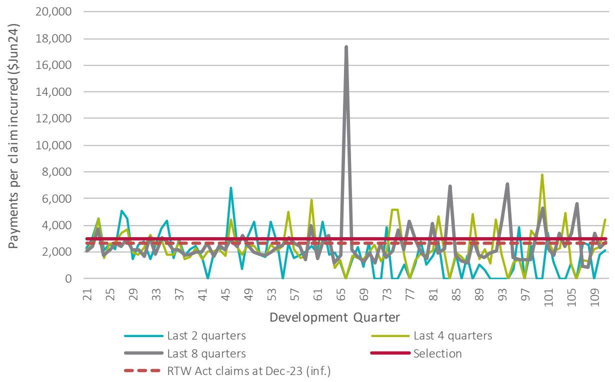
Tail PPCI – Medical Aids and Appliances



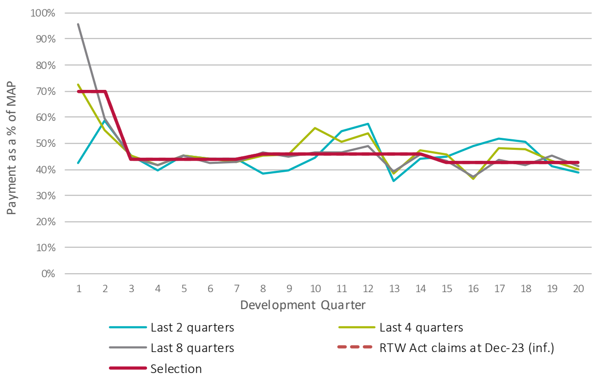
PPCR – Medical Reports



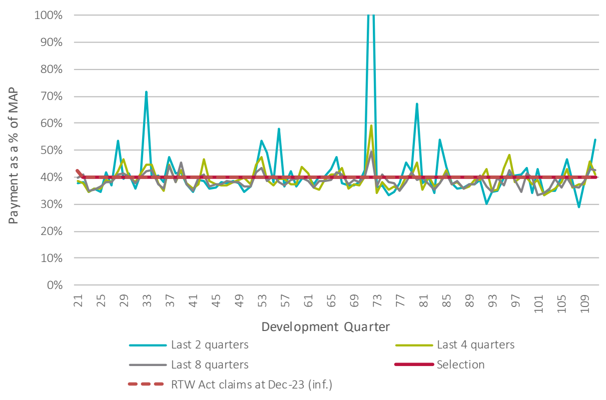
Tail PPCR – Medical Reports



Payment as a % of MAP – Treatment Rest



Tail Payment as a % of MAP – Treatment Rest



Our comments on the experience and selected assumptions are:

- PPCI (Medical aids and appliances)
  - > Assumptions are increased overall from our previous basis
    - – Payments in the first two years from injury are lower in line with the last four average; it appears that it is taking slightly longer now for initial device costs to emerge.
    - – Payments beyond five years from injury are higher for the next 2.5 years in line with the last eight (incorporating an allowance for higher reports and subsequent purchasing of aids over the next 2.5 years). Payments are then assumed to progressively taper off, and revert to the longer term average level, after incorporating the changes to fee schedules that have lowered the average cost per device. This long term rate has been increased from the previous valuation.
  - > Average size relativity (not shown above) – changes to claim acceptance of Hearing Loss claims means that the ultimate proportion of claims that are expected to receive payments is broadly unchanged for all periods up to 30 June 2019. For more recent periods some adjustments are made for changes in acceptance rates (all unchanged from the previous valuation), namely:
    - – 1 July 2019 to 30 June 2020: 1% less future claims cost
    - – 1 July 2020 to 30 June 2021: 5% less future claims cost
    - – 1 July 2021 to 30 June 2022: 4% less future claims cost
    - – 1 July 2022 and later: 2% less future claims cost.
- PPCR (Medical Reports):
  - > Our selected PPCR has increased for at mid and late durations in line the average in the 'last 4' quarters.
- Percentage of (Allied health and remaining entitlements)
  - > There is a relatively stable relationship between the payment for aids and the costs for allied health services. The selection is unchanged.
  - > The remaining entitlements are spread over the other benefits by selecting a proportion related to the average payments over the last 3 years. Our selection of 84% of payments being allocated to Allied Health, with the remaining costs allocated to Medical (primarily professional fees), Investigation and Other.

8 Serious Injury claims

The following sections summarise the Serious Injury claim results.

8.1 Background

"Serious Injury" claims are those who meet the applicable WPI threshold of 30% or 35% (threshold determined by date of assessment) and as a result are eligible to receive Income Support to retirement and other benefits for life under the RTW Act (unless otherwise closed out via a s56A future economic loss payment or redemption).

The number and characteristics of the Serious Injury cohort have a significant level of uncertainty as:

- Serious Injury claims were not identified before the RTW Act commenced
- The introduction of 'combining injuries' led to a stepwise increase in the number of Serious Injury claims
- The 2022 reforms increased the Serious Injury WPI threshold and changed the type of benefits available to these claims (by providing the option to take a lump sum payment rather than the lifetime benefit package).

Section 5.2 describes our projection of Serious Injury claim numbers.

Our valuation work separately considers claims managed internally by ReturnToWorkSA in the EnABLE group, which are generally more like Severe Traumatic Injuries (who require significant levels of care and support, or have other special needs), and "Other Serious Injuries" that are not internally managed by ReturnToWorkSA.

8.2 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.

Our assumptions have been set as described in Appendix A and summarised in the following table.

Table 8.1 – Approach to setting valuation assumptions for Serious Injury claims[1]

	Severe Traumatic Injuries	Other Serious Injury
Life expectancy	Mortality improvement of 0.5% p.a. (unchanged from previous valuation). Mortality loadings for claims with high care needs (reducing life expectancy by 17 years) and for moderate care needs (reducing life expectancy by 7 years).	Mortality improvement of 0.5% p.a. (unchanged from previous valuation).
Income Support	To retirement age on all IS ongoing claims, given the high level of needs for these claims we do not allow for any future s56A elections or Income Support redemptions unless ReturnToWorkSA advise that this is likely based on claimant discussions. Based on historical experience and estimates provided by ReturnToWorkSA.	To retirement age on all IS ongoing claims, with an allowance for s56A elections and income redemptions which finalises entitlement to income benefits (see Appendix A.13 for more details). Based on historical experience.

	Severe Traumatic Injuries	Other Serious Injury
Treatment Related Costs and Other[2]	Paid for life, and consistent with Income Support projections, we do not make any allowance for redemptions unless advised by ReturnToWorkSA. 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. Allowance for IBNER on Other and Medical costs above identified costs.	Paid for life, with an allowance for medical redemptions which finalises entitlement to medical benefits (see Appendix A.13 for more details). Early duration claims (treatment and recovery phase) are based on payment per active claim curves selected from this cohort. Mid-to-long duration claims (maintenance phase) are based on historical experience.
Lump sums	Non-economic payments are 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, noting that the WPI threshold has increased post reform. Future economic loss payments are based on claimant profile, prescribed formula and assumed take-up rate for those who elect for a s56A election (s56A elections are only available for Return To Work Act accidents). This includes an allowance for medical redemptions, with a link to the s56A take-up rate and consideration of current medical/ treatment spend.	
Legal and Investigation	Legal costs are modelled as a percentage of IS costs, net of payments to date. An average ultimate investigation cost per claim is adopted, net of payments to date.	Modelled as payment per claim incurred.
Recoveries	Projected for 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. Care inflation: 6.0% p.a. overall inflation in FY26 (noting that FY25 rates have already been published), progressively reducing to around 4.2% p.a. overall inflation by FY56. 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. Care inflation: as for Severe Traumatic Injuries.
IBNR Assumptions	IBNR claims for the latest five accident years only. Claim size based on historical experience of current claims.	IBNR claims for all accident years, reflecting the historical experience regarding the delay from injury to determination, and the estimated ultimate frequency as a proportion of claims receiving Income Support. Claim size based on historical experience of current known and potential claims.

	Severe Traumatic Injuries	Other Serious Injury
Reform Transition Provisions	Transition provisions outline when the new thresholds and rules will be applicable to new cohorts of claimants. We have considered this as part of our allowances.	

[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, Allied Health, 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.

The Severe Traumatic Injury valuation is reliant on estimates provided by ReturnToWorkSA. Estimates provided are updated every six months where:

- Claimant circumstance have changed
- There are new entrants into the EnABLE cohort
- It has been a significant period since estimates were reviewed and recent payments have diverged from the estimated half-yearly spend.

Estimates are not updated for short-term fluctuations in benefit utilisation as this would introduce undue volatility into a lifetime valuation.

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. There are decrements for Treatment and Other payments of mortality and redemptions, while Income Support payments have an additional decrement for retirement and s56A election.
  - Legal and Investigation – Payments per Claim Incurred.
  - Recoveries – Proportion of Gross Payments
  - s56A elections and redemptions are modelled as the likelihood of take-up multiplied by the relevant average lump sum or redemption size. Where there is a known outcome (e.g. s56A payment has been made or claimant has rejected a s56A election), this is directly reflected.
- These aggregate 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.
- Individual claim models, based on a claimant's actual historical experience, are used beyond the period where the aggregate models apply.

One of the key determinants of very long-term costs will be how much, if any, of the costs associated with ageing are compensated by the scheme. Based on the experience to date, albeit for 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 that aged care related costs are funded by the Federal government. If this changes then the cost implications would likely be significant.

8.3 Overall results

Table 8.2 shows the central estimate of Serious Injury claims costs at 30 June 2024 and movement in our liability estimates since the December 2023 valuation.

Table 8.2 – Serious injury claims valuation results (excluding CHE)

	Income Support	Hospital	Medical	Travel	Rehab-ilitation	Allied Health	Investi-gation	Other	Care	Legal - Non-Contract	Lump sums	Redemp-tions	Legal Contract	Recov-eries	Total
	$m	$m	$m	$m	$m	$m	$m	$m		$m	$m	$m	$m	$m	$m
Dec-23 Valuation															
Estimated Liab at Dec-23	728	128	404	53	16	241	1	55	406	24	201	6	14	-26	2,250
Projected Liab at Jun-24	757	133	426	56	17	255	1	58	416	24	202	5	15	-24	2,340
Jun24 Valuation															
Movement in liability due to claims performance	-13	-13	-15	3	1	2	0	-3	10	1	-3	1	-1	2	-28
Estimated Liab at Jun24 (Dec23 ecos)	**744**	**120**	**411**	**59**	**18**	**258**	**1**	**55**	**426**	**25**	**199**	**5**	**14**	**-22**	**2,313**
Impact of change in ecos	-19	-5	-16	-2	-1	-10	0	-2		0	-3	0	0	0	-73
Estimated Liab at Jun24 (Jun24 ecos)	**726**	**115**	**394**	**57**	**17**	**247**	**1**	**53**	**411**	**25**	**197**	**5**	**14**	**-22**	**2,239**
AvE Payments - six months to Jun-24	-3	-2	0	0	0	0	0	0	0	0	-7	2	0	2	-7
Actuarial Release at Jun-24	15	14	15	-3	-1	-3	0	2	-10	0	10	-2	1	-4	35

The outstanding claims cost for Serious Injury claims (excluding CHE) is $2,239m at 30 June 2024. The main movements from our December 2023 projection of the June 2024 liability are:

- Claims experience and basis changes decreased the liability by $28m, as a result of:
  - A $53m net reduction as a result of claim number changes, driven primarily by a decrease in expected future Other Serious Injury claim numbers (see Section 5.2)
  - A $10m increase due to lump sum timing, which recognises that expected lump sum payments at the previous valuation that were not made are still expected in future periods.
  - A $14m reduction due to the death of a Severe Traumatic Injury claimant who had very significant hospital costs
  - A $30m increase due to other changes:
    - An increase in expected claim size for medical and treatment costs for Other Serious Injury claims, particularly Allied Health, due to recent experience and the transition from aggregate methods to individual payment selections for some younger, high cost claimants.
    - An $8m increase in Severe Traumatic Injuries, largely due to circumstance changes leading to increased Care estimates for a small number of claimants
- Payments were $7m lower than expected in the six months. The biggest driver of this was lump sum payments, which is largely a timing difference and so has an offsetting liability movement (discussed above).
- Updating economic assumptions at the current valuation resulted in a reduction of $73m.

Table 8.3 shows the actuarial release by accident period for Serious Injury claims.

