



Australian Government
Comcare

PUTTING YOU FIRST

Mr Craig Roy
DCE Science Strategy & People
Commonwealth Scientific and Industrial Research Organisation
Black Mountain Laboratories
Clunies Ross St
ACTON ACT 2601

Dear Mr Roy

Workers' compensation premiums

I am writing to provide an early indication of premiums for 2012-13 for all larger premium-paying agencies (those with a 2011-12 premium of more than \$100,000).

Comcare has received the preliminary actuarial estimate of outstanding claims liabilities for the workers' compensation scheme. The scheme is under pressure. Liabilities have grown significantly and reflect:

- An increasing number of people harmed at work, in particular the incidence of mental harm claims;
- People harmed at work are not recovering as quickly as they should, evidenced by increases in the average duration of lost time for recent claims and poor return to work for long-term incapacity claims;
- External economic factors such as the mismatch between market inflation expectations and interest rates.

Comcare commissioned an independent peer review of the liability valuation to provide certainty and assurance. It confirmed the appropriateness of the actuarial models and the liability estimates given the adverse trends described above.

This indicates that a significant increase in Comcare's premium revenue will be required in 2012-13. Federal law requires Comcare to cover the estimated cost of workers' compensation claims expected to occur in the premium year. Also, Comcare must restore the scheme's funding position as it is expected to be significantly reduced by these adverse trends.

The premium rate for each agency responds to the claim frequency and average cost of claims from that agency as well as broader scheme trends. Even agencies with improving performance may experience increased premium due to the 'rising tide' effect of scheme funding pressures but these increases will be lower than the average.

Your agency's claim experience shows

- deterioration in the cost of claims from the 2008-2010 injury years
- unfavourable experience beginning to emerge for the 2011 injury year

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28 June 2012

Dr Megan Clark
Chief Executive Officer
Commonwealth Scientific and Industrial Research Organisation
PO Box 225
DICKSON ACT 2602

Dear Dr Clark

Workers' compensation premium and regulatory contribution

I write to advise you of your agency's workers' compensation premium and regulatory contribution for 2012-13 under the Comcare scheme.

Premium

I advise that your agency's premium for 2012-13 is \$4,951,300 (inclusive of GST).

Comcare has a statutory requirement to set a premium pool which covers the estimated lifetime cost of workers' compensation claims expected to occur in the premium year. Based on peer-reviewed, independent actuarial advice, the overall premium pool for the Commonwealth sector needs to increase to 1.77 per cent of payroll for 2012-13 (from 1.41% for 2011-12) to meet the estimated cost of claims.

This increase reflects that people harmed at work in federal workplaces are not recovering as quickly as they should, evidenced by increases in the average duration of lost time for recent claims and poor return to work for long-term incapacity claims. Reductions in market interest rates this year have also contributed to the increase.

The adverse trends in the duration and cost of claims have significantly increased Comcare's liabilities for outstanding claims. By setting the 2012-13 overall premium pool at 1.77 per cent of payroll, Comcare is striking a balance between the requirement to meet the increase in claims cost and a medium-term path to strengthen the scheme's funding position. The action Comcare is taking to address the increasing complexity and cost of claims and the increase in premiums in 2012-13 will assist to return the scheme to a sustainable funding position over time. However, on the current actuarial projections, further premium increases are likely to be required in future years.

Under Comcare's premium model, which is unchanged from 2011-12, each agency's premium also responds to its own work health and safety and rehabilitation performance. Performance is measured by the number of claims and their estimated lifetime cost. Federal law also allows for a revision of a previous year's premium rate to reflect the development of claims arising from injury or disease suffered in previous years, in the form of a bonus or penalty premium component.

Your agency's premium for 2012-13 has been calculated taking into account your agency's number of claims and their estimated lifetime cost as well as the total premium pool needed for the Commonwealth sector. The premium is based on:

- a 2012-13 premium rate for your agency of 0.67% of 2012-13 payroll. The early development of injury year 2011 indicates more claims for injuries suffered in 2011 than for injuries suffered in 2010.

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- a revision of the 2011–12 premium rate for your agency from 0.33% to 0.47% of 2011–12 payroll. The revision responded to the development of your agency's claims for injuries suffered in 2008, 2009 and 2010. The development of your agency's claims has increased the estimated cost of claims for all of these injury years.

Regulatory contribution

Under federal law, Comcare is required to collect contributions from employers to fund its regulatory activity in respect of work health and safety, rehabilitation and compensation. These amounts are determined in accordance with principles outlined in the *Australian Government Cost Recovery Guidelines*.

Accordingly I advise that your agency's regulatory contribution for 2012–13 is \$350,817.

Invoice

The invoice for the 2012–13 premium and regulatory contribution will be sent directly to your finance section with a copy of this letter.

Supporting information and right of review

We have attached to this letter an explanation of the methodology for determining premiums and regulatory contributions together with details of the specific data and calculations for your agency.

If you wish to discuss any aspect of the premium or regulatory charges, please contact Mr Rodney Smith, Director Prudential Management, on (02) 8218 3790 or by email rodney.smith@comcare.gov.au.

As explained in the attached guides, federal law allows a review of the premium and regulatory charges outlined in this notification. Please note that requesting a review does not affect an agency's obligation to make payment by the due date.

Future goals

At Comcare we recognise the key role which employers play to reduce harm and support workers in their recovery and return to work. We will continue to support you to improve injury prevention and rehabilitation outcomes. Your commitment is important to promote worker health and wellbeing and assist harmed workers in their return to health and work.

