



Institute of Actuaries of Australia

14 November 2003

Presiding Commissioner Mike Woods
National Workers' Compensation & OHS Frameworks Inquiry
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Presiding Commissioner

The Institute of Actuaries of Australia (IAAust) appreciates the opportunity to examine and comment on the Commission's Interim Report on *National Workers' Compensation and Occupational Health and Safety Frameworks*.

In its report, the Commission has demonstrated a thorough understanding of the complexities of workers' compensation and the politicised nature of the environment in which the schemes operate. The IAAust strongly supports the focus, highlighted throughout the report, on prudential management of workers' compensation schemes and self-insurers.

The IAAust supports the Commission's recommendations seeking to achieve greater consistency between the various State and Territory approaches to both workers' compensation and OHS. It also supports the thrust of the proposals for national coverage.

Models B and C in the workers' compensation national framework proposals involve establishment of a new national scheme, to operate as an alternative to the existing schemes. The IAAust notes that these proposals are largely conceptual and would welcome the opportunity to comment further on scheme design and operational issues for such new schemes when the implementation of the Commission's proposals comes up for consideration. Actuaries, based on their education, training and experience, are well placed to assist and we would encourage the Commission to explicitly recommend that actuarial advice be sought throughout the feasibility, design and establishment phases of the proposed schemes.

In terms of the detail of the report, we would like to take this opportunity to clarify a number of points raised in our submission, which have been quoted in the Interim Report. Our position on two points, in particular, may have been misunderstood:

- A comment on page 166 of the Interim Report may be misinterpreted as implying that the IAAust believes that common law benefits should not be included in workers' compensation schemes. The IAAust does not have a stated position on the inclusion or exclusion of access to common law under workers' compensation. Our submission stated that common law benefits and statutory benefits could co-exist, but recognised a number of problems (including the fault/no-fault issue you refer to in the report).

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- On page 210, the Report suggests that the IAAust believes that schemes, both publicly and privately underwritten, are currently not charging premiums on a fully-funded basis. The IAAust does not hold this position. We do believe that the politically sensitive nature of the premium rates introduces a risk of rates being depressed for political purposes, and that this is clearly a contributing factor to the unfunded liabilities and insurance losses seen in all schemes at some point in their history.

The IAAust also wishes to comment on a suggestion by the Commission on page 227 of the Interim Report that experience rating could be improved by "simplifying formulae and removing arbitrarily determined credibility and F-factors in formulae." This repeats a common misconception. We accept that the formulae and factors are not well understood, but we do not agree with the description of them as "arbitrary".

- The most common formula can only be simplified at the expense of fairness, as between new and established employers, or by using a shorter experience period, which makes it less reliable.
- The credibility factors are set on the basis of actuarial advice, resting on a well-established theoretical foundation. They are intended to provide an appropriate balance between stability in the face of the random variation that dominates the experience of smaller employers and sensitivity to the real differences seen in the experience of larger employers.
- The F-factors are calculated to achieve the required total levy collection.
- A key issue with F factors is that they become distorted by cross-subsidies, implicit loadings, etc. The problems associated with F factors might therefore be attributed to them being used for purposes other than those consistent with the pricing principles of transparency and equity, which in turn leads to problems in communicating their nature and function.

At this time, the IAAust does not intend to present a submission at the public hearings in December 2003. However, if there are any further questions that the Commissioners would like to put to us, arising out of those hearings or otherwise, we would be happy to attempt to provide answers or commentary, either verbally or in the form of a subsequent written submission.

Please contact Catherine Beall, Chief Executive on tel: (02) 9239 6106 or [email: catherine.beall@actuaries.asn.au](mailto:catherine.beall@actuaries.asn.au) if you consider that the IAAust can be of further assistance.

Yours sincerely



Chris Lewis
President