Table 8.3 – Actuarial release: Serious Injuries

Accident Period	Actuarial Release[1]	Release as %
	$m	
To 30 Jun 15	6	1%
2015/16 - 2019/20	-15	-2%
2020/21 - 2021/22	43	12%
2022/23 - 2023/24	1	0%
Total	35	1%

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

The main changes are as follows:

- 2015 and prior accidents had a $6m (1%) actuarial release, primarily driven by lower than expected payments in the last 6 months.
- 2016-2020 accidents had a $15m (2%) actuarial strengthening, driven the adoption of individual payment estimates (as opposed to relying on aggregate methods) for some younger, high cost claims, along with increases in some medical and treatment spend (most notably Allied Health)
- 2021-2022 accidents had a $43m (12%) actuarial release, largely driven by lower expected future claim numbers
- 2023-2024 accidents had negligible movement

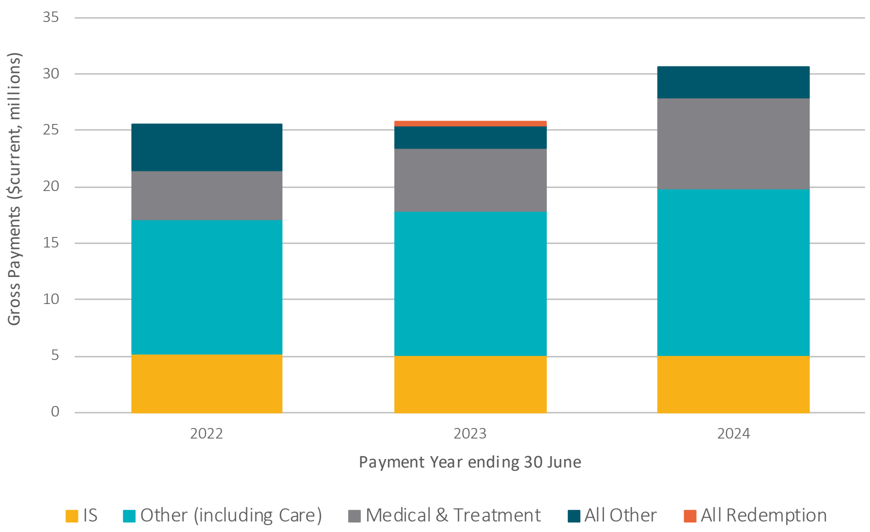
The remainder of this section deals with the payment experience and valuation basis.

8.4 Severe Traumatic Injury claims

8.4.1 Payments by type

Figure 8.1 shows claim payments over the past three years for Severe Traumatic Injury claims.

Figure 8.1 – Severe Traumatic Injury claim payments ($Jun24)



$82m has been paid to Severe Traumatic Injury claims in the last three years. After allowing for recoveries of $3m over this same period, this equates to an average of around $26m p.a. in net claim payments (in 30 June 2024 values), comprising around:

- $13m p.a. in care and other costs.

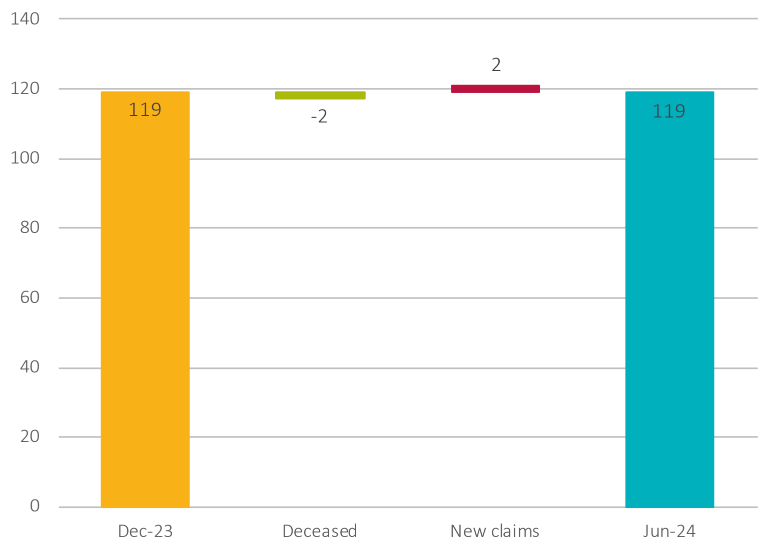
- $6m p.a. in medical, treatment and related benefits.
- $5m p.a. in income support.
- $3m p.a. in lump sums.
- Small amounts of legal, investigation and redemption payments ($0.4m p.a.).
- $1m p.a. in recoveries.

The last 12 months have seen an increase in the overall level of payments, with the strongest increases from care and hospital costs.

8.4.2 Claimant profile

Figure 8.2 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 8.2 – Movement in Severe Traumatic Injury claim numbers

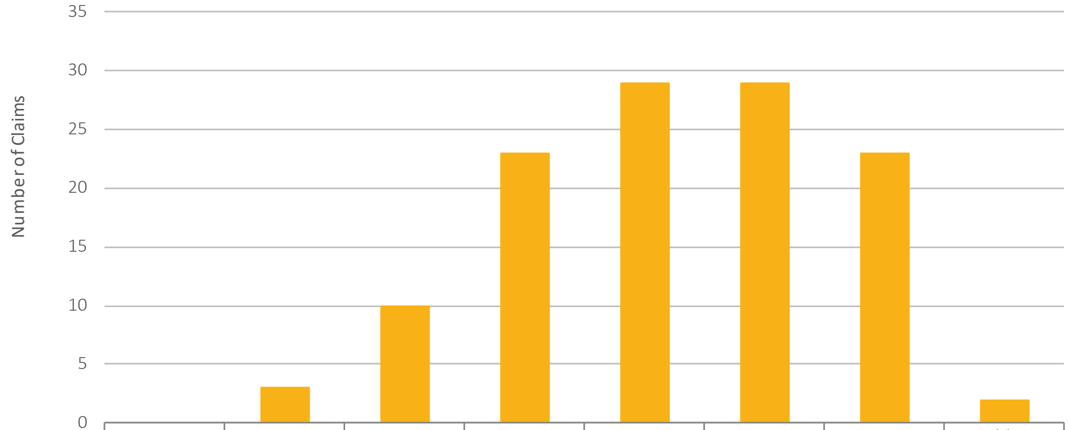


There are 119 active Severe Traumatic Injury claims with expected ongoing benefits at June 2024, the same as at the previous valuation. There have been offsetting movements causing the number of claims with ongoing benefits to remain unchanged:

- There have been two deaths in the six months to 30 June 2024
- This is offset by two new claims from the latest accident year.

Figure 8.3 shows the age and life expectancy of the current Severe Traumatic Injuries.

Figure 8.3 – Age distribution and life expectancy (in years) of Severe Traumatic Injuries



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	3	10	23	29	29	23	2
Loaded Life Expectancy	0	57	32	32	23	16	11	6

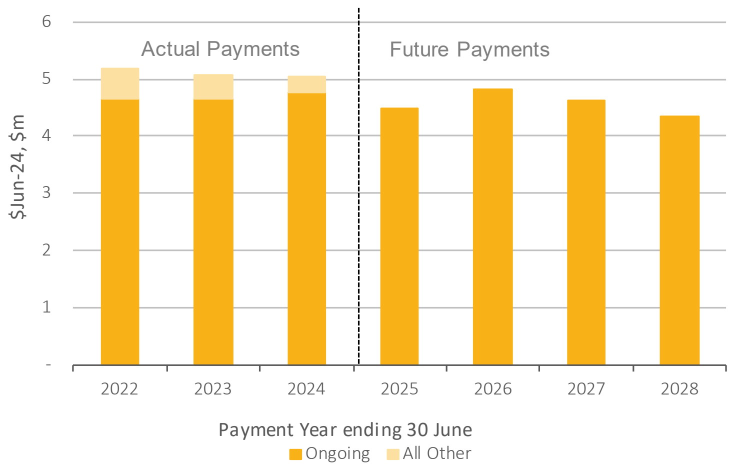
Severe Traumatic Injury claimants are currently aged around 58 on average, with an expected future life expectancy of about 26 years (after allowing for mortality, mortality improvements and mortality loadings). The average age at injury was about 41 years.

Around 64% of the current Severe Traumatic Injuries have a WPI assessment, with an average WPI of around 57%; 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 22 claims with recorded WPI assessments below 35%; ignoring these claims, the average assessed WPI is approximately 65%.

8.4.3 Income Support

Figure 8.4 shows historical and projected Income Support payments for Severe Traumatic Injury claims (including IBNR claims for existing accident years).

Figure 8.4 – IS Payments: Severe Traumatic Injury Claims ($Jun24)

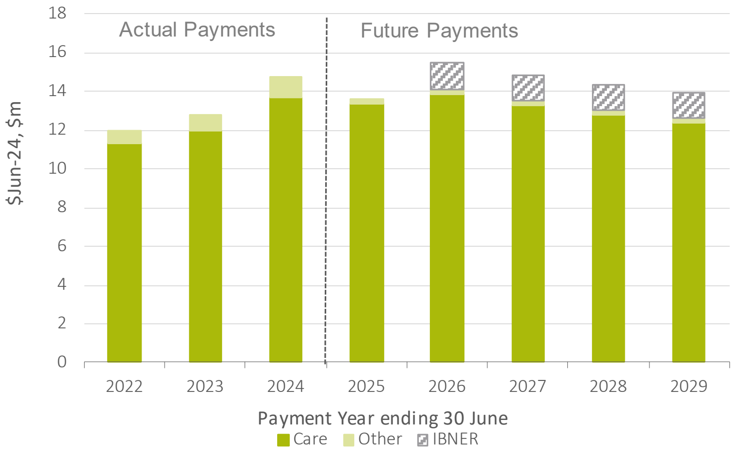


We estimate around $4.5m will be paid in Income Support to Severe Traumatic Injury claims in 2025 – lower than 2024 actual payments, driven by the death of two workers as well as a few claims whose income support benefits have recently retired or are expected to retire within the next six months. Projected future payments reduce over time in line with changes in replacement ratios, expected mortality and retirement. The projected payments for known claims are equivalent to 13 years' worth of the expected 2025 payments.

8.4.4 Care and other costs

Figure 8.5 shows historical and projected care and other payments for Severe Traumatic Injury claims (including IBNR claims). As indicated by the strong growth in recent years, there has been pressure on care costs (which is partially attributable to the NDIS), and this has been considered in our inflationary allowances that were summarised in Table 8.1.

Figure 8.5 – Care (incl. Other) payments: Severe Traumatic Injury claims ($Jun24)

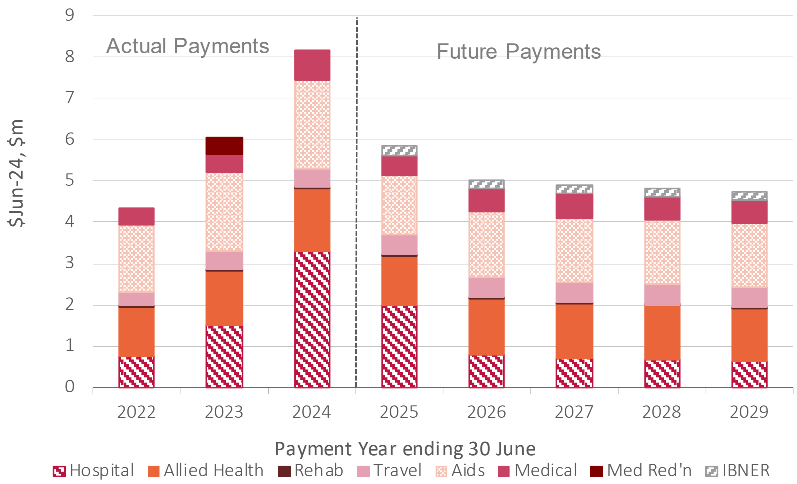


We expect around $14m of care and other payments in 2025, which is marginally lower than 2024 actual payments. Projected payments then increase in FY26, due to our IBNER allowance which is intended to capture an annualised contribution for other benefits (primarily modifications and transfers from initial hospital care into home care, or from unpaid family care to paid care). These increases are slowly offset by reductions due to mortality, with the outstanding claims projection equivalent to 22 years of the expected 2025 payments, including the IBNER allowances.

8.4.5 Treatment and related costs

Figure 8.6 shows historical and projected treatment and related costs for Severe Traumatic Injury claims (including IBNR claims).

Figure 8.6 – Treatment and related payments: Severe Traumatic Injury claims ($Jun24)



Hospital payments were high in 2024, due to high costs on a small number of relatively new claims that are still in the early stages of recovery; once injuries stabilise for these claims we expect hospital costs to reduce.

We expect future treatment and related payments of $5.8m in 2025, similar to the average over the last three years. Hospital payments in 2025 are expected to be higher than in the following years as a result of high costs of one worker who has recently passed away and had an extended stay in hospital under intensive care prior to their death.

