



# **Appendix A**

## **The WorkCover Premium System**

### **A Technical Summary**

## INTRODUCTION

An employer must take out a WorkCover insurance policy if the employer employs workers in Victoria and:

- annual remuneration is more than \$7,500, or the employer believes on reasonable grounds that it will be more than \$7,500; or
- the annual remuneration is \$7,500 or less or the employer believes on reasonable grounds that it will be \$7,500 or less, but the employer employs apprentices.

Where an employer believes that annual remuneration is \$7,500 or less and does not employ apprentices, the employer has a deemed insurance policy with WorkCover.

The WorkCover insurance policy is issued for a policy period that runs from 1 July to 30 June for each financial year.

The WorkCover premium for each employer is calculated in accordance with the Premiums Order that is made by the Governor-in-Council prior to the commencement of each policy period. The Premiums Order stipulates the methods to be used in calculating the premium payable. The premium is calculated for each individual workplace of the employer, and then aggregated to form the employer's premium.

## 1. THE PREMIUM CYCLE

### *1.1 Initial Premium Process*

Prior to the beginning of each policy period, usually in March, a “**preliminary premium package**” is sent to all registered employers. The purpose of this package is to request employers to provide their estimate of remuneration for the next policy period. The package also includes:

- a booklet that is entitled “***What is remuneration***” to assist employers in determining what is remuneration for WorkCover purposes; and
- where applicable, a WorkCover claims information statement for employers with claims to verify their claims costs.

In June of each year (delayed until July in 2000), WorkCover sends the “**initial WorkCover premium package**” to all employers to advise them of their initial premium for the policy period (1 July to 30 June). The package also includes:

- a booklet entitled “***WorkCover Premiums***” that explains how premium is calculated;
- where applicable, a WorkCover claims statement to inform employers of their revised claims costs; and
- details of any instalment options for paying premium.

## ***1.2 Payments of Premium***

The initial premium is payable as follows:

- If an employer pays the annual premium in advance, normally at the beginning of August, the employer's premium is discounted by 5%.
- If the premium is less than \$1,000, the premium must be paid by way of an annual instalment in mid August.
- If the premium is less than \$50,000, the premium is payable by quarterly instalments on the first day of September, December, March and June.
- If the premium is \$50,000 or more, the premium is payable by twelve equal monthly instalments seven days after the end of the month.

In addition to the above methods of payments, authorised agents may enter into payment arrangements, where an employer demonstrates financial difficulties in paying premium.

## ***1.3 Initial premium***

The initial premium is calculated for the workplace of an employer on the basis of:

- the estimated remuneration for the workplace provided by the employer, or if an estimate is not provided, then the remuneration is estimated based on the latest information available to WorkCover;
- the sizing factor of the employer;
- the experience factor of the workplace (the experience is a ratio of claims costs to remuneration for the last two financial years);
- the industry classification of the workplace; and
- the prior rate of the workplace.

## ***1.4 Final Premium***

If an employer ceases within the policy period, a final premium is calculated. Normally, employers that cease within the policy period would receive a refund of their premium if they paid their premium in advance.

The final premium is calculated on the same basis as the initial premium, except that the final premium accounts for the remuneration and the claims costs for claims received by the authorised agent up to the date the WorkCover policy ceases during the policy period. The employer has to certify the remuneration of the workplace up to the date it ceases. Therefore the experience factor takes into consideration the remuneration and the claims costs in the two prior financial years and the partial financial year up to the ceased date.

### ***1.5 Confirmed Premium***

Premium for a policy period is confirmed at the end of each policy period. Prior to the end of a policy period, around June, all employers are asked to certify their remuneration for the current ending policy period.

For employers that have certified their remuneration for the year and do not have any claims received for the last three financial years, an early confirmed premium is calculated either at the end of July or the end of August.

For employers with claims that have been received by the authorised agents, they have to certify their remuneration and verify their claims costs prior to the major confirmed premium calculations which is run at the end of September for the previous policy year.

For employers that do not certify their remuneration, a confirmed premium is usually calculated at the end of November, when WorkCover assesses their remuneration on the basis of the available information. (For 2000/01 the confirmed premium run will be occurring in early February 2001). Following the confirmed premium calculation, employers are advised of the adjusted premium and whether they have a refund or an additional amount payable.

