

WORKPLACE RISK

WORKERS' COMPENSATION OUTLOOK

May 2009

As we approach the 30 June renewal period, the workers' compensation schemes "Government Managed Funds" have started to release financial results for the 6 months period to 31 December 2008.

This Workplace Risk Outlook provides an overview of the financial climate and impact on each of the State schemes. We consider the implications that investment results are likely to have on employers across the country this renewal.

VICTORIAN UPDATE

The Victorian WorkCover Authority have advised a whopping \$1.42bn net loss in the 6 months to 31 December 2008 due to investment downturns.

This result now provides a 94% funded position at December 2008, compared to 136% funded position for the same time in December 2007. The scheme's funding ratio has now dipped below 100% for the first time since the 1999/2000 year.

Following the State budget on 5 May, whilst the scheme's funding ratio has reduced, the Victorian Government have left the average premium rate for 2009/10 unchanged at 1.387% of an employer's payroll.

NEW SOUTH WALES UPDATE

The NSW WorkCover Authority have been the last of the major States to release its financial results, confirming its loss of \$1.77bn. Compared to its 2007-08 earnings of \$625m surplus, it has taken a \$2.3bn hit over 12 months.

With this reported loss, the overall funding position moves from being 114% funded in December 2007 to 94% funded in December 2008.

Whilst the scheme has slumped, there are strong indications that premium rates won't increase, thus providing employers with financial assistance in managing workers' compensation expenditure.

SOUTH AUSTRALIAN UPDATE

Having had the highest average rate of all "Government" States for the past 5 years, the SA WorkCover Scheme's performance continues to deteriorate, with the SA WorkCover Corporation recently announcing that the unfunded liability has blown out to \$1.3bn in the half-year result to 31 December 2008. This latest unfunded liability position has occurred due to a \$313m loss being recorded in the 6 months to 31 December 2008.

The latest results announcement has seen the scheme move even further into the red, to a 51.7% funding position.

SA WorkCover CEO Julia Davison has advised that "looking at scheme levies in hindsight, it has become clear that in most years the levy rates have been too low to fully pay for claims that are incurred in that year."

From an employer's perspective based on this result, WorkCover have announced that the average workers' compensation levy rate for 2009-2010 would remain at 3%, despite the government earlier flagging it would drop to 2.75%.

RISK STATES:

WESTERN AUSTRALIA

WorkCover WA board chair Greg Joyce announced an average 9.9% increase in workers' compensation premium rates for 2009-2010.

Joyce said the average recommended premium rate would be 1.738% of total wages for 2009-10, up from 1.582% in 2008-09.

"WA has experienced historically low recommended premium rates over the past few years and this year's recommended premium rates will still be below the level set in 2007." Joyce said "recent reductions in real rates of return" had exerted significant "upward pressure" on premium rates. "The impact of the global financial circumstances on WA industry may not yet be fully realised. Joyce went on to say that "WorkCover will continue to monitor the impact of economic change on the key drivers of premium rates, and will respond, should the need arise."

Following the Western Australian lead, the remaining Risk States, (Tasmania, Australian Capital Territory and Northern Territory) are also looking to increase premium rates to counter reductions in their investment incomes.

PRIOR YEAR TRENDS

As each of the Government schemes continue to announce losses for the 6 months to 31 December 2008, it will be interesting to see how the premium rates will be impacted and to what level.

The table below considers the last 2 years average premium rates.

Australian Average premium rate	2008	2007
Queensland	1.15	1.20
New South Wales	1.77	1.86
Victoria	1.46	1.62
South Australia	3.00	3.00
Western Australia	1.85	2.12
Tasmania	1.94	1.95
Australian Capital Territory	n/a	3.15
Northern Territory	n/a	2.40
Comcare	1.55	1.77

Source: WorkCover Qld Annual Report June 2008

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For further
information,
please contact:

NATIONAL
Anna Puccio
puccioa@willis.com
+61 3 8681 9805

Peter Madden
maddenp@willis.com
+61 3 8681 9834

New South Wales
Gary McMullen
mcmulleng@willis.com
+61 2 9285 4142

Victoria
Steven Cakarc
cakarcis@willis.com
+61 3 8681 9882

Western Australia
Mary Cropley
cropleym@willis.com
+61 8 9420 9212

Willis Australia Ltd
Level 5
570 Bourke Street
Melbourne VIC 3000
www.willis.com.au