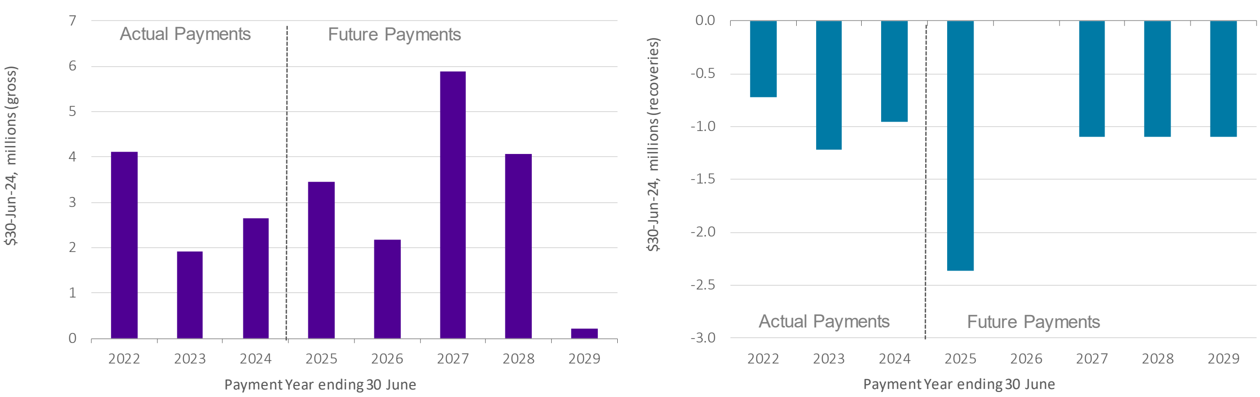
The outstanding claims projection is equivalent to 23 years of the expected 2025 payments, including the IBNER allowances. Excluding the costs of the worker who recently died in ICU, the outstanding claims projection is equivalent to 27 years of the expected 2025 payments, including the IBNER allowances.

8.4.6 All other payments

The following graph shows historical 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 8.7 – All other payments: Severe Traumatic Injury claims ($Jun24)

Gross Costs **Recoveries**



In the three years to 30 June 2024, a net $5.8m of other benefits was paid for Severe Traumatic Injury claims. Our future projections for claims occurring prior to 30 June 2024 include (in current dollars):

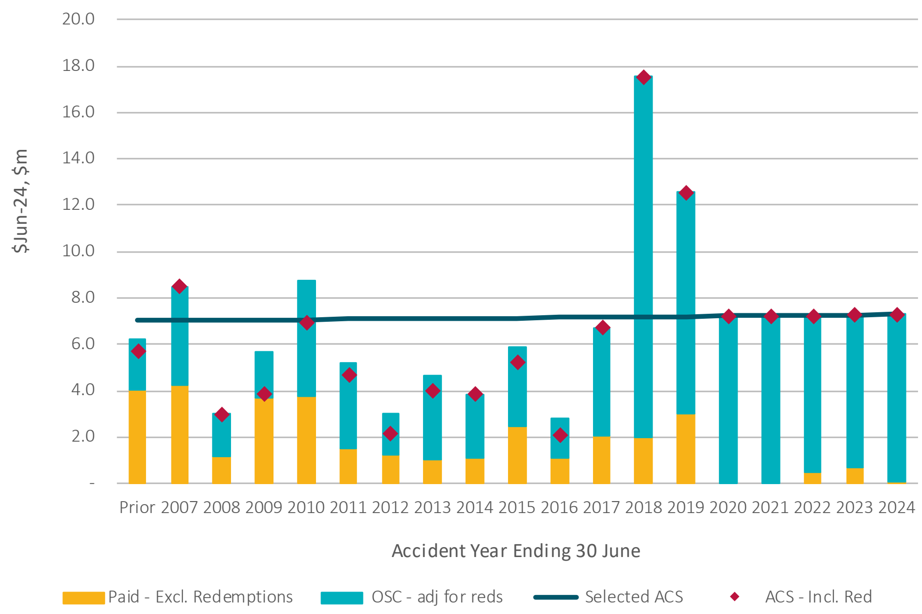
- Lump sum benefits of $13.5m paid to claims who have not yet had a lump sum. We have not allowed for any future s56A lump sums and medical redemptions in the EnABLE cohort.
- Legal and investigation costs of $4.0m.
- Recoveries of $5.6m, $2.4m of which is for those claims where ReturnToWorkSA has identified recovery potential, with the remaining amount attributable to IBNR claims. The recovery allowance is based on input from the relevant ReturnToWorkSA staff.

Due to the one-off nature of most of these payments, the outstanding liability is a much lower multiple of expected 2025 expenditure.

8.4.7 Overall results and implications

Figure 8.8 shows the net ultimate average claim size across current Severe Traumatic Injury claims. A large proportion of the estimated cost is projected future payments, so there is greater uncertainty about ultimate costs than in other areas of the valuation.

Figure 8.8 – Average claim size: reported Severe Traumatic Injury claims ($Jun24)



The average claim size across current Severe Traumatic Injury claims is around $5.6m in current values; however, this includes claims that (in the past) were redeemed at less than the full lifetime value. Excluding redeemed claims, the average claim size is $6.3m. As shown, we project that the average size for the 2018 and 2019 accident years will ultimately be higher than this, reflecting three (very) high needs claims.

For recent years, where injuries are yet to stabilise, we project an average size of $7.3m, which is higher than the average over all Severe Traumatic Injury claims. This is because recent accident years have had lower claim numbers than the longer-term history, and this seems to be leading to a more complex profile for claims being managed by EnABLE (i.e. it appears the reduction in claim numbers is partially a result of the EnABLE eligibility criteria being tightened over time, which means older accident years have some lower cost claims that do not appear in more recent accident years, leading to a change in the average size of EnABLE claims). The table below demonstrates this impact, by comparing the average size of claims depending on whether there were more or fewer than five claims in the year.

Table 8.4 – Average size by no. of claims in accident year

Claims in Accident Year	Claim Count	ACS
		$m
5 or Fewer	74	6.9
More than 5	69	5.7
Total	143	6.3

*Excludes redeemed claims

Our selected average size of $7.3m was set with reference to the average size of claims from accident years with five or fewer claims, noting that we currently assume around five claims for a new accident year.

8.5 Other Serious Injury claims

8.5.1 Experience since the 2022 reforms

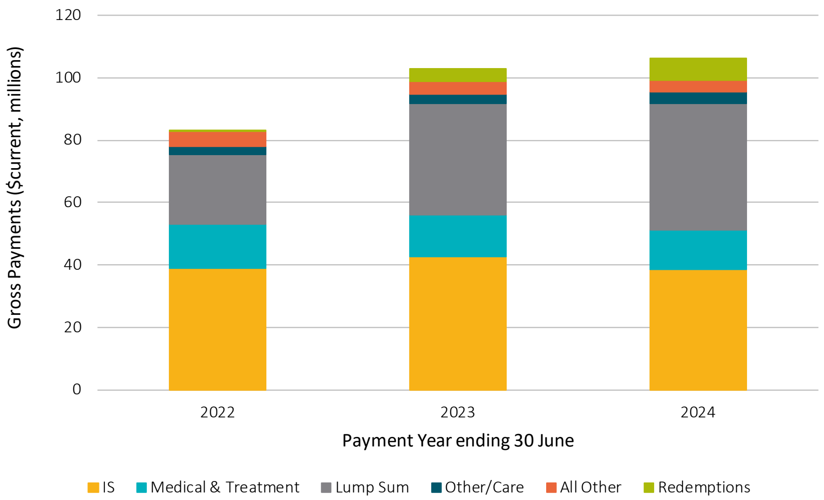
The *Return to Work (Scheme Sustainability) Amendment Act 2022* had the following impacts on the Serious Injury valuation:

- 'Combining injuries' was codified. In practice, the combining of injuries for WPI assessments has been operational since November 2021; the experience to date is summarised in Section 5.2
- The Serious Injury WPI threshold for physical injuries was increased from 30% to 35%, for claims who have not had a final examination for at least one body part by 31 December 2022. Our allowance for this is summarised in Section 5.2.4.
- Claims have the ability to commute their Income Support and Medical payments via a s56A election (commutes Income Support and Return to Work and Rehab services) and redemptions (available for both Income Support and Medical). We discuss experience to date and the valuation responses in respect of the change in Section 8.5.8.

8.5.2 Payments by type

Figure 8.9 shows claim payments over the past three years for the Other Serious Injury claims (i.e. excluding Severe Traumatic Injuries).

Figure 8.9 – Other Serious Injury claim payments ($Jun24)



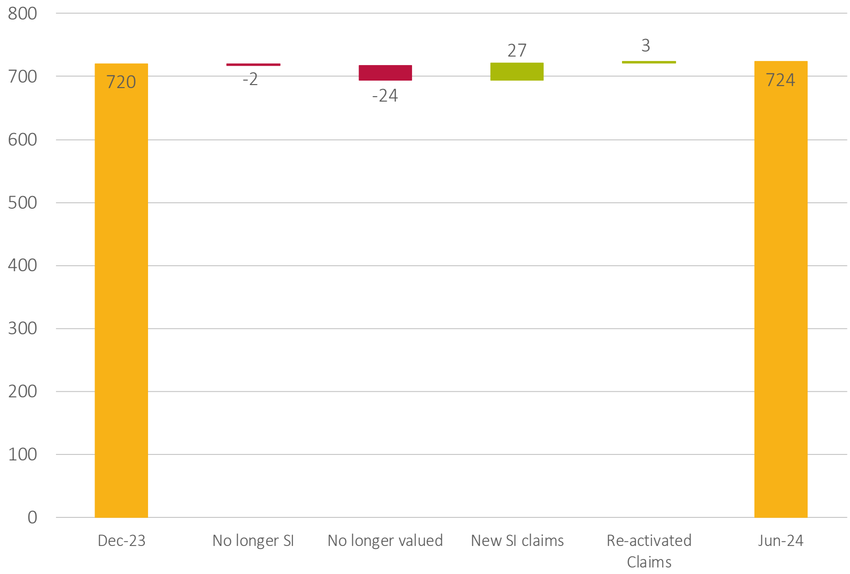
Around $292m has been paid to Other Serious Injury claims in the last three years, with growing costs as claim numbers have increased. After allowing for recoveries of $16m over this same period, this equates to an average of around $92m p.a. in net claim payments (in 30 June 2024 values), comprising:

- $40m p.a. in Income Support
- $13m p.a. in medical, treatment and related benefits.
- $33m p.a. in lump sums; we note that around half the increase from 2022 to 2023 is due to s56A payments
- Small amounts of other benefits ($7m) and redemptions ($4m).
- $5m p.a. in recoveries.

8.5.3 Claimant profile

Figure 8.10 shows the number of active Other Serious Injury claims (those being valued) at the current and previous valuation.

Figure 8.10 – Movement in Other Serious Injury claim numbers



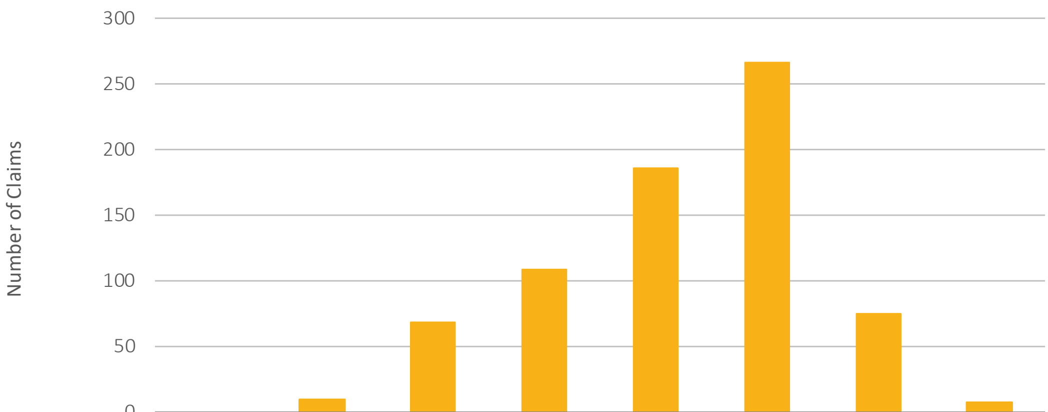
There are 724 active Other Serious Injury claims at June 2024 (with expected ongoing benefits), compared to 720 at the previous valuation. The components of the movement in numbers are:

- No longer Other Serious Injury (reduction of 2): this was driven by claims having their interim determination expire without a full determination occurring.
- No longer valued (reduction of 24): this reduction was primarily driven by redemptions, which end ongoing entitlements for the claimant.
- New Other Serious injury – increase of 27 due to newly determined claims.
- Reactivated claims – increase of 3 claims, who no longer have any exclusionary criteria.

We note that the numbers in Figure 8.10 refer to claims that are Medical ongoing, which is the broadest group of ongoing claims.

Figure 8.11 shows the current age and life expectancy of the known and potential Other Serious Injury claims.