The confirmed premium is calculated on the same basis as the initial premium, except that the confirmed premium takes into account the remuneration and the claims costs for claims received by the authorised agent during the premium period and the previous two years. The confirmed premium is a mechanism to ensure that employers pay the correct premium for the policy period in light of the year's claims experience.

## **2. FORMULA FOR CALCULATING 2000/01 WORKCOVER PREMIUMS**

### ***2.1 The basic formula for calculation of an employer's premium is:***

$$P = (WP + B - Q) \times G$$

Where:

P = Premium payable for a policy period.

WP = WorkCover premium of an employer.

B = Buy-out premium (an extra 25% of WP) – optional  
If an employer takes up the buy-out option, the costs for the first 10 days of a weekly compensation benefits and the first \$440 of medical and like services are paid by WorkCover. If the buy-out option is not taken up, the employer is responsible for these costs on each claim.

Q = Recovery rebate (applicable only for confirmed premium if recoveries of claim costs have occurred and such claim costs were previously used in the premium calculations.

G = The GST which is equivalent to 1/11<sup>th</sup> of the premium payable.  
GST is added after the calculation of WorkCover premium, buy-out and recovery rebate.

### ***2.2 The WorkCover Premium (WP)***

The WorkCover premium of an employer is the amount derived by obtaining the sum of the premium for the period of coverage of all the employer's workplaces and multiplying that result by 1.17.

The 1.17 represents the general 17% premium increase for 2000/2001 that had two components:

Firstly, the WorkCover premium included a general premium increase of 15%. This general increase is required to ensure that the WorkCover scheme returns to a fully funded position and to meet the costs of legislative changes, including restoring common law access to injured workers.

Secondly, a further 2% was required to fund the flow on effects arising from the Federal Government New Tax System:-

The mix of an employer's own remuneration, claims experience and the prior rate are used to calculate premium. The mix of these factors is based on the size of the employer commonly referred to as the sizing and experience adjustment factor. This factor ensures that:

- small employers pay a premium that more closely reflects their prior rate which in turn is closely linked to the industry rate; and
- large employers pay a premium that more closely reflects their own experience (ie their own claims cost/remuneration history).

The WorkCover premium for each workplace is determined by multiplying the WorkCover Premium Rate by the workplaces remuneration.

$$\mathbf{WP = PR \times W}$$

Where:

**W** = Rateable remuneration of the workplace minus the remuneration deductible. The deductible is \$15,500 if the employer has a single workplace. If an employer has more than one workplace, the deductible is  $\$15,500 \div n$  where n is the number of workplaces operated by the employer. The deductible for each employer is a maximum of \$15,500.

If an employer operates for only part of the financial year the \$15,500 is reduced on a pro rata basis.

**PR** = WorkCover Premium Rate.

### 2.3 *WorkCover Premium Rate (PR)*

The WorkCover premium rate of a workplace is either:

- the industry rate if the workplace is a new workplace without a predecessor workplace and registered for the first time in 2000/01; or
- a mix of the workplace's prior rate and its experience.

$$\mathbf{PR = [(1-Z) \times R + Z \times E]}$$

Where:

**Z** Is the sizing factor.

**R** Is the prior rate for the workplace for the prior coverage period (1999/2000 for the 2000/01 initial premium) adjusted for any changes in the industry rate of the workplace for the coverage period (2000/01).

**E** Is the experience factor for a period of coverage of a workplace.

## **2.4     *The Sizing Factor (Z)***

The sizing factor determines the mix of prior rate and own experience of a workplace that is used to determine an employer's WorkCover Premium Rate.

The sizing factor is calculated by:

$$\mathbf{Z = \frac{0.9 \times X}{X + 360,000}}$$

Where:

X     =     The sum of ( $W_1 \times 1R_0$ ) for all workplaces of the employer

$W_1$    =     Is the workplace remuneration for 1999/2000.

$1R_0$    =     Is the 2000/01 industry rate applicable to the workplace.

If an employer's workplaces or workplace have a small remuneration and a low industry rate X is small which results in a small Z. The premium rate for each workplace operated by the employer will therefore be closely related to the workplaces' prior rate (i.e. the rate of the previous year adjusted for changes in industry rates). The experience of these workplaces will have little impact on their premium rate.