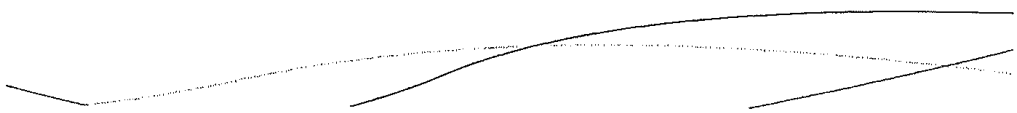
I look forward to working closely with you in the future.

Yours sincerely

s47F

Steve Kibble

Deputy CEO





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| | Last year 2011–12 | This year 2012–13 | |
|----------------------------------|-----------------------|----------------------------------|--|
| Bonus amount or a penalty amount | \$58,500 (a bonus) | \$844,200 (a penalty) | This amount is due to a revision of the 2011–12 premium for this agency: From 0.33% To 0.47% This revision responded to development to the end of February 2012 of this agency's claims for injuries suffered in 2008, 2009 and 2010. Page 2 shows claim information. |
| Prescribed amount | \$1,989,900 | \$4,107,100 | The prescribed amount depends on: 1 The payroll. - The 2011–12 payroll was \$603,000,000 - The 2012–13 payroll is \$613,000,000 2 The agency's premium rate. - The rate for 2011–12 was 0.33% (now revised to) 0.47% - The rate for 2012–13 is 0.67% Factors affecting the 2012–13 premium rate for this agency include i. The revised 2011–12 rate which is the starting point for calculating the 2012–13 rate. ii Trends in the number and cost of this agency's claims for injuries suffered in 2011 and earlier. iii. Trends in the number and cost of claims for all agencies combined. iv. The total amount that Comcare needs to collect from all agencies combined. Page 2 shows claim information. |
| Premium | \$1,931,400 | \$4,951,300 | |

The table below shows premium rates over several years.

| Premium rates | 2009–10 | 2010–11 | 2011–12 | 2012–13 |
|---|---------|---------|---------|---------|
| Latest premium rates for this | 0.26% | 0.40% | 0.47% | 0.67% |
| Premium rates for all agencies combined | 1.25% | 1.20% | 1.41% | 1.77% |

(our ref. C081/P256)



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| This agency's claims | Injuries suffered in | | | |
|--|----------------------|----------|----------|----------|
| | 2008 | 2009 | 2010 | 2011 |
| Number of claims | | | | |
| Includes overall allowance for claims not yet accepted. | | | | |
| Estimate at June 2011 | 80.7 | 89.5 | 69.7 | |
| Estimate at June 2012 | 81.2 | 90.2 | 71.7 | 84.4 |
| Estimated total (lifetime) claim cost | | | | |
| | \$M | \$M | \$M | \$M |
| Development to end February 2011 | 0.716 | 2.023 | 1.385 | |
| Development to end February 2012 | 1.100 | 3.095 | 2.789 | 3.297 |
| Excluding claim processing and administration costs. | | | | |
| Estimates for an injury year become more influential as the claims develop and the estimates become more reliable. A significant increase in influence applies when an injury year is assessed the second time for premium calculations. | | | | |
| Estimated total (lifetime) claim cost after capping (below the cap cost for each claim plus 5%) | | | | |
| | \$M | \$M | \$M | \$M |
| Development to end February 2011 | 0.752 | 2.127 | 1.458 | |
| Development to end February 2012 | 1.155 | 3.009 | 2.935 | 2.853 |
| Claim frequency (claims per \$M payroll) | | | | |
| Estimate at June 2011 | 0.15 | 0.16 | 0.12 | |
| Estimate at June 2012 | 0.15 | 0.16 | 0.13 | 0.14 |
| Average (lifetime) claim cost (after capping) | | | | |
| Development to end February 2011 | \$9,321 | \$23,763 | \$20,927 | |
| Development to end February 2012 | \$14,219 | \$33,355 | \$40,921 | \$33,809 |

All agencies' claims (for comparison)

| | | | | |
|--|----------|----------|----------|----------|
| Claim frequency (claims per \$M payroll) | | | | |
| Estimate at June 2011 | 0.21 | 0.18 | 0.18 | |
| Estimate at June 2012 | 0.21 | 0.18 | 0.18 | 0.16 |
| Average (lifetime) claim cost | | | | |
| Development to end February 2011 | \$48,425 | \$54,914 | \$63,635 | |
| Development to end February 2012 | \$56,050 | \$62,302 | \$71,949 | \$74,771 |

(our ref. C081/P256)

2012–13 Regulatory Contribution Quick Reference Sheet



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The regulatory contribution is \$350,817.

The regulatory contribution comprises:

- \$46,930 to fund the costs of regulatory functions under the SRC Act. For 2012–13 this component is 0.01142647 times the premium without bonus or penalty.
- \$303,887 to fund the costs of functions under the WHS Act.
This is attributed to agencies based on:
 - Reactive investigations component based on the number of investigations in 2010 & 2011.
 - Disputed PIN investigations component based on the number of investigations in 2010 & 2011.
 - Size component. This part depends on the agency's FTE number of employees. This is a balancing item to ensure that the total amount collected for the WHS Act across all employers matches the total costs of WHS Act functions.

2012–13 Premium without bonus or penalty is \$4,107,100.

2012–13 Estimate of Full Time Equivalentents (FTE) provided by your agency is 6,528.

WHS Act Investigations for your agency:

| Calendar year | 2010 | 2011 |
|--------------------------------------|------|------|
| Count of reactive investigations | 0 | 1 |
| Count of disputed PIN investigations | 0 | 0 |

For details of WHS investigations please call the Regulatory Services Support Team, Regulatory Services Group on 03 9914 6324 or email whsplan@comcare.gov.au