Figure 8.11 – Age distribution and life expectancy (in years) for Other Serious Injury claims



	<20	20s	30s	40s	50s	60s	70s	Older
Number of Claims	0	10	69	109	186	267	75	8
Life Expectancy	0	60	50	40	31	23	15	8

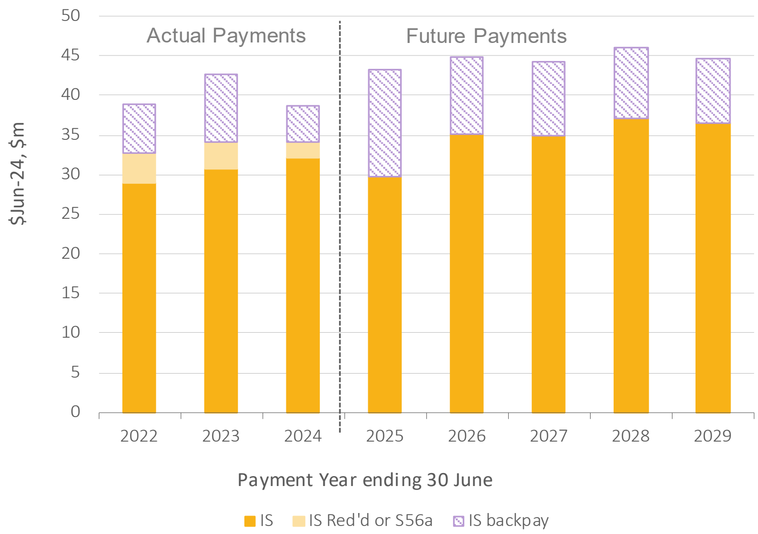
The Other Serious Injury claims are currently aged around 57 on average, with an expected future life expectancy of 30 years (after allowing for mortality, including mortality improvements). The average age at injury was 47 years.

Around 80% of the current Other Serious Injuries have had a WPI assessment, averaging around 38% WPI. At this valuation, there were 83 claims with recorded WPIs below 30%[8]; the average impairment level excluding these lower assessments is around 40%. When looking at the changing WPI threshold to 35%, only 43% of claims have so far had a WPI over 35%, with an average impairment level of 45%.

8.5.4 Income support

Figure 8.12 shows historical and projected Income Support payments for Other Serious Injury claims (including IBNR claims).

Figure 8.12 – IS payments: Other Serious Injury claims ($Jun24)



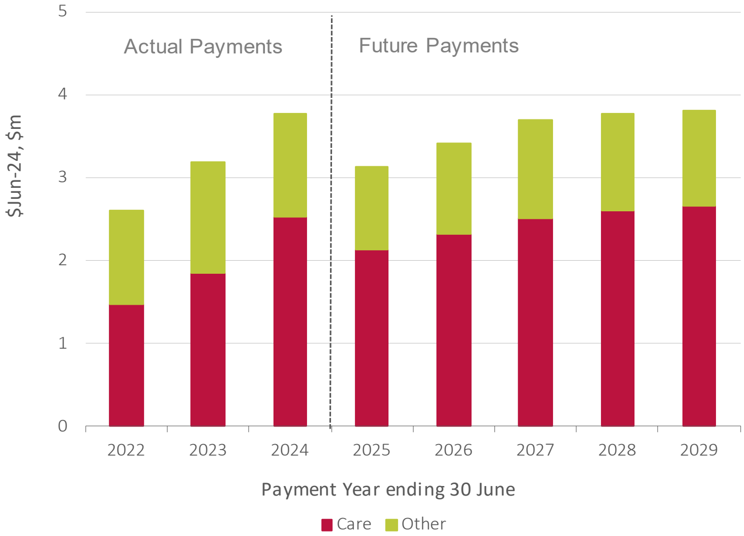
We estimate around $43m will be paid in Income Support to Other Serious Injury claims in 2025. Future payments will generally reduce over time in line with expected mortality, retirement and s56A elections, although the emergence of IBNR claims and their associated backpay means projected payments remain fairly stable for the next five years.

8.5.5 Care and other costs

Figure 8.13 shows historical and projected care payments for Other Serious Injury claims (including IBNR claims).

[8] The majority of claims with a below 30% WPI assessment relate to claims identified through 'Other Sources' as described in Table 5.2; WPI scores recorded for these claims are likely to less reliable than for more recent periods.

Figure 8.13 – Care and other payments: Other Serious Injury claims ($Jun24)



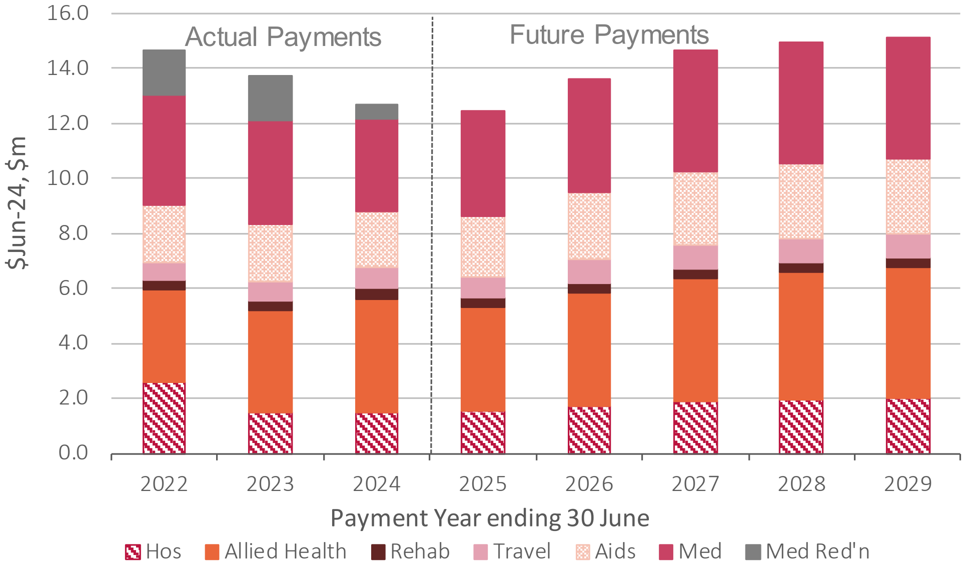
Other Serious Injury claims receive relatively little in care and other costs, although payments have been growing which is partially driven by increased modifications spend (which is not a regular recurrent cost). We expect around $3.1m in care and other payments in 2025. This is expected to increase due to IBNR claims, offset by expected medical redemptions and mortality.

We note that the increase in Care costs over the last two years has been driven by two claims; Care requirements for these two claims are now at levels more similar to those of Severe Traumatic Injury claims. To ensure that these claims are adequately reserved for, we discussed the circumstances of these claims with ReturnToWorkSA staff. As a result of these conversations, we have added in an additional Severe Traumatic Injury IBNR allowance to allow for the possibility that the elevated Care requirements for these claims continues into the future and as a result these claims transfer to the EnABLE team. Once this additional allowance is included, we are comfortable our valuation adequately reserves for these claims.

8.5.6 Treatment and related costs

Figure 8.14 shows historical 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 8.14 – Treatment and related payments: Other Serious Injury claims ($Jun24)



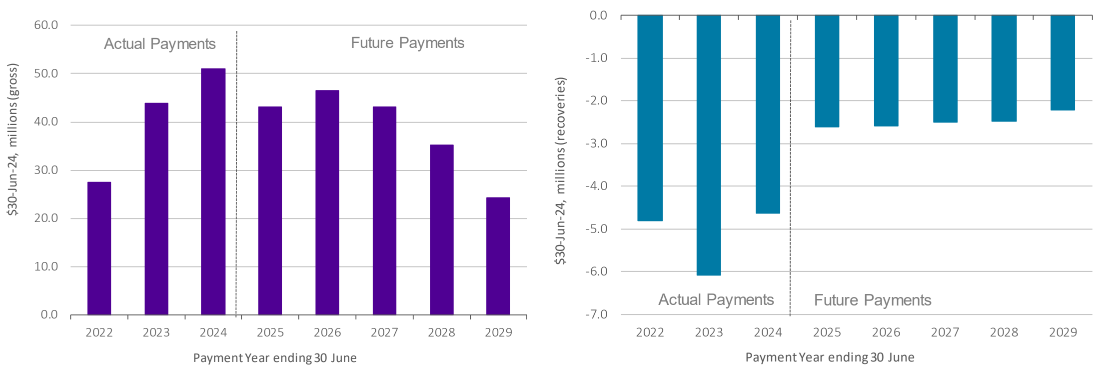
We expect treatment and related payments of $12m in 2025, similar to the average over the last two years (excluding redemption amounts which are one off payments). Payments increase in future years due to IBNR claims, offset by reductions over the longer term in line with mortality and expected medical redemptions (noting that expected future medical redemptions are included in the following section).

8.5.7 All other payments

Figure 8.15 shows historical and projected other benefits for Other Serious Injury claims (including IBNR claims).

Figure 8.15 – All other payments: Other Serious Injury claims ($Jun24)

Gross Costs **Recoveries**



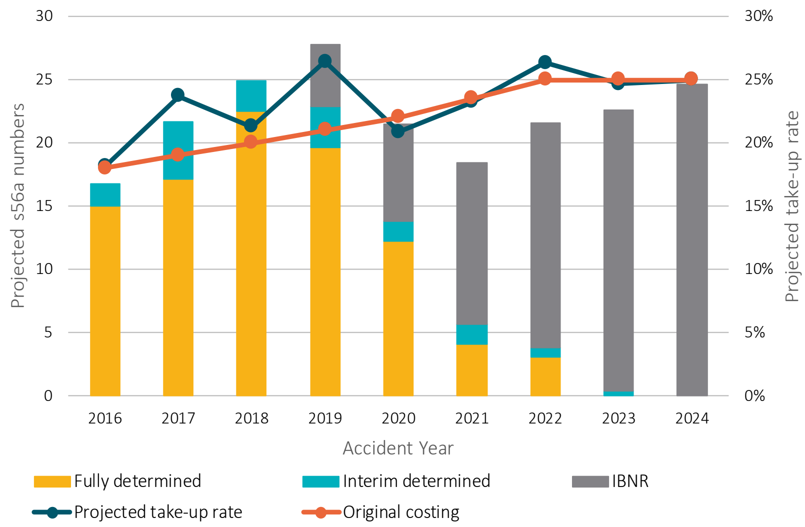
Our future projections over the next five years include (in current dollars):

- Lump sum and s56A benefits of $168m paid to Other Serious Injury claims who have not yet had a lump sum paid
- Income and medical redemption benefits of $5m, which are assumed to happen relatively quickly
- Legal and investigation costs of $19m
- Recoveries of $12m.

8.5.8 S56A and redemption allowances

Figure 8.16 shows projected s56A elections split by Serious Injury status, as well as the projected s56A take-up rate compared to our original June 2022 reform costing allowance (for more information, please see our June 2022 report).

Figure 8.16 – Projected s56A elections by Serious Injury status



Our comments are as follows:

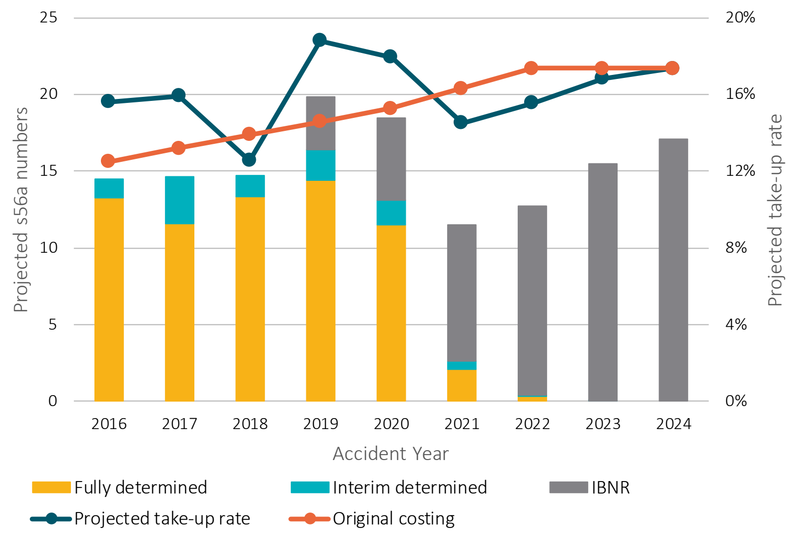
- The vast majority of fully determined Serious Injury claims have already been contacted about a s56A election and have made their decision whether or not to make an election. As the majority of our s56A allowance for 2016-2019 relates to fully determined claims, there is a reasonable level of certainty about the projected take-up rate for these years (almost 80% of our allowance for these years relates to claims with a known s56A outcome)

  For these years, the take-up rate is higher than we originally anticipated. Our original costing assumed that the take-up rate for these years would be lower as these claims had been attached to the Scheme for a longer period of time and so may be hesitant to commute benefits.