If the combination of remuneration and industry rate is large, then the major driver of the premium rate for each workplace will be the workplace's experience.

Examples of the mix of prior rate and experience for different employer remuneration and industry rates are:

**Table A 1: Industry Rate 2000/01**

| <b>1999/2000<br/>Remuneration</b> | <b>0.33%</b>      |                       | <b>0.71%</b>      |                       | <b>1.52%</b>      |                       | <b>3.26%</b>      |                       | <b>Exj</b> |
|-----------------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|------------|
|                                   | <b>Experience</b> | <b>Prior<br/>Rate</b> | <b>Experience</b> | <b>Prior<br/>Rate</b> | <b>Experience</b> | <b>Prior<br/>Rate</b> | <b>Experience</b> | <b>Prior<br/>Rate</b> |            |
| \$50,000                          | 0%                | 100%                  | 0%                | 100%                  | 0%                | 100%                  | 0%                | 100%                  |            |
| \$100,000                         | 0%                | 100%                  | 0%                | 100%                  | 0%                | 100%                  | 1%                | 99%                   |            |
| \$500,000                         | 0%                | 100%                  | 1%                | 99%                   | 2%                | 98%                   | 4%                | 96%                   |            |
| \$1,000,000                       | 1%                | 99%                   | 2%                | 98%                   | 4%                | 96%                   | 7%                | 93%                   |            |
| \$5,000,000                       | 4%                | 96%                   | 8%                | 92%                   | 16%               | 84%                   | 28%               | 72%                   |            |
| \$10,000,000                      | 8%                | 92%                   | 15%               | 85%                   | 27%               | 73%                   | 43%               | 57%                   |            |
| \$15,000,000                      | 11%               | 89%                   | 21%               | 79%                   | 35%               | 65%                   | 52%               | 48%                   |            |
| \$20,000,000                      | 14%               | 86%                   | 25%               | 75%                   | 41%               | 59%                   | 58%               | 42%                   |            |
| \$30,000,000                      | 19%               | 81%                   | 33%               | 67%                   | 50%               | 50%                   | 66%               | 34%                   |            |
| \$40,000,000                      | 24%               | 76%                   | 40%               | 60%                   | 57%               | 43%                   | 71%               | 29%                   |            |
| \$50,000,000                      | 28%               | 72%                   | 45%               | 55%                   | 61%               | 39%                   | 74%               | 26%                   |            |
| \$100,000,000                     | 43%               | 57%                   | 60%               | 40%                   | 73%               | 27%                   | 81%               | 19%                   |            |
| \$200,000,000                     | 58%               | 42%                   | 72%               | 28%                   | 80%               | 20%                   | 85%               | 15%                   |            |
| \$300,000,000                     | 66%               | 34%                   | 77%               | 23%                   | 83%               | 17%                   | 87%               | 13%                   |            |
| \$400,000,000                     | 71%               | 29%                   | 80%               | 20%                   | 85%               | 15%                   | 88%               | 12%                   |            |
| \$500,000,000                     | 74%               | 26%                   | 82%               | 18%                   | 86%               | 14%                   | 88%               | 12%                   |            |

The sizing factor is used to ensure that the experience used to calculate a workplace's premium rate is statistically c employers against a "catastrophic" event.



## 2.5 *Experience (E)*

For the initial premium calculation, experience is calculated as the ratio of claims costs to remuneration using the following formula:

$$E = \frac{(F_1 \times C_1) + (F_2 \times C_2)}{W_1 + W_2}$$

Where:

- $F_1$  Is the factor assigned to an agent for adjusting the costs of claims received in 1999/2000.
- $C_1$  Is the total costs of reported claims (including estimates) in 1999/2000 (less any excluded costs).
- $F_2$  Is the factor assigned to an agent for adjusting the costs of claims received in 1998/99.
- $C_2$  Is the total costs of reported claims (including estimates) in 1998/99 (less any excluded costs).
- $W_1$  Is remuneration for 1999/2000.
- $W_2$  Is remuneration for 1998/1999.

## 2.6 *“F” Factors*

In the initial premium calculation, the experience of a workplace is derived from the total expected costs of claims and remuneration for the workplace for the two years prior to the policy year.