Willis' Workplace Risk Practice is the leading provider of strategic Workplace Risk services to Australian businesses. We specialise in three core areas of Workplace Risk including:

• Workers' Compensation Insurance • Self Insurance (including Comcare) • Safety

NATIONAL UPDATE

As previously advised, the Federal Government's imposed a Moratorium, introduced on 9th December 2007 to consider New Applications into the Comcare Scheme. To date, there has no been no indication from the Government that they are planning to remove this moratorium. In addition to the moratorium, the Government's Review of the scheme, saw the final report delivered to them on 31 July 2008 and as yet the Government have not provided comment, or responded to it.

Despite the ACTU having been a major critic of Major Employers entering Comcare Scheme, they have now called on the government to release the "long-awaited response to the Comcare review which has been with the government..."

Upon release of further information form the Government, Willis will continue to advise you on the opportunities available.

NATIONAL WORKERS' COMPENSATION OUTLOOK

Given the scheme losses being announced by the respective States, we consider the outlook for each of the State schemes in light of these losses and what employers should consider.

New South Wales		
CLOUDY	FAIR	SUNNY
<p>The Scheme has reported a \$1.77bn deficit with the scheme now 94% funded.</p> <p>For employers, the scheme's strong performance in the past 3 years prior has provided consecutive years of average rate reductions. In 2009/10 it is unlikely that employers will see further average rates reductions, however there is an to consider the newly introduced "Burning Cost" premium option.</p>		
Victoria		
CLOUDY	FAIR	SUNNY
<p>The Scheme has reported a \$1.42bn deficit and is now at a 94% funding position. Victoria continues to be the second lowest average rated State in the country.</p> <p>Whilst further reductions in rates are unlikely, opportunities for rate reductions will still apply for good performing employers.</p>		
Queensland		
CLOUDY	FAIR	SUNNY
<p>The Scheme remains steady and in surplus and continue its position of providing the lowest average rate in the country.</p> <p>We anticipate that there will be no significant material changes to the current scheme or benefits structure in the 2009/10 renewal period.</p>		
South Australia		
CLOUDY	FAIR	SUNNY
<p>The Scheme continues to perform in the red announcing that its deficit has increased to \$1.3bn. For employers there is no likely relief on average rates which we believe will remain at 3% .</p> <p>Whilst the scheme introduced changes from 1 January 2009 at several levels aiming to increase return to work rates and ultimately the unfunded liabilities, the benefits to the approach are yet to be seen.</p>		
Western Australia		
CLOUDY	FAIR	SUNNY
<p>This Privatised scheme indicates that for employers the hardening market will see an average rate increase of 9.9% in the 2009/10 renewal period.</p> <p>The Average recommended premium rate for the 2009/10 year is 1.738% of total wages, up from 1.582% in 2008-09.</p>		
Tasmania		
CLOUDY	FAIR	SUNNY
<p>We expect Insurers to seek slightly increased premium rates during 2009/10 renewal period.</p> <p>Despite this upward push, we believe that Premium rate reduction opportunities will still be available for good performing employers.</p>		
Australian Capital Territory		
CLOUDY	FAIR	SUNNY
<p>We expect Insurers to seek slightly increased premium rates during 2009/10 renewal period.</p> <p>Despite this upward push, we believe that Premium rate reduction opportunities will still be available for good performing employers.</p>		
Northern Territory		
CLOUDY	FAIR	SUNNY
<p>We expect Insurers to seek slightly increased premium rates during 2009/10 renewal period.</p> <p>Despite this upward push, we believe that Premium rate reduction opportunities will still be available for good performing employers.</p>		

Willis consider that whilst the premium calculations and State schemes continue to modify the workers' compensation landscape, the key focus for Australian business should continue to be:

- Safety conscious – reducing the potential of workplace injuries
- Returning injured employees to full time and sustainable duties as this will reduce costs
- Focusing on financial claims management principles that will ensure to optimise premium savings

Willis provide Insurance Market updates on all major lines of insurance. Our most recent publication "Insurance Market Update" was released in April 2009 and is available from your Willis Client Advocate.