- For more recent accident years, the projected take-up rate is similar to our original costing.

Similarly, Figure 8.17 shows the projected medical redemptions split by serious injury status, along with the projected take-up rate compared to our June 2022 original costing. Broadly speaking, the experience relative to our initial costing is similar to s56A experience, with a slightly higher than expected take-up rate for older accident years, while for the most recent accident years the expected take-up rate is consistent with our initial costing.

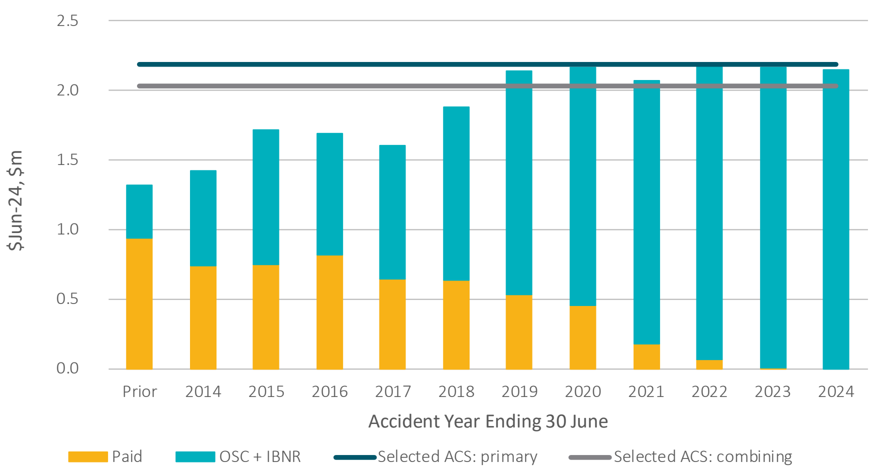
Figure 8.17 – Projected medical redemption take up rates by Serious Injury status



8.5.9 Overall average size

Figure 8.18 shows the net ultimate average claim size (in 30 June 2024 values) across all Other Serious Injury claims, including redemptions.

Figure 8.18 – Average size by payment type: Other Serious Injury claims



Our estimated total average size is $2.2m for primary injuries and $2.0m for combining injures. Recent accident years generally sit between our selected primary and combining injury average size, as they are made up of a mix of primary and combining injuries.

As for the previous valuation, we assume the size differential between combining and primary claims to be 7.5% for Income Support and 0% for Medical benefits.

More detail on the selections underlying our adopted average sizes can be found in Appendix A.12.

9 Economic and other assumptions

9.1 Discount rate

The discounted mean term (DMT) of the liabilities is 11.3 years, unchanged from the previous valuation. The high DMT is driven by the large proportion of the OSC that relates to Serious Injury liabilities. As a result, even relatively small changes to economic assumptions can have a material impact on the liability.

9.1.1 Approach

AASB 1023 states the discount rates used in measuring the present value of expected future claim payments should 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 Yieldbroker (previously the RBA, until they stopped publishing the quoted market 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.

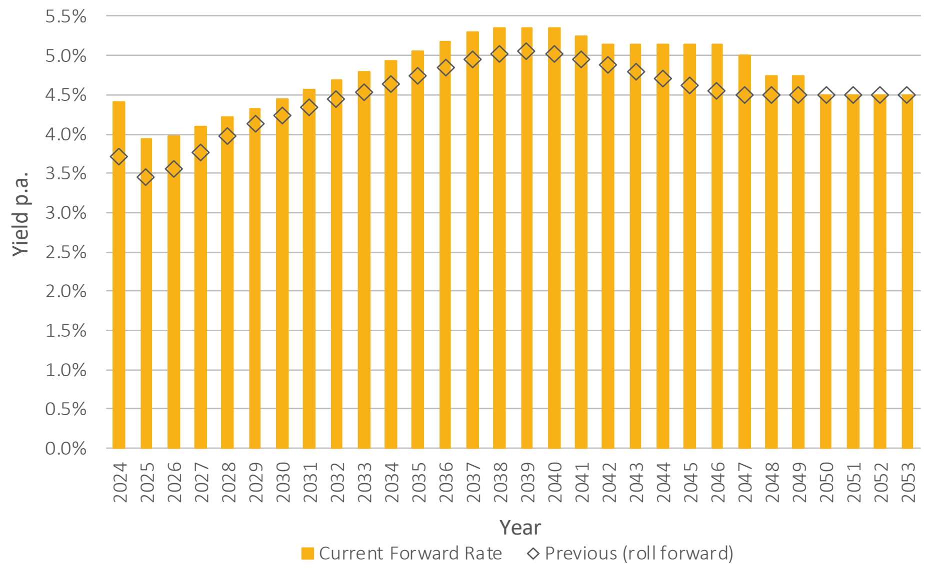
9.1.2 Current assumptions

Since the previous valuation, yields have increased at most durations:

- At very short durations, yields increased by as much as 70 basis points.
- At short to mid durations yields have increased by around 30 basis points on average, relative to their comparative rollforward yield rates.
- At longer durations, yields have increased by as much as 60 basis points.
- Our assumed very long-term discount rate of 4.50% is unchanged from our previous valuation.

A comparison of the currently adopted yield curve to previous is shown in Figure 9.1. The equivalent single discount rate increased from 4.30% p.a. at 31 December 2023 to 4.61% p.a. at 30 June 2024.

Figure 9.1 – Risk free forward rate vs previous valuation



Details of the discount rates by year are included in Appendix C.1.

9.2 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, and this is also a consideration when selecting our inflation assumptions.

In summary, our assumptions at the current valuation are:

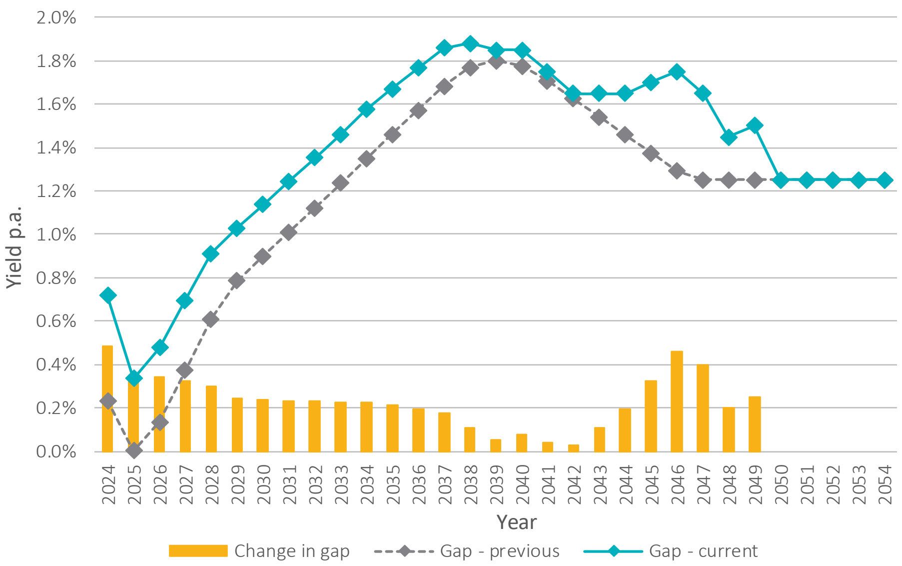
- Our Wage Price Index (WPI) inflation assumptions have generally increased since the previous valuation. WPI inflation has been assumed to be 3.70% p.a. for the next year, reducing to 3.30% p.a. in five years' time. This shape reflects the current economic environment and tight labour market, leading to a higher wage inflation allowance in the short term than in the long term.
- WPI inflation assumptions then increase slowly over the following 10-year period, after which it remains steady at 3.50% p.a. for six years, before reducing to a long-term rate of 3.25%. This

long-term assumption represents a 1.25% p.a. gap between WPI inflation and forward discount rates, unchanged from our December 2023 valuation.

- Average Weekly Earnings (AWE) inflation is set as equal to WPI inflation plus a gap of 0.25% for all periods. This is unchanged from our previous valuation.
- CPI inflation is assumed to be 3.5% p.a. in the next year before dropping to 3.0% p.a. in the following year. This reflects the current high inflation environment and the RBA's expectations that inflation will drop to the upper end of the target range of 2% to 3% by the end of 2025.
- CPI inflation is then flat at 2.50% p.a. for all remaining future years. This is unchanged from the previous valuation. The long-term selection sits in the middle of the Reserve Bank's targeted range of 2-3% p.a.

The movements, compared to previous assumptions, in adopted inflation and discount rates have an impact on the 'gap' between inflation and discount rates. This is shown in Figure 9.2 below. As this shows, the current economic assumptions imply a bigger gap at most durations.

Figure 9.2 – Gap between adopted AWE and discount rates



The net impact of these changes on the scheme liability is to produce a release of $95m.

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.

9.3 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.

The review of CHE at this valuation included assessing ReturnToWorkSA's 2024/25 budget, and the components estimated to relate to claims handling expenses, against projected cash flows. Table 9.1 shows the allocated CHE as a proportion of claim payments over the past three years along with the forecast figure for 2024/25 and the selected CHE assumption.

Table 9.1 – Claims handling expense rate (% of claim payments)

	CHE Expenses / Claim Payments - by financial year				CHE Assumption	
	2021-22 Actual	2022-23 Actual	2023-24 (Draft) Actual	2024-25 Budget	Selected	Previous
Serious Injury	6.1%	4.4%	6.8%	7.9%	7.0%	7.0%
Short Term Claims	14.8%	15.9%	15.8%	16.9%	16.5%	16.0%
Liability Weighted Average %					10.3%	10.0%

The reduction in the Serious Injury rate in 2023 related to the significant increase in serious injury payments (which were from redemptions and lump sum payments, not from recurrent costs) in this period, as opposed to any reduction in actual expenses related to managing claims. The assumptions for our claims handing expense allowances for the outstanding claims valuation are as follows:

- For serious injury claims the allowance is 7.0%, consistent with the previous valuation, even though additional fees have been added for the FY25 forecast as we will watch to see whether this is sustained over time, noting that it is higher than actual costs in recent years.
- For short term claims the allowance is 16.5%, increased from 16% at the previous valuation. This level of costs responds to the increase in agent fees, which are expected to continue, reflecting the higher claims management effort to manage a longer than expected tail of WPI assessments and associated disputes, on top of the front end active claims management model.

The overall expense rate equates to 10.3% of gross outstanding claims, marginally higher than the 10.0% at the previous valuation.

9.4 GST recoveries

Entitlements are modelled net of GST (ITC) recoveries.

9.5 Risk margins

Since June 2017 ReturnToWorkSA has established its outstanding claims provision with a 75% probability of sufficiency. Our recommended claims provision is consistent with this reserving policy.

In addition to the underlying variability in our projection of future claim costs, the risk margin incorporates the additional uncertainties related to the 2022 reforms. Importantly, the reforms did not remove the "combining uncertainty" that was introduced after the *Summerfield* legal decision, but rather they modify it by introducing other elements of legislative change – each of which has their own uncertainties that need to be considered in assessing the overall risk margin. This component of the uncertainty has reduced over the successive valuations since the reforms as actual outcomes have emerged.

We have undertaken a high-level review of the risk margin scorecards for internal and external systemic risks at this valuation. 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) – a measure of the variability in the statistical distribution – arising from internal systemic error and external systemic error. A summary of the framework is included in Appendix C.

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 current estimate of the underlying CVs for each entitlement group, along with the total diversified and undiversified CV, are set out in Table 9.1 below.

Table 9.2 – Underlying co-efficient of Variation

	Total CV	
Risk Margin Group	Jun-24	Dec-23
Serious Injury	29.3%	32.3%
Short Term Claims		
Income Support	14.5%	14.5%
Lump sum	26.9%	29.2%
Legal + Investigation	25.8%	27.0%
Medical and Other Treatment	25.5%	24.2%
Recoveries	20.9%	20.0%
Total (Undiversified)	27.8%	30.2%
Total (Diversified)	22.3%	24.6%
Diversification	20.0%	18.7%

The changes to note are:

- A decrease in the Serious Injury CV due to reduced uncertainty around the impact of combining injuries and reform impacts on Serious Injury claim numbers.
- A decrease in the lump sum CV due to lower uncertainty around sizes in the combining injury world.
- A decrease in the Legal and Investigation CV due to the reductions in the volume of open disputes as a result of faster dispute settlements and a reduction in open complex matters.
- An increase in Medical and Other Treatment CV due to higher uncertainty around the length of the hearing loss aids and appliances tail.
- An increase in Recoveries CV due to higher uncertainty around how closely recovery levels will follow a lower gross scheme cost.

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 have selected a risk margin of 14.5%, a reduction of 1.0% from the previous risk margin (15.5%).