The expected costs of claims for each workplace are estimated by the Agent. However, a loading is applied to the claims costs to:

- standardise differences in estimates between agents;
- adjust for the costs of claims that are incurred but not reported;
- ensure that the claims costs in the premium system reflect the underlying system costs as valued by the actuaries.

This loading is called the “F factors” and the F factors vary between coverage years and between agents. They are calculated by the Authority, and included in the premiums order which is approved by the Governor-in-Council. F factors are re-calculated for each policy period at initial premium and at confirmed premium. They are only relevant in the premium calculation for an employer who has had claims reported to an agent.

### 3. OTHER FACTORS IN PREMIUM CALCULATION

The other major factors in the premium calculation are capping of rate increases, buy-out, the recovery refund and the GST.

#### 3.1 *Rate Capping*

An employer premium rate increases (the sum of the premium of each workplace) are capped based on an employer's size. Generally, for small employers the capping restricts rate increases to no more than a 20% increase on last year's premium rate. For larger employers the capping is higher, increasing with employer size.

For the 2000/01 initial premium calculation, capping was applied before the general 17% increase was added.

The size of the capping applied varies with the total size of an employer's workplaces and the risk. The sizing factor used to determine the cap is the same as the factor used to determine the mix of experience and prior rate in the calculation of the WorkCover Premium Rate.

The capping formula is:

**Maximum Employer Premium Rate for 2000/01 = Premium rate for 1999/00 x (1.19 + 5Z<sup>5</sup>)**

Where:

$$Z = \frac{0.9 \times X}{X + 360,000}$$

X = the sum of (W<sub>1</sub> x 1R0) for all workplaces

W<sub>1</sub> Is the workplace remuneration for 1999/2000; and

1R0 Is the 2000/01 industry rate applicable to the workplace.

Examples of the mix of workplace remunerations and industry rates are:

**Table A 2 – Industry Rate 2000/01**

| <b>1999/2000<br/>Remuneration</b> | <b>0.33%</b> | <b>0.71%</b> | <b>1.52%</b> | <b>3.26%</b> | <b>5.78%</b> | <b>8.40%</b> |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| \$50,000                          | 119%         | 119%         | 119%         | 119%         | 119%         | 119%         |
| \$100,000                         | 119%         | 119%         | 119%         | 119%         | 119%         | 119%         |
| \$500,000                         | 119%         | 119%         | 119%         | 119%         | 119%         | 119%         |
| \$1,000,000                       | 119%         | 119%         | 119%         | 119%         | 119%         | 119%         |
| \$5,000,000                       | 119%         | 119%         | 119%         | 120%         | 124%         | 132%         |
| \$10,000,000                      | 119%         | 119%         | 120%         | 126%         | 145%         | 169%         |
| \$15,000,000                      | 119%         | 119%         | 122%         | 138%         | 171%         | 203%         |
| \$20,000,000                      | 119%         | 120%         | 125%         | 152%         | 195%         | 231%         |
| \$30,000,000                      | 119%         | 121%         | 135%         | 181%         | 234%         | 270%         |
| \$40,000,000                      | 119%         | 124%         | 148%         | 206%         | 262%         | 296%         |
| \$50,000,000                      | 120%         | 128%         | 161%         | 228%         | 283%         | 315%         |
| \$100,000,000                     | 126%         | 157%         | 221%         | 294%         | 337%         | 358%         |
| \$200,000,000                     | 152%         | 214%         | 288%         | 345%         | 372%         | 385%         |
| \$300,000,000                     | 182%         | 254%         | 321%         | 365%         | 385%         | 394%         |
| \$400,000,000                     | 207%         | 282%         | 340%         | 377%         | 392%         | 399%         |
| \$500,000,000                     | 229%         | 301%         | 353%         | 384%         | 397%         | 402%         |

### **3.2 Buy-Out Option (B)**

An employer can choose to take up the buy-out option. The buy-out option relieves an employer of liability to pay an excess on any claims. The excess is the first 10 days of WorkCover weekly compensation benefits paid to an injured worker who is off work, as well as the first \$440 of reasonable medical and like costs. (This amount applies from 1 July 2000 and is indexed every year in line with movements in average weekly earnings (AWE).)

If an employer elects to take the buy-out option and a worker makes a claim, the excess will be paid by WorkCover. To gain this coverage, a loading of 25% is applied to the employer's WorkCover premium.

The formula for the buy-out option (B) is:

$$\mathbf{B = WP \times 0.25}$$

Where:

WP Is the WorkCover premium

### **3.3 Recovery Rebate (Q)**

The formula for the recovery rebate is:

$$Q = (\text{sum of } K_c) \times Z \times F_R$$

Where:

$K_c$  Is the lesser of:

the actual recovery amount, and

$(C_{OR} + C_{IR} + C_{2R})/3$  less any recoveries previously used to calculate a recovery refund for the relevant claim.

$C_{OR}$  Are the costs of the relevant claim (including estimates) used in the employer's experience calculation during the experience period of the claim.

$C_{2R}$

$F_R$  Is the recovery F factor common for all agents.

### **3.4 GST (G)**

From 1 July 2000, the WorkCover premiums are subject to the Goods and Services Tax (GST) under The New Tax System enacted by the Commonwealth Government.

The GST is applied to the WorkCover premiums of all employers as a 10% loading after any buy-out or recovery refunds are taken into account.

The WorkCover Authority pays 1/11<sup>th</sup> of all premiums invoiced to the Australian Taxation Office (ATO). Most employers are entitled to claim an input tax credit from the ATO for the GST paid on the premium.

### **3.5 Rounding**

The premium rate (PR) is calculated to 6 decimal places.

The WorkCover premium (WP), buy-out option (B) and recovery refund (Q) are rounded down to the nearest cent.

### **3.6 Minimum Premium**

The minimum premium for employers who are liable to pay premium is \$148.50 (\$135 in premium plus \$13.50 for GST).

If an employer's premium is calculated as less than \$148.50 (including GST), then premium is set at \$148.50. This is also the rate that is charged to employers with annual remuneration of less than \$7,000 with deemed policies should they have a workers compensation claim.

#### **4. PREMIUM CALCULATION SEQUENCE AND ISSUES**

In calculating initial premium the sequencing of the calculations is as follows:

1. Calculate the WorkCover Premium Rate (PR) for each workplace:
  - mix of experience and prior rate;
  - sizing factor;
  - for employers with claims, F factors are applied to relevant claims costs.
2. Calculate WorkCover Premium (WP) for employer:
  - rate for each workplace is multiplied by the workplace remuneration less appropriate deductible;
  - workplace premium is totalled to determine employer's premium;
3. Capping is applied if required. Rate increases capped at 20% for smaller employers and capping increases with employer size.
4. The 17% loading is applied to the employer's WorkCover premium to cover the Legislation changes, to fund the deficit and cover the flow-on costs from The New Tax System
5. Buy-out and the Recovery Refund are applied if applicable.
6. GST is added at a rate of 10%.
7. If the calculated premium is less than the minimum premium amount set by the Premiums Order of \$148.50 (\$135 plus \$13.50 GST), the minimum premium amount is charged.

## 5. PREMIUM COMPONENTS

This section attempts to further explain some of the key premium components.

### 5.1 *Remuneration*

The concept of “remuneration” is important for two reasons:

1. Employers must declare their remuneration as this is one of the key components used to calculate premium. Each year an employer is asked to certify the remuneration paid in the preceding financial year, and to estimate for the next financial year. It is also an employer’s responsibility to notify the agent of changes of 20% or more in the remuneration base. An employer has 28 days from becoming aware of such a change, in which to notify the agent.
2. The size of the remuneration base determines whether the employer is a “large” employer or a “small” employer. A specific calculation is used to determine this, called the “Z” or the sizing and adjustment factor. It is an important concept since the size of the employer’s remuneration base determines whether the employer is more likely to pay according to their own claims costs experience, or whether the employer is more likely to pay according to the industry rate. This is because the sizing and adjustment factor operates like a sliding scale. Large employers pay premium according to their experience and small employers pay premium closely linked to their industry rate.

The lowest any employer can pay is 10% of the industry rate. Whilst generally an employer’s increase will be limited to 20% on what was paid last year, the sizing & adjustment factor is linked to rate capping mechanism. This means that the larger the employer’s remuneration base, the more likely the employer will pay \$ for \$ on the claims costs generated.