We note that if the reforms continue to achieve their stated aims, without there being any material behavioural response or adverse legal decisions that undermine their intent, then we would expect the risk margin to continue to reduce back toward (or even below) the underlying risk margin level over the next 12-18 months.

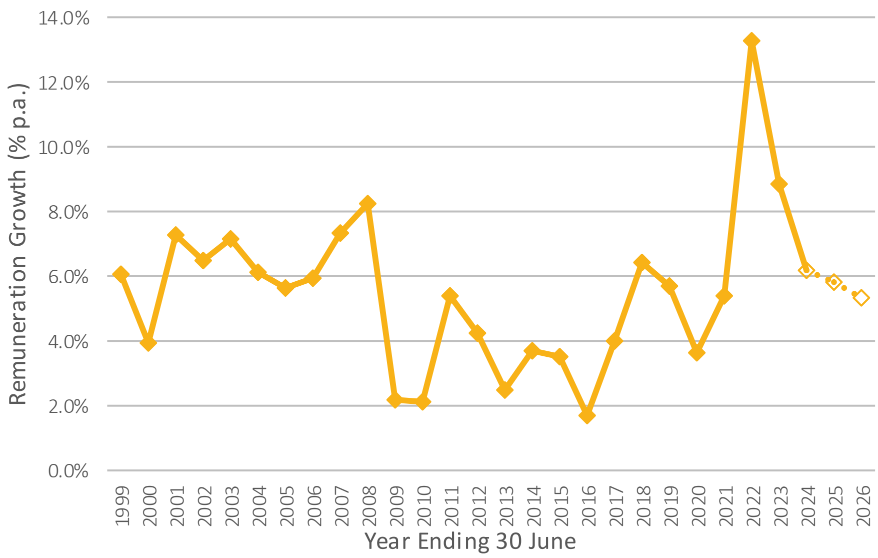
9.6 Non-exempt remuneration

When making our assessment of the cost of claims, we consider the underlying insured employee 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) 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 9.3.

Figure 9.3 – Non-exempt leviable remuneration: annual growth



As this shows, after the FY2023 employer wage declarations were completed the 2023 growth rate ended up as the second highest level of growth in the scheme's history – combined with the highest ever growth rate in 2022, this resulted in an overall insured remuneration increase of 24% over two years; as the graph shows, this is very high by historical standards.

We have adopted ReturnToWorkSA's remuneration projection of $43.3 billion for 2023/24, noting that it is subject to estimation as wage declarations are not yet complete. 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) and a change in the definition of leviable remuneration from 1 July 2008 (to exclude wages for trainees and apprentices).
- 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.
- In the five years from 2017 to 2021 remuneration growth moved between around 4-6% (noting that wages growth for 2020 was impacted by COVID-19).
- 2022 then ended up with the highest growth rate in the history of the scheme at 13.3%. This was followed by strong growth again in 2023 of 8.9%.
- 2024 is forecast to have 6.2% growth, dropping to 5.8% in 2025 and 5.3% in 2026.

10 Valuation results

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

- The central estimate of outstanding claims as at 30 June 2024.
- 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 31 December 2024 and 30 June 2025.
- Reconciliation of results with 31 December 2023 projections.

10.1 Outstanding claims – central estimate

Our central estimate of the outstanding claims by entitlement type as at 30 June 2024 is set out in Table 10.1. This liability relates to all claims that occurred on or before 30 June 2024 and includes the impact of updated economic assumptions.

Table 10.1 – Central Estimate of outstanding claims by entitlement type

Entitlement Group	General Short Term Claims	Hearing Loss Claims	Serious Injuries	Total	% of Net Cent Est
	$m	$m	$m	$m	
Income	172	-	726	898	24%
Medical	85	119	394	598	16%
Other	4	0	53	58	2%
Care	3	-	411	414	11%
Lump sums	514	61	197	772	21%
Hospital	21	-	115	136	4%
Travel & Accomodation	8	1	57	65	2%
Worker legal	53	10	25	87	2%
Corporation legal	38	-	14	52	1%
Allied Health	34	33	247	315	8%
Rehabilitation	14	-	17	31	0.84%
Investigation	2	3	1	6	0.15%
Common law	1	-	-	1	0.04%
Commutation	4	-	-	4	0.12%
LOEC	0	-	-	0	0.00%
Redemptions	1	-	5	7	0.18%
Gross Liability	957	227	2,262	3,446	92%
Recoveries[1]	-46		-22	-68	-2%
Expenses	158	37	158	354	9%
Net Central Estimate	1,068	265	2,398	3,731	100%

[1]Recoveries not split between General Short Term and Hearing Loss claims

The outstanding claims liability before recoveries and expenses is estimated to be $3,446m. The net central estimate, allowing for recoveries and including an allowance for claims handling expenses, is $3,731m.

Table 10.2 details the outstanding claims result by accident year.

Table 10.2 – Central Estimate of outstanding claims by accident year

Accident Year	General Short Term Claims	Hearing Loss Claims	Serious Injuries	Total	% of Net Cent Est
	$m		$m	$m	
Pre Jun-15	35	66	709	810	22%
Jun-16	12	8	85	105	3%
Jun-17	17	9	130	155	4%
Jun-18	29	11	192	232	6%
Jun-19	45	13	218	276	7%
Jun-20	58	15	168	241	6%
Jun-21	88	16	141	245	7%
Jun-22	124	18	168	311	8%
Jun-23	203	26	216	446	12%
Jun-24	346	44	233	623	17%
Gross Liability	957	227	2,262	3,446	92%
Recoveries[1]	-46		-22	-68	-2%
Expenses	158	37	158	354	9%
Net Central Estimate	1,068	265	2,398	3,731	100%

[1]Recoveries not split between General Short Term and Hearing Loss claims

Table 10.3 shows the overall liability split between Serious Injuries and Short-Term claims, both before and after discounting. There is a significant level of discounting in relation to the Serious Injury claims liability due to its long payment pattern, with Hearing Loss claims also having a high level of discounting.

Table 10.3 – Impact of discounting

	General Short Term Claims	Hearing Loss Claims	Serious Injuries	Total
	$m	$m	$m	$m
Inflated	1,187	437	6,091	7,715
Inflated and Discounted	1,068	265	2,398	3,731
Ratio	90%	61%	39%	48%

10.2 Provision for outstanding claims

Table 10.4 sets out the components of our recommended provision at 75% probability of sufficiency, $4,272m.

As explained in Section 9.5, the recommended risk margin is 14.5%, a reduction of 1.0% from the previous valuation. Adopting this risk margin results in a risk margin of $541m being held.

Table 10.4 – Recommended balance sheet provision at 75% probability of sufficiency

	Central Estimate	Risk Margin	Recommended Provision
	$m	$m	$m
Gross Claims Cost - Serious Injuries	2,262		
Gross Claims Cost - General Short Term Claims	957		
Gross Claims Cost - Hearing Loss Claims	227		
Claims Handling Expenses	354		
Gross Outstanding Claims Liability	3,799	551	4,350
Recoveries	-68	-10	-78
Net Outstanding Claims Liability	3,731	541	4,272

If the reforms continue to achieve their stated aims, i.e. without there being any material behavioural response or adverse legal decisions that undermine their intent, then we would expect the risk margin loading to reduce back toward (or even below) the underlying risk margin level over the next 12-18 months.

10.3 Movement in liability

Our net central estimate including CHE is $73m lower than projected at the previous valuation, as shown in Table 10.5.

Table 10.5 – Movement from previous valuation

	Gross	Recoveries	CHE	Net
	$m	$m	$m	$m
Liability as at Dec-23	3,404	-70	340	3,675
Plus liability for claims incurred in the period	359	-8	47	399
Less Expected Payments to Jun-24	312	-9	43	346
Plus Interest (unwinding of discount)	72	-1	7	78
Liability Projected from Previous Valuation	3,523	-70	351	3,804
Current Valuation	3,446	-68	354	3,731
Difference	-78	2	3	-73

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 performance relative to the previous valuation. This results in an actuarial strengthening (i.e. cost increase) of $3m for the six months, as shown in Table 10.6.

Table 10.6 – Movement in central estimate and determination of actuarial release

	Liability Estimate[1]	AvE payments in 6 mths to Jun-24	Actuarial Release/ (Strengthening) [2]
	$m	$m	$m
Liability at Dec-23 Valuation	3,675		
Projected Liability at Jun-24 (from Dec-23 valuation)	3,804		
Claims Movement - General Short Term Claims	18	-12	-6
Claims Movement - Hearing Loss Claims	34	0	-34
Claims Movement - Serious Injury	-30	-7	37
Impact of Change in economic assumptions	-95		
Recommended Liability at Jun-24	3,731		
Total Actuarial Release/(Strengthening)			-3

[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.

10.3.1 Actuarial release at June 2024

The overall actuarial strengthening over the period is $3m. Table 10.7 shows this actuarial release split by claim type and entitlement group.

Table 10.7 – Actuarial release/(strengthening) by entitlement type

Entitlement Group	General Short Term Claims[1]	Hearing Loss Claims[1]	Serious Injury Claims[1]	Total Actuarial Release [1]	Release %
	$m	$m	$m	$m	
Income Support	-2.5	-	15.3	12.8	1.4%
Redemptions	0.2	-	-2.3	-2.1	-37.3%
Lump Sums	-9.5	-1.7	9.9	-1.3	-0.2%
Worker legal	9.0	1.3	-0.5	9.8	9.9%
Corporation legal	1.7	-	1.2	2.9	5.3%
Investigation	-0.4	-0.5	0.0	-0.8	-14.5%
Medical	-2.2	-21.1	15.5	-7.8	-1.3%
Allied Health	-0.1	-6.4	-2.7	-9.3	-3.2%
Other	0.4	-0.0	2.3	2.7	4.5%
Care	0.1	-0.0	-10.1	-10.1	-2.4%
Hospital	0.7	-0.0	14.5	15.2	10.8%
Travel	-0.3	-0.2	-2.7	-3.2	-5.8%
Rehabilitation	-0.8	-	-1.1	-1.9	-7.3%
Common Law	0.1	-	-	0.1	7.6%
LOEC	-0.0	-	-	0.0	-1.1%
Commutation	-0.0	-	-	0.0	-0.3%
Gross Liability	-3.7	-28.6	39.3	7.0	0.2%
Recoveries	4.4	-	-4.3	0.2	-0.3%
Expenses	-6.7	-5.7	2.1	-10.3	-3.1%
Net Central Estimate	-6.0	-34.3	37.1	-3.2	-0.1%

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

The major movements at the current valuation are:

- For **General Short Term Claims** there is an actuarial strengthening (cost increase) of $6m, due to:
  - > A $2.5m increase for Income Support costs, reflecting offsetting impacts of improved RTW outcomes and higher allowances for backpays from dispute settlements
  - > A $10.7m decrease across Worker and Corporation legal, as the dispute resolution strategy is leading to faster settlement of disputes and lower average cost of settlements, along with currently reducing new dispute volumes
  - > An increase of $9.5m for Lump Sums, following higher numbers of longer duration claims accessing lump sum payments
  - > A net $1.5m increase for Treatment related costs (Medical, Allied Health, Other, Care, Hospital, Travel) to reflect increasing average treatment costs per claim due to increased use of some services
  - > A $4.4m decrease (i.e. saving) on recoveries, reflecting higher than expected recoveries in the last six months.
  - > An increase in the CHE% allowance to 16.5% (up from 16%) plus the impact of the liability movement, increasing the CHE liability by $6.7m.
- For **Hearing Loss Claims** there is an actuarial strengthening (cost increase) of $34.3m due to:
  - > $28.6m of increase following the ongoing high costs for hearing aids and related fitting fees on long duration claims
  - > An increase in the CHE% allowance to 16.5% (up from 16%) plus the impact of the liability movement, increasing the CHE liability by $5.7m.

- For **Serious Injury claims** there was an overall actuarial release of $37.1m due to:
  > A $53m net reduction as a result of claim number changes (see Section 5.2)
  > A $10m increase due to lump sum timing, which recognises that expected lump sum payments at the previous valuation that were not made are still expected in future periods
  > A $14m reduction due to the death of a Severe Traumatic Injury claimant who had very significant hospital costs
  > A $30m increase due to other changes:
    - An increase in expected claim size for medical and treatment costs for Other Serious Injury claims, particularly Allied Health, due to recent experience and the transition from aggregate methods to individual payment selections for some younger, high cost claimants.
    - An $8m increase in Severe Traumatic Injuries, largely due to circumstance changes leading to increased Care estimates for a small number of claimants
  > Payments being $7m lower than expected in the six months. The biggest driver of this was lump sum payments, which is largely a timing difference and so has an offsetting liability movement (discussed above).
  > A flow on reduction to the claims handling expense allowance ($2m release)

Other changes had more minor impacts on the scheme liability.