3. The “what is remuneration 2000/2001?” brochure explains the elements of remuneration in more detail. The basic elements are:
  - Gross wages;
  - Salaries (including overtime and leave loadings);
  - Bonuses;
  - Commissions;
  - Allowances;
  - Items included as part of an employment package;
  - Fringe benefits within the meaning of the Fringe Benefit Tax Assessment Act 1986;
  - Superannuation benefit paid by an employer for a worker;
  - Remuneration can be in both cash or kind.

4. Employers were asked to estimate remuneration for the 2000/01 year. The “estimate of rateable remuneration” was sent to employers on 15 March 2000. Employers were required to return the completed estimate to agents by 28 April 2000.
5. Approximately 40% of employers failed to notify agents of the estimate. As a result, these employers received a 20% increase on their estimate for 1999/00. This “increased” figure was the figure used in the initial premium calculation. Most of these employers are relatively small.
6. Those employers who failed to advise and received the “increased” remuneration figure can apply for a re-calculation

## **5.2 *Remuneration Deductible***

The remuneration deductible is \$15,500 and for every employer \$15,500 is deducted from remuneration before it is multiplied by the premium rate.

Small employers whose remuneration falls between \$7,500 and \$15,500 or those who only employ apprentices will pay the minimum premium of \$135 for the policy period 2000/10 plus \$13.50 for GST which equals \$148.50.

## **5.3 *Claims Costs***

Each year employers are asked to review the claims costs as recorded before the initial premium calculation is done. Employers were asked to review the claims statements sent to them as part of the initial mail out dated 15 March 2000, and were required to return the statements with any changes by 28 April 2000.

The agent of the employer estimates the future costs of a claim for an employer. The costs of a claim include all payments of compensation (for examples weekly benefits, medical and like benefits, common law etc) made by the agent and the future estimate for the outstanding liability on that claim.

The maximum cost included in premium calculations for an individual claim in the 2000/01 year is capped at \$156,800. This is an increase from \$150,000 in previous years in line with CPI/AWE changes over the period since this maximum was increased to \$150,000 in 1997/98.

Claims costs used in the premium calculation for 2000/01 were extracted on 6 May 2000. These costs will not be changed until confirmed premium is calculated in September 2001.

#### **5.4 *Claims Costs And F Factors***

The F factor is an equalising factor included in the calculation of an employer's experience for an individual workplace.

The purpose of the F factor is to cover the difference between the costs as recorded and the independent actuarial assessment of the fully developed costs incurred in any one policy year.

The F factor is applied to an agent's portfolio. Differences between F factors for different agents reflect differences in the construction of an agent's portfolio.

When an individual employer's experience rate is calculated at an individual workplace, the F factor of the agent who was managing the claim at the time that the claim costs were extracted for calculation of premium is used.

#### **5.5 *New Legislative Package***

In May 2000 Parliament passed a package of reforms to the Accident Compensation Act.

This package included:

the re-introduction of common law entitlements;  
inclusion of regular overtime and leave loading in calculation of weekly payments;  
increased amounts for permanent disability payments.

All employers premiums were increased by 15% to cover the cost of this legislative package and to fund WorkCover's deficit.

#### **5.6 *Impacts of the new tax system on premium***

In addition to the application of GST to premium, the new tax system has resulted in increased costs which represent a 2% increase in premium. The reasons for the increased cost are:

- WorkCover costs were not subject to other taxes in the past, and therefore there were few embedded tax savings to offset the impact of the GST;
- WorkCover has only limited ability to claim tax credits on the GST paid on certain outlays; and
- Increases due to the flow on effects of income tax reductions and CPI increases.



In relation to the second point, under the Federal Government's New Tax System, workers compensation insurance payments are classified as either a "settlement" or a "non-settlement". WorkCover can claim tax credits on all non-settlements, but not on settlement costs. Settlements costs which include GST and where WorkCover may not be able to claim a tax credit include workers' legal costs, household services and burial costs - to name a few.

### ***5.7 Average Premium***

The average premium rate is the average paid across the state. Clearly some individual employers will pay more than the average and some will pay less based on experience.

The average premium rate will rise from 1.9% of remuneration to 2.18%. This is a 15% increase on last year's average. This increase is due to the government seeking to meet its electoral promises by implementing a package of reforms to workers compensation. These reforms are not limited to but include the re-introduction of common law.(See explanation above)

As a result of meeting the flow on effects arising from the introduction of the new federal tax system (which coincides with the implementation of legislative reform in Victoria) independent actuaries have estimated a further 2% average increase in premium is required (ie an average premium rate of 2.22%).