10.3.2 Impact of economic assumption changes

Changes to inflation and discount rate assumptions reduced the net central estimate by $95m.

Overall, compared to what was adopted at the December 2023 valuation, the current economic assumptions imply a higher gap across all durations to 2050, after which the long term assumptions are unchanged.

10.4 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 2024.

Figure 10.1 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 $550m, breaking the strong upward trend seen in the lead up to that time. Scheme expenses were particularly high in 2015 as a result of additional transition related costs.

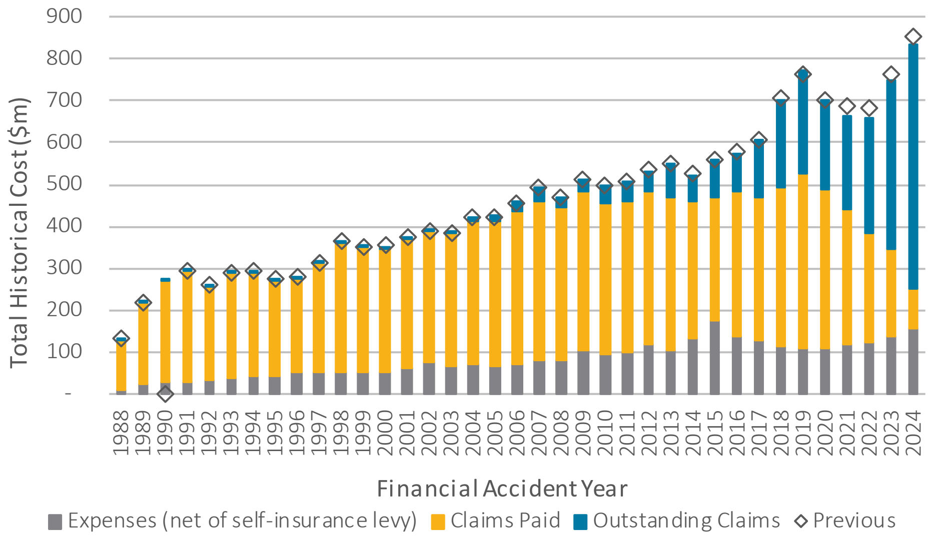
For recent accident years the costs are projected to be higher than the pre-2016 level as a result of:

- Growth in the number of Serious Injury claims that are expected to ultimately emerge. This is compounded by the cohort of claims which are impacted by combining injuries.
- Higher claim numbers, particularly for Hearing Loss claims.
- There was a period of deterioration in RTW outcomes up to 2019, before the trend reversed in 2020 and later years.
- For 2019 there are 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 reflects the volatile nature of Severe Traumatic Injury 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 2019.

- Projected costs for 2023 and 2024 have higher than normal growth, a key part of which is the very strong growth in insured remuneration in recent years (i.e. this follow much larger than normal exposure growth, not deterioration).

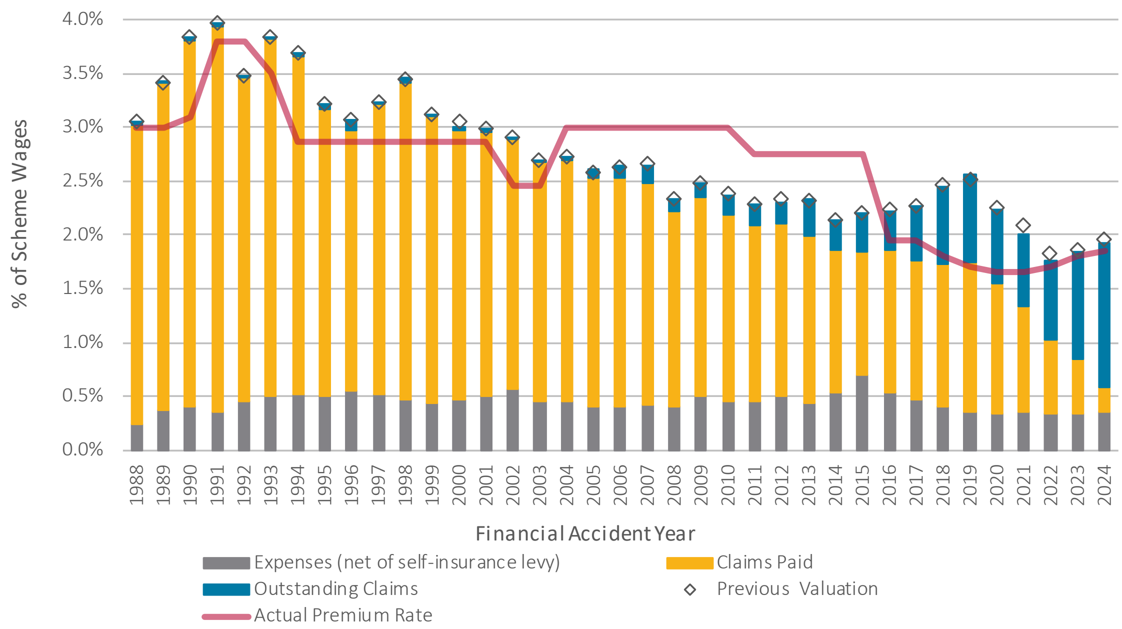
Figure 10.1 – Historical cost discounted to accident year



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 10.1) by the total scheme leviable remuneration in that year (discussed in Section 9.6). 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 10.2 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 10.2 – 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 under 2.5% of wages. For accident years between 2011 and 2015 the costs were progressively lower again, as claims had less opportunity to remain on long term benefits.
- Costs are higher for 2016 to 2019, due to the introduction of the Economic Loss Lump Sum as part of the 2015 reforms. The 2018 and 2019 years continue to develop as high cost years, due to a combination of poor early RTW outcomes, higher levels of Lump Sums, and higher than normal Serious Injury costs.
- The BEP estimates for 2020 and 2021 are lower than 2019, due to improved RTW rates and fewer projected Lump Sums and Serious Injury claims.
- A further reduction is projected for 2022 and 2023 claims, where further RTW improvements were achieved – the BEP rates for these two years also benefit from the higher than usual growth in exposure, as this was not immediately matched by growth in claim numbers or costs.
- 2024 is emerging at a higher cost than 2022 and 2023, following increases in the number of reported claims. Our interpretation is that the high growth in exposure in 2022 and 2023 eventually (i.e. with a lag of 1-2 years) led to higher volumes of claims as the claim frequency 'normalised' to the current scheme size.
- Compared to our previous valuation, the estimated BEP has seen a noticeable reduction for 2021 to 2024 years as a result of the favourable change in economic assumptions; this is not an underlying improvement, as the 'like with like' results are essentially stable.

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.

Compounding the uncertainty is the impact of reform, which is still subject to a higher than normal degree of estimation uncertainty.

10.5 Future cash flows

Table 10.8 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 10.6, but make no allowance for expenses.

Table 10.8 – Projected cash flows

Entitlement Group	Projected Cashflows for Period			
	Jun-24 to Dec-24	Dec-24 to Jun-25	Jun-25 to Dec-25	Dec-25 to Jun-26
	$m	$m	$m	$m
Income Support	96.1	99.0	101.4	104.3
Medical	40.0	41.0	43.1	43.5
Lump sums	96.7	101.4	103.4	105.4
Rehabilitation	7.4	7.5	7.9	7.9
Allied Health	19.5	19.9	21.0	21.2
Hospital	13.7	12.7	13.6	13.6
Legal - Non-Contract	9.3	9.2	9.6	9.9
Other	1.9	2.0	2.1	2.2
Care	9.0	8.9	10.6	10.6
Legal Contract	11.0	11.1	11.2	11.6
Travel	3.9	4.0	4.2	4.3
Investigation	1.3	1.3	1.3	1.4
Commutation	0.4	0.4	0.4	0.5
LOEC	0.1	0.0	0.0	0.0
Common law	0.1	0.1	0.1	0.1
Recoveries	-7.0	-9.5	-7.1	-7.1
Redemptions	1.7	0.8	0.7	0.7
Net Claims Cost - Total	305.1	310.1	323.6	330.1
Serious Injuries (net)	63.0	63.4	69.5	73.3
Short Term Claims (net)	242.1	246.7	254.1	256.8

Cash flows for Short Term Claims are expected to grow at just above inflation, while the Serious Injury cashflows are projected to continue growing over time as the portfolio is yet to reach maturity.

10.6 Projected outstanding claims

Table 10.9 shows the outstanding claims projected to 31 December 2024, 30 June 2025 and 31 December 2025. We note the payments shown here are based on those in Table 10.8, but also include an allowance for claims handling expenses for consistency with our liability estimate.

Importantly, we note that these projections are based on the current central estimate allowances and assume that outcomes emerge exactly as projected over time, including in relation to economic factors. These projections also assume that the current risk margin is maintained over time, which will hopefully not prove to be the case – as explained in Section 9.5, if the reforms continue to operate as intended then it is hoped that the risk margin loading will reduce over the next 12-18 months.

Table 10.9 – Projected outstanding claims provision

(31 December 2024, 30 June 2025 and 31 December 2025)

	Half year ending		
	Dec-24	Jun-25	Dec-25
	$m	$m	$m
Provision at Period Start	4,272	4,429	4,594
Less Risk Margin	541	561	582
Central Estimate at Period Start	3,731	3,868	4,012
Plus Additional Liability Incurred in Period	402	411	423
Less Expected Payments in Period	-351	-356	-371
Plus Interest (unwind of discount)	86	90	83
Projected Central Estimate at Period End	3,868	4,012	4,146
Plus Risk Margin	561	582	601
Projected Provision at Period End	4,429	4,594	4,747

We project the central estimate for the net outstanding claims liability at 31 December 2024 to be $3,868m; 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 July 2024 to 31 December 2024. The corresponding provision at a 75% probability of sufficiency is $4,429m.

The projected increase to the 31 December 2024 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.

10.7 Reconciliation of incurred cost with previous projection

At the 31 December 2023 valuation we projected an additional claim cost liability of $352m would be incurred from claims arising in the half-year to 30 June 2024 (excluding expenses). Our current projection for the ultimate value of this liability is $356m, an increase of 1.3% or $5m.

Table 10.10 – Comparison of December 2023 projections to current valuation

For period 1 Jan 2024 to 30 Jun 2024		
Incurred Claims Liability ($m, excl. expenses):		Difference
Projected in Dec-23 Valuation	352	
Incurred (current valuation)	356	1.3%

11 Uncertainty and sensitivity analysis

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).

In addition to the underlying uncertainties in our projection of future claim costs, there are still additional temporary uncertainties related to the 2022 reforms. Importantly, the 2022 reforms do not remove the "combining uncertainty" that was introduced after the *Summerfield* legal decision, but rather they modify it by introducing other elements of legislative change, each of which has their own uncertainties that need to be considered.

11.1 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 and the WPI scores used for Lump Sums.

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

- **Reform impacts** – rather than removing the ability to combine injuries, the 2022 reforms introduced other changes that attempt to manage the financial consequences of claimants getting higher WPI scores. As a result, the uncertainty relating to the impact of combining injuries is now compounded by the uncertainty around the success of the reforms in removing costs from other areas. Noting that to date since 2022 most new Serious Injuries were still determined under the old rules, this means a significant portion of the valuation is still largely based on assumed outcomes, rather than on a reliable history which is the usual approach for producing actuarial estimates. While we believe our assumptions and projections are reasonable given the information available, the uncertainty is elevated compared to normal.
- **Behavioural risk** – related to the above, the ultimate outcomes that emerge directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past, now that the ability to combine injuries is a codified feature of the scheme; further, after the 2022 reforms, the incentives have changed such that claimants are now likely to simply seek the highest WPI. Given the high level of legal involvement in the scheme, the risk of adverse behavioural change is high. As an example of this, claimants have changed their behaviour to try to add more injuries to their claim than was seen in the past. On the flip side, improved RTW rates in recent years could perhaps lead to fewer lump sum and/or Serious Injury claims emerging over time.
- **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. Anecdotally, this seems to happen more frequently and/or with more financial significance in SA than elsewhere.
- **Legal provider behaviour –** after ReturnToWorkSA implemented its dispute resolution strategy we are seeing faster resolution, lower costs and currently reducing new lodgement volumes. These are positive features that, if maintained, could lead to consequential improvements in other areas. On the flip side, if these changes cannot be maintained then cost increases would likely result.
- **WPI assessments** – under the RTW Act, small changes in the WPI score can equate to many tens of thousands of dollars in some cases, and WPI assessments also govern access to the significant compensation available under the Serious Injury benefit package. The scheme will face significant financial consequences if this leads to any form of 'WPI creep'.

  Given there is no current legislative tool that addresses the 'tail risks' that have emerged from behaviour changes since the RTW Act commenced, there is a chance that outcomes will be different to expected. Indeed, the inclusion of higher lump sum amounts in conjunction with the ability to combine injuries over time arguably creates an environment which encourages claimants to delay their WPI assessments in pursuit of higher WPI scores.

As explained in Section 1.3, our work makes no allowance for potential changes to WPI scores as a result of the current Review of the Impairment Assessment Guidelines; if any changes to WPI scores result from this Review they will need to be factored into future valuation work.

- Serious Injury claim costs – these claimants are entitled to benefits for life, and the risks for this group relate to factors that are common across most claims, meaning deviations from our assumptions could therefore compound across multiple years. There are key uncertainties in relation to each of ultimate numbers of claims, life expectancy and long term cost escalation.
- Hearing Loss claim numbers – there has been unprecedented growth in Hearing Loss claim numbers in the last few years, which is now producing strong cost growth. If this volume growth continues then further cost increases will eventuate. On top of this, there is also significant uncertainty about the number of hearing aids that claimants will require over their lifetime – currently devices appear to be being updated more quickly, and the projections are not fully aligned to this as being a permanent feature. Supplier changes, technology advancements and other unknown factors will also impact the number and cost of hearing aids into the future.
- Economic environment and inflation risk – there is considerable uncertainty in financial markets and inflation risks also remain; if changes occur the scheme's liabilities would be impacted.

As context to our remarks above, it is important to remember that on current claim patterns it looks like it is taking around 10 years until most Serious Injury claims are determined. As a result, in assessing the potential uncertainties that impact on current liability assessments, it is necessary to consider not just current behaviours but also what is likely to occur over (say) the next decade.

As demonstrated by legal outcomes in the last 2-3 years, despite the fact that the RTW Act commenced in 2015 there are still key areas of its provisions that are being tested in the courts, and hence there is uncertainty as to their 'real world' boundaries. The current valuation basis reflects our best estimate of how this experience will eventuate. Over time, our basis will further reflect the actual post-reform experience as it develops, and it is possible that the experience will differ materially from our current expectations.

11.2 Sensitivity analysis

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.
- Reform – outcomes relating to the impact of reforms, focussing on Serious Injury numbers and the s56A election
- 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, and it is possible that multiple impacts could emerge at once that would lead to larger overall impacts than shown in the specific scenarios.

11.2.1 Economic scenarios

In brief, the scenarios we have considered are a stronger economy, a weaker economy and an unexpected wage inflation 'spike' that saw wage inflation increase to 5% p.a. for the next two years; as summarised below.

Table 11.1 – Economic Scenarios

	Stronger	Weaker	Inflation spike
Wage inflation[1]	4.0% pa	3.25% to 3.5% pa	5% p.a. in next two years, before reverting
Investment earnings	6.0% pa	3.25% to 3.5% pa	Unchanged
Real Long-term 'Gap'[2]	2.0%	0.0%	Unchanged

[1] Wage Price Index (WPI) inflation, [2] Difference between WPI inflation and discount rate

The impact of these alternative economic assumptions is shown below.

Table 11.2 – Economic sensitivities

	OSC Impact	
	$m	%
30 Jun 24 OSC estimate (Including risk margin at 75% POS)	4,272	
Stronger Economic Scenario (2% gap between inflation and discount rate)	-393	-9%
Weaker Economic Conditions (0% gap)	+562	+13%
Temporary wage inflation 'spike'	+40	+1%

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, in the strong scenario the discounted liabilities reduce by $393m. Of course, conditions can also move the other way, as they have a number of times over the last few years.

Following increases in price inflation over the last two years it is possible that wage inflation could increase more than anticipated, and a scenario whereby wage inflation increased to 5% for two years before reverting back to the normal allowances would increase the liability by $40m.

11.2.2 Expenses scenario

If the adopted claims handling expenses were to deteriorate then the loading could be tens of millions higher, as shown below.

Table 11.3 – Expenses sensitivities

	OSC Impact	
	$m	%
30 Jun 24 OSC estimate (Including risk margin at 75% POS)	4,272	
Scheme expenses are higher than allowed (17.5% for STC and 8% for Serious Injuries)	+39	+0.9%

11.2.3 Short Term Claim scenarios

Commencement of the RTW Act brought significant change to the scheme and areas of change in the scheme's culture. In recent years there has been wide variation in claim patterns, covering RTW outcomes, dispute lodgement, WPI assessment and in attempts to add 'additional injuries' to claims. It is possible that the scheme experience could either outperform or underperform relative to current projections, and the actual outcomes that emerge over time will depend strongly on the claims management approach and behaviour of scheme participants.

Table 11.4 summarises a number of sensitivities that help demonstrate the potential for variability in the Short Term Claim cohort.

Table 11.4 – Short Term Claim sensitivities

	OSC Impact	
	$m	%
30 Jun 24 OSC estimate (Including risk margin at 75% POS)	4,272	
Claim numbers		
Number of claims (both total and for 10 days of IS) return to 2021 levels with no flow-on impact to Serious Injury Claim numbers	+129	+3.0%
Hearing Loss numbers increase by 20% above current allowances, noting that claim numbers have more than doubled in recent years	+61	+1.4%
Psychological injury numbers increase by 100% above current allowances	+52	+1.2%
Income Support		
RTW improvements disappear, resulting in IS costs returning to 2018 levels	+69	+1.6%
Treatment costs		
Hearing loss aids and appliances cost continue for longer in the tail	+97	+2.3%
Superimposed inflation emerges at 2% per annum for Medical	+48	+1.1%
Legal fees		
Dispute volumes reduce to long-term average	-31	-0.7%
Higher average cost of legal fees for all claims due to disputes progressing further in the disputation process	+38	+0.9%
Lump Sums		
Lump sum claim numbers emerge at 2019 levels for all recent accident years	+152	+3.6%
First Paid and Economic Loss lump sums emerge at higher sizes similar to when combining was first codified	+37	+0.9%
Higher size for hearing loss lump sums	+16	+0.4%
Long lump sum tail continues to emerge for periods.	+23	+0.5%

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

- A reversal of recent improvements in claim numbers, such that numbers increased back to 2021 levels, would increase Income Support, Lump Sum and flow-on costs (excluding Serious Injury) by $129m.
- A 20% blanket increase in Hearing Loss claims would add $61m to the liability. To put this sort of increase into context, Hearing Loss claims have more than tripled in recent years.
- A 100% increase in the number of psychological injury claims would add $52m to the liability.
- For Income Support costs, if the recent RTW improvements were to end and the claims experience reverted to levels seen in 2018, then Income Support costs would increase by $69m. There would also likely be flow on increases to other costs that we have not captured in this scenario.
- Treatment costs:

- > More recent accident years are not anticipated to have as many claims receiving hearing aids in the very long term, due to an older cohort of claimants. If these claims do in fact continue to receive hearing aids on a more frequent basis, this could add $97m to the provision.
- > A superimposed inflation allowance of 2% for Medical payments would add $48m to the provision.

- Dispute related costs have reduced recently and if the favourable trend leads to further reductions in new dispute volumes then this would release $31m from the provision. On the flip side, if disputes take longer to resolve (i.e. more claims progressing into the later stages of the disputation process) that could see $38m added to legal costs.
- Lump sums are impacted by multiple areas of uncertainty at the moment, including:
  - > If Lump Sum claim numbers stay at 2019 levels (around 200 extra claims per year), this would add $152m to the provision. This scenario focuses on accident periods 2020 to 2024, where we are forecasting that experience will improve compared to 2019 as a result of the improved RTW outcomes.
  - > The assumed average sizes for Lump Sums are currently below the high-end of the most recent experience, as we believe that dispute settlement activity had temporarily pushed sizes higher than normal, but if future claims were to have similar sizes then this would add $37m to the provision.
  - > If sizes for Hearing Loss lump sums were increased to the top end of the last year then this could add another $16m.
  - > There continues to be an inflow of WPI assessments for very old injury years. If this continues for longer than allowed for then the provision could increase by another $23m. Note we have not extended the longer tail onto more recent accident periods under this scenario.

11.2.4 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 11.5 – Serious Injury sensitivities

	OSC Impact	
	$m	%
30 Jun 24 OSC estimate (Including risk margin at 75% POS)	4,272	
Higher than expected SI numbers by 10 extra claims per year for recent years	+144	+3%
Return to work rates improve with RTWSA initiatives (but only if claimants don't use this to maximise s56A payouts)	-89	-2%
Unpaid care on EnABLE cohort ceases immediately and is replaced with paid care	+124	+3%
Uncertainty around mortality - impact of all EnABLE claims having mortality in line with standard population life expectancy	+314	+7%
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.	+353	+8%
No increase in utilisation of Care benefits after age 65	-73	-2%
Twice the additional allowance for utilisation of Care benefits after age 65	+66	+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. For example, if the number of Serious Injury claims is 10 higher per year for recent accident years the provision would increase by around $145m. Our allowance for future Serious Injury claims are a very small portion of the claims that are still in the system and so even a slightly higher conversion rate would have material implications for the liability.

Changes in the level of benefits payable for care, support and medical needs also have very significant implications for the outstanding liability. Similarly, due to the lifespan of the claims involved, changes to mortality assumptions or superimposed inflation can result in large changes in the outstanding liability.

While we had previously highlighted the very large potential financial benefits if recently commenced programs manage to help more participants return to work than in the past, we note that under the reformed scheme the level of savings is likely to be reduced as claimants will now be able to access the s56A payment.

We have also tested some reform specific sensitivities in Table 11.6.

Table 11.6 – Serious Injury reform sensitivities

	OSC Impact	
	$m	%
30 Jun 24 OSC estimate (Including risk margin at 75% POS)	4,272	
Number of Serious Injury claims removed by threshold change only half of expected	+211	+5%
Number of Serious Injury claims removed by threshold changing from 30% to 35% is higher than expected	-171	-4%
s56A and medical redemptions achieve little savings (either through low take-up rate or due to rational decisions by workers)	+83	+2%

Material savings have been built into the valuation due to the anticipated impacts of the 2022 reforms; however, there is currently relatively little actual experience to evaluate these anticipated savings. The key uncertainties are around the proportion of Serious Injury claims removed due to the threshold change and the overall take-up rate and profile of claims who make a s56A election and/or agree to a redemption. Based on our sensitivities:

- If significantly fewer than expected claims are removed due to the threshold increase, then increases of over $200m are plausible. Conversely, there is also the potential for greater reductions than anticipated if more claims than expected are impacted by the higher threshold.
- If fewer claims than expected opt for a s56A or redemption, or the take-up is biased towards lower cost claims, increases of up to $100m (on the provision) are possible.

12 Reliances and limitations

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

12.1 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.

An important information source for this valuation was the guidance and input previously provided by ReturnToWorkSA's internal subject matter experts and legal advisors, who supported our work to estimate the likely impacts of the implementation of the 2022 reforms.

12.2 Uncertainty

12.2.1 Impact of Reform

The uncertainty at the current valuation is heightened by the impacts of the *Return to Work (Scheme Sustainability) Amendment Act 2022*. These amendments make very significant changes to the Scheme and there is only relatively limited direct information that can be used to estimate its impacts.

Consequently, there are significant uncertainties in our work and it is possible that outcomes could be materially different to our estimates.

A key uncertainty in determining the ultimate financial impacts of the reforms will be how significant, or not, behavioural changes are. As observed in the body of our report, South Australia's workers compensation system is regarded as being relatively litigious (compared to other states), and we have seen past examples of claimants changing behaviour in response to a change.

An important area that we have not been able to consider as yet (as there is no information available) is how the reforms will change the way Impairment Assessment Guidelines operate. These Guidelines are a crucial feature of how the Scheme works in practice given the legislative design's reliance on WPI assessments. If changes are made to the Guidelines that impact on WPI scores then the financial outcomes could be very significant.

12.2.2 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.

Until there is 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.

12.2.3 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.

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.

12.3 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, external screening continues to take place. As such, it is possible that more silicosis claims could emerge over time, and we will continue to monitor developments regarding this area of risk.

12.4 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.

13 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 $15m 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.

2021-22

The *Return to Work (Scheme Sustainability) Amendment Act 2022* was passed in July 2022, with major changes to the scheme and claimant entitlements. The key changes relate to:

- Codifying the 'combining' of injuries for assessment of WPI, which is used to determine lump sum entitlements and serious injury eligibility
- Increasing the serious injury threshold to 35% WPI for physical injuries
- Revising the WPI scale for lump sum benefits to align to the increase of the serious injury threshold (by specifying the scale between 30 and 34% WPI)
- Allow seriously injured workers to elect to receive an economic loss lump sum (as per the economic loss lump sum scale) instead of ongoing income support entitlements
- Allow seriously injured workers to negotiate a settlement of their medical entitlements as a redemption
- Remove the concept of 'once and for all' impairment assessments with allowance for additional injuries to be assessed if they occur after an earlier impairment assessment is completed. These additional injuries cannot be combined with the earlier assessment and will be assessed individually.