### ***5.8 Employer Level And Workplace Level***

A employer may have a single workplace or may have many workplaces.

Premium is calculated for the employer by aggregating workplace level information. One amount of premium is paid to cover all workplaces. Some of the components of premium are applied at the employer level like sizing & adjustment factor and rate capping others at the workplace level.

Where an employer has more than one workplace, a premium calculation for an individual workplace reflects the risk of that workplace.

### ***5.9 Difference Between Calculated Rate And Net Premium Rate***

The concept of the calculated rate applies to a workplace. The calculated rate is an estimate of the true risk of that workplace.

The rate actually paid by the employer is based on the calculated rate at each of his workplaces but will be modified by the action of capping and the deductible.

For example:

An employer with 1 workplace & \$115,100 remuneration has a calculated rate of say 2.5%.

If this is not capped then 2.5% applied to (\$115, 500 - \$15,500) leads to a premium of \$2,500.

The net premium rate is then  $\frac{\$2,500}{\$115,500} = 2.16\%$

If capping is applied and the capped rate was 2.25% then this rate applied to (\$115, 500 - \$15,500) results in \$2,250, a rate of 1.95%

### ***5.10 Rate Capping***

Rate capping is a process that reduces year-on-year increases in premium paid at an employer level. Premium increases are restricted to approximately 20% rise on the amount paid last year.

Many of the employers in the scheme are small employers and have small remuneration bases. Statistically small employers are not likely to have a claim. They have been assessed by actuaries to have a claim frequency rate of approximately one claim every 25 or 30 years. As a result, they do not have a claim history. If they do, often their history is “inflated” as they have most likely just experienced their “once in a 25 – 30 year claim”. Hence rate capping alleviates large increases and generally creates certainty in payment.

In 2000/01, since the rate cap is applied before the general premium increase, individual employers may have increases of the order of 40% (17% general increase applied on top of an increase capped at approximately 20%) which may be due to an increase in industry rates or claim history or a combination of both.

It must be noted that rate capping is linked to the size of an employer’s remuneration base. This means that the larger the employer’s remuneration, the more likely the employer will pay according to claims experience. For these employers, the industry experience will have a lesser role in calculation of the premium cost.

It is important to note that the capping of large employers is not restricted to 20% on what was paid last year as the rate capping operates on a “sliding scale” related to remuneration.

## **6. EMPLOYERS BILLING AND INFORMATION CYCLE FOR 2000/01**

### **15 March 2000:**

Estimate of rateable remuneration form sent to employers with claims statement outlining all claims costs for 98/99 fin year and up to 11 March 2000 for the 99/00 year.

### **28 April 2000:**

Estimates of rateable remuneration to be completed and returned to agents. Notification of any claims statement changes to be made to agents.

### **15 June 2000:**

WorkCover Insurance Policy sent out to employers. The accompanying letter outlines the payment dates and cycle for this year.

### **22 June 2000:**

Gazetting of premium order

### **15 July 2000:**

Initial premium calculation run

### **19 July 2000 – 26 July 2000:**

Mail out of initial premium calculation. Includes:

Letter

Premium notice

WorkCover claims statement

Certificate of rateable remuneration for small employers.

Monthly payers will receive their first instalment as well as their premium notice.

(A monthly payer is an employer who has an annual premium payable of \$50,000 or more).

### **18 August 2000:**

Annual in advance payments due. Employers who pay annual in advance receive a 5% discount.

1<sup>st</sup> payment for monthly payers are due.

### **August/September 2000:**

Early confirmed premium to be run (date to be determined).

### **1 September 2000:**

1st quarterly instalment due for quarterly payers.

(Quarterly payers have an annual premium payable of between \$1,000 and \$50,000).

Next payments due as usual on 1 December 2000; 1 March 2001; 1 June 2001.

**7 September 2000:**

2<sup>nd</sup> monthly instalment due for monthly payers. Remaining payments for monthly payers to occur as usual by 7<sup>th</sup> of each month.

**7 October 2000:**

Annual premium payers due. (Annual premium payers pay premium of less than \$1000 per year).